

Implementing Sustainable Development Generates Business Value

🐼 **Authors:** Jenni Cawein & Ronald Meissen

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Abstract: Sustainable development (SD) isn't just the latest business buzzword. SD became world policy at the Earth Summit in Rio de Janeiro in 1992. SD concerns employee health and safety, as well as environment and other aspects of business. Governments, businesses and other organizations are developing SD strategies. Events and activities in this area are gaining momentum and moving very quickly. Ignoring SD won't make it go away. Embracing it offers tremendous business opportunities.

The Business Value of Sustainable Development



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Jenni Cawein and Ron Meissen

Corporate EHS Engineering

Baxter International

SUSTAINABLE DEVELOPMENT



What is it?

Sustainable Development

Definition

✿ Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

United Nations Brundtland Commission, 1987

The Triple Bottom Line

Economy



**Social
Responsibility**

Environment

Questions Posed by Sustainable Development

Economy

Do our business activities promote sustainable economic health for the “global community”?



Social Responsibility

Do we conduct our business in a manner that contributes to the well-being of the “global community”?

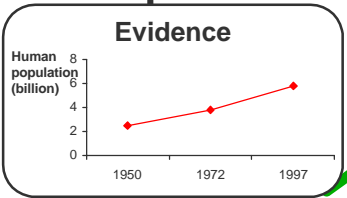
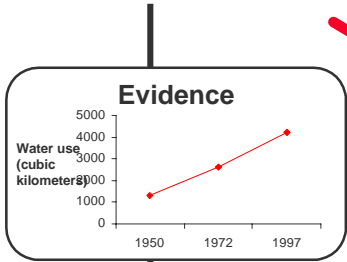
Environment

Do we manage our operations in a way that is protective of the environment to help ensure the earth can sustain future generations?

Are we sustainable?



How long can this go on??



