# Greening the Corporates: The Transition, Local business and Sustainable Development

## *By Wayne Visser*

### The Short History of Sustainable Development

"Sustainable development" hustled its way into the English vocabulary and onto the world's political agenda in 1987, with the publication of Our Common Future, an official report of the World Commission on Environment and Development, chaired by former Norwegian Prime Minister, Gro Harlem Brundtland. In terms of this document, sustainable development is defined as:

> "Development which meets the needs of the present generation without compromising the ability for future generations to meet their needs."

This cleverly crafted concept tactfully allied the fears of powerful business lobbies in the developed countries of the North by not being "anti-economic growth", while at the same time soothing the governments and civic organisations of the developing world in the South by talking "development and equity". It also befriended and found a guardian-for-life among the environmental pressure groups by putting their "green" issues on the map.

Five years later, in 1992, 178 country leaders paraded on the world stage of the United Nations Conference on Environment and Development, more endearingly referred to as the "Earth Summit", and committed their nations to a variety of conventions, agreements and programs aimed at making the now politically acceptable notion of sustainable development a reality.

Global Business and the Environment

The corporate sector is not generally one to be caught napping and the global gearing up on environmental issues proved no exception. In 1991, a group of 50 of the world's top executives formed the Business Council for Sustainable Development (BCSD) and issued its report to the Earth Summit entitled Changing Course: A Global Business Perspective on Development and the Environment. (Pick 'n Pay's Raymond Ackerman was one of these contributors). In a parallel initiative, the International Chamber of Commerce (ICC) launched its 16-principle Business Charter for Sustainable Development in 1991 and contributed a book to the Earth Summit entitled From Ideas to Action: Business and Sustainable Development.

Today, there are more than 2 000 corporate signatories of the ICC Charter for Sustainable Development and the World Business Council for Sustainable Development, which grew out of a merger between the BCSD and the World Industry Council for the Environment, has more than 120 international member countries.

Other environmentally oriented corporate standards have enjoyed similar growth in world-wide support, for example: the International Council of Chemical Associations' Responsible Care Programme, the Coalition for Environmentally Responsible Economies' (CERES) Principles, the Keidanren Global Environmental Charter, the British Standard (BS) 7750, the European Eco-management and Audit Scheme (EMAS) and the International Standards Organisation (ISO) 14001 standard for Environmental Management Systems.

### Environmental Awareness in South Africa

In general, South Africa has tended to lag behind international developments in public policy and corporate responsibility by between 10 and 20 years. For example, while the US enacted their National Environmental Policy Act in 1970, South Africa had to wait two decades for its own comparable legislation in the form of the Environmental Conservation Act 73 of 1989. Similarly, while the ICCA launched its Responsible Care Programme for the international chemicals industry in 1984, it was only adopted by South Africa's Chemical and Allied Industries Association (CAIA) a decade later in 1993.

More recently, however, the gap has begun to close and in some cases, South Africa has even taken on a global leadership role in environmental management. Much of this has to do with the national policy reforms catalysed by the election of South Africa's first democratic government in 1994.

These began with the critical inclusion of "environmental rights" in the Bill of Rights of South Africa's new Constitution in 1996, apparently only one of two countries to give the environment such a priority. In terms of Section 24, "everyone has the right:

a) to an environment not harmful to their health or well-being; and

b) to have the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that:

   (i) prevent pollution and ecological degradation;

   (ii) promote conservation; and

   (iii) secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development."

CONNEPP, the two year multi-stakeholder Consultative National Environmental Policy Process which followed, has culminated in one of the most transparent and democratic legal environmental frameworks in the world, principally enshrined in the National Environmental Management Policy and the National Environmental Management Act 107 of 1998.

**A New Political Concept of the Environment**

Importantly, the new dispensation has successfully moved South Africa beyond the "wildlife and conservation" approach to environmental issues of the past. The new breed of post-apartheid civic organisations which emerged in the early 1990s, such as Earthlife Africa, the Environmental Monitoring Group and the Environmental Justice Networking Forum (EJNF), contributed to this shift, introducing notions of environmental justice and corporate accountability.

