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CHAPTER 7

# The Challenge of Sustainable Development

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# The Challenge of Sustainable Development



**I**ncreasingly, sustainable development represents a fundamental challenge for companies and the public sector. The concept involves the pursuit of various ambitious aims: to constantly improve the quality of life of the world's inhabitants and of generations to come; to preserve Earth's ability to sustain life in all its forms; and to respect the law and basic rights. Equally, we seek to ensure solidarity between present-day inhabitants and future generations.<sup>262</sup>

In the new, multipolar order, emerging countries will gradually adopt the production and consumption models of the developed countries, which will increase the pressure on resources. Against this backdrop, the collaboration between the public and private sectors in facing up to such new tests as climate change, population growth, the protection of human rights and the depletion of resources, will in the future become essential. However important the advances designed to confront this new situation within each country, of no less significance will be the international cooperation between the different countries to resolve these worldwide problems.

The idea of sustainability may therefore be approached from three dimensions: social, economic and environmental (see Figure 70). These three aspects should be used to guarantee economic prosperity, ensure environmental protection, promote greater social cohesion and join in solidarity to contribute to the development of more unfortunate countries, with a view to building global sustainability.<sup>263</sup>

<sup>262</sup> [http://www.la-moncloa.es/NR/rdonlyres/96270D48-C981-430E-8C19-352904495879/0/folleto\\_desarrollo\\_sost\\_DEF.pdf](http://www.la-moncloa.es/NR/rdonlyres/96270D48-C981-430E-8C19-352904495879/0/folleto_desarrollo_sost_DEF.pdf).

<sup>263</sup> *Estrategia Española de Desarrollo Sostenible*, Ministerio de la Presidencia.

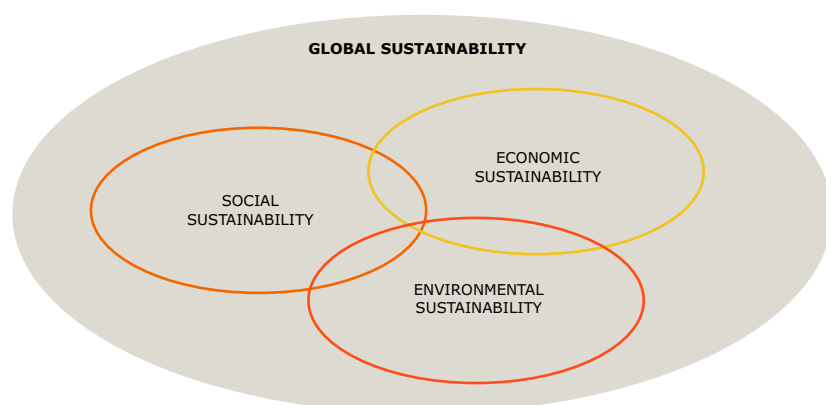


Figure 70. The different aspects of sustainability.  
Source: *Estrategia Española de Desarrollo Sostenible*, Ministerio de la Presidencia.

### **The Difficulties of Sustainable Global Development**

The growing concern with sustainable development has caused doubts to be raised regarding the viability of GDP as an indicator of social welfare. Economics Nobel Laureate Joseph E. Stiglitz declared in this regard: "...the current yardsticks [GDP] only reward governments if they increase materialistic production. [...]. It doesn't measure changes in well-being, it doesn't measure comparisons of well-being across countries. The standard measures of GDP do not measure the degradation of the environment, the depreciation of natural resources."

These criticisms of the GDP as a yardstick have led to the proposal of alternative measures that factor in such aspects as negative externalities and the effect of economic activity on the environment. These measures would provide an indicator that is more inclusive and more directly related to social welfare. One of these alternatives would be the Index of Sustainable Economic Welfare (ISEW).

What is certainly true is that in recent years, the word "sustainability," although sometimes quite ill-defined, is recurrently mentioned in all the business and institutional forums. However, the crisis has caused people to question the foundations of the sustainability of the development achieved in recent years. Some analysts draw attention to the fact that over the past few years speculation has replaced the culture of effort, ethics and responsibility. Therefore, the commitment to future generations seems relegated to the background.

In fact, the economic crisis will test our real commitment to sustainable development. In an unfavorable economic climate, companies are forced to adopt what could be termed "survival" strategies and adapting them to the requirements of sustainability would entail additional cost. At the same time, governments will have to demonstrate their commitment and intervene if corporate efforts are not made to work toward sustainable development.

A recent article in *The Economist* discussed the test facing governments at the Copenhagen summit at the end of 2009, where they will have to renegotiate a post-Kyoto agreement on the reduction of greenhouse gases: "Already pressure is growing to avoid the growth-inhibiting restrictions needed to meet ambitious carbon-cutting targets. Failure to reach a deal will mean, in effect, that the world gives up seriously seeking to stop global warming. Instead, attention would turn to ways the world might adapt to climate change rather than prevent it."

The same article suggested that, "In 2009 *sustainability* will take on a new meaning in boardrooms: staying in business. As recession bites and growth slows, bankruptcies will soar. To sustain profits, companies will slash costs and cut jobs, while consumers will be even less prepared to pay extra for organic food or air-travel offsets."<sup>264</sup>

<sup>264</sup> «The year of unsustainability», *The Economist*, (19/11/08).

We will go on to examine in greater depth the current situation and future forecasts for the environmental and social aspects of development.

### **Environmental Sustainability**

The sharp growth of the emerging economies is accompanied by the adoption of the production and consumption patterns of Western countries, distinguished by their high demand for natural resources. In addition, the increase in world population and the growing move into the cities both constitute factors that exacerbate this effect.

This has unleashed a worldwide struggle for natural resources, in particular energy and water, as well as an increase in emissions of carbon dioxide (CO<sub>2</sub>), which contribute to climate change. Mark Foster, Accenture's Executive Director of Management Consulting and the Integrated Market, considers that the competitiveness of those countries playing a part on the multipolar stage will depend to a great degree on their net balance of natural resources: "If you have access to natural resources, you are in a strong position in the multipolar world, and if you don't, you are in a weak position and are trying to get hold of them."<sup>265</sup>

In the case of oil, the fact that the producing countries are frequently exposed to geopolitical risks (terrorism, war, corruption, organized crime, etc.), represents an additional risk for the developed countries with high degree of dependence on this resource (see Figure 71). These countries would therefore have a very strong motivation, quite apart from environmental reasons (reducing carbon emissions), to reduce their degree of dependence on such countries.

<sup>265</sup> «Multi-Polar World and Resources Impact», Accenture.

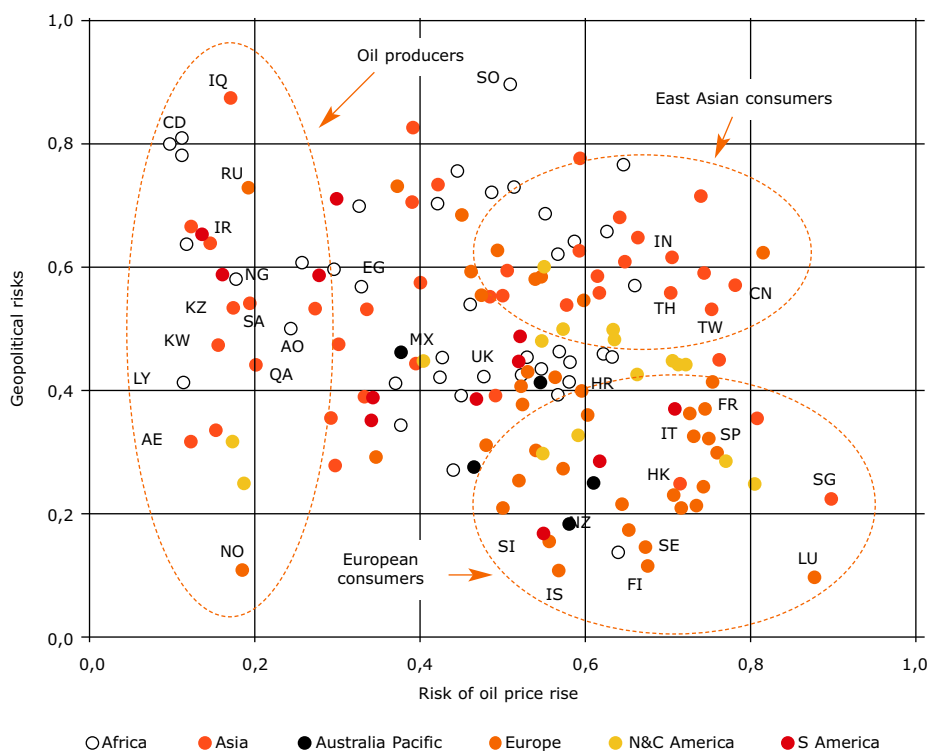


Figure 71. Geopolitical risks and oil dependence.  
Source: Zurich Financial Services, 2008

The study *Global Trends 2025: A Transformed World* by the United States National Intelligence Council forecasts that concerns about resources on the international front will continue to grow. The study indicates that “economic growth—positive in so many other regards—will continue to put pressure on a number of highly strategic resources, including energy, food, and water, and demand is projected to outstrip easily available supplies over the next decade or so. For example, non-OPEC liquid hydrocarbon production—crude oil, natural gas liquids, and unconvencionals such as tar sands—will not grow commensurate with demand. Oil and gas production of many traditional energy producers already is declining. Elsewhere—in China, India, and Mexico—production has flattened. [...] oil and gas production will be concentrated in unstable areas. As a result of this and other factors, the world will be in the midst of a fundamental energy transition away from oil toward natural gas, coal and other alternatives.”

Other studies undertaken by various international organizations agree on a number of forecasts or trends in world energy for the future<sup>266</sup>:

- The first is that the global energy consumption will grow steadily, albeit with significant differences between the various regions of the world.

<sup>266</sup> *La energía en España 2007*, Secretaría General de la Energía.

- It is also estimated that the consumption of all primary sources will rise, but that fossil fuels will remain the most important resource, especially oil, because of its widespread use in the transport sector.
- Likewise, developed countries will increasingly rely on imports for their energy supply.
- It is believed that raising energy efficiency is an essential factor in achieving all other energy policy objectives.
- Another trend is that renewable energies are being viewed as a top priority in securing supply and achieving environmental targets. Many experts forecast that the proportion of this type of energy will increase in the mix of energy resources of developed countries.
- Lastly, there will also be a trend toward the use of clean technologies in the use of fossil fuels, since they are essential in meeting environmental targets.

With this outlook for the future, these organizations are presenting as priority energy targets the guarantee of sufficient supply to meet demand, the reduction of external dependence by diversifying sources, and the combating of climate change.

There are some experts who consider the economic crisis as an opportunity to make progress in this area and to design a new economic model that is environmentally sustainable. James Leape, Director General of the WWF (World Wildlife Fund), has declared: "Now that we have to rebuild the world economy, we have an enormous opportunity to create a new economic model based on economic as well as environmental sustainability." In his speech at the Davos summit in 2008, he warned that if the final solution chosen to emerge from the crisis is to rebuild the same economic model, we would be going up a blind alley by failing to overcome our heavy reliance on oil prices and not facing up to their repercussions on climate change.

The debate has also been reopened on the advisability of resorting to nuclear energy, which is seen as one of the means of achieving the highly desired self-sufficiency and the sustainability of domestic consumption. There are many critics that reject it on account of its danger and the contaminating effect of its waste. As an alternative to nuclear power, they propose sources of clean energy. Meanwhile, its advocates claim that it is a necessary—and more economical—choice, in order to stop the dependence on international supply. It is foreseeable that as the struggle for natural resources becomes more acute, this option will continue to gain supporters. A study undertaken by PricewaterhouseCoopers reveals that most experts and business leaders consulted consider that over the next five years the production of nuclear energy will increase.<sup>267</sup>

<sup>267</sup> [http://kc3.pwc.es/local/es/kc3/PrensaR.nsf/V1001/DDECCDAAD1502BCC125756600398206/\\$FILE/Consenso\\_primerQ\\_2009.pdf](http://kc3.pwc.es/local/es/kc3/PrensaR.nsf/V1001/DDECCDAAD1502BCC125756600398206/$FILE/Consenso_primerQ_2009.pdf).

**Did you know?**

About 2.8 billion people, more than 40% of the world's population, live in water catchment areas with some sort of water shortage.<sup>269</sup>

As for other natural resources such as water, pressure on supply is also increasing. The cause lies in more intensive farming methods, growing industrialization, higher energy demand, residential development and growing consumption in emerging countries. In global terms, water consumption is divided as follows: 69% for agriculture, 23% for industry, and the remaining 8% for domestic consumption.<sup>268</sup> Hence, if moves are made to improve agricultural productivity in some countries then the consumption of water will be increased, unless efficient consumption techniques are employed. In any case, the struggle for water and fertile land will continue to increase in tandem with population growth. Countries such as Saudi Arabia and China have invested a great deal in infrastructure and agricultural productivity to gain access to fertile land in Kazakhstan and Mozambique, respectively.

Private companies are also starting to become involved in this area. Water has become yet another asset. Some US and Turkish companies have begun to use—or at least consider the possibility of designing—pipes for long-distance water transport to meet demand in areas of shortage. It is worth noting that certain hedge funds (also known as high-risk funds) have purchased rights on the glaciers in Scandinavia.

