

SUSTAINABILITY – A GROWING CHALLENGE FOR CORPORATE COMMUNICATION

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OUTLINE

- What is the animal called sustainability?
- Driving Forces
- Environmental Dimension: Risks and Opportunities
- Social Dimension: Challenges and Benefits
- Different regional and national views and priorities
- Conclusions

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SUISSE** | FINANCIAL
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Swiss retail banking



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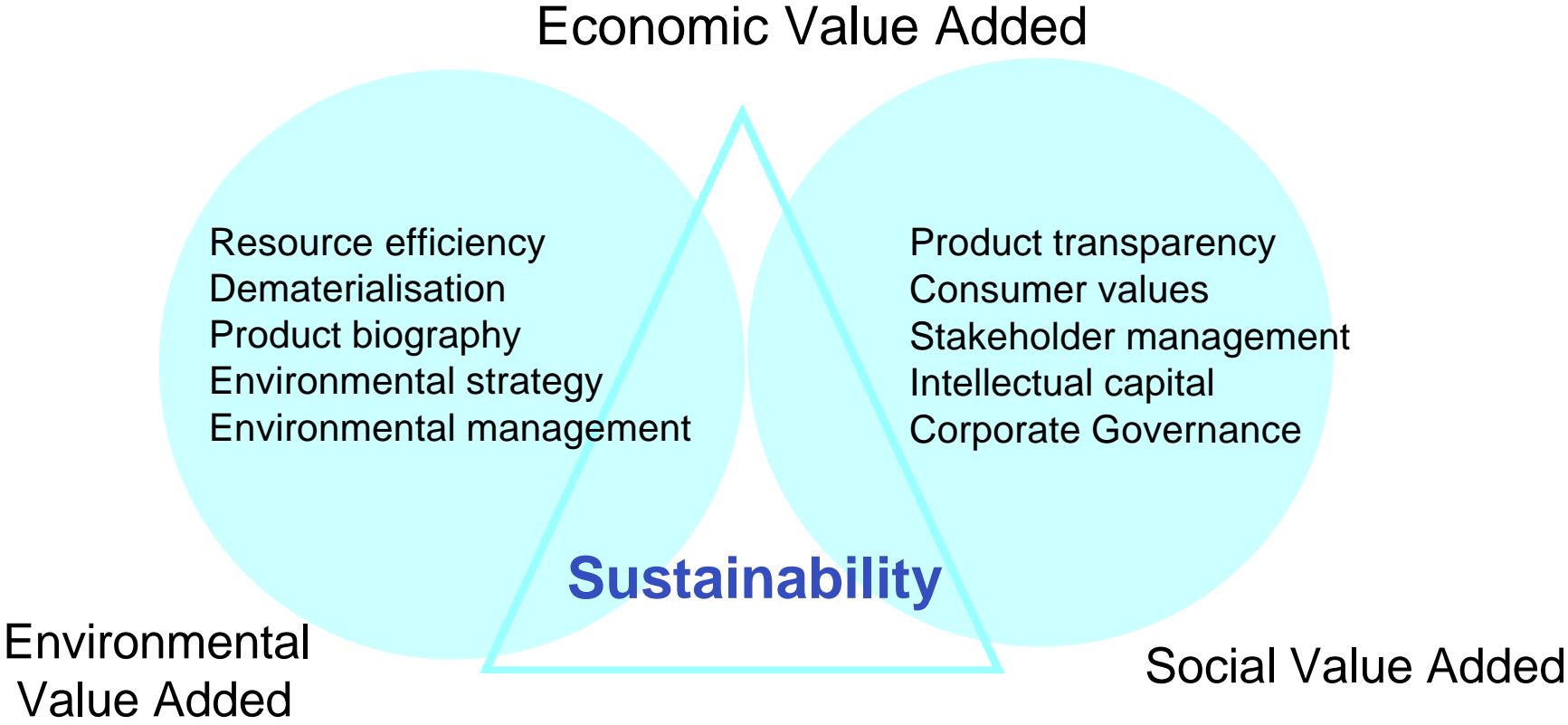


Global investment banking



Services for institutional and
mutual fund investors worldwide

WHAT IS THE ANIMAL CALLED “SUSTAINABILITY”?



