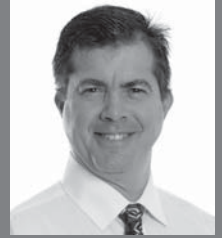


# Must green behaviour always penalise profitability?



■ by Gary Cundill

**Stewardship or Dominion? The latter has been blamed for industry destroying the environment on a large scale, whereas the former is dismissed as a recipe for ineffective financial performance. Gary looks at recent research suggesting that good financial performance is associated with respect for social and environmental goals. Christians have reason to be confident in the boardroom.**

## Introduction

**B**roadcasting companies have displayed film footage of desperate polar bears swimming between melting ice floes. Activist groups have published heart-breaking stories of communities whose children have been permanently affected by lead poisoning. Degradation of the world's environment is occurring much more widely than previously thought. The scale of this destruction is such that many are describing it as one of the most important crises facing humankind today. It is also evident that a substantial proportion of this degradation results from the activities of business enterprises, particularly those involved in primary and manufacturing industries.

Given the seriousness of the damage that has been done to the earth's ecosystems, it surely behoves Christians working in industry to consider carefully what role they can play in at least mitigating the environmental impacts of the businesses for which they work. This short article aims to highlight some of the issues involved, and suggest some remedies.

## Two theological perspectives

At least one writer has a ready answer as to how the world has ended up in this unfortunate situation. Lynn White, in a seminal essay published 45 years ago<sup>1</sup>, ascribed the cause to Christianity - or, to be more precise, the Western manifestation of Christianity. He called it 'the most anthropocentric religion the world has seen'. White saw the rapid increase in ecological damage, already then evident, as arising from three main sources:

1. The belief (still held today by some Christians) that human beings, made in God's image, are markedly different from the rest of the creation, and that their God wishes them to exploit the creation for their own ends.
2. That in the past paganism had provided a certain measure of protection for the natural world, as people feared offending such potentially powerful beings such as the spirits of the woods. By triumphing over paganism, Christianity removed this restraint.





*Diocese of Libmanan in the Philippines with a programme ‘concerned to address eco-justice issues in order to promote right relationships with all of God’s creation as He intended’, promoting ‘Sustainable Agriculture as an alternative way to alleviate poverty’*

▶▶ 3. The unparalleled rise of technology in the West during the last millennium, which provided the means for the above beliefs to exert a far greater impact upon the world than was possible before. Christianity’s role in facilitating these technological advances is a larger issue than can be considered here.

There is, of course, an alternative view to that of God-directed world exploitation, one that would see this as a misreading of God’s word to his people. One proponent of such a perspective was John Stott, who has expressed himself along the following lines<sup>2</sup>:

As a starting point, the Earth belongs to God (Psalm 24:1). As the owner, he has entrusted it to humankind (Psalm 115:16). He has also explained what he would like us to do with the Earth - he wishes us to subdue it (Genesis 1:28), in other words to bring it under our control for our advantage<sup>3</sup>. This is not an unfettered charge, however, and we are not given carte blanche to treat the Earth in any way that we wish. We are called to act in

cooperation with God – it is God who still causes the sun to rise, and who sustains the world with rain, thereby rendering productive the land that men have ploughed (Matthew 5:45; Psalm 65:9ff).

God created the world, and called it very good (Genesis 1:31). The effects of the fall, both directly on the creation as well as indirectly through the activities of fallen people, have certainly damaged it. However, God has not abandoned his creation, and one day it will be set free (Romans 8:19-22). In the meantime, as God’s servants, and not as independent kings of the Earth, God’s people are to

exercise God’s rule (Genesis 1:26) on his behalf. Implicit in such a command is that God’s people should be exercising this rule in accordance with God’s character, the same character which we are expected to share (1 Corinthians 2:16; Romans 8:29).

### A look at the rock face

Given this background, it’s more than fair to ask how closely we humans, and particularly those of us involved in the business world, are living up to God’s mandate.

A significant proportion of the population would be quick to point out that Lynn White’s view seems far more accurate than John Stott’s when considering the environmental impact of business. Justifications that are trotted out in support for this assertion include the following:

- Much of the environmental cost associated with, say, a coal-fired power station is externalised, leaving little



▶▶ incentive for the operator or owner to spend large sums of money on pollution abatement.

■ In many parts of the world, enforcement of environmental regulations (when they even exist) is ineffective, thereby rewarding those businesses that habitually ignore environmental compliance requirements when they are expensive. Businesses may also develop inappropriate relationships with regulators to avoid prosecution.

■ Strong lobby action may lead to sectors of business being exempt from much environmental regulation. The 'fracking' industry in the United States is an interesting and current case in point.



### **Fracking**

■ Some business people may take a narrow view of the time value of money, electing to take profits in the short-term, and delaying clean-up costs for as long as possible. The short-term nature of many executive bonus schemes may encourage such an approach.

This begs the question, though, as to whether this is the only way in which hard-headed, profit-centred business people work. Are there no incentives other than regulation and targeted taxes for management teams to adopt more environmentally-friendly practices?

### **One perspective on profitability**

For a number of years there has been a growing interest in investment circles in the idea of socially responsible investing (SRI).

This is investing that takes into account not merely financial matters, but also so-called ESG factors – those related to the Environment, to Society, and to Governance.