Among other risks, the shortage of water leads to an increase in food prices. These changes mainly affect the emerging countries, where spending on food represents 30%-40% of consumption, compared to 17% in the G7 countries.<sup>270</sup> The increase in basic food prices could have a devastating effect on people with low incomes, which would give rise to a risk situation in these countries, not only economic, but also political (see Figure 72).

<sup>268</sup> *Global Risk 2009*, The World Bank.

<sup>269</sup> [http://www.un.org/spanish/millenniumgoals/pdf/MDG\\_Report\\_2008\\_SPANISH.pdf](http://www.un.org/spanish/millenniumgoals/pdf/MDG_Report_2008_SPANISH.pdf).

<sup>270</sup> *Global Risk 2009*, The World Bank.

**Did you know?**

It is likely that by the year 2050, 75% of the Alpine glaciers will have disappeared<sup>271</sup> and 80% of the Maldives will be submerged under the sea as a result of climate change.<sup>272</sup>



**Node size:** denotes severity.  
**Node colours:** *yellow* – economics; *orange* – geopolitics and environmental; *black* – technology; *dark orange* – society.  
**Lines:** line thickness denotes the strenght of the interlinkage. The direction of a thicker line segment indicates when one risk is the stronger in the relationship.  
**Proximity:** the map shows risks that are tightly interlinked to many other risks as closer to one another.

Figure 72. Water: at the center of many risks.  
 Source: World Economic Forum 2009.

The forecasts are not very optimistic: it is estimated that within 20 years, 36 countries with a population of over 1.4 billion will swell the current list of 21 that are suffering from a shortage of water and cultivable land.<sup>273</sup>

The shortage of resources and the struggle to obtain them will be aggravated by climate change, although the gravity of the repercussions will differ from region to region. The supply of water and agricultural production will be the resources that are most affected. The impact on countries whose economy is based on agriculture will be extremely negative. Paradoxically, the developed countries are mainly responsible for the current accumulation of greenhouse gases in the atmosphere and, at the same time, they are the ones that have the necessary financial and technological resources to reduce their emissions. Nevertheless, it is forecast that in 2020 the emissions of developing countries will exceed those of the developed nations. Therefore, the need is clear for a change in the focus

<sup>271</sup> [http://ec.europa.eu/environment/climat/campaign/what/fighti ngcc\\_es.htm](http://ec.europa.eu/environment/climat/campaign/what/fighti ngcc_es.htm).

<sup>272</sup> [http://www.laprensa.com.bo/noticias/16-03-09/16\\_03\\_09\\_mund2.php](http://www.laprensa.com.bo/noticias/16-03-09/16_03_09_mund2.php).

<sup>273</sup> Data provided by the World Bank.

**Did you know?**

Nearly one billion people still do not have access to drinking water.

of the Kyoto Protocol, whereby only the developed countries made undertakings to reduce emissions.

**Social Sustainability**

The social aspect of sustainable development not only responds to arguments for human justice, but can also be justified by the obvious relationship between environmental degradation and the production and consumption patterns of the developed countries, as well as their impact on developing countries.

The World Bank identifies three social aspects of development on which a basis can be established for more equal, productive and sustainable societies: empowerment, social inclusion, and the safety of peoples. The empowerment of nations would seek to increase their assets and capacities with the aim of improving the influential capacity of all people and social groups. As for social inclusion, this consists of eliminating institutional obstacles while promoting incentives that increase the access of different peoples to development opportunities. Lastly, guaranteeing safety is an essential part of guaranteeing social welfare.

In this context, the World Social Forum, from its first meeting in 2001, set itself up as the counterpoint to Davos. In 2009, a year in which all countries are being hit by the crisis, the antagonism has become more evident. At the conference, many argued for a search for alternative systems to that of capitalism. Others proposed the alternative of "socially responsible capitalism."

The journalist Juan Arias wrote in the newspaper *El País*<sup>274</sup> that "along with the quandary of what should be done about capitalism, another question is resounding loudly in the Forum of Belém: Where have world governments been hiding those billions of dollars that they are now pulling out of the hat to save the financial system and which they did not have available when it was a matter of investing in education or healthcare?"

The world financial crisis, in conjunction with the energy and food crises, will cause a reversal in our progress toward poverty reduction and achieving the Millennium Development Goals. The credit squeeze and the slowdown in growth will reduce public revenues, shrinking the investment capacity of governments in developing countries to attain their education, health, and human development targets. Unless effective social protection networks are set up, it will be the poor who suffer most from the crisis. It is calculated that about 125 million people in developing countries have slipped into conditions of extreme poverty as a consequence of the worldwide rise in the prices of foodstuffs from 2006 onwards. The lessons to be learned from the major financial crises emphasize the importance of safeguarding (public) investment in infrastructure and social development in order to avoid reversals in human development and achieve high-quality economic growth in the medium term.<sup>275</sup>

<sup>274</sup> «¿Qué hacemos con el capitalismo?», *El País* (27/01/2009).

<sup>275</sup> [http://www.un.org/esa/policy/wess/wesp2009files/wesp09es\\_sp.pdf](http://www.un.org/esa/policy/wess/wesp2009files/wesp09es_sp.pdf).

**Did you know?**

Approximately one quarter of the children in developing countries are underweight and run the risk of their future being compromised by the long-term effects of undernutrition.

**7.1. Sustainable Global Companies**

In the corporate sphere growing media, social and political pressure “to do things right” can be observed, even more so in light of the financial impact arising from the lack of regulation and the excessive level of risk taken on by entities. Individuals—whether acting as citizens, consumers, investors or employees—and regulators insist that companies must observe the social and environmental aspects of sustainability. Companies, for their part, must imprint sustainability onto their DNA, by means of complementing their strategy with a corporate social responsibility (CSR) program.

For Michael Porter and Mark Kramer,<sup>276</sup> CSR may even constitute part of a company’s competitive advantage if it is implemented at the heart of every operation. Nevertheless, experts such as Christine Arena, former Managing Director of Poense Clancy, a Boston-based communications company, are not of the same opinion. Arena believes that as soon as the majority of companies begin to invest in CSR to stand out from their competitors, this advantage will be lost. She considers that, over and above competitive differentiation, one of the chief secondary effects of CSR policies is innovation, because the companies that make that commitment produce high-quality products, services, business models and operational innovations and thus ensure a lasting competitive advantage.<sup>277</sup> Ford Motor Company, on the heels of a workplace accident, decided to transform one of its factories into a “model of 21st-century sustainable manufacturing.” The factory was redesigned with plant-covered roofs considered ecological because they absorb storm-water runoff, filter emissions and insulate the structures from thermal shock and UV degradation.

However, many argue that CSR has become “fashionable” in a period of worldwide economic prosperity and that high corporate profits have encouraged practices of solidarity and policies of social responsibility. But will these companies still be just as “responsible” when profits are reduced?

The experts on this subject say that the answer varies depending on each company. According to Antoni Ballabriga, Director of Corporate Responsibility and Reputation for the BBVA, “when you have a CSR strategy that is not properly in line with your business, the first thing that the shareholders will ask you (in a period of crisis) is that you start making savings in that department.” Therefore, he adds, “I would say that real CSR is one that survives in hard times.”<sup>278</sup>

Most of the experts of the Future Trends Forum believe that the financial crisis will increase the degree of CSR, in part because sustainability and “good governance” will be key requirements demanded by shareholders (see Figure 73).

<sup>276</sup> «Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility», *Harvard Business Review* (December 2006).

<sup>277</sup> *The High Purpose Company*, Christine Arena.

<sup>278</sup> <http://www.noticias.com/reporte/crisis-identificara-empresas-verdaderamente-responsables-5d6.html>.

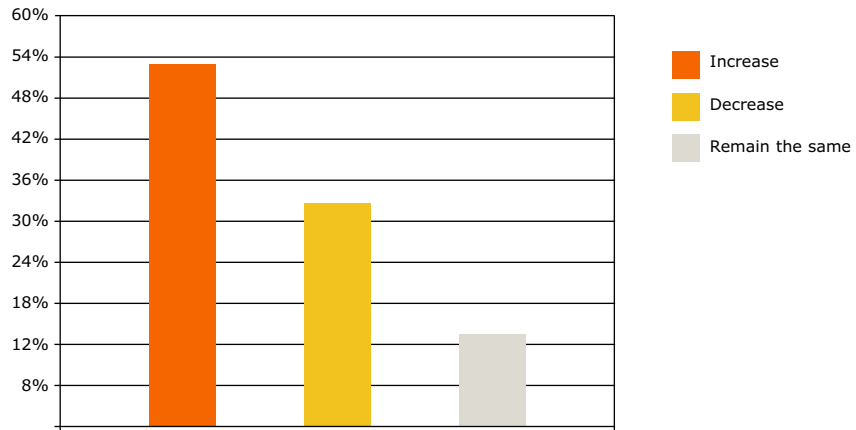


Figure 73. What impact will the financial crisis have on the concern for corporate social responsibility?

Source: Drawn from the conclusions within the Future Trends Forum.

Nevertheless, the main justification is that companies have an increasingly clear perception of the relationship between economic sustainability and CSR. Peter Lacy, Accenture’s Managing Partner for Sustainability for Europe and Latin America, emphasizes the need to make an investment in sustainability in spite of the current economic slowdown, “as it brings certain intangible assets whose value is hard to calculate.”<sup>279</sup> According to a study produced by the consulting firm, the aspects affecting companies’ sustainability strategy may be divided into three dynamic groups: those relating to supply, demand and regulations (see Figure 74). The study also reveals that sustainability practices and high corporate performance are entirely compatible.

<sup>279</sup> <http://www.europapress.es/epsocial/rsc/noticia-accenture-defiende-ventajas-competitivas-sostenibilidad-ya-conlleva-creacion-valor-20090130111959.html>.



Figure 74. Sustainability’s Business Drivers

Source: *Compatible Aims: Sustainability and High Performance*, Accenture (2009).

A company may implement strategic changes on various fronts in order to make a commitment to sustainability. In the next section we will examine these measures, firstly from the point of view of companies in developed countries, followed by those of emerging economies.

### **Sustainable Companies in Developed Countries**

More than a decade ago, John Elkington suggested that *cash capital* (profits), *natural capital* (the planet), and *social capital* (people) made up the *triple bottom line* for 21st-century businesses. This refers to the results of a company measured in economic, environmental and social terms. This indicator enables the success of a company to be measured based on these three aspects. Any company that demonstrates that it has a strong *triple bottom line* will not only be profitable, but is also socially responsible.

The easiest way to explain the concept is to imagine a tripod: one leg is the economic aspect, which involves maximizing long-term financial profits. The second leg is the environmental aspect, which not only requires that the impact of the company's operations and products on the environment be minimized, but which goes beyond this to create added environmental value by repairing the damage that has been caused in the past. The third leg is the social aspect, which in turn has two facets: the internal, which relates to promoting the welfare and quality of life of the company's employees, and the external facet, which relates to making a contribution to the welfare of the communities and countries in which the company is active. In order for the tripod to work, all three legs must function correctly.<sup>280</sup>

This new concept changes the focus of corporate responsibility from the companies to the groups of interested parties (stakeholders) rather than the shareholders, "interested party" meaning any person affected directly or indirectly by the company's actions. As for the shareholders, they are becoming increasingly committed to closely monitoring the financial return of leading companies in sustainable development, as demonstrated by the creation of indices such as the *Dow Jones Sustainability Index* (DJSI) in 1999.

Therefore, CSR is now viewed as being something far more than traditional philanthropy. It offers stability and prosperity for the markets in which the companies operate and reduces its bottom-line environmental impact, that is, the difference between the negative impact of its operations and the positive impact of its environmental efforts.<sup>281</sup> Below are listed some ideas that companies should take into account in order to present themselves as sustainable global companies in the new order.

<sup>280</sup> [http://www.revistamyt.com/articulo.php?id\\_seccion=1&id\\_articulo=5097](http://www.revistamyt.com/articulo.php?id_seccion=1&id_articulo=5097).

<sup>281</sup> *Social Responsibility Of The Global Corporation*, Forrester (May 2007).

### **Rule 1: Welcome to the Era of Corporate Social Responsibility**

Joaquín Garralda, Professor of Strategy at IE Business School, in an interview with *Knowledge@Wharton* argued that "in the short to medium term, corporate

responsibility (CR) is going to be a management principle in some sectors, due to certain structural characteristics. In the long term [...] I believe that it will be a management principle for all companies in the developed markets, regardless of sector or size. In countries where poverty prevails as the social condition, or where the social system is strongly influenced by an autocratic religion or ideology, it may be that this long term never arrives, as long as these circumstances are in place.”<sup>282</sup>

The crisis will undoubtedly help to refine these predictions and will have the effect of clarifying positions: those companies that were not fully convinced that CSR makes a contribution to their sustainability will cut costs and will forget about the idea to concentrate on their own survival. Nevertheless, those companies that have understood responsibility as an intrinsic part of their strategic DNA will carry on with their investment in CSR and with their sustainable performance. Manuel Escudero, Director of the Research Center for the United Nations Global Compact, considers that “for [these companies] CSR will become a clear, new competitive advantage factor: today’s social innovators will certainly be the market leaders in the not too distant future.”<sup>283</sup>

The fundamental role of enterprises in global development is recognized by the international organizations. At the Davos Forum in 1999, Kofi Annan launched the Global Compact, a response to the desire of multinational companies to demonstrate their commitment to the values embodied by the United Nations and to become an instrument for international development. Since then, companies of all sizes and sectors have joined this undertaking, accepting its principles and rendering accounts on their progress in CSR. The current crisis situation represents an opportunity to create worldwide platforms where truly responsible companies can have their voice heard on global policies that are now going to be redefined in the new, international multipolar order.

