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The new language of sustainability: risk and resilience

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Sustainability has become a business buzzword in recent years. For many, though, it's still viewed as a philanthropic initiative disconnected from a company's core goals, or even as a burden that competes with other strategic priorities. That must change.

Credit: Greg Rinder/CSIRO

Fortunately, more leaders are recognising sustainability risks. At the World Economic Forum in Davos in January, leaders in business, government, academia, and civil society named climate change and water supply as two of the top five global risks facing companies today – and with good reason.

Extreme weather and climate impacts are becoming increasingly common and carrying a significant economic toll. According to the insurance group Munich Re, the number of weather-related loss events over the past three decades has quintupled in North America, quadrupled in Asia, and increased in Africa, Europe, and South America.

In the United States alone, 11 events crossed the $1 billion mark in losses in 2012. Hurricane Sandy cost US taxpayers more than $60 billion, striking at the heart of a heavily populated business and financial zone. And drought in the United States is expected to cost 1 percent of the annual GDP, making it one of the most expensive natural disasters in the country's history.

Likewise, water risks are increasingly on companies' radars. More than 1.2 billion people are already facing water scarcity. By 2025, two-thirds of the world's population will likely experience water stress. According to a 2012 report by the Carbon Disclosure Project, the associated costs of water events for some companies reached $200 million, up 38 percent from the previous year.

So, how can companies link these risks to corporate strategy? How can they push the management of sustainability issues into the centre of businesses' strategic decision-making?

Here are four takeaways about how companies can act on sustainability by addressing risk and building resilience.

Lesson #1: Identify all your risks

Because future events are likely to become more unpredictable, current risk thresholds are outdated. Businesses cannot entirely plan for the unknown, but the key is to comprehensively identify risk and build resilience into business models. This is the crux of sustainability.

According to Greenbiz's 2013 State of Green Business report, corporate leaders are increasingly watching, measuring, and managing environmental and natural resource risks as they become more material and demand urgent attention. The report notes that there is growing interest in integrated reporting that presents both environmental and financial performance data. Investors, then, can see a more accurate balance sheet of the environmental risks for a company's performance.

World Resources Institute (WRI) is working with companies to create the tools to identify and address those environmental risks.

Aqueduct, a new, data-rich global water risk mapping platform, is designed to help companies better identify water 'hotspots' around the world.

We are also creating specific tools for companies that will help them better monitor deforestation rates (to be launched later this year); measure and manage greenhouse gas emissions throughout their entire supply chains; and evaluate ecosystem services' benefits and risks. The quest for consistently better data and information has to continue.

Lesson #2: Translate environmental risks into strategic actions

We need more companies to recognise the economic implications of environmental damage. Some, for example, are putting a monetary value on what nature does for their businesses. It helps them understand significant costs and benefits that traditional financial analyses can miss.

At the Rio+20 conference last year, several major companies – including Coca-Cola, Dow Chemical, and Duke Energy – signed onto the Valuing Natural Capital initiative. They agreed to develop a methodology to assign value to the world's forests, freshwater and marine systems.

Addressing both environmental risk and economic interests as an integral part of corporate strategy is the next step.

WRI recently updated a familiar business strategy tool to help companies better understand and translate sustainability. We worked with businesses such as Staples, Delphi, and Danone Brasil to create a new twist on the traditional 'SWOT' analysis. The sustainability SWOT, or 'sSWOT', translates environmental challenges – like climate change and resource scarcity – into business risks and opportunities.

The sSWOT is helping companies better identify their risks and illustrate new priorities for strategic planning in our changing world.

Lesson #3: Build more resilient markets

We are at a point where investment in resiliency and sustainability is now cost-effective. It is time to stop thinking of regulatory environmental protection as an unnecessary burden that will harm business. Instead, these investments can be seen as enabling private sector innovation and adaptation to global risks.

More public-private collaboration is needed to 'de-risk' markets that support sustainability. The last few years have seen some interesting test models, but they now need additional funding and expansion to have a real impact.

Consider, for instance, the Green Climate Fund. It is aimed to help developing countries – tomorrow's growth markets – access funds to accelerate a transition to low-carbon energy and prepare for mounting climate change impacts.

Similarly, last year's commitment of $175 billion from multilateral development banks could help catalyse sustainable transportation innovations across the world. To reach that scale, however, these markets will need private sector leaders who see these as attractive investment options.

Lesson #4: Don't follow – lead

The riskiest thing a company – even leading companies – can do today is continue to follow business-as-usual. New risks will require new best practices.

Several companies are now shifting to longer-term analysis of risks and benefits.

For example, UPS has relaxed the minimum rate of return it requires that enables the company to invest in a new vehicle fleet that has reduced fuel use and other costs over time. Johnson & Johnson likewise cut its internal rate of return requirements for greenhouse gas-reduction projects by half. And, Unilever's CEO Paul Polman no longer provides quarterly financial reports to its shareholders, stressing its focus on the long-term.

Meanwhile, some businesses are finding new ways to turn risk into opportunity.

For example, Siemens exceeded ambitious revenue targets from its green products in the midst of a global recession. And Alcoa saw its market for green building products grow, even as the broader construction market slumped during the recession. WRI has profiled some other companies moving toward best practices in its most recent working paper, *Aligning Profit and Environmental Sustainability: Stories from Industry*.

Companies who get a handle on environmental risks can talk about sustainability as a means of cutting costs and driving profits. In doing so, they protect their bottom lines – and the planet – for current and future generations. This is how we should be talking about sustainability.

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