Decline in Living and Social Systems

Increases in Population and Consumption

Resource Shortages
Social Unrest

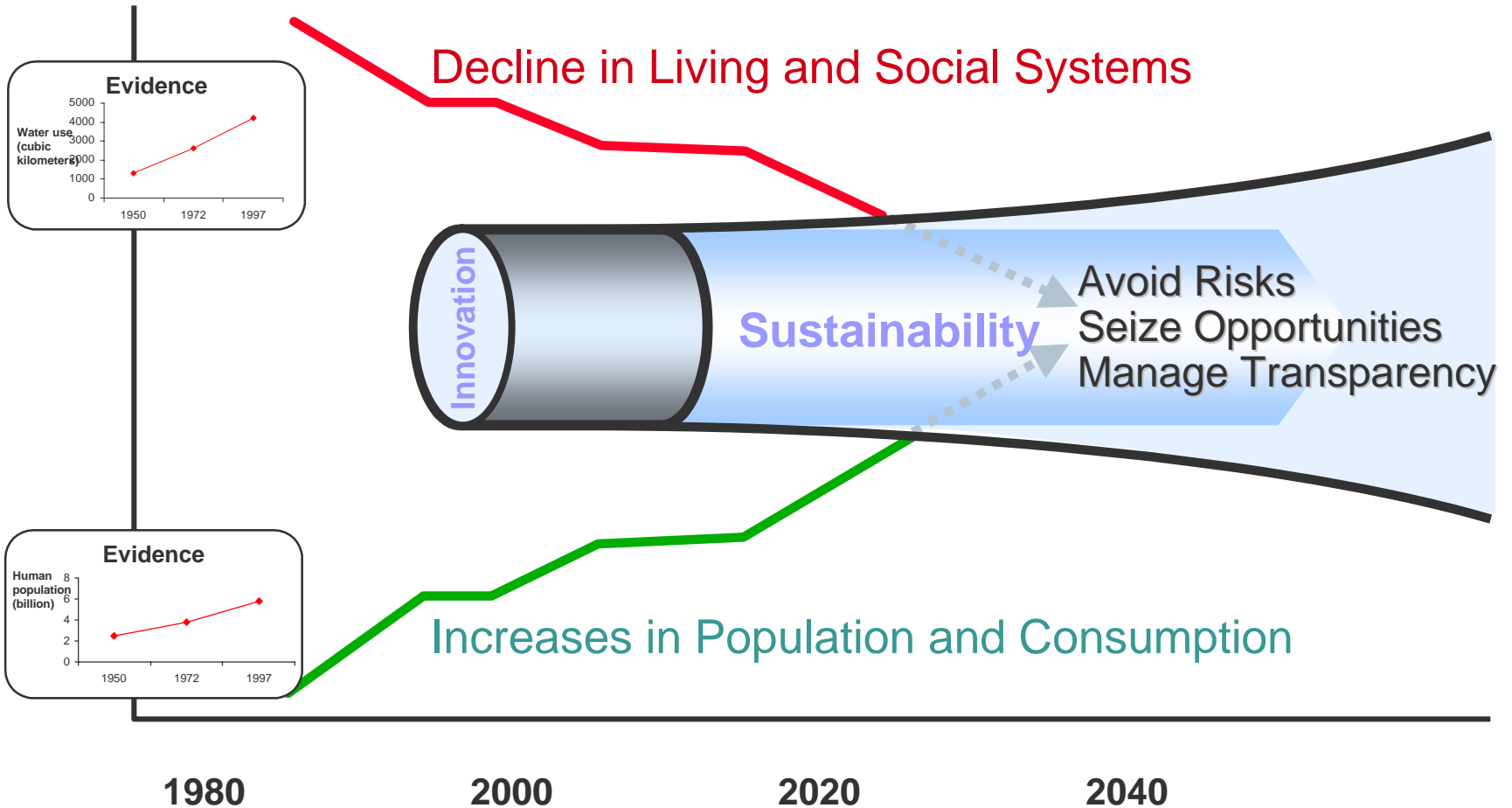
1980

2000

2020

2040

The "Big Squeeze"



Sustainable Development provides a new lens through which we can examine our operations and ensure long term profitability and growth.

Sustainable Development
is
Sustainable Business!



Gaining Markets? Losing Markets?

- ❧ "Over the next decade or so, sustainable development will constitute one of the biggest opportunities in the history of commerce."

Harvard Business Review

- ❧ "There is now sufficient evidence to suggest that if your institution is not paying attention to this [sustainable business] revolution, it will lose competitive advantage."

Hawken, Lovins, Lovins, Natural Capitalism, 1997

Sustainable Development

Supporting Trends

- Global population growth, depletion of resources
- Growing influence of environmental education
- Growing importance of brand and reputation
- Globalization of business; local fear of “foreign invaders” lacking environmental and social accountability
- Rising influence of NGOs and activists (e.g. child labor, bioethics)
- Producer responsibility
- Demand for environmental/social transparency

Socially Responsible Investing

- ❖ Investors are much more aware
 - In last 2 years, socially responsible investments (SRI) increased 82% to over \$2 trillion
 - Key SRI screen is environmental responsibility, but social responsibility growing in importance
 - Baxter named to SRI funds:
 - Storebrand Responsible Investments Products
 - Dow Jones Sustainability Group Index
 - SRI funds typically outperform others

