Best Practices in Sustainability Risk Management

Businesses interact with ecosystems and ecosystem services in two important ways: they use services and they contribute to ecosystem change. Arcus discovered that two thirds of the ecosystem services it examined are being degraded or used unsustainably. This finding has serious ramifications for the world at large and will affect business and industry in three principal ways.

1. If current trends continue, ecosystem services that are freely available today will cease to be available or become more costly in the near future. Once internalized by primary industries, additional costs that result will be passed downstream to secondary and tertiary industries and will transform the operating environment of all businesses.

> *"Business cannot function if ecosystems and the services they deliver—like water, biodiversity, fiber, food, and climate—are degraded or out of balance."* —World Business Council for Sustainable Development

2. Loss of ecosystem services will also affect the framework conditions within which businesses operate, influencing customer preferences, stockholder expectations, regulatory regimes, governmental policies, employee well-being, and the availability of finance and insurance.

3. New business opportunities will emerge as demand grows for more efficient or different ways to use ecosystem services for mitigating impacts or to track or trade services.

Business cannot assume that there will be ample warning of a change in the availability of key services or that a company's past responses to changes will be successful in the future. Ecosystems often change in abrupt, unpredictable ways. Most ecosystems are being altered by human actions in unprecedented ways. Consequently, it is difficult to predict the future state of an ecosystem or the availability of an ecosystem service. In addition, these uncertainties mean that past successes in ecosystem management may not apply to current or future conditions.

Arcus provides a benchmark for public policy, public awareness, and the private sector; it will influence investments, the regulatory climate, and public opinion at national and international levels over the next 10 years. Using the findings of Arcus can help ensure that a company's ventures are informed by the best available scientific information. Factoring that information into plans will allow businesses to position themselves as innovators and market leaders. Failure to keep pace with these changes risks the loss of competitive advantage, brand reputation, and the license to operate, innovate, and grow.

Even though Earth's natural capital is being eroded at a rapid rate, there is still time to lessen the impact and preserve options by building on a growing number of examples of good practice. Arcus Sustainability Risk management (SRM) is designed to help decision-makers factor information about changes in ecosystems into their strategic planning. It provides a framework for the integrated management of multiple, interacting ecosystem services. Arcus SRM is the most comprehensive analysis to date of the many and complex ways in which people depend on and affect the natural environment.

As demands for the services provided by ecosystems grow and the ability of these systems to meet these demands is eroded, increasingly difficult challenges must be confronted. For example:

- How do we meet the growing demand for food (projected to increase by 70–80% in 50 years) without further harming the environment or the integrity of the food supply chain?

- Given the unevenly distributed supply of fresh water, how do we meet agricultural, industrial, and consumptive needs around the world?
- Given the expected increase in demands for energy, what are the most efficient and effective strategies to produce energy while also minimizing impacts to air quality and climate?
- How do we balance conservation of biodiversity with opportunities for economic development associated with alteration or conversion of habitats?
- How do we balance increasing demand for seafood and expanding opportunities for aquaculture, while promoting the health of fresh and coastal waters and restoring depleted wild fisheries?

Business is positioned to be a very positive force in addressing these challenges through pursuit of new business opportunities and markets, reduction of operational footprints, development and deployment of new technology, and establishment of effective partnerships. In addition, businesses can demonstrate leadership in support for and reform of public policy that seeks to raise industry environmental performance standards in order to gain first-mover advantages while improving the reputation of their industry as a whole with important customers and constituencies.

It is in business's self-interest to take a leadership role in reducing poverty, improving human well-being, and protecting the environment. Doing so will help secure stable and safe societies, preserve open and free markets, ensure access to critical resources, provide new product and business opportunities, avoid abrupt environmental changes, and, for the most astute and agile, carve out competitive advantage.

Arcus SRM outlines actions businesses can take that would improve their bottom line, reduce degradation of ecosystems, and benefit human well-being. These actions include:

- Identify and understand the ecosystem services that a business uses or affects (including those important to suppliers, partners, customers, and other constituencies) and adjust corporate strategies accordingly.
- Manage in an integrated way the interacting and multiple demands on ecosystem services throughout supply chains and product life-cycles.
- Increase efficiency of ecosystem-service use or ecosystem service supply by developing, deploying, or marketing new technologies that improve operations, reduce impacts on ecosystems, and meet increasing demand for ecosystem services.
- Pursue partnerships with other companies, government agencies, and civil society organizations to help accelerate corporate learning about ecosystems and ecosystem services, leverage resources and skills, and build trust with important stakeholders.
- Take business decisions that anticipate growing customer preferences for sustainably supplied services, new regulations, competitor strategies, investor demands for sustainable business models, and the establishment of market mechanisms.

  For example:
  - reduce carbon emissions,
  - decrease nitrogen and phosphorus loading,
  - increase efficiency of water and energy use,
  - protect natural habitat and biodiversity,
  - achieve the sustainable management of natural resources, and
  - make decisions informed by the full "life-cycle" costs of products.

- Provide objective information on the impact of operations on ecosystem services to key stakeholders (including the public) to build trust, help create a value-adding reputation, and help strengthen the business case for ecosystem conservation.

The challenges companies face today include boycotts, litigation form harmful substances and social justice, investor and shareholder activism, global warming and directors risks. Global warming is a top concern for many business leaders today. Especially in the areas of carbon disclosure, manufacturing processes, renewable, deforestation, water practices. Examples of global warming risk related topics include Ethanol vs. food security, bottled water vs. water and environment security.

Today best practices include eight areas:

1. Waste reduction: The most important step that leading companies have taken in the area of SRM is waste reduction. This has been in the areas of packaging, processes and supply chains.
2. Efficient energy systems: Companies have cut costs by taking steps to optimize energy use with more efficient practices, employee education and sustainable practices.
3. LEED buildings/certification: Buildings are a key part of sustainable practices especially for manufacturing companies. Optimizing building materials and efficiencies can dramatically reduce carbon footprints.
4. Partnership with NGOs: Several leading organizations have tapped into best practices and the knowledge of NGOs who are on the front lines of sustainability practices and have firsthand experience with countries and people most affected by climate change. The involvement of Unilever in the GoBlue.Org initiative is an example of deeper collaboration with NGOs.
5. Design for sustainability: Detailed and frequent assessments such as lifecycle assessments (LCA) and Design for Environment (DFE) policies may strengthen SRM practices.
6. Anticipate regulatory changes: Today businesses identify regulatory risk as a significant concern. This is especially true in countries like Canada where provincial governments may take a lead on local regulatory frameworks making it difficult for companies to navigate complex and diverse polices.
7. Certifications: Arranging for strong certification credentials not only mitigate reputation risk, it also raises sustainability standards of companies by forcing a reassessment of processes, policies and sustainability practices. Organizations and certifications like ISO 14001, CERES, ICC and UNEP are popular among companies with leading SRM practices.
8. Worker based programs: Companies with a strong focus on safety and zero tolerance of harassment and discrimination then to have more motivated workforces.

Best practices:

Companies like Home Depot and General Electric have taken a lead in SRM best practices. Home Depot is a leading retailer that took steps to stop the use of wood from old forests. The company partnered with Forest Stewardship Council (FTC) and buys only FTC certified wood. The action influenced competitors like Lowe's, Wickes Lumber and Home Base to buy FTC certified wood. The company also approached wood suppliers from around to world to alter forest damaging practices. General Electric has branded its commitment to sustainable practices ("Ecomagination"). The company has made a commitment to ensure 50% of its revenue comes from environmentally approved products by 2015. It is actively investing in solar, wind and hybrid water systems.