

The Business Case for Sustainable Development

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The business of mining is making money, so the more we can consider issues such as social responsibility and sustainable development in that context the more they can be enthusiastically embraced by industry and incorporated into corporate culture. In a survey of 32 mining companies in 2002, it was found that lack of a clear business case was clearly part of the problem in implementing sustainable development goals:

“Interestingly, although the majority of survey respondents cite enhancing shareholder value as the primary reason for pursuing sustainability-related activities, most companies also identify the lack of a business case as the main barrier to implementation of these initiatives,” (MMSD, Ch. 2, 2002).

In July, 2001, the MMSD project held a workshop on voluntary initiatives for implementing sustainability policies in the mineral sector. Some of those findings are summarized below (originally published in MMSD, *Finding the Way Forward*, 2002) along with this author’s thoughts.

Cost Advantages

- **Increased efficiency** – “clean technologies” reduce emissions, waste, and use of raw materials. Considering life-cycles costs, clean technologies are often the best choice solely based on economic factors. That is clearly the case in the developed world where long term environmental liabilities far exceed the cost of avoidance.
- **Enhanced worker performance** – improved working conditions and employee satisfaction can result in higher productivity, reduced incidence of union disputes, and increased ability to attract and retain employees. The high tech industries have fully embraced this concept with great success.
- **Anticipating regulation** – companies that can prepare for costly regulatory change will have a competitive advantage over those with a purely reactive approach.
- **Management of community risk** – investment in environmental quality and in community social services will improve community relations and reduce the risk of compensation and damage suits.
- **Reduced cost of capital** – as financial markets will perceive companies with good environmental and social performance as less risky, the cost of capital and insurance premiums will be reduced. This is already the case in the stock market where bad press about social problems can pummel stock prices, it may not be long until banks use this as a factor in setting rates.

Market Advantages

- **Improved access to environmentally sensitive markets.** California, South Dakota and British Columbia come to mind.
- **First mover advantage** - companies may derive “first mover” advantages if they can capture environmentally or socially sensitive markets ahead of their competitors.
- **Emerging role in emerging and “survival” economies** – as Hart and Milstein and WBCSD argue, poverty is one of the single largest barriers to sustainable development and, over the long term, investment in the survival economy will be good for company financial performance.

Reputation Advantages

- **Maintain market share** – loss of reputation can affect sales particularly where there are NGO campaigns urging consumer boycotts. Sometimes this “sales” translates to inability to sell stock and capitalize expansions.
- **Maintain the company’s social “license to operate”** – maintaining good relationships with regulator and the local community has financial benefits in reducing time required for securing government approval of and community support for new developments or expansions. The importance of this in areas like Peru and Argentina can’t be overstated.
- **Attracting and retaining employees** – the company’s commitment to corporate social responsibility and its overall reputation may be important motivating factors for current and prospective employees. For individual mines in their last years of operation this is doubly important.
- **“Stakeholder insurance”** – once established, a company’s reputation frames the way its key stakeholders detect and interpret events associated with it. In the event of a problem, a company with a good reputation can induce more supportive responses from stakeholders.
- **Influence on market valuation** – a company’s stakeholder relationships may be viewed as an intangible asset. Intangible assets – the factors of production or specialized resources that allow the firm to earn profits over and above the return on its tangible assets – in 2000 constituted some 55% of the market valuation of publicly traded companies in the US and the UK. This proportion had grown rapidly over the last 40 years, reflecting a change in focus towards services rather than products. Profits in this “new business model” depend less on physical assets than on the skills, motivation, and inventiveness of the people in the network and hence the relationships between them. The contribution to these relationships may be argued as business case justification for the implementation of corporate social responsibility activity.

Conclusions

- **Objectives should go beyond legal requirements:** Voluntary initiatives should be designed to improve industry/sector performance over and above requirements set by international agreements and by national law and regulation. They should strive for continual improvement and provide incentives for participation.
- **Flexibility in application is needed:** Flexibility should be allowed in the way companies achieve sustainable development objectives, although common norms are required for guidance.
- **Consistent principles are important:** Consistency in approach across the sector is needed to improve performance. This could be achieved through sustainable development principles and a code of conduct setting out process, management, and performance norms. A wide range of local economic, social, and environmental conditions, the diversity of company size, and the issue of impingement on the right to development for developing countries need to be balanced against this, however.
- **The scale of application should be appropriate:** Voluntary initiatives also need to be designed at the appropriate level, from global down to local.
- **Voluntary initiatives should complement other instruments:** Voluntary initiatives can form only part of the picture for improving performance in the sector. International cooperation, national policy, law and regulatory instruments, and other approaches are necessary to complement or parallel voluntary initiatives.
- **Voluntary third-party verification should be use:** A key element of voluntary initiatives, including a industry code, will be the design and application of some form of third-party verification and possibly certification of adherence to the norms and process provisions of the code. This is essential to gain the widest possible acceptance of the program by both companies and stakeholders, and to provide public legitimacy to its implementation.

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