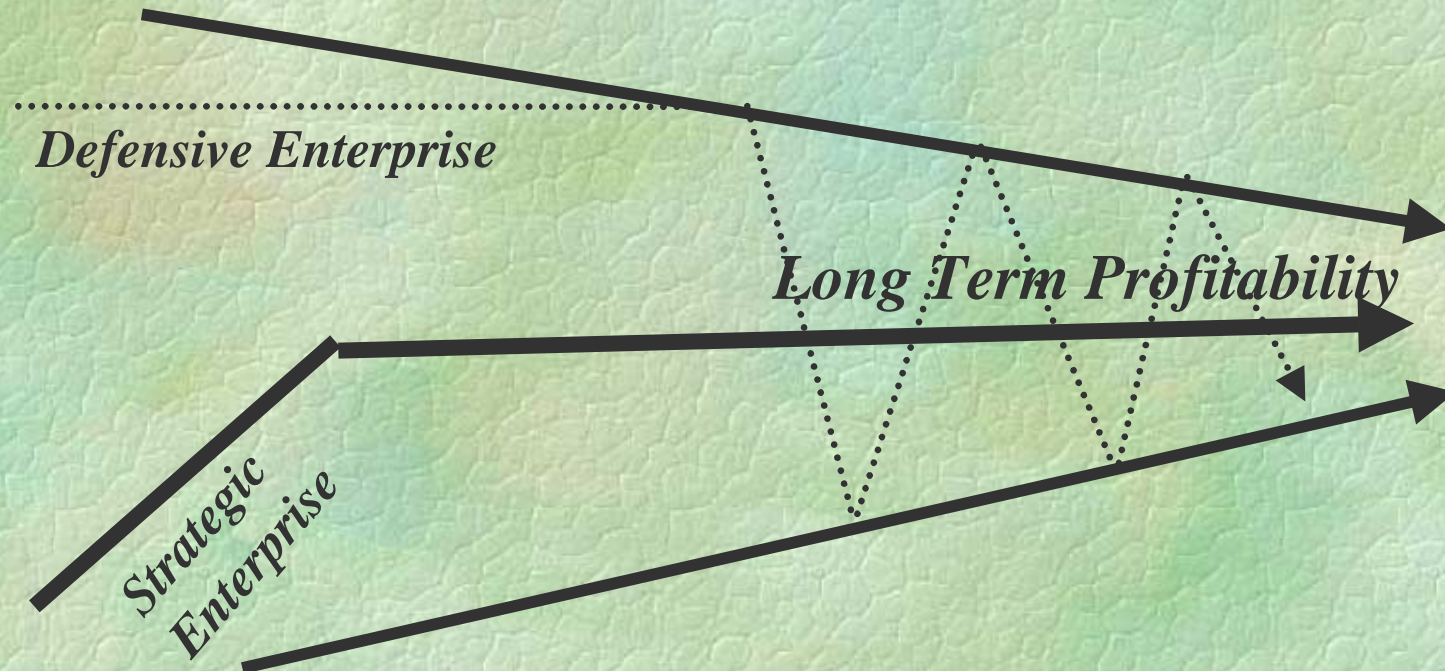


Key SD Learnings at

Bowling

1. The walls of the funnel are real

❧ Opportunity vs. Constraint



2. We are witnessing the early stages of an economic transformation



From Linear to Cyclical

3. This transformation is increasingly being led by CEOs and Executives

✿ *At Baxter:*

- Creation of Sustainable Development Executive Leadership Team:
 - Corporate Communications
 - Employee Relations
 - Business Practices
 - Corporate Governance/Regulatory Affairs
 - Environment, Health & Safety
- Harry Kraemer's "Best Citizen" initiative

4. Regulations are accompanying this transformation

❖ European take-back laws

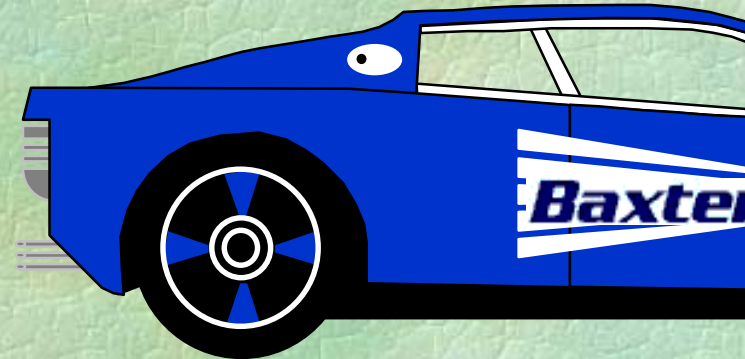
- Packaging materials
- Electronic equipment

