

**Merging Business and Environment -  
Three Steps to Leadership  
by Mr. Anand Punyarachun**  
**Chairman, Business Council for Sustainable Development (BCSD)**  
**Chairman, Thailand Business Council for Sustainable Development (TBCSD)**  
Asia Pacific 94: Merging Business and the Environment  
The Regent Hotel, Bangkok  
7-8 December 1994

Mr. Chairman, Distinguished guests, Ladies and Gentlemen,

It is a great pleasure to be among so distinguished a gathering, at such an important conference. My sincere thanks go to the International Herald Tribune and to the Thailand Environment Institute for making it possible.

I remember very well the previous conference they organized on "Merging Business and the Environment" in January 1992. That was less than six months before the Earth Summit – when the world's attention was beginning to focus strongly on Rio, and when there was a growing sense of expectation, not least among ordinary men and women, about what would emerge from that great event.

This conference is being held in very different circumstances. Most major economies have experienced serious difficulties since then, and even now, some have still not fully recovered. This has had two consequences.

One, the environment has not been as prominent on the agenda as we hoped it would be following Rio. Two, the expectations raised during the run-up to Rio, and especially at the conference itself, have not been fulfilled to the extent we believed they would.

This is a great pity – and it is urgent now that we act to ensure it does not become a tragedy.

To my mind, the real success of Rio was in forging a broad consensus in support of change – in some areas, radical change towards sustainable development. And it marked a particular milestone in drawing business into a process which hitherto had been driven mainly by government and environmentalists.

Through organizations such as the Business Council for Sustainable Development, business participated actively in the preparations for Rio, in the conference itself, and in fashioning the post-conference action agenda agreed there. Crucially, Rio recognized that the private sector had a major part to play in implementing that agenda.

In short, we can be encouraged that business as a whole has begun to develop new attitudes and approaches – just as governments around the world have begun to explore new strategies and policies to implement that agenda.

Yet, there is a sense of disappointment at what has actually been achieved during the past two and a half years – and I personally share this. In Rio, the baton was passed from the NGOs to the politicians. As a former Prime Minister of my country, I know how difficult it can be to effect change: and I well understand how the fierce winds of recession in the West pushed governments off course.

Even so, progress on the political front has generally been slow.

For example, it is hard to detect a real sense of urgency by governments on fulfilling their commitment to accelerate the process of internalizing environmental costs into market prices. Tackling the problem of subsidies also have replaced common sense and business sense.

One impediment to change is the political process itself – the procedures for decision-making in the current administrative structure are simply not up to the task. We need to reinvent government.

We also, let me add, need to reinvent the international institutions. The United Nations, the World Bank, regional development banks all ought to be the primary agents for change towards sustainable development. But while some have started to come to grips with what their role should be, their structures and systems weigh against them. There is clearly something amiss for instance when by some estimates, the World Bank now loans 20 times as much for the production of energy as it does for energy conservation.

It would be unfair to suggest there is a political vacuum. Yet in my view, the baton is not being moved forward at the political level as rapidly or with the sense of urgency that is clearly needed.

I believe therefore, it is time now for business to seize that baton, and lead the race towards sustainable development. I feel confident this will be welcomed. Indeed, I judge there are growing public and political expectations of business to take the initiative.

What I would like to do in these brief remarks is identify three concrete and key steps which business can, and should take to demonstrate a new level of leadership on the environment.

### **The first is accounting for environmental costs**

Sustainable development is a vision of economic activity that effectively manages the Earth's resources for sustained, equitable growth worldwide. This vision can best be realized through market economies and economic incentives.

That is why it is imperative that governments move rapidly internalize environmental costs, preferably through economic instruments. This will make producers pay the costs of using the environment. It will spur companies to find new technologies, new processes, even new products to use raw materials and energy more efficiently, and reduce – ultimately eliminate – pollution. It will drive them to become eco-efficient.

But business does not have to wait for government to act. It can already move some way in that direction through a two-stage strategy.

The first phase is to quantify and allocate existing environmental costs: to measure the costs associated with product, production processes and their related waste streams to find out the true costs of the products or services they currently deliver to the market.