At the same time, the crisis has increased society’s awareness of the entire question of corporate responsibility. Business scandals and the lack of ethics have had widespread coverage in the media. Some columnists have even declared that right now there is considerable expectation of “corporate irresponsibility,” and for that reason being a socially responsible corporation is doubly advantageous.<sup>284</sup>

It is certainly true that to be included in the list of the most socially responsible companies worldwide that is compiled by *Fortune* every year can have a positive effect in marketing terms. What is notable is the wide variety of sectors to which the top companies on the list belong: oil, banking, electronics, automobiles, etc. (see Figure 75).

<sup>282</sup> «La crisis pone a prueba el paradigma de la responsabilidad social corporativa», *Knowledge@Wharton* (21/01/2009).

<sup>283</sup> <http://www.diarioresponsable.com/blog/Manuel%20Escudero.html>.

<sup>284</sup> «Corporate Giving is Good Business; Social Responsibility Needed in Tough Times», *The Mercury News* (6/03/2009).

Rank		Company	Global 500 rank	Accountability score	Sector	Country
2008	2007					
1	5	Vodafone	85	77.7	Computers and electronics	Britain
2	13	General Electric	12	70.2	Utilities and diversified industrials	USA
3	4	HSBC Holdings	20	67.7	Financial	Britain
4	46	France Telecom	84	67.3	Computers and electronics	France
5	8	HBOS	45	66.2	Financial	Britain
6	N.D.	Nokia	88	63.8	Computers and electronics	Finland
7	20.	Electricité de France	68	62.3	Utilities and diversified industrials	France
8	N.D	Suez	97	61.8	Utilities and diversified industrials	France
9	1.	BP	4	61.6	Oil and Gas	Britain
10	6	Royal Dutch Shell	3	61.2	Oil and Gas	Netherlands
11	24	Hewlett-Packard	41	61.1	Computers and electronics	USA
12	2	Barclays	70	60.1	Financial	Britain
13	43	AXA	15	58.8	Financial	France
14	15	ING Group	7	58.2	Financial	Netherlands
15	38	Toyota Motor	5	57.8	Automotive	Japan

Figure 75. Annual ranking of the companies with greatest corporate responsibility.  
Source: *Fortune Most "Accountable" Companies 2008*.

There are many companies that invest time and money in the interests of sustainability. Ben & Jerry's, Newman's Own, Patagonia, and The Body Shop are among the companies that are particularly noteworthy for their long-term CSR record through the sale of products linked to environmental and social causes. Crédit Agricole has stood out from competitors by offering environment-related financial products, such as specialized packages for energy-saving home improvements or audits certifying certain farms as organic. Nestlé embarked on the business of milk production in India. In spite of the controversy over its sale of baby milk in Africa, the company has carried out numerous projects in developing countries. In a rural area of India, for example, it entered the market by investing in the necessary infrastructure, in turn bringing enormous benefits to the Indian farmers. The company built refrigerated milk plants employing the expertise of veterinarians, nutritionists, agronomists and other specialists in quality. It imported drugs and nutritional supplements for sick animals and offered monthly training to the farmers on the importance of the diet received

by the cows. The company also put in work on the crop irrigation system to improve the diet not only of the animals, but also of the inhabitants of the region. This resulted in a 75% drop in the mortality rate of the cows and a much larger increase in the standard of living in the region compared with others thanks to the introduction of electricity, telephones and primary and secondary schools, in addition to more doctors to treat the population.<sup>285</sup>

General Electric undertook to "offer imaginative answers to the growing challenges presented by the ecosystem." It used its "ecoimagination" to develop environmentally friendly materials, products and operational changes, such as energy-saving dishwashers and aircraft engines with lower fuel consumption; these have brought the company ten billion dollars in profits and are forecast to generate a further 20 billion up until 2010.

### Rule 2: Think Green

Companies cannot stay sidelined in the international struggle for natural resources. Their goal will be to develop in a sustainable way, exploiting resources below the limit at which they can be renewed. They must make efforts to find the balance between the capitalization of domestically available natural resources and the acquisition of other natural resources abroad. The French oil and gas company Total is implementing a strategy to diversify the natural resources used and the geographical region from which they are obtained. To achieve this it resorts to countries in situations of instability with difficult access for resource exploration. In addition, it will begin to supply liquid natural gas from the Gulf of Aden in Yemen. The company is the second largest Western oil company in Africa and the Middle East.<sup>286</sup>

Most of the experts at the Future Trends Forum believe that, in order to satisfy the scarcity of natural resources, companies must seek new raw materials instead of geographically diversifying their sources for natural resources (see Figure 76).

<sup>285</sup> «Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility», Michael E. Porter and Mark R. Kramer, *Harvard Business Review*, December 2006.

<sup>286</sup> «Total, the French Oil Company, Places Its Bets Globally», *New York Times* (22/02/2009).

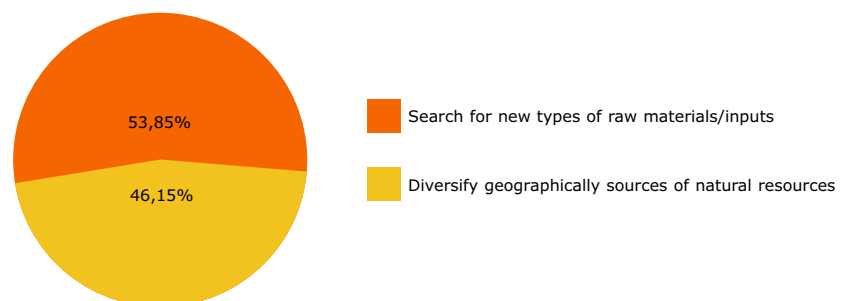


Figure 76. Corporate strategies against the scarcity of natural resources.  
Source: Drawn from the conclusions within the Future Trends Forum.

Gradually, some companies are making efforts to diversify the energy they use by including renewable sources and transforming their production processes. One very good example can be found in the automobile sector. Faced with the volatility of oil prices and the social awareness focusing on responsible energy consumption, the sector is adapting to these changes by applying ecological technologies with low emissions. At this year's Geneva Automobile Salon, the models on display were cleaner and less dependent on oil. Many car brands focused on hitching themselves to the ecological revolution with low-emission Eco versions (BMW's Efficient Dynamics), smaller engines (VW's Bluemotion) and *Start&Stop* systems—which stop the engine in traffic jams—(Peugeot and Citroën, among others). Others presented hybrid models (Toyota's Prius, Honda's Insight, Lexus' 4x4) and it was also confirmed that the research into electric propulsion cars continues.<sup>287</sup>

In other sectors, IKEA will promote the use of cellulose because, in the words of their Swedish designer Maria Vinka, "whereas it takes nearly 2,800 liters of water to grow one kilo of cotton, the same amount of cellulose requires only 100 liters. What's more, over 95% of this water can be reused afterwards." IKEA designers also travelled to Vietnam to work with local craftsmen in the manufacture of new articles made of bamboo. In addition, the company is putting greater efforts into ecological packaging and to maximizing truck space by going for flat packaging in order to reduce carbon-dioxide emissions.<sup>288</sup> In the case of Coca-Cola, the company has identified water conservation as a critical factor in its future, and it is therefore collaborating with the global environmental organization World Wildlife Fund (WWF) in the conservation of seven of the largest river basins. It is also working in conjunction with Greenpeace to eliminate emissions from its vending machines.

Nevertheless, a lack of corporate financing may undermine many projects for environmental sustainability investment. The crisis has led to a decline in private investments and the "clean energy" sector is producing gloomy forecasts for 2009. In spite of a 53% increase in income for this sector, growth is expected to decrease significantly in the course of this year.<sup>289</sup> Programs promoted by governments are worthy of note, such as the Obama Administration, which has included expenditure in clean technology and transport as one of the items in the US stimulus package, valued at 70 billion dollars.

C.K. Prahalad asserts that companies that focus their efforts on green products and services will have a better long-term future, because "they will become very profitable if they learn how to find the right balance between price and sustainability." It is the customer who now has power over the company and not the other way round, and people are prepared to pay a little bit more to get an ecologically sound product, although this surcharge must be moderate and in line with the market.<sup>290</sup>

<sup>287</sup> «Coches para después de una crisis», *ElPais.com* (14/03/2009).

<sup>288</sup> «Rsc. Ikea apuesta por materiales sostenibles en sus nuevos productos», *elEconomista.es* (1/04/2009).

<sup>289</sup> «Despite gloom, promising clean-tech trends», *The New York Times* (12/03/2009).

<sup>290</sup> «Advice from Management Guru C.K. Prahalad: "Never Try to Manipulate a Customer"», *Knowledge@Wharton*, (13/06/2007).

### **Rule 3: Preach by the Example of Good Corporate Governance**

Many experts see the root of the crisis as stemming from poor corporate governance and from the lack of transparency. There has been much talk about this lack of transparency because of the concealment regarding toxic financial products that some banks have practiced on their investors, shareholders and society. However there has been considerably less talk of corporate governance.

The financial scandals have undermined trust in the organizations and the importance of rebuilding this trust calls for the development of a specific plan for improved control on corporate activities.

The European Union has brought top executives' salaries under the microscope because of their influence in aggravating the international financial crisis. The Eurogroup, consisting of the Finance Ministers of the euro area, analyzed at their last meeting how the executive compensation based on short-term profits can lead to the assumption of disproportionate risks and an imbalance in the financial system. A number of European countries, including Germany and Holland, are preparing measures against multimillionaire bonuses and perks.<sup>291</sup>

Criticism of "super salaries" had already been raised within the Eurogroup, for ethical and moral reasons, by its president, Prime Minister Jean-Claude Juncker of Luxembourg, the leader of the country's Christian Social People's Party. Last summer, Juncker brought up the need for a debate on the distribution of income by pointing out the contradiction in the proposals put forward by political and economic leaders. "We are asking social interlocutors for wage moderation, but workers see that while we are proposing that they should show restraint, other actors in the economy are enjoying unlimited increases."

The President of the Eurogroup thus added his voice to the point of view argued by the President of the European Central Bank, Jean-Claude Trichet, and to the stance of the European Parliament. The European Parliament has also expressed its concern over the policies on pay for top executives, which is tending to grow out of all proportion to ordinary salaries. This sends the wrong signal and discourages support for a responsible wage policy.

### **Rule 4: Being Sustainable Sells**

There is no doubt that social marketing is clearly beneficial in the perception people hold of a company. And this in the long term means a good brand image and favorable appreciation by society of business leaders and directors. That is why so many consider the efforts invested in corporate social responsibility to be justified by the return. In these times of fierce competition, social marketing gives the brand added value and differentiation by associating it with social projects.<sup>292</sup>

<sup>291</sup> <http://spanish.safe-democracy.org/2008/06/06/el-buen-gobierno-corporativo-es-negocio/>

<sup>292</sup> [http://www.cincodias.com/articulo/opinion/Responsabilidad-social-corporativa-marketing-social/20041229cdscdiopi\\_2/cdsopi/](http://www.cincodias.com/articulo/opinion/Responsabilidad-social-corporativa-marketing-social/20041229cdscdiopi_2/cdsopi/)

Increasingly, the pressure on companies to justify their corporate social responsibility projects is not imposed only by NGOs or social pressure groups. Awareness started growing among consumers some decades ago, though only recently have they begun to influence the market with their decisions. According to the *2009 BBMG Conscious Consumer Report*,<sup>293</sup> 77% of the US consumers surveyed agree that they can make a positive difference by buying the products of companies that demonstrate social and environmental accountability. Nevertheless, one in four believes that there is no way of knowing if the product is really “green” or if it complies with the cause advocated.

Nevertheless, in regards to sustainable consumption, as with everything else, there are varying degrees. Companies increasingly segment consumers according to the impact that corporate sustainable action has on their purchase decisions. In this context, the Natural Marketing Institute has identified five market segments<sup>294</sup>:

- **LOHAS (*Lifestyles of Health and Sustainability*)**. This group of consumers (19% of consumers in the US) has a “healthy and sustainable lifestyle”: not only do they buy “green,” but they also support similar projects and collaborate actively in the protection of the environment.
- **Naturalist**. Another 19% of US consumers are counted in this segment inclined to buy food products packaged as natural/organic. Nevertheless, they do not proclaim political commitment with the environment, nor do they buy ecological goods of other types.
- **Weathervane**. 25% of consumers in the United States have good intentions, but these are not put into practice because there are other factors that they find more important, such as price or following fashion.
- **Conventional**. A further 19% of consumers belong to a segment that does not claim to have “green” views but does demonstrate a certain degree of environmentally conscious behavior in recycling or energy saving.
- **Indifferent**. The remaining 17% have no responsible attitudes toward the environment.