SUSTAINABILITY AND BUSINESS

„Sustainability is as foreign a concept to managers in capitalist societies as profits are to managers in the former Soviet Union“

*William Ruckelshaus
CEO, Browning Ferries*

WHAT ARE THE DRIVING FORCES?

DRIVING FORCES

■ **Globalization**

- > global players are increasingly seen as operating outside the control of governments

■ **Internet**

- > good and bad news can be spread around the globe within seconds
- > Internetsites “watch” environmental and social behaviour of large corporations (i.g. Nike, Monsanto, Shell)

■ **Global Media**

- > The “*CNNization*” of the world - remote local issues come direct to television screens

■ **International standards and directives**

- > Environment, labor rights, human rights...

DRIVING FORCES (cont)

- **Increased professionalism of Non-Governmental-Organizations**
 - > they collect, share and disseminate information
 - > link up with critical shareholders
- **Greater public awareness**
 - > increasing public and, consequently, governmental concerns about the deterioration of natural resources and quality-of-life factors
- **Regulatory frameworks and licensing-permitting procedures**
 - > platforms for public involvement
- **Demand for socially responsible investments is increasing**
 - > partly driven by new regulations

SOME FACTS ABOUT THE “GLOBAL” ECONOMY

- Five hundred companies control 42% of the world's wealth
- Turnover of the 10 largest companies exceeds the combined GDP of the 100 smallest countries
- Oil company Shell alone controls 160m hectares of land - 146 countries in the world cover a smaller area
- Ten companies effectively control the world's food chain

SOME FACTS ABOUT NGOs

- A \$1 trillion big nonprofit sector
- If viewed as a nation, NGOs would rank 8th in economic power
- NGOs distribute more aid than the World Bank
- Employ over 7% of U.S. workforce
- Distribute 30% of U.S. aid

ENVIRONMENTAL DIMENSION

- THE RISKS -

WHAT IS ENVIRONMENTAL RISK?

- **Environmental risk is business risk!**
 - > ignorance may lead to problems with government authorities (e.g. non-compliance with laws and regulations)
 - > completion of projects may be delayed (if pressure groups lobby against a project - increased political risk)
 - > liabilities may arise from contaminated sites
 - > missed opportunities (resource efficiency is one of the driving forces of tomorrow)
 - > reputational aspect: project which can be questioned by third parties

REPUTATIONAL RISKS

GENERAL DEFINITIONS FOR BANKS

- “Reputational risk is the potential that negative publicity regarding an institution’s **past or present** business practices, **whether true or not**, will cause a decline in the customer base, costly litigation, or revenue reductions.” *(adapted from Federal Reserve Bank, USA)*
- “Reputational risk arises from operational failures, failure to comply with relevant laws and regulations, or other sources. **Reputational risk is particularly demanding for banks since the nature of their businesses requires maintaining the confidence of depositors, creditors and the general marketplace.**” *(Bank for International Settlements)*

WHY REPUTATION IS IMPORTANT

- Reputational disasters can result in long-term under-performance of the market*
- Companies with a positive image recover faster from reputational disasters**
- „Risk challenges move from tangible to intangible risks: **Brand value / reputation has been identified as an asset and key risk exposure by a significant majority.** However, a much smaller number have been able to quantify the risk or implement any risk plan. ...**strategic solutions are currently in their infancy...**“
(AON Risk Services: „Risk Financing and Insurance Survey 1999”)

*AON Group, July 1997; **Reuters Business Briefings, 22 July 1996

POSSIBLE IMPACT ON COMPANIES

Internal

- Tying up top management resources
- Staff motivation
- Revenue loss

External

- Loss of confidence - decline in customer base
- Drop in stock price
- Downgrading by rating analysts/rating agencies
- Cost increase (e.g. director liability insurance)

BUSINESS CASES

SHELL AND BRENT SPAR

- From an environmental perspective, Shell's original plan of sinking the oil storage rig was the best way of disposal (even Greenpeace had to admit that later!)
- **But** Greenpeace campaign led to
 - drop in share price of 8%
 - drop in sales in Germany of 30 % (in June/July 1995)

Lessons to be learned

- Doing things right is not the same as getting them right!
- Opponents "master" of media and emotions was underestimated!
- Chain of command had not been established!
- No contingency plan!