Some companies are doing this – Ontario Hydro led by Mr. Maurice Strong is one. Most are not. It is time that accounting for environmental costs becomes the norm in business, with those companies experienced in internal environmental accounting sharing their knowledge with others. I believe, too, that various industry sectors should begin to develop eco-efficiency criteria and indicators.

The second phase of the strategy is for companies to recognize and incorporate future anticipated environmental costs connected with their operations. The key to this is a life-cycle approach to the entire chain of production from natural resources to disposal. Again, some companies are beginning to internalize these kinds of costs. It is time now for all companies to start capturing environmental costs they do not presently include.

The second area where business can demonstrate true leadership is on **environmental reporting**.

The Agenda 21-action program, approved in Rio, says that companies should be encouraged to “*report annually on their environmental records, as well as on their use of energy and natural resources.*”

In Changing Course, its report to the Earth Summit, the BCSD said that “*a vision and implementation strategy for sustainable development is most useful if the resultant actions can be reported, offering chances for feedback and improvement. Companies need to issue regular reports to their stakeholders on their progress toward sustainable development.*”

At the time that the report was written – nearly three years ago – a survey of business in more than 30 countries found that most companies did not provide public information on their environmental or sustainable development policies or activities.

Today, an increasing number of major companies produce annual environmental reports, charting their progress in such grey areas as emissions, waste management and resource use. Some of them – from Dow, Du Pont, Norsk Hydro, Ontario Hydro to name a few examples – are excellent, not least because they show, with commendable transparency, those companies’ shortcomings, as well as successes.

Yet the disappointing fact is that most companies – indeed, the overwhelming majority – still do not issue environmental reports, and many even fail to disclose

such information in their corporate annual reports – and most companies have no plans to do so.

Their explanations are many and varied. It will cost too much to audit their operations. There is actually no pressure on them to report on their performance. If they do report, they will bring unnecessary and unwelcome scrutiny to their company activities. If they admit to problems with emissions and waste management, they will be accused as polluters.

Frankly, I am unpersuaded by these arguments. In my view, when a company uses environmental resources, it should report – to its shareholders, employees, customers, and to the public – on how it is using them. As Norsk Hydro stated in its 1993 annual report: *“Industrial activity is followed critically by a concerned public. Much of the public distrust is caused by industry’s own lack of openness.”*

Those companies which do report believe that the benchmarking of corporate environmental performance will emerge as a high priority issue. I believe they are right. And I agree with those corporate leaders who foresee the corporate “responsibility” agenda of the 1970s and 1980s evolving into a more demanding “accountability” and eventually “sustainability” agenda.

Therefore, it is time for all companies to include environmental reporting as a matter of course in their overall reporting procedures, so that their shareholders can judge their performance on such critical areas as material use, energy consumption, air and water emissions, packaging waste, waste management/disposal, and product impact.

The third area – closely linked to the question of environmental reporting – is the **fixing and announcing of clear, measurable goals for environmental performance.**

In Changing Course, the Business Council stated: *“The basis for reporting is goals. Operational policies need to lay down corporate objectives and standards in ways that can be measured, for as the business adage has it, “What gets measured, gets done.”*

The report added: “A decision to act without commitment to measurement is hollow.”

Some companies have publicly set clear and measurable targets. They include, to name some

*AT&T* – which has committed itself to reduce reportable toxic air emissions by 95% by the end of 1995.

*S.C. Johnson and Son, Inc.* – which has pledged to reduce its air emissions, water effluents and solid waste disposal in the company’s manufacturing operations by 50% as a ratio to total production by the end of 1995.

*Du Pont* – which has set out a series of specific environmental objectives, including reducing or eliminating dangerous air emissions, hazardous waste, packaging waste within clearly laid out timescales.

These, and other companies, are – to use another expression – prepared to “stand up and be counted.” They are willing to be judged by failure as much as by success. It is these companies which are today’s leaders in merging business and the environment.

But they remain the exception, not the rule in business. Too often, companies confine their environmental commitment – that is, where they acknowledge the need for such a commitment – to a well-written mission statement that reads well, but says little of substance because it is long on generalities, while conspicuously absent of hard-edged specifics.