More recently, some companies have been successful in combining—for marketing purposes—the concepts of crisis and social responsibility, which has rewarded them with free advertising in all the media. The campaigns being carried out include, for example, giving away free products to the unemployed affected by the crisis. In some cases, employees themselves lend their weight by giving up their wages for one day a month in order to finance the cost of the “anticrisis” promotions, as in the example of Bocatín.<sup>295</sup>

<sup>293</sup> Branding and Integrated Marketing, <http://www.bbm.com/>.

<sup>294</sup> The Natural Marketing Institute, <http://www.nmisolutions.com/reports.html>. Datos recogidos en *Sustainability and its Impact on the Corporate Agenda*, Accenture (2009).

<sup>295</sup> <http://www.pymesyautonomos.com/marketing-y-comercial/el-marketing-de-la-crisis-y-la-responsabilidad-social-corporativa>.

### **Rule 5: Safeguarding Energy Security Affects Everyone**

Energy security is one of the problems considered of greatest international importance for oil-importing countries and their companies. The sharp rise being experienced in Asian demand for oil and gas has been the principal cause of the upward pressure on international prices suffered over the last few years. In addition, the presence of energy companies from Asia has also increased dramatically in the international energy market, creating the widespread impression of far fiercer competition between the public and private gas and oil companies of the world, and evoking the specter of geopolitical competition for energy resources, both in Asia and in the rest of the world.<sup>296</sup>

An article produced by the Real Instituto Elcano (Elcano Royal Institute) maintains that in this context geopolitical rivalries for energy resources do exist and that the strategic maneuvering has already started. The article identifies three current fronts: firstly, the political clashes for the gas and oil pipelines in the Middle East, Central Asia and Russia; secondly, the growing competition between the national oil companies (usually referred to by their initials, NOC) and the international oil companies (IOC); and, lastly, the number of strategic agreements signed between the main Asian consumer nations and the producing states of the "great and small crescent."

How does this affect the business world? Companies depend largely on energy resources to maintain profitable levels of production. The growing lack of global energy security in countries demonstrates the importance that corporate action can have in reducing the consumption of energy and diversifying it into renewable sources.

Nevertheless, the expansion of renewable energies and technologies to improve energy efficiency requires heavy investment. Even though the outlook is promising, there are various obstacles holding back the participation of private-sector investors, and these projects and companies have difficulty in sourcing risk capital as a means of financing. Seeing that the financial crisis is making it even more difficult to obtain loans, the authors of a report prepared by the Economic World Forum called for world governments to pool their stimulus packages with "green" investments.

There is a great deal of money to be discovered behind the sustainability agenda. Financial products designed for investment in companies that meet the criteria of corporate social responsibility have grown exponentially in recent years. Merrill Lynch produces an Energy Efficiency Index (EEI) covering 40 companies from four sectors that should benefit from this strategy. Other companies, for example Société Générale, offer a range of products benchmarked to a number of indices drawn up in collaboration with the company STOXX which are linked to the environment. These indices are: the Wowax, which tracks the companies specializing in water treatment; the Solex, for

<sup>296</sup> <http://www.realinstitutoelcano.org/documentos/264.asp>.

investment in solar power; and the Erix, which extends the listing to all renewable energies.

Investors in this type of asset obviously have a long-term profile. The problem is that companies are not obliged to report their social or environmental practices in their accounts. Despite the fact that they can potentially be strong indicators of a company's performance in the future, they are not included on the balance sheet.

### **Rule 6: No Ethics, no Business**

The business world is clearly sensitive to public opinion. A financial scandal such as Enron, the *Prestige* oil spill or the controversy over textile companies exploiting child labor can destroy the reputation of a company in a matter of hours. News travels fast on Internet and there are ever more *rankings* that compare companies with each other using innumerable criteria, including their implementation of proper environmental and social management. When it comes to the moment of truth, most activity related to the reputation of a company revolves around risk management.<sup>297</sup>

Mattel has been meticulous in monitoring its production since it was obliged to withdraw millions of toys manufactured in China from the market for safety reasons. The pharmaceutical companies were accused of a failure to heed the needs of millions of Africans dying of AIDS, which is why GlaxoSmithKline and Merck, among other companies, joined a program to provide the drugs at cost. De Beers endeavors to certify itself by means of the *Kimberly Process*, which champions the fight against the "blood diamonds" of countries such as Angola, the Ivory Coast, the Democratic Republic of the Congo and Sierra Leone. All of these are projects that the companies have instituted to mitigate the disrepute caused by practices that clearly failed to meet CSR criteria. Nike, for example, was one of the first companies to come under the CSR microscope. Its reputation was seriously damaged in the 1990s by its reported use of child labor in its factories in Asian countries. Nike's Vice President for Corporate Responsibility speaks of "return on investment squared" to investors and to the community. She insists that now corporate responsibility is viewed as a source of innovation and she joins entrepreneurial social networks instead of the typical CSR conferences.

### **Rule 7: Communicate and Demonstrate that you are a Responsible Company**

More and more companies are producing sustainability reports. Nevertheless, according to a survey carried out by KPMG, the experts in corporate social responsibility in charge of preparing this type of report admit that not too many people find them interesting. First, because they are generally too long, and also because most of their target readership does not even know that they exist, because the content simply is of no interest, or because they believe that the reports lack credibility.

<sup>297</sup> «How companies manage risks to their reputation», *The Economist* (17/01/2008)

In spite of this discouraging outlook, most large companies already produce a report of this kind every year. In many cases, because it serves as a useful tool for the company to systematize its own information, but, more importantly, the people who prepare sustainable reports consider that they are most useful for comparison purposes. Sustainability reports are felt by these experts to be a valuable mine of information on strategies and sound practices evolved by other companies.<sup>298</sup>

With a view to standardizing this information, the Global Reporting Initiative (GRI) has been created as the main international standard for the preparation of corporate social responsibility reports (see Figure 77). GRI works together with the United Nations Environment Program on assessing companies in reference to laws, regulations, performance standards and voluntary programs.

<sup>298</sup> [http://www.cinco dias.com/articulo/empresas/empresas-ensayan-comunicar-mejor-RSC/20070416cdscdiemp\\_17/cdsemp/](http://www.cinco dias.com/articulo/empresas/empresas-ensayan-comunicar-mejor-RSC/20070416cdscdiemp_17/cdsemp/).

Section	Dimension	Aspects
Economic	Economic	Economic Performance
		Market Presence
		Indirect Economic Impacts
Environmental	Environmental	Materials
		Energy
		Emissions, Effluents, and Waste
		Products and Services
		Compliance
		Transport
Social	Labor practices and Decent Work	Employment
		Labor/Mangement Relations
		Occupational Health & Safety
		Training and Education
		Diversity and Equal Opportunity
	Human Rights	Investment and Procurement Practices
		Non-Discrimination
		Child Labor
	Society	Comunity
		Corruption
		Public Policy
	Product Responsibility	Customer's Health and Safety
		Marketing Communications
Customer Privacy		

Figure 77. Aspects of the GRI report.  
Source: 2004-07 Sustainability Report, GRI.

On March 10, 2009, the GRI drew up the Amsterdam Declaration on Transparency and Reporting, in which governments are asked to require less-than-transparent companies to justify why they refuse to publish GRI reports. The declaration also notes the importance of requiring GRI reports to be published by large state-owned companies, pension funds and public authority-controlled investment agencies. In the view of the signatories, one of the causes of the current economic crisis is the “transparency deficit.”

It is for this reason, the document declares, far beyond measures to contain the financial crisis, “new disclosure policies on sustainability, social impact and governance” must be included throughout the world. In this context, it is suggested that it might be appropriate to impose a “political requirement,” as the time has come “to go beyond voluntary action” in CSR.<sup>299</sup>

Some experts stress that companies wrongly believe that by increasing the volume of CSR reports they show that the company is extremely active in this area.<sup>300</sup> However, if accountability is not understood as a strategy by the company, the increased amount of information does not demonstrate a continuous cycle of corporate improvements directed toward social and environmental issues.

The corporate website is the most usual way of informing *stakeholders* on corporate social responsibility projects and the reports that measure their social and environmental impact. The Bankinter corporate website, [www.bankinter.com](http://www.bankinter.com), gathers and organizes the information on CSR and is accessible throughout the financial year, not only during the notice period to attend the General Meeting. The section covering corporate responsibility includes information regarding social action, environmental policy, the Bankinter Foundation of Innovation and the Corporate Responsibility Annual Report.

### **Rule 8: Start with the Employees**

According to Accenture,<sup>301</sup> sustainability also affects the positioning of companies in the fight for talent. The talent pool, especially the youngest segment of recent college graduates, pays more attention to the stance of companies with regard to sustainability or seeks a connection between their job and sustainability. According to Thomas Cooley, Dean of the New York University Stern School of Business, “demand for CSR activities has just soared in the past three years.” Consequently, many business schools are adding the subject and specialized departments for its MBA students.<sup>302</sup>

According to Jan Phillips, author of *The Art of Original Thinking*, professionals are “in pursuit of purpose-driven lives and principle-driven workplaces.” She believes that they are searching for meaningful workplace experiences, looking for organizations whose commitment runs deeper than the traditional focus of CSR. In short, they want to align their purpose with businesses that are socially driven as well as profit driven.

<sup>299</sup> <http://www.diarioresponsable.com/20090408-esade-se-suma-a-la-declaracion-de-amsterdam-del-gri.html>.

<sup>300</sup> *The High Purpose Company*, Christine Arena, 2007.

<sup>301</sup> «Sustainability and its Impact on the Corporate Agenda», Accenture (2009).

<sup>302</sup> «Just good business», *The Economist* (17/01/2008).

The Director of the Joint Prevention Department of Endesa, Segundo Caeiro, considers that work safety and employee health constitute the cornerstone of CSR in his company, since in a sector such as electricity this aspect is "extremely important." Caeiro explained that the idea of CSR has been introduced into Endesa in the prevention of occupational hazards, in human capital and the environment.<sup>303</sup> The Values in Action campaign from Novo Nordisk, the Danish pharmaceutical company, has raised the concept of sustainability to the level of company strategy, thus achieving a reduction in staff turnover to 5%, half the average figure for the sector.

IKEA maintains a strong corporate culture, encouraging a team spirit among its employees. To achieve this, it has set up workdays during which the senior managers work at the checkout counters or in the warehouses. In addition, it offers social and environmental training to all its staff. Maintaining this culture, which is impossible to dissociate from the lifestyle that they represent, has been the key to IKEA's long-term success and consolidation as a socially responsible company.

### **Sustainable Companies in Emerging Countries**

The spectacular growth of the emerging economies has taken place in an environment that challenges sustainable development. The problems that hinder continued growth in the long term are related to the lack of appropriate infrastructure, the shortage of water, respect for human rights and the dependence of some countries on energy sources for their rapid industrialization. For all these reasons, sustainable development policies are a commitment practically obligatory for the survival of the companies in the emerging markets.

Social responsibility, often considered the domain of business in the developed economies, is gaining ground in developing countries. Some emerging market companies are already reaching the levels of their counterparts in developed countries in environmental matters, but still lag behind on human rights.<sup>304</sup>

In addition, the companies in emerging countries need to boost their CSR practices when they set up in other developing countries in order to protect the employees, the communities and the ecosystems of these host countries. If the companies in emerging countries do not feel the need to observe good corporate governance or social responsibility principles, there is the risk that they will adopt questionable strategies when investing abroad, especially in matters connected with corruption and respect for human rights.

Nevertheless, these South-South investments have a very positive aspect in contributing to development. To take one example, given that the advantages of multinationals' presence depend on the difference in the technological capacities of the countries of origin and destination, this gap is not as wide in the case of investment between developing countries and, therefore, the benefits can be greater. It also seems likely that the emerging multinationals are less risk-averse

<sup>303</sup> «BBVA, galardonado con el I Premio a la Mejor Práctica Responsable del Club de Excelencia en Sostenibilidad», *Media Responsable* (21/04/2008), [http://www.empresaresponsable.com/articulos/detail.php?id=3964&sec=.](http://www.empresaresponsable.com/articulos/detail.php?id=3964&sec=)

<sup>304</sup> <http://www.ecodes.org/pages/areas/rsc/evento.asp?ID=5464>.

and open the gates of globalization to countries where the traditional multinationals are unwilling to invest. After the signing of the peace agreements in Sierra Leone, the first to arrive were Chinese investors. Their positive experience served as a sign for European companies that have recently become established. South-South investment flows also represent an opportunity for lower-income countries meaning that they offset the fluctuations in investment from developed countries.<sup>305</sup>

Nevertheless, any regulations that may be laid down to guarantee sustainability will not be sufficient in themselves. China, India, Brazil and other countries will continue to grow, with hundreds of millions of people eager to join the Western way of life. The swift growth of the ecological footprint and the imminent exhaustion of some resources demonstrates that the Western lifestyle cannot be replicated throughout the world because of the ecological limits. Responsible consumption, energy efficiency and the search for alternative sources may represent a few of the keys to achieve this.

### **Rule 1: More Responsible Means More Money**

A report on corporate social responsibility by the International Finance Corporation, a body under the aegis of the World Bank, argues that the companies of emerging economies based in China, India or Brazil could increase their returns many times over if they apply good governance policies.

