Sustainability Concerns and the Flow of Investments

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A) Introduction

For the first time in the known history of human civilizations, we have reached a point where four distinct "mega-factors" are altering our planet's ability to sustain all varieties of life. These mega-factors, which unleash powerful forces that propel and direct human activity, are:

1. Unprecedented population growth,
2. The relentless use of fossil fuels (oil, gas and coal) as a source of energy, and as a means to support the universal human desire for a more material quality of life,
3. A reliance on antiquated models of business, that work on the erroneous assumption that natural resources are infinitely available, and
4. Using financial and economic metrics that do not take into account cost-externalities of human activity including enterprise.

The combined effect of these four factors – acting and supporting the adverse impacts of one another - has created a set of conditions whereby our fragile planet is so debilitated, that the damage is posing a threat to many life-forms on Earth – including human life.

Some of the visible consequences of the damage to our environment are already apparent. We are experiencing far greater severity of weather conditions around the globe. The frequency of droughts and famines has increased. The high levels of air pollution - and the adverse impact this alone has on human health, the diminishing availability of fresh water sources, shrinking perennial glaciers, the increasing amount of toxic chemicals found in lakes, aquifers and in farmlands – large tracts of which have been ruined from an overuse of pesticides and weed-killers - are also well-documented. Such examples provide serious evidence that in our quest for a better quality of life, we have wantonly exploited nature. We are therefore depriving future generations of humanity, the ability to live a healthy and wholesome life.

Human population levels in the world today are collectively reaching the 7.2 billion mark very rapidly. The estimate is that we will have 8 billion people living on our planet by 2030. This spurt – which is a phenomenon of the past 170 years only (compared to the last 50,000 years since humanoids have been on earth!) is also placing extraordinary pressures on our lands and oceans, which have to be 'flogged' to produce additional food for feeding the highest number of people that have our planet has ever had at any given time. As a consequence of this, our oceans are being over-exploited for fish, kelp and other edible resources. Our lands, in turn, are being dumped with yield enhancing chemicals; while water is drawn from deep aquifers in order to ensure higher yields of food grains to feed the millions of additional mouths.

B) The Role of Enterprises under Stakeholder Supervision

All the above trends are creating new risks for ways in which businesses can thrive and flourish. Business that intend to sustain themselves for the long-term, and simultaneously remain profitable and wholesome, will need to do business that is based on newer 'sustainable models', rather than on antiquated methods, that may seem like a good way to generate wealth, but which are fraught with unprecedented risks in the long term. The risks emanate from a combination of Environmental, Social, Economic and Governance factors, that need to be consistently and completely addressed at all times.

With a large population, it is inevitable that business ventures will be subject to increasing scrutiny of communities, investors, regulators and a whole host of stakeholders that are connected to business. People appreciate that all businesses, in the months and years ahead, will have to create wealth even as they contribute towards enhanced social justice and equity, environmental sustainability, and an improvement in the quality of life of all. We are in fact, entering the era of '**Enterprises in an Interconnected World'** where no business can pretend that its adverse impacts – and hence concerns – are limited to local issues. Today the supply chains of large corporations meander around the world, and the direct and indirect impact of business actions are well-known and widely discussed and questioned.

C) Stakeholder Supervision will Transform Investment Decisions

The new rules of business under close and active 'Stakeholder Supervision' will give rise to newer regulations, aimed at minimizing the adverse externalities of enterprise. However, in more subtle ways, investors, who depend on the savings of people to aggregate wealth that can then be invested into businesses, will move with far greater agility to respond to the concerns of stakeholders with respect to businesses. Investors will carefully assess and scrutinize the actions of enterprises and evaluate their long-term riskiness from the combined influence of the "mega-factors"; and ascertain what managerial actions have been taken to ensure the longevity of the enterprise, and a concomitant reduction in the levels of risk from the concerns of sustainability. Investors will use and rely on such detailed assessments – assisted by disclosures made by businesses – to determine where and how they will park their funds. Those businesses that do not view sustainability concerns as a source of risk, and who do not take ameliorative action, will attract lesser investments, or meager ones at a high cost. Those businesses that work systematically towards enhancing 'stakeholder value' while minimizing the adverse impacts related to sustainability, would attract larger funding and at attractive rates.

When investors start to look at businesses critically, from the perspective of their orientation towards sustainability and sustainable processes, it will automatically force the laggards and those in denial of sustainability risks, to be pushed out of market for inexpensive capital. When that happens, one can be sure that only those companies that lead the drive for Sustainable Business from the top down – from the level of Chairman of the Board along with the involvement of the Board members themselves - will thrive and be in a position to contribute to growing opportunities in the new world; where every stakeholder assesses businesses on the basis of their approach to environmental sustainability, social justice, equity and improving the quality of life of all.

These developments would be discernible amongst investors who operate nationally, as well as those that have a wider, international portfolio. The trends are already visible, and more and more investment organizations and banks are actively searching for "sustainable" enterprises, or "green" businesses that would intrinsically be lucrative and less risky over the long-term.

D) Conclusions

The changing orientation of investors - towards a concerted emphasis on issues related to sustainability, and reversing the trends of climate change – is here to stay. Investors will increasingly look towards those companies only, as a place to park their funds, that actively pursue strategies that rely on making their businesses sustainable and frugal in their consumption of energy as well as natural resources. The investment community will appreciate that the returns to them will also be assured, and the most lasting, if businesses also leverage the challenges of sustainability to alter the way they do business; and use technological innovations, renewable energy, recycled resources and other sustainable processes to make a lasting impact. Apart from this, such companies will also actively engage with stakeholders, and openly disclose what their stakeholders might wish to know from them. Investors would be quick to recognize that such businesses alone would create lasting value in an eco-system that is mutually beneficial, equitable, inclusive and contributing to the emotional and spiritual well-being of all.