❖ Carbon and Waste Taxes

- \$300-\$400 per ton to landfill in Austria

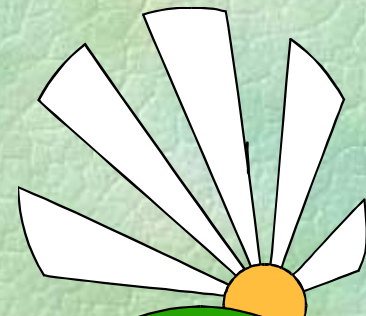
5. From Products to Services (more value, less "stuff")

SD is here to stay – and the
companies that learn the fastest
win!



Successes

| Company | Product | Competitive Advantage |
|------------------|-------------------------|--|
| Arvind Mills | Blue Jeans kits | Expansion into new markets |
| Proctor & Gamble | Concentrated Detergent | Saved 140MM kg of packaging |
| 3M | Washable Wool soap pads | Captured 15% of market; Sales >\$100MM |
| Xerox | Refurbished Copiers | Demand exceeds supply by >50% |
| Electrolux | CFC-free refrigerators | Competitors had to play "catch-up" |





The Business of Sustainable
Development at

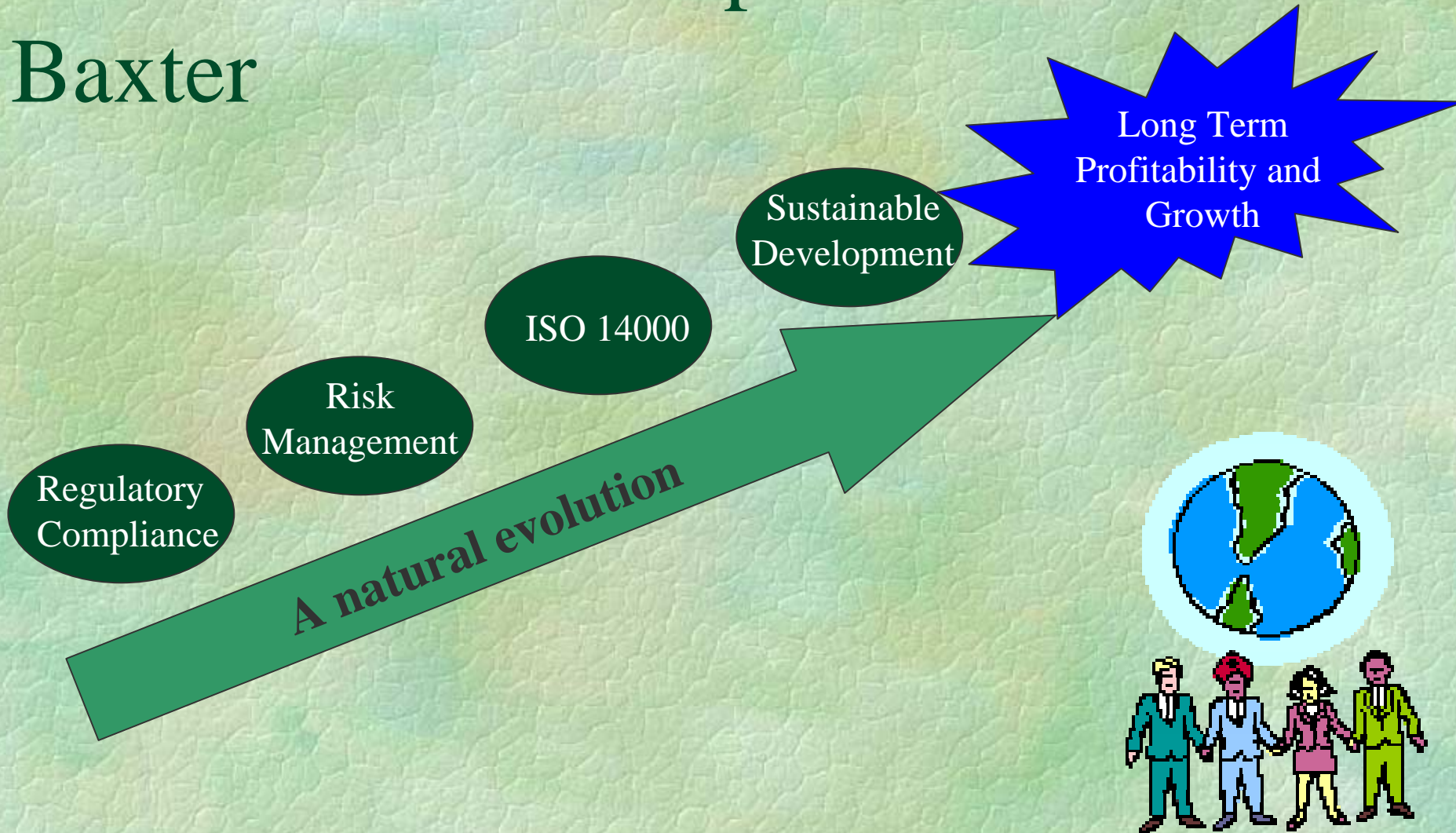
Ernst & Young

Leading Supplier of Health Care Products & Services



- ❧ 2001 Sales (est.)
 - \$US 7.5 Billion
- ❧ 46,000 Employees
- ❧ 100 Countries

Sustainable Development at Baxter



Evolution of Baxter's Sustainability Report

- 1990 First Internal Environmental Report Issued
- 1992 Internal and First External Env. Report
- 1994 Env. Report First Posted on Internet
- 1996 Added Health & Safety Information
- 1998 Distribution Expanded to 7000 Copies
- 1999 Added New “Global Reporting Initiative” Data Reqmts. Report Mainly Communicated on Internet