Even so, the level of exigency in these countries is lower than that required of companies in the developed world because the concept of good governance is not so widespread. "Having a leader whose consciousness is raised, responsible policies integrated right from the start, differentiation or the quality of relations with all the interested parties, these are all ingredients that would make up a good list for businesses to make the economies of their countries more developed. Other studies, focusing on developed countries, claim that it is not possible to speak of CSR as a specific factor in economic growth. Despite this, they reveal a positive link between CSR indicators and those of economic growth."<sup>306</sup>

In regard to general spending patterns, the results of several studies indicate a wide disparity in the general attitudes toward CSR between the emerging and mature markets. 85% of consumers in Indonesia claim to have bought a product or service specifically because it was produced responsibly, compared with 72% in Spain and just 52% in the US.<sup>307</sup>

If these data are taken into account, it appears that for those emerging-country companies, climbing aboard the CSR train can help improving their profits. For example, the Chinese company Dequingyuan undertook to provide healthy, high-quality products during the bird flu crisis. Their guarantee of quality and safety allowed them to increase their revenue by 0.3 million to 4.6 million in four years. The Indian pharmaceutical company Jubilant increased its profits

<sup>305</sup> <http://seminariordenmundial.blogspot.com/2008/09/las-multinacionales-de-los-pases.html>.

<sup>306</sup> «Las empresas de países emergentes mejoran con políticas responsables», *CincoDías.com* (11/02/2008).

<sup>307</sup> [http://www.tns-global.es/docs\\_prensa/nota\\_prensa\\_107.htm](http://www.tns-global.es/docs_prensa/nota_prensa_107.htm).

elevenfold in 2007 (from 3.4 million to 37.9 million), thanks to the transparency of its activities and the environmental audits that it passes every year. These companies from the emerging countries have managed to align their business strategies with a solid environmental and social commitment, in this way obtaining a clear competitive advantage. In short, they have succeeded in creating value both for their company and for society.

The contribution of companies from developed countries to the economies of those countries where they operate is also important, and the implementation of CSR policies guaranteeing their respect and commitment toward such countries is essential. In 2005, Unilever estimated that its business in Indonesia supported the equivalent of 300,000 full-time jobs, generated a total of 630 million dollars and contributed 130 million dollars in taxes to the Indonesian Government. Nokia at the beginning of this year collected three tons of waste from mobile devices (telephones, batteries, chargers, accessories, etc.) in 45 days.<sup>308</sup> This recycling project is an attempt to raise the consciousness of Indian consumers about the usefulness of components that can no longer be used. A survey revealed that only 3% had recycled their old cellular phones and 44% said that they still had them around the house. In other markets, the main telephone providers have collection campaigns as part of their CSR.

## Rule 2: CSR Attracts Investment

*Socially Responsible Investing (SRI)* has become fashionable over the last decade. It consists of investing in companies because of their commitment to socially responsible practices or, on the contrary, ruling them out for ethical reasons.

Following the lead of the US Dow Jones Sustainability Index and the British *FTSE4Good*, India in February 2008 launched the stock market index *S&P ESG (Environmental, Social and Corporate Governance)*, which only lists Indian companies that have a good environmental, social and governance record. Thus the listing of the 50 Indian companies that make up the index is linked to social responsibility and investors are able to decide where to place their capital using CSR criteria.

Traditionally, investment results have been assessed on the basis of financial return, but there is a growing number of investors who prefer to take other criteria into account, such as environmental, social, or even religious strategies. For some it is a question of not providing capital to the tobacco, alcohol, or arms companies. For others it is a matter of investing to alleviate market inefficiencies, the management of intangible value and technological diversification. The benefits of investment in social responsibility for companies in emerging economies are the following<sup>309</sup>:

- Positive differentiation of their equity compared with issuers from other emerging markets. This brings them an advantage when competing worldwide for quality long-term investment.

<sup>308</sup> «Nokia collects 3 tonnes mobile waste in 45 days», *The Hindu Business Line* (2/03/2009).

<sup>309</sup> *Sustainable Investment in India*, The Energy and Resources Institute (TERI) Europe (May 2007).

- Efficient capital allocation to business models capable of overcoming the problems raised by sustainable development goals.
- Additional market incentives for companies that meet national ESG targets (Environment, Social and Corporate Governance) and adopt corporate responsibility programs that go beyond what the law requires.
- The creation of business models that make capital out of opportunities and know-how in sustainable development, and that can serve as an example to companies in the future.
- The investment in R&D devoted to various causes, for example, the generation of alternative energy, which could provide a solution for sustainable development that is threatened due to lack of resources.

At the same time, emerging countries are proving increasingly selective regarding the direct investment of multinationals inside their own borders. Decades ago, when they were poor countries with no capital savings, they would accept any type of investment, but now more and more they require the multinationals to give account of their contribution to the country's development. For example, the Government of China is interested in companies that introduce technological advances that Chinese companies are unable to develop. They are also seeking investments that impact on the training of the country's human capital, that is, they want the multinationals to provide training to local staff in highly qualified tasks. In short, they want investment in aspects that can improve their economies in the long term.

For this reason, the directors of the multinationals must think of a strategy that allows them to combine the earning of profit with a contribution to development in the emerging countries where they operate. The next step will be to convince the governments of those countries.

### **Rule 3: Go for Energy Efficiency**

With the rise of energy prices, as well as of emissions of greenhouse gases, together with the simultaneous increase in demand from China, India and Brazil, the world has enormous interest in the success of efforts to reduce the emissions of the major developed nations, as detailed in the book published by the World Bank, *Financing Energy Efficiency: Lessons from Brazil, China, India, and Beyond*.

China, India and Brazil are three of the world's top 10 energy consumers. Taken together, these countries constitute the home of 40% of the world population and represent over half of the entire energy requirement of developing countries. Before the year 2030, they will be responsible for 42% of the increase in the demand for energy throughout the world. The World Bank warns that if major advances are not achieved in efficiency efforts, China, India and Brazil will

<sup>310</sup> <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:21665223~pagePK:1497618~piPK:217854~theSitePK:295584,00.html>.

<sup>311</sup> *Promoting energy efficiency in the developing world*, McKinsey Global Institute (February 2009).

more than double their use of energy and greenhouse emissions in less than one generation (before 2030).<sup>310</sup>

According to a study by the McKinsey Global Institute,<sup>311</sup> if the developing economies were to increase their energy productivity, they would be able to cut their demand growth by at least half in the next twelve years. This reduction would be greater than the total current energy consumption in China (see Figure 78).

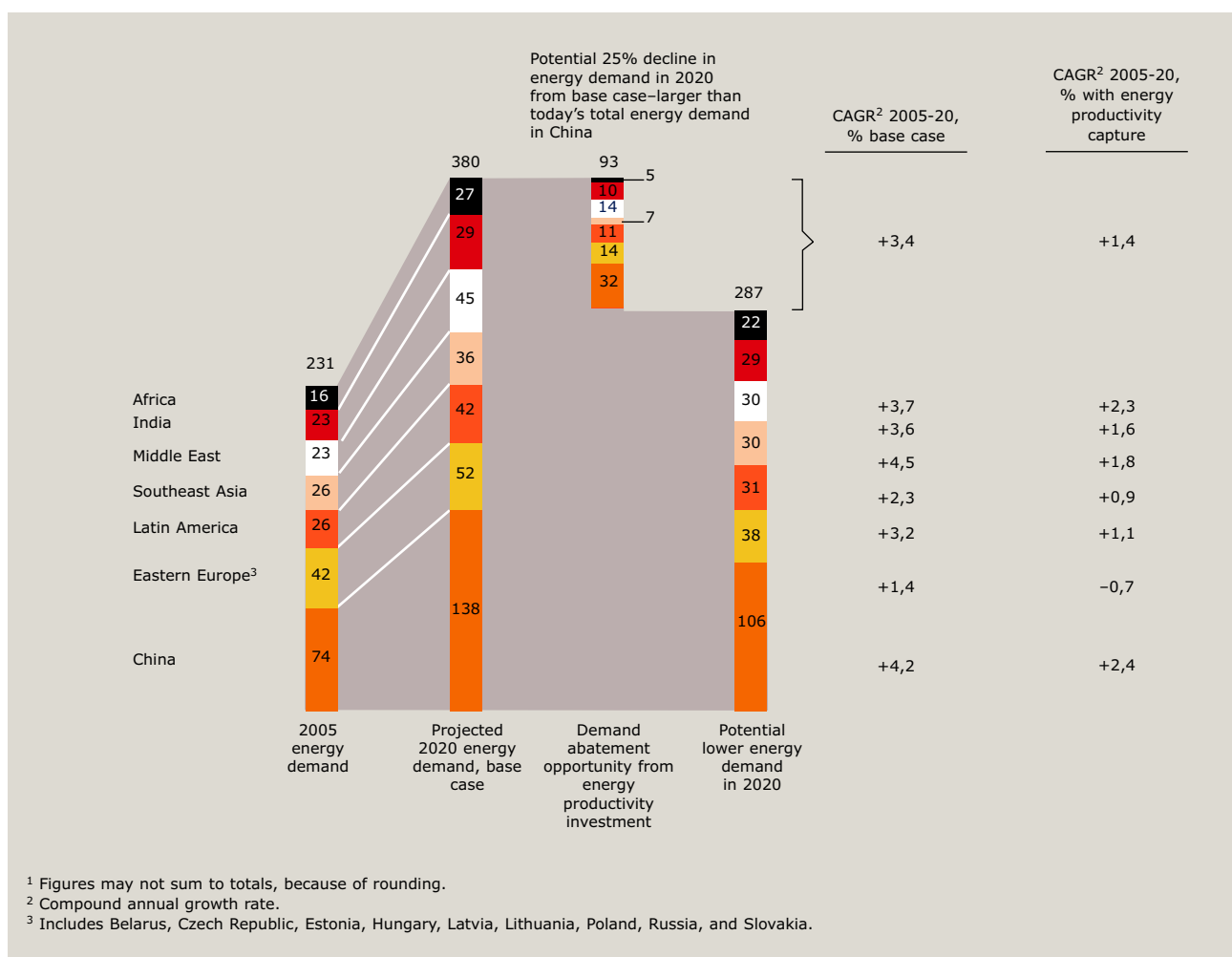


Figure 78. Higher energy productivity.  
Source: Standard & Poor's Index Factsheet.

According to the same study, the cost of investing in energy productivity is on average 35% less in the countries of emerging economies than in the developed countries, because of lower labor costs. The World Bank considers that there is enormous untapped potential for progress in energy efficiency, in particular in Brazil, China and India, with many solutions that could work as long as financing and investment is available. It also highlights the great commitment that exists on the part of the authorities in charge.<sup>312</sup>

Nevertheless, the lessons learned over the last ten years show us that the main obstacles preventing energy efficiency from taking off are deficiencies in the organizational and institutional systems, as well as lack of access to the necessary funding. Businesses and banks must convince themselves that investing in more efficient boilers, in waste-recovery systems or in energy-saving lighting has its rewards and justifies the risks.<sup>313</sup>

In spite of this, in the high energy consumption countries such as China, India and Brazil, efficiency is gradually improving. In China, a commercially viable sector has started up dedicated to energy efficiency after a decade of strong government support. In India, the banks launched programs for small projects of this type in some industries, which will now begin to be expanded. And in Brazil an energy efficiency fund built from utility company profits offers a platform to make more sweeping improvements. Nevertheless, even though these advances are hopeful, the World Bank believes that if we consider the booming energy demand that only one of these countries will have over the next 10 years, the need for action and much faster progress becomes evident.<sup>314</sup>

One example of this investment in productivity may be seen in the glass factory at Gostomel, Ukraine, which produces bottles for drinks, perfumes and pharmaceutical products. Coca-Cola and PepsiCo are among its clients, not to mention numerous Ukrainian companies. The US Energy Department commissioned a laboratory to identify energy efficiency opportunities for the factory after the energy loss suffered due to the closure of Chernobyl. After the audit, it was estimated that a number of changes in the facilities, including the replacement of one of the furnaces with a new model, would lead to considerable energy saving and would greatly increase the volume and quality of the production. After the successful implementation of some of the measures, Gostomel is now looking for financing for the rest.<sup>315</sup>

It should not be forgotten that many companies in emerging markets are commodities exporters, and so have benefited from the rise in prices. However, the crisis has opened up a new era of volatility in natural resource prices. According to Accenture, in order to maintain their competitiveness, they will have to "set up efficient cost structures against a fall in prices."<sup>316</sup> Moreover, they will have to make advances in efficiency in order to comply with environmental legislation, which is becoming stricter as a result of climate change. Companies will be challenged to reduce carbon emissions, to redesign some phases of their supply chain, to adapt to the price volatility of commodities and

<sup>312</sup> <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:21665223~pagePK:1497618~piPK:217854~theSitePK:295584,00.html>.

<sup>313</sup> <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:21665223~pagePK:1497618~piPK:217854~theSitePK:295584,00.html>.

<sup>314</sup> <http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:21665223~pagePK:1497618~piPK:217854~theSitePK:295584,00.html>.

<sup>315</sup> Ukraine: Emerging Market for Industrial Energy Efficiency Opportunities <http://www.pnl.gov/aisu/pubs/EnEengineering.PDF>.

