

It is a well-known fact that natural systems can be especially vulnerable to human activity because of their limited adaptive capacity. The damages caused may be significant and irreversible. Several groups feel that more aggressive actions should be taken to reduce human impacts on the environment. Many corporations accept the same conclusion, but the environment is often just one more thing to worry about. In fact, according to widely held beliefs, environmental protection is associated with an increase in costs for businesses imposed by the government.

Over the last decade, this view has been challenged by a number of analysts. They have identified many possibilities to offset the additional costs of sustaining the environment with higher profits.

In their Burgundy Report entitled *When and Why Does it Pay to be Green?*, Paul Lanoie (HEC Montréal, CIRANO), Stefan Ambec (INRA Toulouse) and Iain Scott (CIRANO) argue that the expenses incurred to reduce pollution can sometimes be partly or completely compensated by gains made elsewhere.

**Firstly, better environmental performance can lead to an increase in revenues through the following channels:**

### ① A better access to certain markets

An increasing number of public or private companies are concerned about the environmental performance of their suppliers. A recent survey of the OECD indicated that this concern was shared by over 40% of the businesses surveyed. Therefore, by improving their environmental performance, companies can increase the probability of being chosen as suppliers.

### ② The possibility of differentiating products

When firms choose to differentiate themselves by creating greener products and services, they can expect to exploit lucrative market niches created by consumers who care for the environment. These firms can also benefit from an increase in revenues because the extra cost can probably be transferred to the consumers who are willing to pay more for nature-friendly products or services.

### ③ The possibility of selling pollution-control technologies

Solving environmental problems has become an important business opportunity for firms specialized in this area. It is often referred to as the eco-industry. A company, in search for a better environmental performance, may optimize its manufacturing or waste management processes by developing pollution control technologies. This may lead to technological breakthroughs that eventually can be sold to other firms.

**Secondly, better environmental performance may translate into cost reductions in the following categories:**

### ① Regulatory costs

Ultimately, with all the mounting evidence on the potential hazards of not disposing of waste properly, governments will move to alter the situation more to their liking. Such action usually takes the shape of laws and regulations that make some business activities illegal and others clearly unprofitable. A business, therefore, will be better off if it takes the initiative to look for new options while it still has a reasonable opportunity to influence the rules.

### ② Cost of material, energy and services

According to the Porter hypothesis, reducing pollution can generate a reduction in expenditures on raw material, energy or services. Porter suggests that pollution is generally associated with the waste of resources, with raw material not fully used, or with lost energy. He concludes that more stringent and flexible environmental policies would be fruitful for the economy, stimulating innovations that may compensate for the costs of complying with these policies.

### ③ Cost of capital

Capital is the lifeblood of any business. The funds needed to finance development are never easy to find and can be costly. Maintaining a positive environmental corporate image may help a firm cope with this problem.

### ④ Cost of labour

A business works best when it has a positive vision, good morale, well-defined standards, and high goals. How long can a company prevail if its employees consciously or unconsciously, perceive its production processes or corporate goals as harmful to humankind? There is much evidence that better environmental performance can reduce the cost of labour by reducing the cost of illnesses, absenteeism, recruitment and turnover and by improving productivity.

**In conclusion, the opportunities to combine financial performance and environmental performance are quite numerous.**