- 2001 Baxter Communications Takes Over Managing Preparation of Report (EHS group a Contributor)

EHS Goals for the Year 2005

| | <u>Goal</u> | <u>Base Year</u> | <u>Est. Annual Savings & Cost Avoid. in 2005 (Million)</u> |
|--|-------------|------------------|--|
| Reduce Air Toxic Emissions ¹ | 80% | 1996 | \$4 |
| Reduce Hazardous and Regulated Waste Generation ¹ | 35% | 1996 | \$3 |
| Reduce Nonhazardous Waste Generation ¹ | 35% | 1996 | \$25 |
| Improve Energy Efficiency ¹ | 30% | 1996 | \$28 |
| Reduce Packaging Materials ¹ | 20% | 1995 | \$35 |
| Reduce Employee Work-Related Injury and Illness Rate ² | 50% | 1999 | \$30 |
| Reduce Employee Work-Related Lost-Workday-Case-Incidence Rate ² | 60% | 1996 | |
| | | <u>Total</u> | <u>\$US 125</u> |

¹ Per-Unit Basis

² Cases Per 200,000 Work Hours

Costs of Basic Program

(\$US Million)

| | <u>2000</u> | <u>1999</u> |
|--|-------------|-------------|
| Corp. Env. - General & Shared Multi-division | 1.6 | 1.5 |
| Outside Auditors' and Attorneys' Fees | 0.5 | 0.5 |
| Corp. Environmental Engineering | 0.4 | 0.5 |
| Division Envir. Professionals and Programs | 6.0 | 5.7 |
| Packaging Professionals and Programs | 0.4 | 0.5 |
| Pollution Controls – Operations and Maint. | 4.6 | 4.8 |
| Pollution Controls – Depreciation | <u>1.0</u> | <u>0.9</u> |
| Total Costs of Basic Program | 14.5 | 14.4 |

