



A Sustainable Business

A report by KPMG, a Criticaleye Advisory Partner, finds that the external environmental costs to businesses are doubling every 14 years. **Vincent Neate**, Head of Climate Change and Sustainability, explores how businesses can take the lead in the development of solutions

What increase in 'external environmental costs' should businesses be expecting?

As businesses globalise and have to comply with vast swathes of legislation across different environments and social practices in different parts of the world, it's inevitable that the cost of doing business is only going to increase. And when you start talking about the actual

external cost to business of coping with and dealing with the effects of, for example, global warming, then the challenges become even bigger.

Business leaders need to think strategically around what the consequences of these trends will be for their business and where the contextual advantage might lie: where are my

customers going to be, what are my customers are going to be buying and what is my supply chain going to look like?

What are the key sustainability issues for CEOs?

The first issue is around sustainability in its widest sense: business leaders should consider whether they genuinely run a

responsible business, as well as its role in society more generally, and what 'responsible capitalism' actually means for them.

Second, there are important operational issues. These might be around resource scarcity, whether that's water or other natural resources, and energy security and energy prices. Another would be visibility and control over what happens in the supply chain and the extent to which businesses can actually engage in that operationally because stakeholders are likely to see them as having responsibility for it.

At the board level, how important are sustainability-related issues for business?

According to the feedback we've had from C-suite respondents about our report [Expected the Unexpected](#), they're immensely important. Indeed, in another recent survey, KPMG asked chief executives: 'What is on your agenda?' and found that the top five were all sustainability-related issues – even though 'sustainability' itself came out ninth. To me this suggests it's a strategic issue that business leaders are dealing with as part of the overarching challenges they face.

Resource scarcity is a recognised business challenge in the same way as, say, competitive advantage. The 'sustainability' label itself is becoming less important because it's the issues themselves that matter. I think that is a good thing.

Would you say the EU is strong on promoting the sustainability agenda?

The next wave of emission trading regulation will be instructive. If we have a higher price of carbon without too many allowances given away too easily then you can envisage an effective price for carbon which will change the incentivisation for investment in other forms of energy production. This will change the economic outlook quite considerably. If they can make that work, that would be very welcome.

However, there are a number of significant challenges to be overcome. I think the European Commission is determined to do something around disclosure and corporate responsibility and the language that they are using is uncompromising in terms of scope and demands. One has to instinctively believe that transparency and disclosure will have a massive impact.

How are businesses working with governments?

The investment community is looking for opportunities to invest in a low carbon economy and it requires leadership from governments to create frameworks that make that more viable and more profitable. This is partly about project opportunities but it's also about the stability of the policy framework.

Business leaders should consider whether they genuinely run a responsible business

Longer term, it'll be interesting to see what becomes of the private sector component in relation to developing countries and climate change; it will require a public-private partnership that we haven't seen manifest itself yet.

By contrast, is the argument undermined by a lack of engagement from those in emerging markets?

I really don't believe that it is. There are businesses in India that are committed to anti-corruption and anti-bribery and are using private money to invest in education programs and water projects as a way of making an affirmative contribution to the societies in which they're operating.

Also, I wouldn't underestimate how engaged China really is. 'Green' is woven through its five-year plan like nowhere else. Developing countries' major priority is undoubtedly development but many are working to achieve this in a low carbon and environmentally responsible manner.

How should CEOs incorporate sustainable practices into the fabric of a business?

To really embed it, they need a clear vision and a clear set of values about their relationship with society, the responsibility that they are prepared to take and how that permeates throughout the culture of the business so that people understand the rules of the game. If leaders are establishing what is inside and outside the fence for their people then they can make a really good contribution to the world.

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CEOs need to engage with what's happening in social enterprise, they need to engage with what's happening in things like the venture philanthropy movement, they need to engage with what's happening in neuroscience and psychology, innovation and technology, and so on.

All businesses must assess where their next competition will come from, whether it is from a start-up bank that looks like all the other banks or it is from a completely different way of thinking about commerce and the financing of business.

Today's CEOs should be exploring the full breadth of these ideas.

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Vincent joined KPMG in 1995 and has been a partner since 2007. He leads the UK Climate Change and Sustainability practice, which combines business experience with specialist knowledge of climate change and carbon trading, non-financial data assurance, corporate responsibility and governance.

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