THREE GORGES DAM IN CHINA 1/2

- One of the largest dams ever built
- What are the issues
 - > Environmental impacts
 - loss of biodiversity
 - endangered species are threatened with extinction
 - > Social impacts
 - resettlement of 3-4 million people (who do not receive appropriate compensation!!!)

THREE GORGES DAM IN CHINA 2/2

- This project is a hot cake
 - > Environmental groups all over the world are lobbying against this project (for many of them it is a “prestige project”)
 - > Global Media and Socially Responsible Investors are also hot on this issue

- Extremely tricky case...
 - > China is a very big market
 - > CSFB is a big player in China
 - > Invitation by the Government of China to be involved in a bond issue can hardly be turned down...

INITIAL PUBLIC OFFERING (IPO) OF PetroChina 1/2

- PetroChina is a Chinese Oil & Gas Company
- IPO took place in March 2000
- What are the issues?
 - > environmental impacts of PetroChina's operations in and outside China
 - > Human rights issues: PetroChina operates in Tibet & Sudan

IPO OF PetroChina 2/2

- Environmental and human rights activists lobbied against this IPO
- Results:
 - > Leading U.S. Investment & Pension Funds (Calvert, TIAA-CREF, AFL-CIO and others) did not buy shares of PetroChina
- Financial impacts:
 - > PetroChina was attempting to raise USD 10 billion from the IPO but was only able to raise USD 2 billion
- Goldman Sachs suffered twice: financial loss and reputation...

IMPORTANCE OF AN OPEN COMMUNICATION

- It is important to get a factual response quickly; if it is neglected this can lead to ...
 - > a wrong, inadequate or inappropriate response by PR spokespersons
 - > lack of control over an issue
 - > (a series of) negative publicity - perhaps unnecessarily
 - > reactive damage control instead of active media work
 - > company is looking weak and untransparent

ENVIRONMENTAL DIMENSION - OPPORTUNITIES -

OPPORTUNITIES

- **Resource efficiency and resource protection are key drivers**
 - Improvements in operational ecology and facility management can result in significant cost savings
 - Relevant for all type of business: electricity, heat, air-travel, water, waste...

- **Product innovation:**
 - Green funds / Socially responsible funds
 - Catastrophe bonds / weather derivatives
 - Providing capital for new energy technologies (fuel cells, micro turbines, solar...)
 - Environmental liability insurance...