The new government of 1994 further endorsed an understanding of environment as "including humans", and hence more closely resembling the original sustainable development concept. The Vision and Principles of the pre-1999-election ANC Draft Policy Document on the Environment: Sustainable Development for the Western Cape is indicative of this healthy transformation in thinking. To quote their Vision, the new challenge is:

- "To link environmental issues to social transformation;
- To meet basic human needs and enhance our quality of life so as to close the gap between 'green' and 'brown' issues; and
- To balance the need for social equity and economic prosperity while nurturing respect for natural resources."

**South African Business and the Environment**

There is no doubt that the business sector in South Africa has responded, in its own way, to the challenges of the environmental movement over the past 10 years.

Among the first milestones along this path to increasing environmental responsibility was the establishment of The Industrial Environmental Forum of Southern Africa in 1990. Corporate members, of which there are around 80 today, are required adopt a Code of Conduct in which they pledge to proactively integrate environmental considerations into their core business operations and management processes.

The mining industry in particular was forced to take up the environmental challenge in 1991 due to the introduction of the Minerals Act, in terms of which all mines were required to prepare and implement Environmental Management Programs and to commitment funds to rehabilitate the land disturbed by their mining operations. Subsequently, the Chamber of Mines has also appointed a full time Environmental Advisor and the existing legislation and regulations, including its environmental requirements, are being revisited.

The chemicals sector was perhaps the first to voluntarily take environmental issues on board in a meaningful way. As previously mentioned, in 1993 CAIA adopted the international Responsible Care Programme, with 15 corporate signatories. Today, there are approximately 120 corporate signatories, who commit themselves to improved performance in areas such as: Health and safety, Storage and distribution, Waste management and pollution control, Transport, Community awareness and emergency response and Product stewardship.

Annual surveys conducted by KPMG since 1997 support the implication that environmental issues are beginning to be taken seriously among big business in South Africa. For example, in 1997, the environment was already regarded as a strategic issue by three quarters (76%) of South Africa's top 200 companies. Furthermore, the overwhelming majority (84%) agreed that the significance of environmental issues for their company would increase over the next 5 years.

The most recent KPMG survey, on organisations' experience in implementing formal environmental management systems (EMS), similarly suggests a maturity which is emerging in the private sector's response to environmental issues. For example, almost all of the 60 progressive companies surveyed were pursuing the ISO 14001 standard for EMS.

**But What About Poor Communities?**

Despite this obvious progress, business still appears to be struggling to integrate the social dimensions of sustainable development. A few examples are illustrative.

In 1994, a series of mercury poisoning incidents and other alleged environmental malpractices by Thor Chemicals negatively impacted on the local community of Cato Ridge. This resulted in a Commission of Enquiry by the Department of Environmental Affairs and Tourism and eventually a damages settlement paid by Thor of R9 million in 1997.

In 1995, a fire at the AECI Somerset West sulphur stockpile resulted in serious health impacts (including fatalities) on the adjacent Maccassar community. One of the reasons that the public reaction to this accident was so severe was the apparent lack of community relations with AECI regarding their environmental management practices at the time.

In 1996, the community surrounding the Caltex oil refinery and Fedmis fertiliser plant in Milnerton, Cape Town, formed the Anti Pollution Alliance to protest against ongoing pollution and deteriorating air quality affecting their health. Initial progress was made by striking a "good neighbourly agreement", but this turned sour again when Caltex reneged on its emissions reduction promises.

In 1997, the low-income occupiers of smallholdings alongside the Iscor steels works plant in Vanderbijlpark appealed to the Department of Water Affairs and Forestry, claiming that water and air pollution from Iscor had caused a fall in their crop harvests and a decline in their health. As a result, Iscor was compelled to conduct a Cost-Benefit Analysis to remedy the situation, and possibly relocate and/or compensate the community.