Remediation, Waste and Response Costs

(\$US Million)

| | <u>2000</u> | <u>1999</u> |
|--|-------------|-------------|
| Attorneys' Fees for Cleanup Claims, NOVs | 0.1 | 0.2 |
| Settlements of Government Claims | 0.0 | 0.0 |
| Waste Disposal | 4.8 | 4.7 |
| Environmental Taxes for Packaging | 1.1 | 1.1 |
| Remediation/Cleanup – On-site | 1.1 | 0.5 |
| Remediation/Cleanup – Off-site | 0.1 | 0.2 |
| Total Remediation, Waste & Response Costs | 7.2 | 6.7 |

Income, Savings & Cost Avoidance

(\$US Million)

| | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|
| Ozone-Depleting Substances Cost Reductions | 0.1 | 0.1 |
| Hazardous Waste – Disposal Cost Reductions | 0.4 | 0.0 |
| Hazardous Waste – Material Cost Reductions | 1.0 | (0.1) |
| Nonhazardous Waste – Disposal Cost Reductions | (0.2) | 0.3 |
| Nonhazardous Waste – Material Cost Reductions | (0.1) | 2.9 |
| Recycling Income | 7.0 | 5.5 |
| Energy Conservation – Cost Savings | 2.8 | 1.5 |
| Packaging Cost Reductions | 1.0 | 0.7 |
| Water Conservation Cost Reductions | <u>0.2</u> | <u>0.0</u> |
| Total Income, Savings and Cost Avoidance | 12.2 | 10.9 |

Detail on Cost Avoidance in Report-Year from Efforts Initiated in the Six Years Prior to Report-Year (*\$US Million*)

| | <u>2000</u> | <u>1999</u> |
|------------------------------------|-------------|-------------|
| Ozone-Depleting Substances | 4.7 | 5.6 |
| Hazardous Waste Disposal | 0.8 | 0.4 |
| Hazardous Waste Material | 2.1 | 1.2 |
| Nonhazardous Waste Disposal | 1.7 | 1.4 |
| Nonhazardous Waste Material | 13.4 | 12.6 |
| Energy Conservation | 20.7 | 19.4 |
| Packaging | 18.4 | 22.0 |
| Water Conservation | 1.4 | 1.6 |
| Total | <u>63.2</u> | <u>64.2</u> |

Summary

(\$US Million)

| | <u>2000</u> | <u>1999</u> |
|--|-----------------|-----------------|
| Envir. Income, Savings and Cost Avoidance in Report Year | 12.2 | 10.9 |
| Cost Avoidance in Report Year From Efforts Initiated in Six Prior Years | 63.2 | 64.2 |
| | <hr/> | <hr/> |
| Total Income, Savings and Cost Avoidance | 75.4 | 75.1 |
| Costs of Basic Program | 14.5 | 14.4 |
| Remediation, Waste and Response Costs | 7.2 | 6.7 |
| | <hr/> | <hr/> |
| Total Environmental Costs | 21.7 | 21.1 |
| <i>Total Savings (-) Costs =</i> | 53.7 | 54.0 |

**2000 US
(Millions)**

| | |
|---------------------------------------|----------------|
| Baxter's Net Sales | \$6,896 |
| Income – Continuing Operations | \$738 |
| Average Number Common Shares | 292 |
| Earnings Per Common Share | \$2.52 |

| | 2000 US (Millions) | Without Proactive Environmental Program |
|---------------------------------------|-------------------------------|--|
| Baxter's Net Sales | \$6,896 | |
| Income – Continuing Operations | \$738 | (\$54) = \$684 |
| Average Number Common Shares | 292 | |
| Earnings Per Common Share | \$2.52 | (\$.18) = \$2.34 |

Economy

Attracting
Capital (SRI)

Reduced operating costs

Reduced liability
& risks

Enhanced
productivity

Revenue
growth
opportunities

Innovation

Social Responsibility

Attract/Retain Talent

Improved employee morale

Environment

Enhanced
brand strength



Conclusions

- Global trends will increasingly affect the way companies do business
- If companies ignore these trends, they will be less able to compete for talent, for support and for business
- If companies address these trends through Sustainable Development, triple bottom line reporting, and open communications, they will become stronger, more competitive and sustainable