<sup>316</sup> *El Auge de las Multinacionales de Mercados Emergentes*, Accenture (2008).

to secure demand in the market. The paint industry in Brazil bears witness to the importance of excelling, by improving quality while simultaneously adopting environmentally friendly practices, thanks to the production of water-based paints and the promotion of their ecological packaging in a sector where competition is becoming fiercer, the price of the raw material is increasing and environmental requirements are becoming more rigorous.<sup>317</sup>

#### **Rule 4: Invest in Scarce Resources**

The demand for resources by the global economy has increased exponentially with the growing requirement from the emerging economies. While it is true that companies of the developed economies have had access to these resources for longer, the faster than forecast rate of inclusion of the emerging economy companies makes it necessary to examine the action that can be taken today to avoid problems tomorrow.

In a world situation of scarce resources, the companies of emerging economies must secure their supply in order to ensure their survival. This way, they can minimize the impact of fluctuating supply and volatile prices. In addition, investment in this type of resource is a rising stock, given the progressive worsening of the shortage.

Following this direction, China has ramped up its purchasing of many resources throughout the world. The new world superpower is exploring oil deposits in Africa and Central Asia, drilling gas deposits in Burma, building hydroelectric dams in the Mekong region, carrying out mineral prospecting in the Congo and felling wood in Indonesia. China's hunger for raw materials has contributed to the rise in the price of oil and other commodities at certain times.<sup>318</sup>

China has joined the party at a time when other countries and companies already control most of the world resources, and its response has been to explore areas that other players have considered too risky. Chinese companies are exploiting oilfields, mines and dams in regions that are geographically distant, politically unstable and ecologically fragile, often ignoring environmental human rights and the impact of its investments.

A Chinese company is building a large dam on the Kafue River in Zambia that puts important marshlands at risk, including two national parks. The dam will generate energy for copper and cobalt mines destined for Chinese industry. When Western investors hesitated over whether to finance the Kafue River project on account of the environmental concerns, a Chinese developer swiftly took over the project, urging the Zambian authorities to cut short the environmental assessment process.

Just like any long-term investors, Chinese companies have an interest in avoiding human rights abuses and the destruction of the environment in their host countries. The Chinese Government has issued guidelines to its companies

<sup>317</sup> «Frost & Sullivan Observes That the Brazilian Paints and Coatings Market Vendors Are Reshaping Strategies to Deal With a Changing Market Environment», [www.foxbusiness.com](http://www.foxbusiness.com) (31/03/2009).

<sup>318</sup> <http://internationalrivers.org/en/todos-somos-chinos>.

to protect the rights of employees, local communities and the environment. Some Chinese companies have begun to adopt the environmental regulations, but they still need to put them into practice effectively.

Agricultural products are also attracting investment. Demand for them remains high in spite of the world recession, partly due to the ever-increasing demand from emerging markets. While it is true that prices have fallen from their highs of mid-2008, they are still well above the average for the last decade. This is shown in an article in *The Economist* with such data as the following: in comparison with the figures of a decade ago, China currently consumes twice as much vegetable oil, 60% more poultry products, 30% more beef and 25% more wheat.<sup>319</sup> Investments in the agricultural sector have not been slow in coming. Black Earth Farming, a Russian company, has invested heavily in agricultural farms, and Chinese investors have done the same in Brazil and Argentina.

Another resource that has been targeted for investment is lithium. Bolivia has nearly half of the known world reserves of this chemical element. Its use is growing because of its application in batteries for hybrid and electric cars. The state agency Comibol has invested 6 million dollars in a plant where it is planned to extract and process lithium on an industrial scale. The economic nationalism of Bolivia could hinder interested Japanese and European companies from gaining a foothold in that market. Meanwhile, countries with fewer reserves, such as China, are taking advantage of the economic climate to position themselves as prime producers.<sup>320</sup>

As was noted in the chapter "The Difficulties of Sustainable World Development," water has also become yet another asset. Coca-Cola's operations in India have been impeded due to lack of access to water and the serious pollution of that country's water sources.

#### **Rule 5: "When in Rome, do as the Romans do"**

On their path toward globalization, companies in emerging economies are exposed to wider markets and a new range of consumers. Thus, they must adapt to the customs and laws of those locations, which entail more transparent tax information systems and a different kind of relationship with the stakeholders. Twenty-two percent of the managing directors polled by McKinsey believe that the varying definitions of corporate social responsibility in various regions and cultures represent a barrier to the global implementation of a comprehensive and strategic approach to environmental and social issues by the company (see Figure 79).

<sup>319</sup> «Agriculture: green shoots», *The Economist* (19/03/2009).

<sup>320</sup> «Bolivia has lithium, and the president intends to make the world pay for it», *International Herald Tribune* (2/02/2009).

Percent of respondents that believe barriers keep them, as a CEO, from implementing an integrated and strategic company-wide approach to ESG issues.

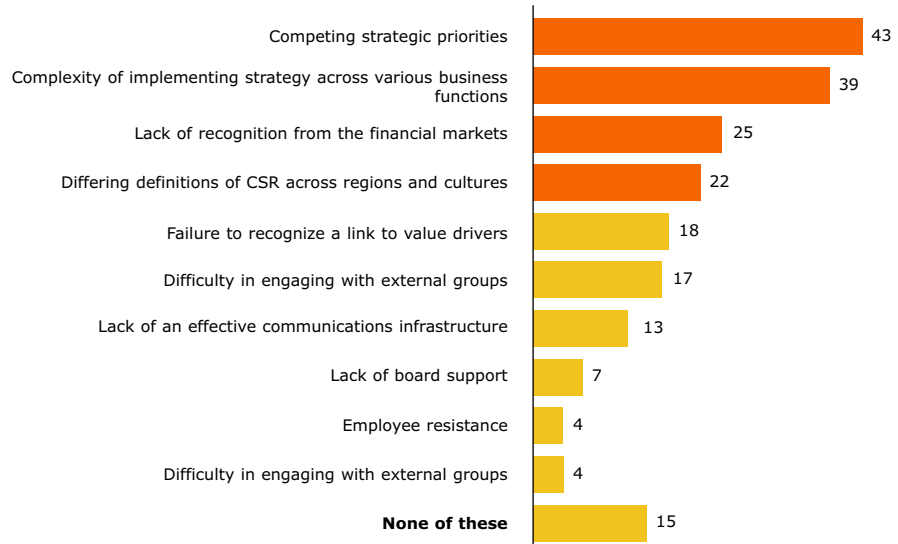


Figure 79. Barriers to managing directors' commitment to CSR.  
Source: Feb 2007 McKinsey survey of 391 UN Global Compact participant CEOs.

It is vital that companies of emerging economies manage to adapt to the concept of CSR as it is generally understood in international markets if they wish to maintain their competitive position. For example, in some of their home countries receiving bribes is not socially unacceptable, and corruption can affect even certain grades of public authorities. For this reason, mechanisms of self-governance are not necessarily suitable on the global scene. This self-governance is the result of actions taken by companies on their own initiative or under the pressure of interest groups or sectoral agreements.

An analysis<sup>321</sup> on sustainability reporting provided by specific sectors of emerging economies concluded that 87% of companies in the study present some type of reporting in this regard but only 51% publish an individual sustainability report, that is, in downloadable PDF format or in the annual company report. Many companies undertake to report using the standards of the Global Reporting Initiative (GRI), to publish separate CSR reports and to support programs such as *2000 UN Global Compact* or *The Equator Principles*. We have already mentioned the GRI, which serves as a framework for companies to standardize their CSR reports with regard to ten principles of human rights, labor legislation, forced labor, discrimination, environmental responsibility and anticorruption. It has over 5,200 participants, including 4,000 businesses in 120 countries. *The Equator Principles* framework requires its 60 signatory banks to assess projects on the basis of their social and environmental impact before making investment decisions. The adoption of best practices offers them benefits in terms of reputation and differentiates these companies from the rest. If the

<sup>321</sup> «Sustainability Reporting in Emerging Markets», Siran, KLD, Social Investment Forum (January 2008).

most recent CSR reporting and the standards followed are easily accessible, this can increase the credibility of the organization.

## 7.2. The Sustainability of the Spanish Economy

The Spanish Sustainable Development Strategy (EEDS) was developed within the framework of the European Union Sustainable Development Strategy, which was renewed at the Council of Brussels in 2006 with a general principle to: "Define and devise measures aimed at the continuous improvement of the quality of life for present and future generations by creating sustainable communities capable of managing and using resources efficiently, in order to take advantage of the potential for ecological and social innovation that is offered by the economy, ensuring prosperity, the protection of the environment and social cohesion." This objective took shape as seven priority areas for the European Union: climate change and clean energy; sustainable transport; sustainable consumption and production; public health; management of natural resources; social inclusion, demography and migration; and the fight against global poverty.<sup>322</sup>

The economic reasons for bringing into question the sustainability of the Spanish development model of recent years have already been discussed. Juan Arias, journalist, philologist and writer, has had harsh words to say on the subject: "The recently ended economic boom (14 straight years of strong growth) has been based on a real-estate bubble, on speculation. Unbridled urban development has barely returned any dividends in education and civic-mindedness. But sustainable development is not possible without caring for the environment and education. Our external deficit—the second largest in the world—the aging of the population and our extreme energy dependence is also burdening the country with a mortgage that we shall bequeath to future generations."

### Environmental Sustainability

Regarding environmental sustainability, the need to make an efficient and rational use of natural resources is recognized—in particular energy, water, biodiversity and soil resources. It is also acknowledged that we must develop proactive policies to alleviate the determining factors in climate change in all production sectors, particularly in those of energy and transport, as well as instigating policies to adapt to this climate change. The international struggle for resources, in particular energy, will be decisive for the future of countries in the multipolar world, as has been discussed previously. The high external-energy dependence and vulnerability that Spain suffers from makes this situation even more sensitive.

This dependence exceeds the European Union average. The degree of primary energy self-sufficiency (relationship between interior production and total energy consumption) in 2007 was 20.9%, which means that in Spain 79.1% of primary energy consumed is imported. Indeed, as a result of the economic growth re-

<sup>322</sup> [http://www.la-moncloa.es/NR/rdonlyres/96270D48-C981-430E-8C19-352904495879/0/folleto\\_desarrollo\\_sost\\_DEF.pdf](http://www.la-moncloa.es/NR/rdonlyres/96270D48-C981-430E-8C19-352904495879/0/folleto_desarrollo_sost_DEF.pdf).

gistered over the past 14 years, this dependence has increased steadily and it is expected that the trend will be maintained.

Forecasts indicate that if the energy markets pursue the current tendency, the dependence on imports in the European Union will grow from 50% at present to nearly two thirds in 2030.<sup>323</sup> 93% of oil and 84% of gas will have to be imported, and there is no certainty that the sources for these imports can be diversified, especially in the case of gas. The growing dependence of the European Union on energy imports threatens not only the security of the supply, but also implies higher prices. A price increase would have extremely unfavorable repercussions on the already worsening competitiveness and employment in Spain.

	2006	2007
Coal	33.8	29.0
Oil	0.2	0.2
Natural gas	0.2	0.2
Nuclear	100.0	100.0
Hydraulic	100.0	100.0
Renewable energies	100.0	100.0
<b>Total</b>	<b>21.7</b>	<b>20.9</b>

(relationship between internal production and total consumption of energy)

Figure 80. Degree of self-sufficiency energy in Spain.  
Source: Secretariat-General for Energy.

Almost more important than the external dependence is the high vulnerability of Spanish economy and society to a possible cut in sources of supply or of a price crisis in raw energy materials.<sup>324</sup> This degree of vulnerability stems from a high percentage of oil in the energy mix and a below-average domestic electricity production (non-storable energy), together with far fewer electrical inter-connections than those of other countries with a similar level of dependence. Only countries like Greece, Italy and Portugal, of the developed economies, are in more critical situations.

The energy deficit has represented on average 39.6% of the total trade deficit for the last eight years. The rise of oil prices, in part due to the increased demand from the emerging countries, has only served to worsen the Spanish trade balance, with the consequent negative effect on the growth of the Spanish economy (GDP).

<sup>323</sup> *La Energía en España 2007*, Ministerio de Industria, Turismo y Comercio.

<sup>324</sup> [http://www.revistasice.com/cmsrevistasICE/pdfs/BICE\\_2928\\_43-48\\_\\_DA4BF380721A84BD13E60ED0BEF583E6.pdf](http://www.revistasice.com/cmsrevistasICE/pdfs/BICE_2928_43-48__DA4BF380721A84BD13E60ED0BEF583E6.pdf).

To invert this trend and prevent these possible negative effects of the energy markets on the Spanish economy, efforts must be made in three areas. First, investment and RDI must be boosted in nonpolluting energy sources in order to increase the contribution of renewable energies to the national energy mix, which is distinguished by high dependence on oil as primary energy source (see Figure 81). Spain, because of its natural conditions, has a competitive advantage and a high potential to develop sources of hydraulic, wind and solar power. Not surprisingly, it is now the third-largest producer of wind energy, with 16% of the total installed power, trailing only Germany and the United States. Along the same lines, the European Union commitment to renewable energies is firm. The target for the European Union countries to derive 12.5% of the electricity produced in that country through renewable energies seems easy to reach, or even to better, in the case of Spain.