Those companies believe this is enough to “get them off the hook”. In my judgement, they are unwise to believe so. Hiding environmental performance behind fine-sounding words – worse, substituting bland phrases for actual performance – is no longer an option. The public and politicians expect more. And business must provide much more.

I am rather pleased to note that in Thailand, the Thailand Business Council for Sustainable Development has begun taking up the challenge. Though it was only established in October last year, it has moved rapidly to promulgate its own 10 points business agenda for sustainable development on which its members now subscribe.

As of June this year, an implementation plan is now in place for members to establish their own corporate environmental policies, initiate environmental activities, carry out self audits and to eventually publish environmental reports to the community and the public. From these initiatives, I foresee that in the next few years, I could be at liberty to mention some convincing examples of how Thai business is demonstrating the new level of environmental leadership that I have just mentioned. This I can say because I am witnessing this trend now being demonstrated by some companies such as:

- *The Siam Cement Company, Ltd.* Is showing its social responsibility by establishing its own Environmental Standards Coordinating Committee that oversees the implementation and dissemination of information about their environmental policies to the public.
- *Volvo (Thailand) Co.* is one among the many subsidiaries of the parent company to apply green thinking in all its operations. It has spent 10-15 million baht over the last 5 years reducing its carbon monoxide emissions as well as cutting its solvent use by 30%.
- *Esso Standard Thailand Ltd.* Also takes care to address environmental needs of the communities in which it operates. It has upgraded its response capability by investing 100 million baht over the last 3 years for oil spill

equipment and founded the Oil Industry Environmental Safety Group, an organization set up to share resources in the event of a major oil spill.

- *Saha-Union Public Company*, together with its business partner, have invested more than 100 million Baht in the first half of 1993 on ultra-purified water cleaning process for electronic components, thereby eliminating the use of ozone-depleting substances or CFC's (chlorofluoro-carbons) from its manufacturing plant in Chonburi.
- *Lever Brothers (Thailand) Limited* has invested 300 million Baht in a new plant to make naturally derived ingredients, a further 150 million Baht in a facility to make powders by a process which uses no waste, 80% less energy and produces no emissions. They have also installed automated pollution control systems in their factory. In addition, Lever is responsible for a 50 million Baht scheme to plant 1 million trees in Thailand over the next 2 years.

I believe that every company CEO should now feel it is incumbent for his company to announce specific commitments on what it intends to do to:

- achieve substantive energy efficiency improvements within their organizations
- reduce emissions of pollutants into the air
- cut discharges of polluting effluents into seas, rivers and other water sources
- increase the recycling of paper, cardboard, plastic, glass and other materials in manufacturing and/or office facilities
- minimize the environmental impact of their products

In other words, business should, across the board, commit to clear, measurable targets for a range of key, urgent and specific environmental performance actions within specific timeframes.

I have tried to set out a new three-point agenda for international business to implement to set us back on the course agreed in Rio: an agenda which would enable business to demonstrate:

- **positive action on environmental costs** – through environmental cost accounting
- **true accountability of their use of environmental resources** – through full environmental reporting
- **real commitment to environmental performance** – through setting, clear, specific and measurable goals

It can be done. The best companies – those I have mentioned, and others – are doing it already. And while of course, it presents a challenge – a tough one for many companies – leadership is about accepting tough challenges.

The problem is that business is like a convoy – and even when it is heading as one in the same direction, the speed is usually dictated by the speed of the slowest members. It may take a combination of peer pressure and public pressure to convince the rest to hurry up. But hurry up they must.

For there is a leadership role waiting to be filled in moving the post Rio agenda on sustainable development forward, further and faster. If business can assure the politicians and the public that it is serious about merging its agenda with the environmental agenda, business will show its leadership credentials. Such a leadership role is waiting to be filled. It is essential it is filled.

Governments have been distracted, and have yet to convince us that they will re-engage with the same vigor and commitment they showed in Rio. There is therefore, an expectation of business to assume the responsibility.

It is obvious that fundamental change is needed. We have two choices – to resist, or join those shaping the future. I believe that in the end, it will be impossible to resist. Therefore, I am inviting – indeed challenging – all my colleagues in business to participate. It is the most rewarding option, and the right one.