In 1998, EJNF made several submissions to the Poverty Hearings on behalf of communities who are suffering as a result of areas polluted by industrial, often hazardous, waste. The Aloes community outside Port Elizabeth, suffering from their location adjacent to a WasteTech-Enviroserve hazardous waste site, is a case in point. There have already been several tumour-related deaths and the community's health continues to decline.

All these examples point to the failure of business to fully embrace the "development" aspect of sustainable development.

**The Courts Rule in Favour of the People**

Companies will no longer be able to ignore the concerns of the public, as the Constitution and other environmental legislation is beginning to work its way into South Africa's courtrooms. This is no more evident than in the recent landmark court judgement passed in March 1999 in favour of Save the Vaal Environment (SAVE), an environmental community organisation, and against the Department of Minerals and Energy and Sasol Mining.

In this ruling, which followed a three year activist campaign against a proposed coal strip mine bordering on the Vaal River, the judge held that the interested parties had the right to raise environmental objections and be heard (applying the so-called "audi rule" of law), even at the earliest stages of a company applying for a mining licence.

The concluding statement by the judge gives an unprecedented boost to both environmental and democratic social processes in South Africa, and has broader implications. He said:

"Our Constitution, by including environmental rights as fundamental, justifiable human rights, by necessary implication requires that environmental considerations be accorded appropriate recognition and respect in the administrative processes in our country. Together with the change in the ideological climate must also come a change in our legal and administrative approach to environmental concerns."

Hence, the challenge has been firmly set. But what is clearly still lacking in South Africa, are adequate tools for understanding, implementing and monitoring sustainable development. A number of frameworks, institutions and methodologies are emerging, however, which will assist in future. Three of these will be briefly introduced: The Natural Step, Ethical Investment and Sustainability Auditing.

**Sustainable Development Tools**

Despite its political acceptability, the Brundtland definition of sustainable development previously alluded to is of little practical use to business. It is so broad and vague as to preclude any agreement on its pragmatic implications. Recently, however, an international organisation called The Natural Step (TNS) has derived a definition of sustainable development based on scientific consensus.

To summarise its four "systems conditions":

1. Substances from the earth's crust must not systematically increase in nature;
2. Substances produced by society must not systematically increase in nature;
3. The physical basis for the productivity and diversity of nature must not be systematically deteriorated; and
4. We must be efficient and equitable enough to meet basic human needs.

This leads to very specific questions against which business can measure its operations. For example: Can we turn to renewable resources? Can those substances be broken down into natural compounds in nature? Can we move into the manufacture of products that are durable and which can be repaired? Could we reduce the amount of materials and energy in relation to sales? Could we, in order of priority, recycle products, materials and energy? Could we sell products which are designed not to end up as waste? Can we preserve the habitat, functions and biodiversity of nature?

Embracing TNS effectively translates into a long term investment strategy for business, as follows:

1. How can we reduce our dependence on mining and fossil fuels?
2. How can we reduce our dependence on persistent, unnatural substances?
3. How can we reduce our dependence on nature-consuming activities?
4. How can we do more with less and distribute the benefits more equitably?

It is encouraging that a South African chapter of TNS has just been successfully licensed to operate and local companies like Smithkline Beecham and Woolworths have already begun to work with this strategic framework.

**Monitoring Companies in Terms of Ethical and Social Investment**

Ethical or social investment is an international trend which refers broadly to providing investment vehicles (usually unit trusts) that only invest in companies which have been screened for their responsible social, ethical and environmental performance. In fact, it was in reaction to South Africa's apartheid that the phenomenon first emerged in America.

In the US, ethically screened investments (including so-called "green funds") grew from $40 billion in 1984 to $650 billion in 1994 (almost one tenth of total American investments). In the UK, there are currently in excess of 15 billion pounds of screened investments, of which 1 billion is in the form of ethical unit trusts.

Hence, companies now have a direct financial interest, namely accessibility to share capital and performance of their stocks, to deliver on sustainable development. Interestingly, international experience also shows that these funds outperform the market in the financial returns they provide to investors.