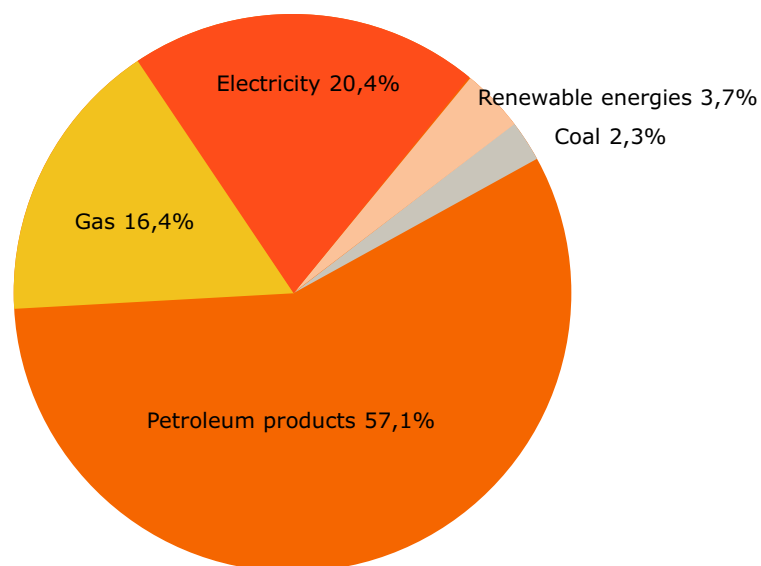


Figure 81. Energy consumption in Spain in 2007.  
Source: *La Energía en España 2007*, Spanish Ministry of Industry, Tourism and Trade.

Many are of the opinion that Spain should increase the proportion of nuclear energy in the mix of national production, as is happening in other European Union countries. This is backed up by 75% of a panel of 317 experts and business leaders consulted at the beginning of 2009 by PricewaterhouseCoopers.<sup>325</sup>

In parallel, steps to improve energy efficiency must be implemented. Despite the fact that energy consumption per inhabitant in Spain (3.2 tons oil equivalent per year) is below the EU average (3.6 tons), and is far below that of the US (7.8 tons), the percentage of energy consumption in relation to GDP is considerably

<sup>325</sup> <http://www.abc.es/20090224/economia-economia/espana-deberia-incrementar-peso-200902241303.html>.

**Did you know?**

Spain is the EU country at greatest risk of desertification.

higher than that of the European Union (Spain consumes 18% more oil for every 1,000 euros produced).<sup>326</sup> Awareness regarding responsible and efficient consumption will be fundamental in the future. If the demand for energy could be reduced, there would be lower exposure to possible economic destabilizations.

Lastly, measures must be devised to improve the connection with the energy markets of Europe, Asia, America and Africa, to enable a diversification of the risk arising from the overdependence on the imports of oil and gas from specific countries. Many resources come from geopolitically unstable regions which, in some cases, use their natural advantage as a bargaining tool. These bring uncertainty to the supply and the prices, which has negative repercussions on the Spanish economy.

In short, increasing investment in energy efficiency, in renewable energies and in new technologies, would help to maintain competitiveness and employment, while simultaneously improving the balance of trade, creating new jobs and improving the whole of the economy.

### **Social Sustainability**

As was noted at the start, some imbalances have been observed between Spain's economic position in GDP terms (8th) and other indicators, such as that of competitiveness. From a social viewpoint as well, there is an imbalance, given that Spain holds 13th place in the Human Development Index, established by the United Nations Development Program in accordance with other standard of living criteria. In addition, Spain has been the major beneficiary of the European budget, but its pockets of poverty and exclusion continue to exist, and will now spread with the economic downturn.<sup>327</sup>

The rising unemployment rate as a consequence of the crisis represents a new challenge for social welfare. The immigrants residing in Spain are in an extremely vulnerable situation. In the first quarter of 2009, immigrant unemployment was at 28.4%, whereas in the Spanish population it was at 17.36%.<sup>328</sup>

Cáritas, the official confederation of the Church's charities and social projects in Spain, saw a 75% increase in requests for assistance made to it in 2008. A new feature of this recession is that those seeking help normally are unable to pay for their housing and many are immigrants. Victor Renes, Research Director of Cáritas, is concerned that a wave of racism might start up.

According to the European Commission annual report on social protection, in Spain 28% of the elderly and 24% of children are at risk of poverty. The percentage of the population at risk of poverty is 20%, a figure only exceeded by Latvia (21%) and at the same level as Italy and Greece.<sup>329</sup>

<sup>326</sup> 50 propuestas para mejorar la productividad española, Instituto de la empresa familiar.

<sup>327</sup> <http://www.iceta.org/jr160309.pdf>.

<sup>328</sup> [www.ine.es](http://www.ine.es).

<sup>329</sup> <http://www.ekoos.org/es/blog/post/index.php?id=719>.

**Did you know?**

In Spain, one in five people live on the poverty threshold.

The recommendations of the European Union are clear: reduce the school dropout rate to break the cycle of poverty, emphasize the inclusion of the elderly, the young and immigrants, reform pensions to make them more sustainable and improve the application of the Dependency Law and access to public healthcare, among others.

### 7.3. Sustainable Spanish Companies

The growing internationalization of Spanish companies has led to concern among society about their behavior beyond the national borders. Thus, interest groups have been exerting pressure and have gradually transformed the values and outlook of business activity. Nowadays, Spanish business leaders are increasingly convinced that commercial success and long-term profits for their shareholders are not obtained only through maximizing short-term profits, but also through market-guided, yet responsible, behavior.

To the same effect, the Spanish Government undertook at the beginning of this year to instigate the State Council of Corporate Social Responsibility, a body entrusted with supporting and giving impetus to public policies to promote social responsibility in Spain, including the development of tools to prepare sustainability memorandums and reports. The subjects that the Council must deal with include the economic crisis, education, consumption, socially responsible investment and transparency.<sup>330</sup>

Clearly there is still a long way to go for the Spanish business community in terms of CSR. Of the 35 companies listed on the IBEX 35, only four presented relevant information in 2007 on aspects of CSR, according to the conclusions of a study by the Corporate Social Responsibility Observatory (see Figure 82).<sup>331</sup> These companies were: Acerinox, Altadis, Bolsas y Mercados Españoles, and Colonial.

<sup>330</sup> «Arranca el Consejo Estatal de Responsabilidad Social», *Expansión* (26/01/2009).

<sup>331</sup> <http://www.observatoriorsc.org/>.

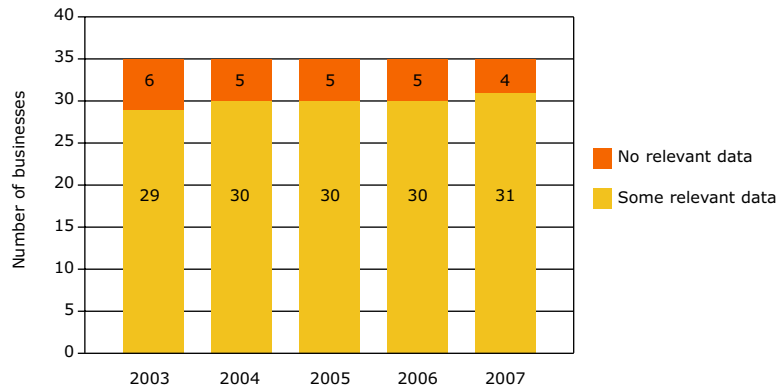


Figure 82. Number of IBEX 35 companies that present relevant information on aspects of CSR.

Source: Corporate Social Responsibility Observatory.

The study, which assesses aspects relating to the management, corporate governance and the social and environmental impact of the operations of IBEX 35 companies, highlights the differences that exist between the information provided to shareholders and potential investors and which is aimed at other interest groups. Serious imbalances occur between the financial reporting and the social and environmental information. In the analysis made, cases are identified of companies that in their sustainability reports advocate contributing to the socioeconomic development of the most disadvantaged regions, while in their financial information it can be clearly shown that their tax payments in these regions is reduced and the cost of access to services raised.<sup>332</sup>

One of the main problems to be faced by Spanish companies in environmental sustainability will be how to respond to the shortage of resources. Although the economy's extreme energy vulnerability represents a threat, a great opportunity is also offered to exploit its competitive advantage in the field of renewable energies as energy efficiency gains international importance. Madrid was chosen to host the 12th Genera trade fair, taking place in May 2009, and attended by representatives from various sectors: solar power (thermal and photovoltaic), cogeneration, biomass, wind, hydraulic, waste, hydrogen and fuel cell, coal, gas, oil and other energy sources (marine, geothermal, etc.). This type of program will help the Spanish economy take its position as a point of reference in a field with enormous growth prospects.

<sup>332</sup> [http://www.observatoriorisc.org/images/documentos/publicaciones/notas\\_de\\_prensa/np\\_informe%20del%20ibex\\_290109.pdf](http://www.observatoriorisc.org/images/documentos/publicaciones/notas_de_prensa/np_informe%20del%20ibex_290109.pdf).

We only have to analyze the environmental market revenues, 10,818 million euros, and those for employment, 200,000 employees, to realize the beneficial side effects of this sector into the Spanish economy as a whole.

**Did you know?**

Spain is currently about 81% dependent on imports to meet the country's energy consumption while the average for Europe is 52%.<sup>333</sup>

**Rule 1: Diversify Energy Sources**

Spanish companies, especially those working in the secondary sector, must find the optimum combination of energy sources to enable them to compensate growing demand with more efficient consumption, in order to counteract their high external energy dependence. They also have to commit to the search for alternative sources of energy, such as renewable energy. In this context, Spain first experienced the awakening of wind power; it then saw the deployment of photovoltaic farms and now it is the exploitation of thermoelectric solar energy that is seeing an unusual impetus. The favorable climate conditions in the southern half of Spain, the financial incentives and technological development have sent the number of projects soaring.<sup>334</sup> For example, the Spanish company Rotartica, based in the Basque Country, is collaborating with the Italian firm La Fabbrica del Sole on a pilot project in Italy that envisages obtaining air conditioning from solar power.<sup>335</sup> The domestic application of a technology that up until now has been used in industry covers the growing demand for air conditioning during the hottest times of the year. The systems are supplied with hot water from thermal solar panels that reaches about 90 degrees centigrade, before being turned into cold water.

In addition, projects to promote the use of nuclear energy have been implemented. Along with eight other Spanish companies, Iberdrola attended the 10th International Nuclear Energy Fair in Peking in order to initiate collaboration between Spain and China in the nuclear field.<sup>336</sup> In addition, this company imports liquid natural gas from Nigeria, Algeria, Egypt, Qatar, Trinidad and Tobago, Libya and Norway, in order to secure a sufficiently diversified and flexible supply. In February 2009 in Madrid, the Intereconomía Conferences hosted the conference "Mix Energético en España. Desafíos y Soluciones" ["Energy Mix in Spain. Challenges and Solutions"]. High points of the agenda were issues such as the current situation in the energy sector, the forecasts for development, a debate on the optimum energy mix, the role played by electricity and transport as principal energy consumers, and the short- and long-term steps to be taken to guarantee supply. The conference highlighted as sustainability measures nuclear technology, waste treatment, the integration of renewable energies into the grid, energy storage, and CO<sub>2</sub> capture in the use of coal for electricity generation. Another subject for discussion was the end of the Protocol of Kyoto and the Copenhagen meeting in December 2009. In this respect, Spain needs to reduce its greenhouse gas emissions, because unless it mirrors the rate of reduction followed by the EU-27, its competitiveness will be seriously affected by the internalization of environmental costs.

**Rule 2: Bad Times for Renewable Energies<sup>337</sup>**

In a visit to Spain, the former US Under Secretary of State for Democracy and Global Affairs, Paula Dobriansky, praised the Spanish renewable energy system, which places it in top position in this sector. She also emphasized the international leadership of Spanish wind energy companies.<sup>338</sup> Nevertheless, an article

<sup>333</sup> «Mix Energético en España: Desafíos y Soluciones», Conferencias Intereconomía, Madrid, (26/02/09).

<sup>334</sup> «La energía solar termoeléctrica se dispara en España», *La Vanguardia* (04/04/2009).

<sup>335</sup> <http://www.energiadiario.com/publicacion/spip.php?article7032>.

<sup>336</sup> <http://www.eleconomista.es/empresas-finanzas/noticias/418336/03/08/Economia-Empresas-Iberdrola-y-otras-ocho-empresas-espanolas-buscan-opportunidades-en-energia-nuclear-en-China.html>.

<sup>337</sup> Headline on *Expansión.com* (31/03/2009).

<sup>338</sup> <http://www.energiayrenovable.es>.

in *Expansión* at the end of March 2009 stated that half of the biodiesel plants were at a standstill and the four existing bioethanol plants were functioning at 60% of capacity.<sup>339</sup> The closure of installations and employee layoffs seem likely to be the direct consequence of a whole set of circumstances: the increase in supply, the fall in demand, the fall in prices and the widespread crisis.

