

McKinsey Global Survey results:

The next environmental issue for business

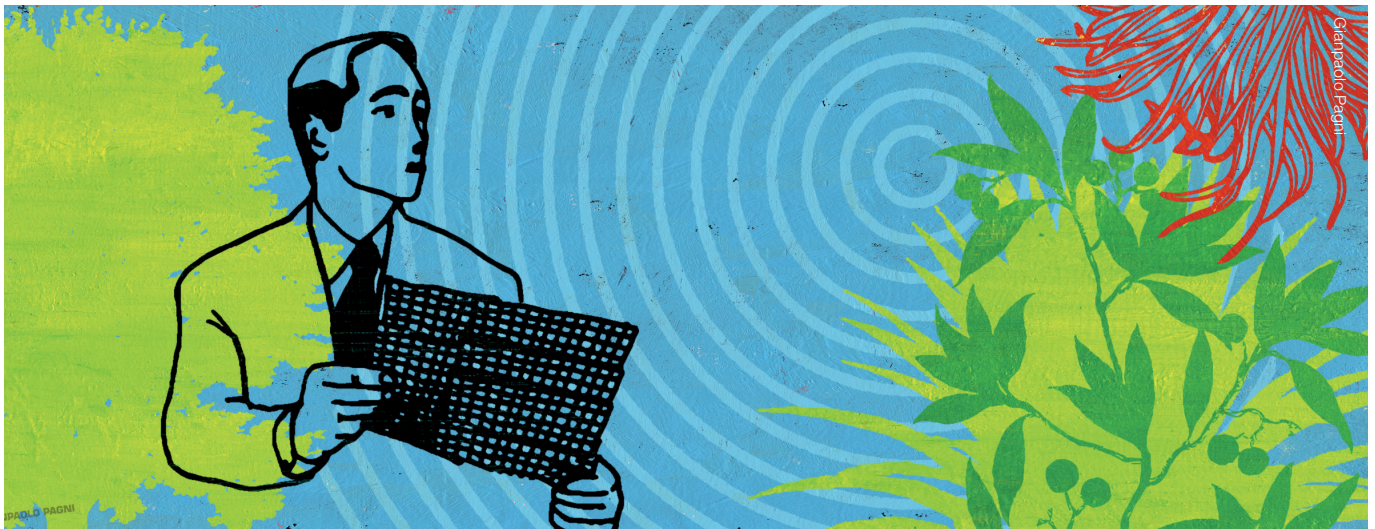
As with climate change a few years ago, executives are now beginning to recognize the importance of biodiversity for their future strategies. Many are also discovering business opportunities, not just threats.

For most companies these days, the environment—which is synonymous with climate change for many executives—has become an important topic. Companies know that consumers and employees care about the environment, and their interest often presents real business opportunities and risks. But another key environmental concern is emerging: biodiversity, or the diversity of species, variety of ecosystems, and variability of genes. Biodiversity now occupies a similar position in the public debate as climate change did in 2007. Our survey asked respondents about what biodiversity means, how important it is to their businesses, and why.¹ The survey also asked respondents what specific risks their companies might face from reduced biodiversity, what actions they are taking to address issues related to it, and what kinds of regulations they would support to maintain biodiversity.

One of the most striking findings is that a majority of executives, 59 percent, see biodiversity as more of an opportunity than a risk for their companies. They identify a variety of potential opportunities, such as bolstering corporate reputations with environmentally conscious stakeholders by acting to preserve biodiversity and developing new products or ideas from renewable natural resources. The positive outlook on biodiversity is in stark contrast to executives' views on climate change in late 2007, when only 29 percent saw the issue as more of an opportunity than a threat.² Perhaps addressing climate change over the past few years has changed some executives' views on the potential upside of environmental issues.

¹The online survey was in the field from June 15 to 29, 2010, and received 1,576 responses from executives representing the full range of regions, industries, tenures, and functional specialties.

²"How companies think about climate change: A McKinsey Global Survey," mckinseyquarterly.com, February 2008.