South Africa currently has in the order of five ethical funds on the market. The Community Growth Fund (CGF), the first to be launched in 1992, is worth examining in more detail to illustrate the role of these vehicles in promoting sustainable development. The CGF, 50 percent owned by trade unions, has grown its portfolio of assets to over R700 million. The fund has seen an 4.6 percent return over the past 3 years, ranking 5th out of 15 South African general equity funds on financial performance alone.

From an initial investment universe of only 20 companies in 1992, CGF now has over 80 organisations which meet their standards. The criteria, which are applied to companies by the Labour Research Service, are equally weighted and disqualify any company which scores below 50 percent. The criteria, are as follows:

1. Create jobs through innovation and expansion plans.
2. Training of workers to enhance skills.
3. Economic and social empowerment.
4. Equity through affirmative action in the workplace.
5. Good conditions of employment.
6. Promote sound environmental practices.
7. Apply high health and safety standards.
8. Demonstrate open and effective corporate governance.

The CGF 1998 Annual Report makes fascinating reading. For example, companies newly approved included Sasol, Woolworths Holdings Ltd, Shoprite Holdings Ltd, Grinaker Construction Ltd and Group Five, while Nandos Group Holdings and Enviroserv Holding Ltd were among the companies rejected.

Iscor, previously mentioned, is worth further comment, simply because of the press coverage it has received recently. According to the CGF, the company only achieve a 48% rating and was therefore rejected. Reasons included:

"Appalling relations with the union, doubts about the effectiveness and 'tokenism' of affirmative action policy, an ineffectual retraining programme, environmental problems, and the re-deployment of white managers as consultants at higher cost". Positive aspects were "a reduction in injury and fatalities, full-time shop stewards and improved conditions of employment."

Corporate assessments like this by the new ethical investment "watchdogs" are a tool in the hands of the public to further the sustainable development agenda.

**Sustainability Auditing and Reporting Prepares Companies to Face the Future**

Finally, there is a credible methodology for assessing the "stakeholder performance" of companies, namely Sustainability Auditing. In the future, this will be a key way of measuring the real commitment of South Africa's private sector to reconstruction and development.

Sustainability auditing (also called social or ethical auditing or accounting), according to the New Economics Foundation (NEF) in London, who pioneered the technique, assesses the social impact of an organisation, relative to its own aims, and those of its stakeholders. Stakeholders may include, for example, customers, employees, communities, suppliers and the environment.

Because it is based on financial auditing principles, sustainability auditing must have similar characteristics. It must be repeatable, comparable, independently undertaken, systematic, representative in content, and the findings publicly disclosed. A variety of techniques may be used to assess performance against specific indicators and targets for each stakeholder, for example using survey questionnaires or focus groups. Once the assessment is complete, a set of "sustainability accounts" are prepared, verified by an auditor and distributed to stakeholders in the form of a sustainability report.

An increasing number of organisations have undergone sustainability audits as a way of assessing the impact and performance of their organisation beyond the financial bottom line. Pioneers include The Body Shop International and Ben and Jerry's, whose Values Report and Social Report are refreshingly honest disclosures of their performance (good and bad) in relation to customers, franchisees, staff, suppliers, the environment, and charities.

In South Africa, Hollard Insurance has embarked on the social audit process. Other organisations, such as AECI, Eskom and Sasol, have produced verified environment, health and safety reports, but have yet to extend these to incorporate the broader stakeholder-driven sustainability agenda.

In order to ensure professional and consistent standards are applied in this newly emerging field, the Institute of Social and Ethical Accountability has been established internationally. South Africa also launched the Institute for Social and Ethical Auditing in Southern Africa (ISEASA), with founding members including auditors KPMG, Just Exchange, Letsema Consulting and the Development Resources Centre.

### Forward Towards the Triple Bottom Line

South Africa has, in the last 10 years, moved from being an isolated country behind the times on environmental issues, to one which is defining the sustainable development agenda. Business, despite encouraging progress in environmental management, still has some way to go in order to deliver credible performance on adopting and integrating the so-called "triple bottom line" of social, environmental and economic sustainability.

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