One of the problems causing this situation is that US biodiesel, which enjoys a tax subsidy at origin, reached the Spanish market at an average cost 30% lower than the Spanish product. As a deterrent to dumping,<sup>340</sup> on March 13, 2009, the European Union imposed a customs duty on the entry of these exports from the United States. Despite this measure, the producers of biofuels are faced with surplus production capacity in the Spanish market. In 2008, installed biodiesel capacity amounted to over two million tons and the demand from the Spanish market in the same year did not even reach 600,000 tons. In the case of bioethanol, the figures for consumption and production are more balanced. The four bioethanol plants installed are functioning at 60% of capacity and in 2008 some 273,377 tons of this fuel were put on the market, of which 34% went for export.<sup>341</sup>

The producers believe that the excess of national supply over demand in the biodiesel market is a temporary imbalance. They are hoping that once the tap is closed on the flood of US biodiesel into Europe, the situation will return to that of 2006, when 50% of Spanish biodiesel production was exported to Germany or France, although there is the suspicion that this is unlikely to happen again. Nevertheless, while all this is taking place, some companies have decided to withdraw from the biofuel business. Such is the case for Ebro Puleva, which, after investing 10 million euros to build a plant in Jerez de la Frontera, ended up abandoning the project.<sup>342</sup>

The use of this type of energy is obviously being dictated by the law. In Spain there is a market share reserved for these fuels, of 3.4% in 2009 and 5.83% in 2010.<sup>343</sup> Nevertheless, for the companies in the sector this official support is proving insufficient. They feel that this, together with the low levels of demand from the Spanish market, is checkmating an industry in which Spain was starting to be a major player. Carlos Navarro, President of Siliken, a corporate group involved in the development of solutions applicable to the renewable energy sector, considers that "the problem is that competitors such as Germany, Japan, France... will end up being better than us. In the end we will have to buy the installations from them. And this is despite having a cutting-edge industry that was creating employment."<sup>344</sup>

The fact is that it is one lot of bad news after another in this sector. In March 2009, BP Solar, the subsidiary of the British energy group BP, announced the closure of its solar cell manufacturing plant at Tres Cantos (Madrid) and of the module assembly factory at San Sebastián de los Reyes (Madrid).

<sup>339</sup> «Malos tiempos para las energías renovables», *Expansión.com* (31/03/2009).

<sup>340</sup> Trade practice that consists in selling a good at artificially low prices to displace the competitors and widen control over the market. On the one hand, this can be performed by one enterprise to get rid of excessive stocks or as a measure of unfair competition. On the other hand, this can be done as a result of governmental subsidies.

<sup>341</sup> «Malos tiempos para las energías renovables», *Expansión.com* (31/03/2009).

<sup>342</sup> <http://www.expansion.com/2009/03/31/empresas/energia/1238527152.html>.

<sup>343</sup> «Malos tiempos para las energías renovables», *Expansión.com* (31/03/2009).

<sup>344</sup> <http://www.ecoticias.com/20090405-fotovoltaica-yo-acuso-al-gobierno.html>.

To offset the diminished perspectives at home and in order to survive, companies have launched themselves with frenzy into the overseas markets. This is the case of Gamesa Eólica, which has opened two wind parks in Italy and is planning to start on six more. Isofoton, a company that develops technological solutions for the generation and use of photovoltaic and thermal solar power, which in early 2000 exported 80% of its production and today only 30%, has redirected its activity abroad, in particular toward Germany, Italy and the United States. It has just signed a contract for a production facility in Ohio to assemble cells manufactured at its factory in Málaga. Siliken also hopes to find respite in the internationalization started a year and a half ago. However, some experts believe that Spanish companies will take at least two or three years before they are able to substitute their previous turnover with exports, since they will have to face problems like the financial crisis and the slow progress some countries such as Italy, Greece and the United States are making with their photovoltaic programs.<sup>345</sup>

### Rule 3: Sound Practices Affect a Company's Reputation

The Spanish Corporate Reputation Monitor (MERCO) is a useful tool that makes an annual evaluation of the reputation of Spanish companies, similar to the *Fortune* list. In its compilation, the poll is made of a selection of business leaders (those who carry the most weight), experts, NGOs and consumer associations; they are asked which of the companies with over 50 million euros in annual revenues have the best reputation in Spain, and are also asked to list the factors on which they made their selection.

Corporate reputation is the way in which the stakeholders in a company recognize their corporate behavior depending on how far they fulfill their undertakings to their customers, employees, shareholders—if there are any—and to the community in general. In the 2009 edition,<sup>346</sup> Inditex headed the ranking for the second year running. The only change in this year's top ten compared with the previous year was the rise of MAPFRE from 13th to 10th place. The two sectors that suffered most from a loss of ranking were the banks (despite the fact that the Banco Santander, La Caixa and BBVA were among the top ten) and the construction industry. Conversely, the insurance sector and the information technology companies gained ground. Of these companies, Mutua Madrileña was notable for climbing more than 20 places (from 70th to 34th).

The Inditex corporate website explains its model of sustainability based on good faith, dialogue and transparency in its business, and states that "although the commitments we undertake on sustainability are movable, our Internal Code of Conduct lays down the ground rules and influences all of our manufacturing distribution, and marketing activities all over the world." Inditex was one of the first Spanish companies to adopt the GRI 2002 standard. In the case of MAPFRE, the company sets out the three main lines behind its model. First, compliance with the laws in force and with the international commitments entered into (United Nations Global Compact and UNEP Protocol). Second, service to society,

<sup>345</sup> <http://www.ecoticias.com/20090405-fotovoltaica-yo-acuso-al-gobierno.html>.

<sup>346</sup> <http://www.empresa-responsable.com/articulos/detail.php?id=4428&sec=111>.

striving to achieve progress and acting in a spirit of solidarity. Third, the comprehensive management of social responsibility by those involved in corporate decision-making at any level. It establishes an extremely extensive interest group on two levels: in the first place, shareholders, employees, mutual insurance companies, suppliers and collaborators; and second, public opinion, competitors, NGOs, labor unions, public authorities, consumer organizations and the media. It should also be emphasized that for over 20 years MAPFRE has allocated a percentage of its annual net profits to financing non-profit activities of general social interest, through its six private foundations.

The case of BBVA is noteworthy; it was awarded the 1st Prize for Best Responsible Practices by the Club of Excellence in Sustainability. The award was granted on the basis of the methodology employed, the facilities for the introduction of these responsible practices, the results obtained, the organization of benchmarking between companies and, lastly, the effectiveness of the measure with regard to returns on investment. L'Oréal España made the commitment to the construction of an intelligent and environment-friendly building, combining the four divisions of the holding company.<sup>347</sup> The key to energy saving was solar panels and low-consumption fluorescent bulbs. The application of sustainable technologies has reduced water consumption by 27%, electricity by 17% and CO<sub>2</sub> emissions by a spectacular 92%.

In 2009, Acciona was granted the Corporate Sustainability Prize awarded by the European Business Awards (EBA) organization.<sup>348</sup> The Basque company Fagor has also received an award this year for its responsibility toward society and its employees in its internationalization processes, granted by the Gipuzkoa Social Responsibility Forum. In 2007, Metro de Madrid was awarded the "2007 Prize for the best CSR solution in the Environment category" with its solution "Environmental Management in Metro de Madrid" at the CSR MarketPlace. Its CSR model is built on three fundamental cornerstones: increasing customer satisfaction, promoting sustainable mobility and improving the experience of employees.

As a final observation, Justo Villafañe, Head of the Department of Audiovisual Communication and Advertising of the Universidad Complutense, giving classes in corporate image, declares that "it won't reach the point where (CSR) certification will be required to be able to do business, but the force of the facts will ensure that those companies with irresponsible behavior are excluded: they are going to be excluded because it will no longer be tolerated."<sup>349</sup>

#### **Rule 4: CSR is a Powerful Talent Magnet**

As has been discussed in the rules for developed companies with regard to sustainability, employees are increasingly sensitive to the CSR policies of the companies in which they work. Spanish companies will be even more exposed in the international competition for talent for the reasons that have been explained previously. One of the most effective factors in attracting and retaining talent

<sup>347</sup> «L'Oréal España se tiñe de verde con su nuevo "edificio inteligente"», *El Economista* (17/03/2009).

<sup>348</sup> «Acciona, galardonada con el Premio a la Sostenibilidad Corporativa», *eleconomista.es* (8/04/2009).

<sup>349</sup> [http://www.serresponsable.es/modulos/mod\\_periodico/pub/mostrar\\_noticia.php?id=102](http://www.serresponsable.es/modulos/mod_periodico/pub/mostrar_noticia.php?id=102).

within organizations is having a good reputation internally. In this way, the people who work in the company will feel corporate pride when they find that they are aligned with corporate objectives and strategy.

The new generation born after 1980 is less committed to the company but more committed to their work. These young people desire stability and regularity, as well as fixed hours. In addition, a study by PricewaterhouseCoopers indicates that “87% of college graduates aspire to work in a company with whose CSR values they are in agreement.”<sup>350</sup> So it is not surprising that companies must design a strategy that focuses on this group, given the scarcity of talent in the future when the world economy picks up again. It is precisely through its human resources that a company must seek sustainability because “the present must be managed in order to plan for the future, since nowadays we suffer from a scarcity of talent and for two or three generations immigrants will not be able to meet these requirements,” comments the human resources expert Manuel González. He points out that opting not to cut costs by laying off employees in times of crisis sends a message of commitment to staff, which can have the effect that the company comes out stronger from the crisis.

#### **Rule 5: Foster the Virtuous Circle of Sustainability**

Companies must seek those aspects of CSR that complement their business and that feed corporate capacities, allowing competitive advantages to be created in a virtuous circle of sustainability.<sup>351</sup> This is the case of the dairy producer Ebro Puleva, which makes donations of the various food products in the group’s product range. The collaboration agreement with FESBAL, the Spanish Federation of Food Banks is intended to administer and distribute the products donated by Ebro Puleva among the provincial food banks. In addition the company’s foundation carries out development education projects in the sphere of agriculture in Third World countries, always with a view to enabling these communities to achieve self-sufficiency.

Grupo SOS—Spain’s second-largest food group in terms of revenues among the companies in this sector listed on the Spanish Stock Exchange—shows its commitment through its Strategic CSR Plan started up in 2003, named “Alimentando un Futuro” [“Feeding the Future”]. Its actions focus on various core themes, among which the following are notable as projects that complement the group’s business activities:

1. “Commitment to Nutrition,” which sets out to offer consumers healthy products that suit their needs.
2. “Our Social Action,” which is aimed at meeting the basic needs of the disadvantaged in the environment in which the group operates.

In short, these Spanish companies have succeeded in integrating their CSR policies with their corporate strategy, creating synergies between their business and society for the benefit of both.

<sup>350</sup> <http://www.losrecursoshumanos.com/contenidos/3417-el-87-de-los-titulados-aspira-a-trabajar-en-una-empresa-con-la-que-coincida-en-sus-valores-de-rsc.html>.

<sup>351</sup> «La responsabilidad social corporativa como necesidad estratégica: casos prácticos», Francisco Trullenque, *Harvard Deusto Business Review* (March 2008).

### **Rule 6: Embrace the Principles of Transparency and Good Governance**

There is room for improvement among Spanish companies in good corporate governance. The data of the Sustainability Observatory study carried out among companies listed on the IBEX 35 are revealing:

- 57% of IBEX companies do not disclose details regarding the individual compensation of their directors. Furthermore, they do not always itemize these amounts within the payment package.
- Only 20% openly report golden-parachute clauses. It is usual to inform on the number of beneficiaries, but not on the amounts in favor of each one, nor their names. It is not usual to find information indicating that the golden parachute clauses are approved by the general meeting of shareholders.
- There continues to be little evidence of the presence of women in top corporate management and in particular on the board of directors.
- Only 40% of companies stipulate that their non-executive directors should not hold this office for longer than 12 years.

In regard to a debate that has been well-aired during the crisis, on the excessive salaries of top executives, the warning by the Spanish Prime Minister—“This is not a time of high profits or high salaries”—appears to have had its effect. The President of the Banco Santander, Emilio Botín, announced that he was going to reduce the payment established in the bank’s charter for directors by 10% and the variable remuneration paid to executive directors by a further 15%. Only hours later, BBVA announced that it was freezing the pay of its 300 top managers. In addition, the President, Francisco González, and the Managing Director, José Ignacio Goirigolzarri, will this year receive 454,400 and 383,400 shares, respectively, as a result of the of long-term share-ownership incentive plan that has just ended, and that covers the years 2006 to 2008.

### **Rule 7: Be Prepared for Shareholder Activism<sup>352</sup>**

Those who are most critical of the effectiveness of CSR practices view investor activism with fresh hope. This new practice, which consists of the participation of NGOs and other pressure groups in the company to ensure that human, social and environmental rights are respected, seems to be gathering force in Spain and becoming customary in major companies.

In this way, organizations such as Intermón Oxfam have taken part in the shareholders meetings of some companies to protect the rights of native populations. In these cases, shareholders are obliged to listen to the NGO’s reproaches because they are speaking on behalf of investment funds that have a participating interest in the company’s equity.

<sup>352</sup> <http://spanish.safe-democracy.org/2008/06/06/el-buen-gobierno-corporativo-es-negocio/>.

Shareholder activism has a history that goes back some decades, especially in the English-speaking world. In Spain it is more recent, but has been practiced for seven years. It was introduced by Setem, the NGO that has put it into effect most frequently and that in 2001 surprised everyone by acquiring 120 shares of Inditex—of the float of 630 million.

Nevertheless, there are some social agents who do not believe in the effectiveness of this new form of pressure. For example, the Globalization Debt Observatory (ODG), linked to the Universitat Politècnica de Catalunya, considers it more useful to take part in the “counter-summits,” even at the cost of burning bridges with companies and ceasing to act as interlocutors with them. This organization believes that there is a danger that the major companies might use the NGOs for their own legitimation. Its analysis turns on its head the notion of shareholders’ general meetings being taken over by the non-governmental organizations.