Just over half of respondents to this survey say their companies are taking some action to address biodiversity. Notably, among those, the two most frequent steps are communicating about their companies' use of renewable natural resources and changing operations to reduce such use—even in industries that are not highly regulated and whose operations don't have much direct impact on biodiversity. This priority for operations is consistent with findings from other surveys on the role of business in society, which suggest that perceptions of these issues have shifted over the years: executives once approached them purely as a public-relations risk or opportunity but now recognize the real impact they can have on operations and corporate value.³

³See, for example, "From risk to opportunity: How global executives view sociopolitical issues," October 2008; "Valuing corporate social responsibility," February 2009; and "How companies manage sustainability," March 2010. All are available on mckinseyquarterly.com.

How much it matters

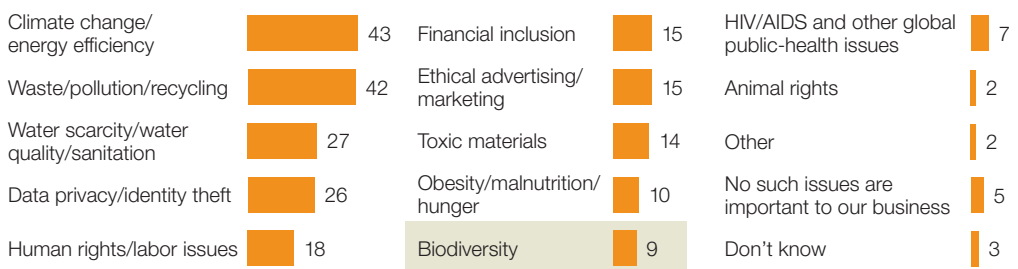
Nevertheless, respondents don't consider biodiversity nearly as important as many other environmental and sustainability issues. Nearly two-thirds say biodiversity is at least somewhat important to their companies, but on a list of 12 issues, biodiversity ranks tenth in overall importance—behind not only climate change but also pollution and human rights (Exhibit 1).

Exhibit 1

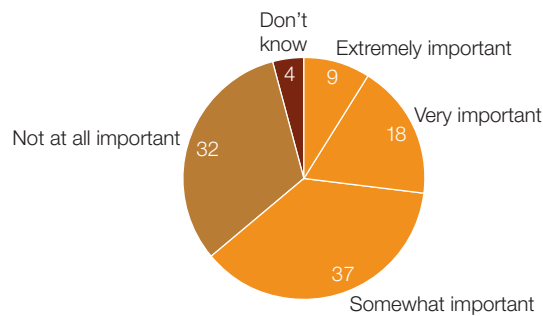
What matters most to business

% of respondents, n = 1,576

Among the following issues related to the environment, sustainability, and biodiversity, which are most important to your business?



How important, if at all, is biodiversity to your business?



When speaking for themselves personally, a majority of executives say they believe that threats to biodiversity are increasing and that corporate actions are part of the overall threat. More than half, or 55 percent, say biodiversity should be somewhere among the top ten items on the corporate agenda—the same share that, in 2007, said climate change should be a priority.

Fairly large shares of executives point out several ways in which biodiversity is important to their companies (Exhibit 2). Respondents at energy companies, who are the most likely to say their companies' operations have a direct impact on biodiversity, also—not surprisingly—highlight regulation over all other areas of potential importance.

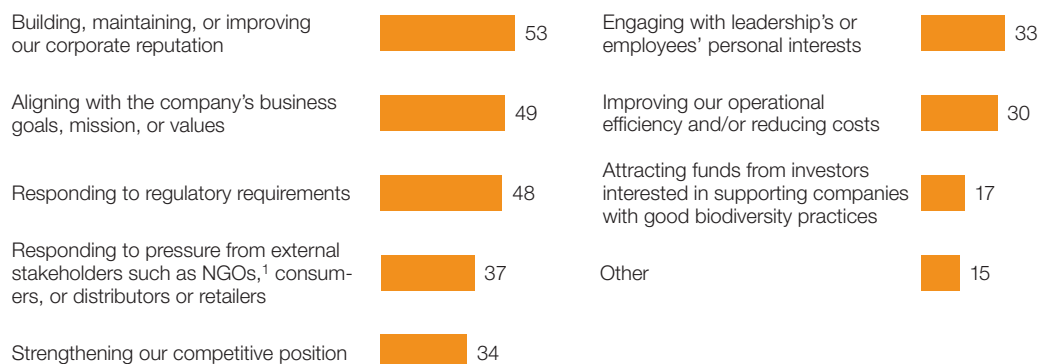
Conversely, fairly small shares of respondents predict that one or more risks related to biodiversity are likely to become significant to their companies over the next one to three years. Water scarcity leads the list, with 31 percent of respondents selecting it. (It is an especially great concern among executives in the energy industry, where 49 percent select it, and in India, where 51 percent select it.) Much smaller shares of respondents select other risks, including infectious disease, food insecurity, flooding, droughts and desertification, and soil degradation.