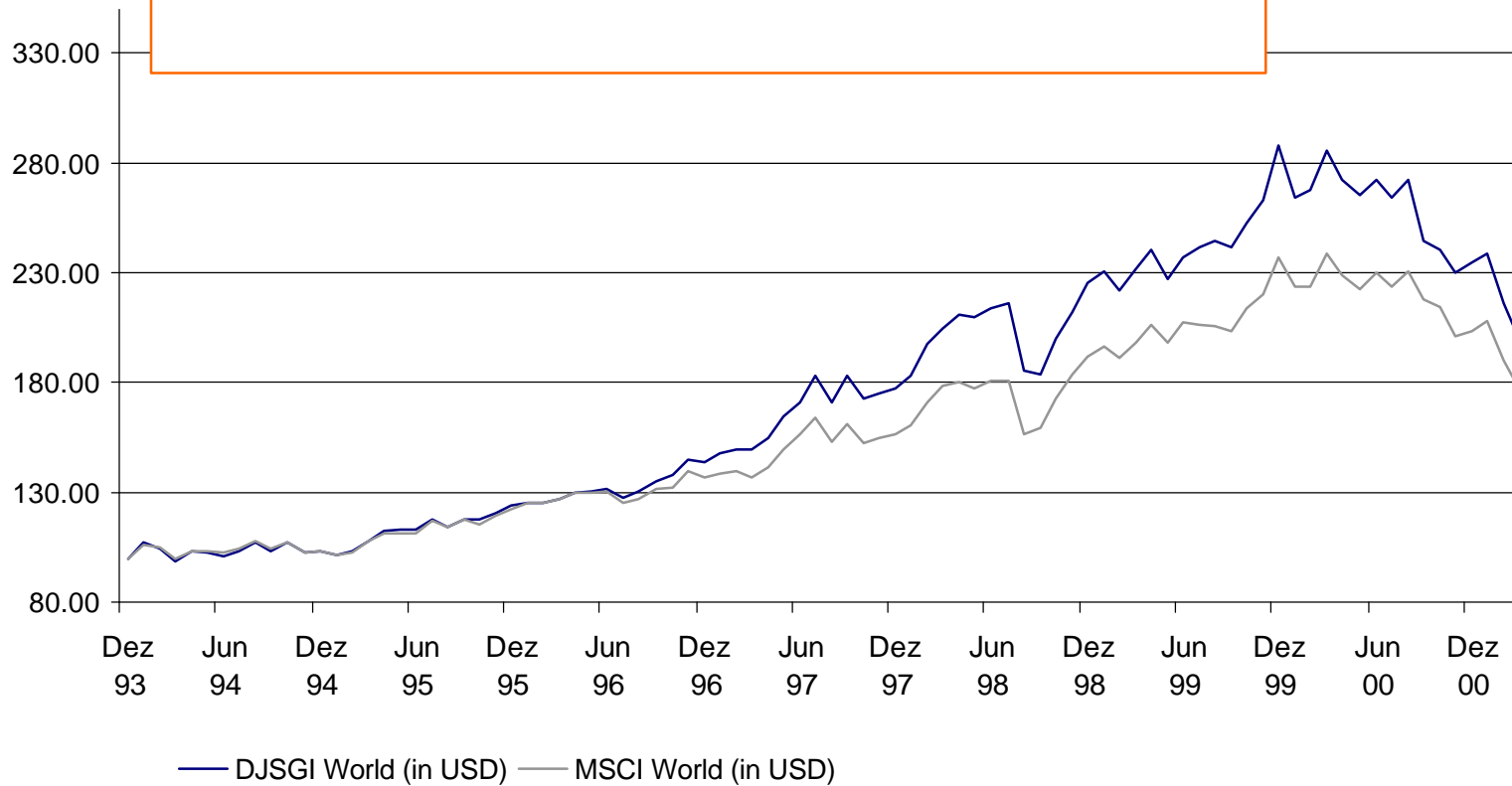
SOCIALLY RESPONSIBLE INVESTMENTS

- Number and volume of green funds are growing rapidly
 - Driven by pension fund legislation (UK and Germany)
 - In 1999 and 2000 “Green Funds” had a very good performance
 - Example: Dow Jones Global Sustainability Index – launch in Sept. 1999; assets under management: > 2 billion USD
 - FT is about to launch a “green stock index”

Dow Jones Sustainability Group Index World

(December 1993 – March 2001, USD, Price Index)

■ <u>DJSGI / MSCI World:</u>			
■ Correlation:	0.9684	Tracking Error:	2.71%
■ DJSGI Volatility:	15.16%	MSCI Volatility:	13.70%



SOCIALLY RESPONSIBLE INVESTMENTS – HOW LEADING BANKS LOOK AT IT

„Another area where financial institutions can play a key role is by offering 'green' investment products. I believe the growth potential of such products is considerable“

Aman Mehta, CEO, HSBC

“By the year 2020 almost \$40 billion worth of investments will be placed with Australian ethical funds. This is a massive rise from the \$1 billion to \$2 billion invested at present.”