Early proponents of this approach to investing tended to be socially aware, often because of their having a faith perspective. Though something of a generalisation, it would probably be true to say that maximising the financial return of their investments was not the foremost thing in the minds of these investors. Implicit in their thinking was the willingness to sacrifice a certain level of financial return, often by avoiding rather lucrative 'sin' stocks such as those associated with the production of tobacco, alcohol and arms, in order to avoid investing their money in companies of whose activities they disapproved.

In recent years research into such investment strategies has proliferated. Undoubtedly one of the drivers for this research has been the desire of the purveyors of SRI strategies and mutual funds to demonstrate that their approach does not entail the giving up of *too* much financial return, while at the same time assuaging the investor's conscience. ▶▶



*Cezary Mech, President of the Social Rating Agency, Poland, which was set up to provide global investors with ESG ratings of Polish companies*



▶▶ Mainstream investors and fund managers are also coming to realise that conducting a more holistic analysis of a company rather than merely calculating the traditional financial ratios should lead to a better understanding of the business; this, in turn, may translate into improved investment decisions, leading to better financial returns.

As is perhaps to be expected, when researching such a broad spectrum of investment approaches on a global basis, the findings are mixed. What is interesting, however, is that the weight of evidence appears to indicate that, at the very least, investing in companies that conduct their business in a responsible manner does not lead to a significant reduction in financial return. Such a result is surprising, given the intuitive belief that it should be easier to make money by cutting corners than by managing a business responsibly.

A useful introduction to the field may be found in the report *Demystifying Responsible Investment*<sup>6</sup>. In an evaluation of 20 academic papers dealing with this area, ten papers were found to have identified a positive correlation between ESG factors and financial performance, seven returned a neutral result, while only three papers found a negative correlation. Narrowing this analysis further to consider only those papers that focused on environmental factors (our primary interest here), rather than those related to social and/or governance issues, the results are even more encouraging. There are then five positive correlations between financial performance and superior environmental management, four neutral, and none negative.

The same report also considered a collection of research conducted

by investment brokers. Ten studies were evaluated, *no* negative correlations were identified between ESG factors and financial performance, and three positive correlations were found, the rest being seen as neutral.

### Concluding thoughts

At first sight such a research finding is unexpected, since it goes against the intuitive feelings noted above that an environmentally responsible business cannot be one of the more profitable ones in its sector. On reflection, however, Christians should be less than surprised. After all, before the Israelites entered Canaan, God predicated their future prosperity on their following his commands and living his way of life (Deuteronomy 30:15ff).

God does indeed expect us to make use of the earth's resources in order to feed and clothe ourselves. In a beautiful passage in Joel 2, God promises his people grain, wine and olive oil. Part of this blessing is outside of human control, and God promises to send the necessary rains. But another part requires people's work; grain, wine and olive oil require cultivation, threshing floors, presses and vats, and the work of human hands. Yet God has views on the way in which he wishes the earth's resources to be used. ▶▶



**Work of human hands**

▶▶ The idea of a sabbatical year (leaving aside the even more radical idea of a jubilee year) for the land as described in Leviticus 25 may appeal to the Christian manager, but this hardly fits the mantra often expressed within firms of 'sweating the assets'. The command not to sweat the assets in Deuteronomy 24:19-21, but to leave the marginal profit to the alien, the orphan, the widow and the wild animals (Exodus 23:11) runs contrary to modern practice. Sustainable harvesting, as expressed in Deuteronomy 22:6f may make good sense in the long term, but the drive to produce results 'this year' (perhaps for bonus purposes) is hard to resist.



### **Deepwater Horizon**

*Some estimates suggest that the total liability could amount to as much as US \$100 billion (UK £67.5 bn) and take at least 20 years to resolve*

It is quite understandable that Christians may feel seriously intimidated by the overt pressures exerted by their colleagues to make the numbers. This often leads to the frighteningly common Sunday/Monday dichotomy, where the rules for 'church' life are considered inappropriate for behaviour in the workplace. Christian managers may feel torn between their responsibility to God, and their duties to their employers and shareholders.

But businesses that ignore the effect that their operations have on neighbouring communities may lose their 'licence to operate', crippling their ability to generate financial returns. Businesses that take excessive environmental risks, thereby cutting costs, may incur much larger costs as a result of an environmental incident. The recent Deepwater Horizon oil-well incident in the Mexican Gulf is an example of this. Companies that become known for unacceptable environmental

practices may suffer damage to their brands, losing customers and hence sales as a result.

These findings by investment analysts should lend courage to Christians who are endeavouring to serve diligently as God's stewards not only in their private lives, but also in the workplace. It is true that the research that has been carried out, while far-ranging, is not definitive. It cannot (yet) be conclusively proved that running a business in an environmentally responsible manner leads directly to greater financial profitability, at least not in all cases, and not within all time-frames. But enough work has already been carried out to enable Christians in the workplace, and especially Christians who lead in the workplace, to influence for good in this area with confidence. There is, at the very least, no need for a Christian to be concerned that any shift towards responsible environmental management will automatically result in poorer financial returns for the business owners. ■

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1 Lynn White, 'The Historical Roots of Our Ecologic Crisis', *Science*, 155:1203-1207.

2 John Stott, *New Issues Facing Christians Today*, Marshall Pickering, 1999, pp. 124-142.

3 Notes for the NET Bible, 2005, available at <http://bible.org/>.

4 United Nations Environment Programme, *Demystifying Responsible Investment*, 2007.