Exhibit 2

Where biodiversity and business interests meet

% of respondents, n = 1,043

In what ways is biodiversity important to your business?



¹Nongovernmental organizations.

Only 12 percent of respondents say their companies face a significant risk of a shortage of crucial inputs to their products resulting from biodiversity issues; those in energy and manufacturing are the most concerned (Exhibit 3). Much larger shares say they will face pressure to change operations or products and services to reduce their impact on biodiversity.

Many say they face no risks at all: 39 percent expect to face no operational risk from issues related to biodiversity over the next three years, and 34 percent expect no threats from external issues such as water scarcity.

We also, however, identified a group of respondents who said that biodiversity is important to their companies, an opportunity, and aligned with business goals. For this group—which includes a relatively high share of executives at food and beverage, pharmaceutical, and energy companies, as well as hospitals—water scarcity, infectious disease, and food security top the list of potential risks to both biodiversity and business. The food and beverage industry relies on water for agricultural production and is reasonably concerned with future access to food; pharmaceutical companies and hospitals have a vested stake in the development of treatments for infectious diseases; and for energy companies, the production process involves water use as

Exhibit 3

Biodiversity can be risky business

% of respondents¹

Which of the following other risks related to biodiversity, if any, are likely to become significant risks to your business in the next 1 to 3 years?

| | Total, n = 1,576 | Energy, n = 103 | Financial, n = 207 | High tech/ telecom, n = 159 | Manufacturing, n = 216 |
|--|---------------------|--------------------|-----------------------|--------------------------------|---------------------------|
| Pressure to change our operations to reduce impact on biodiversity | 30 | 49 | 24 | 28 | 37 |
| Pressure to change our products, services to reduce impact on biodiversity | 27 | 39 | 19 | 24 | 33 |
| Lack of crucial inputs to our products | 12 | 18 | 5 | 6 | 18 |
| Other | 6 | 3 | 5 | 3 | 3 |
| No biodiversity issues will be a risk to our business | 39 | 21 | 48 | 48 | 26 |
| Don't know | 9 | 4 | 12 | 6 | 9 |

¹Figures do not sum to 100%, because respondents could select more than one risk.



well as a host of other biodiversity issues, such as soil degradation, deforestation, and flooding. These respondents are more than twice as likely as others to say biodiversity is important to strengthen their companies' competitive position, with 61 percent saying so; a quarter say their companies will face the risk of losing a crucial input to their products if biodiversity is reduced. Yet even for these companies, it is still only fourth on the list of all environmental and sustainability issues.

What companies are doing and why

Just over half of respondents—53 percent—say their companies are taking action to address biodiversity issues, though this is a slightly smaller share than the 59 percent who see it as a business opportunity. Notably, the share of executives who see biodiversity as an opportunity rather than as a risk is much higher than the share of respondents who said the same about climate change in a 2007 McKinsey survey (Exhibit 4). Even so, the share taking some action related to biodiversity is roughly consistent with the share of respondents who were taking some action on climate change.⁴ These findings may suggest that opportunity and fear are equal drivers of action on environmental issues.

One of the most frequently chosen actions—and no doubt one reason that so many see biodiversity as an opportunity—is seeking to identify new products or ideas from renewable natural resources (Exhibit 5). Among the executives who see biodiversity as most important, 59 percent are identifying new products or ideas.

However, most respondents are taking action in a fairly ad hoc way, perhaps because of the relatively low importance of biodiversity compared with other issues. Among all respondents, only a quarter have a formal biodiversity policy or strategy, and only 22 percent have formal targets. Among those with any formal target, 62 percent have operational ones, and only 27 percent have financial ones.⁵

⁴In the 2007 survey, respondents were asked about taking action in a range of different areas, such as marketing, investing, and setting strategy.