Don Stammer, Chief Economist, Deutsche Bank

SOCIALLY RESPONSIBLE INVESTMENTS – OF INTEREST TO ANYBODY

- Business opportunity for financial institutions
- Pension funds have to invest their money prudently
- Frontrunners in the area of sustainability qualify for those funds
- Growing number of SRI indexes make this topic also relevant for CFOs

SOCIAL DIMENSION

SOCIAL DIMENSION - CHALLENGES

■ Internally

- > Diversity (gender, race and ethnicity)
- > Greater labor concentration in managerial and professional occupations - need for highly skilled employees
- > Expanding day-to-day family obligations (child care, elder care)

■ Externally

- > Bribery / money laundering
- > Community involvement / charitable givings
- > Stakeholder relations
- > Human rights
- > The way we do business with certain industries/customers. Sensitive areas include: defense, gambling, nuclear power, animal testing...

VALUE CREATION - POTENTIAL BENEFITS

- Addressing **social issues** leads to
 - > increased employee moral
 - > increased talent pool through diverse workforce
 - > improved access to new markets

 - > less negative media exposure
 - > reduced financial risk
 - > increased integrity of brand image

- > Hard and soft issues relevant for analysts, investors and the general public

SUSTAINABILITY - REGIONAL DIFFERENCES -

NORTH AMERICA

- Emphasis is more on the “social side”
 - Community involvement
 - Diversity
 - Donations
- “Socially Responsible Investment”
- Sustainability is only slowly getting attention at board level
 - Many business leaders continue to think that this issue will eventually go away

EUROPE

- Emphasis is more on the “environmental side”
 - Greening internal operations
 - ISO 14001 Environmental Certification
 - Resource protection and efficiency are important
- “Green Funds”
- Sustainability is on the agenda of many CEOs and Boards
- Most Blue Chip companies publish Corporate Environmental Reports – even in industries that are not so much exposed to environmental issues

SOME EXAMPLES

- Oil Industry
 - Exxon Mobile vs. Shell or BP
- Automobile Industry
 - GM and Ford vs. Volkswagen, Toyota or BMW
- Chemical Industry
 - Monsanto vs. NovoNordisk or Novartis

SUMMARY

WHY SUSTAINABILITY WILL BE OF GROWING IMPORTANCE

- Help to **improve the image** -> positive impacts on share price
- Significantly **reduces the risk** of being the target of campaigns by pressure groups
- **Improved communication** with sensitive shareholders
- **Rating agencies/analysts** also looking increasingly at soft issues such as **reputation**
- Sustainability can also be a driving force for **innovative and profitable new businesses**

PR FOR FREE

BUSINESSES DISCOVER
THAT GOING GREEN IS
FINANCIALLY FRIENDLY

Being eco-efficient can also lead to higher profits.

Sustainability forays into finance mainstream

A new Dow Jones index finds sustainability-driven companies perform better.
Ears prick up along Wall Street.

Europe Tops Business Sustainability Index
BRUSSELS, Belgium, September 20, 1999 (ENS) - Europe is the "clear front runner" in a new global Dow Jones index ranking companies according to sustainability principles, according to one of the organisers of the index.

SOCIAL RESPONSIBILITY: AN ESSENTIAL ASPECT OF ECO-EFFICIENCY

Companies are monitoring and auditing their social performance.
As recently as a decade ago, most executives would likely have dismissed corporate social responsibility as a mere public relations ploy. Now, however, companies are recognizing that social responsibility is not only a moral imperative, but also a business imperative. By investing in social responsibility, companies are creating long-term value for their shareholders, while also improving their reputations and maintaining public confidence.

INTERNATIONAL HERALD TRIBUNE, WEDNESDAY, SEPTEMBER 22, 1999

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SPONSORED SECTION

SUSTAINABLE DEVELOPMENT: THE BUSINESS AGENDA

SOCIALLY RESPONSIBLE COMPANIES

CORPORATE ANGELS

Call it touchy-feely, but more investors than ever are looking for stocks in which they can invest with a clear conscience. *Global Finance's* Fiona Haddock reveals those companies that shape up.

Global Finance

Sustainable Development
A Rewarding Challenge For
a Financial Institution
Green banking – the value of ISO 14001
certification in the financial sector

CONCLUSION

By making sustainability an integral part of our business
we **build up credibility, equity and trust**
and are able to show that we are a
Good Corporate Citizen

BUT

If it is only lip-service your efforts will
have a very short life span!!!