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**THE CHALLENGES OF GREEN**

Back in 1624, John Donne coined the phrase that “no man is an island, entire of itself.” And whilst Donne may have captured this phrase from a spiritual perspective, its principles of ‘connectedness’ may indeed also be likened to the modern-day view of business sustainability and the integrated reporting now espoused within the King Report on Governance for South Africa 2009 (‘King III’). Indeed, King III emphasises the need that sound environmental governance is central to the sustainability of business and cites that “environmental issues should form part of business performance and [its] risk management strategies.”

Notwithstanding the recommendations found within King III, organisations and their directors are generally not taking enough action to fully commit themselves to good environmental practices. And while there is much hype surrounding the need for integrated reporting, one can’t help wondering whether leaders are sufficiently armed with energy-efficient information that can be effectively applied within the business while not crippling the bottom line. Of course, the flip side of this question also needs to be addressed. Is an organisation and its directors implementing the required ‘green changes’ because they;

- believe it makes good business and ecological sense, or
- are compelled to do so as a result of the respective legislation, or
- are being driven by the demands of their stakeholders and supply chain or, most cynically,
- responding to the marketing claims of a competitor in order not to appear left behind.

Gauging the extent of South African legislation -- such as the National Environmental Management Act 2008 (NEMA), the Air Quality Act 2004, the National Energy Act 2008 and the National Environmental Management: Waste Act, 2008 -- one would think that our country and its businesses would be ahead of the pack vis-à-vis its carbon reduction strategy. Regrettably, South Africa is still one of the largest carbon emitters in the world. Despite the many debates to reduce our carbon footprint, we produce around an eighth of the total emissions of the European Union, most of that on the back of Eskom which is reported to be one of the highest carbon-intensive electricity utilities in the world.

Besides the clear benefits a company can achieve when there is an active commitment to reduce carbon footprints, it appears that many company directors may be more motivated when they consider the personal liabilities attached to their brazen disregard of their environmental crimes.

In more recent developments to NEMA, the rate of environmental convictions is likely to increase, considering that there are now new environmental offences to which directors can be held personally liable. Moreover, the ‘Green Scorpions’ -- who enforce South Africa’s environmental laws -- have flighted much needed and high-profile media exposure of not only companies who have violated the various environmental laws, but also the directors themselves who have intentionally or negligently broken the law. Whether the company has dumped toxic materials, or polluted rivers or the air; the punishment for such negligent acts could be anything from hefty fines to imprisonment, excluding the organisation’s contribution to the clean-up costs.

As expected, directors will also be scrutinised to check whether they or their organisations take reasonable steps to prevent significant environmental damage and pollution, and will be tested against their fiduciary duties under common law, ensuring that they have acted with a ‘duty of care’.

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Similar to having good credentials in the social transformation area (evidenced for example in the Broad-Based Black Economic Act), increasingly organisations will be expected to provide comprehensive information within its annual integrated report -- recommended by King III -- regarding the manner and extent to which the organisation is reducing its ecological impact. Needless to say, many who have balked at the idea of the B-BEE Act quickly found that non compliance resulted in economic restrictions, and in some cases economic starvation. As with BEE certification, the carbon footprint calculation becomes an easy and comparable score card and proxy for broader environmental impact. Organisations who make no effort to reduce their environmental impacts, or who refuse to disclose and report upon their successes and failures to improve those impacts may find themselves faced with similar market restrictions as those tardy in achieving transformation targets.

Increasingly, South African companies may well find themselves approached by foreign companies wishing to make various investments into South African 'green' initiatives as part of a carbon trading scheme carried out in order to off-set the foreigners' carbon footprints back home. This represents a substantial opportunity for local companies to access capital and expertise to kick start local efficiency projects.

Finally, institutional investors are showing a greater level of support and interest for water and carbon management; this is evidenced in the increasing numbers who support the Carbon Disclosure Project (CDP); this being an independent nonprofit organisation that holds the largest database of primary corporate climate change and water information in the world.

A recent study* of the top 200 firms traded in Canada -- who are listed on the S&P 500 -- showed that those firms who manage their greenhouse gas emissions have distinct benefits over those who don't. With all other factors being equal, the greater the company's emissions, the lower its stock price will be.

Gone are the days when corporate environmental performance was watched only by the green activist fringe. The threat of legal, reputational (and increasingly) operational risk has meant that environmental sustainability should be a main point on any executive management decision matrix.

* Conducted in January 2011 by the Universities of California and Otago

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