⁵This finding is consistent with those of "Valuing corporate social responsibility," which found that both companies and professional investors believed it is difficult to define meaningful metrics with which to assess environmental, governance, or sustainability programs.

Exhibit 4

Environmental issues: opportunity or risk?

% of respondents

Whether given issue (biodiversity in 2010, climate change in 2007) is seen more as an opportunity or a risk for "respondent's business".

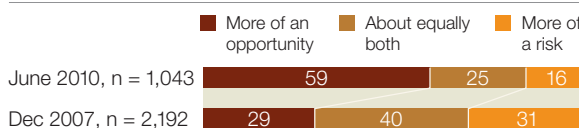
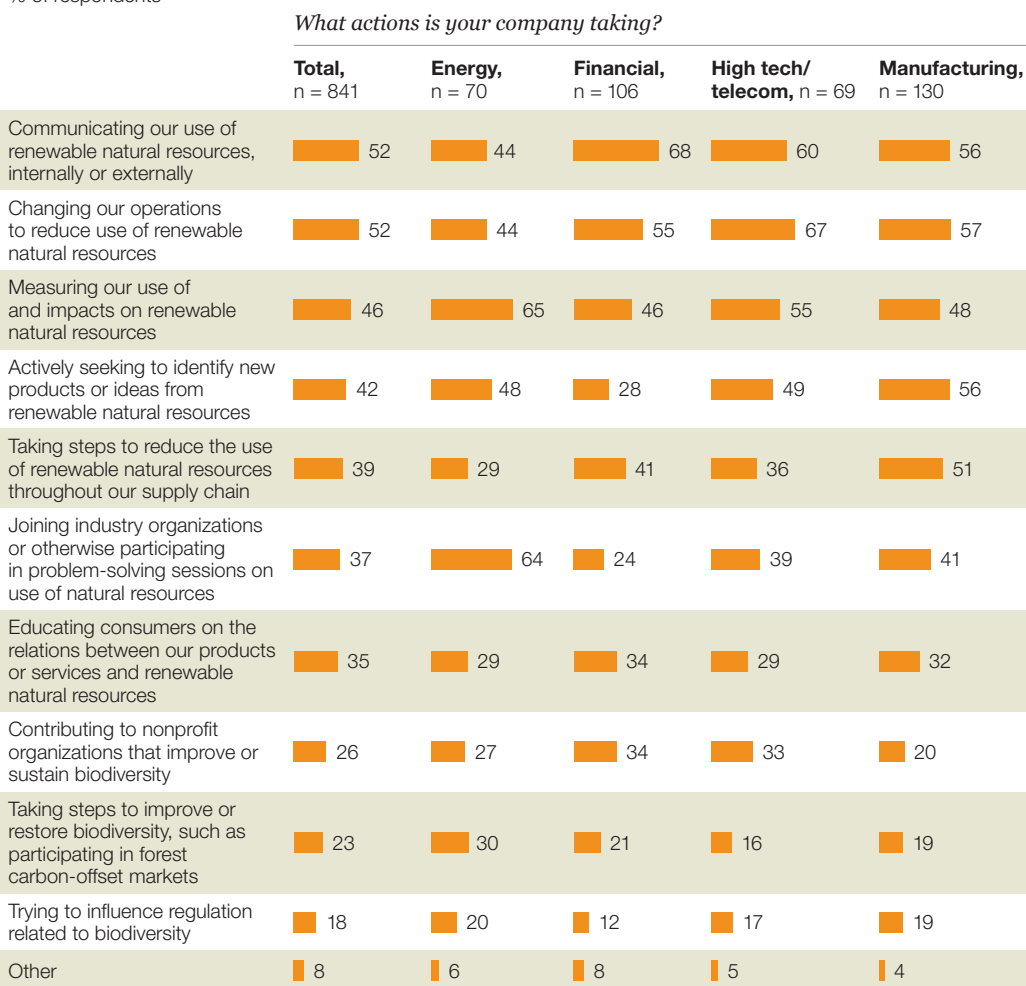
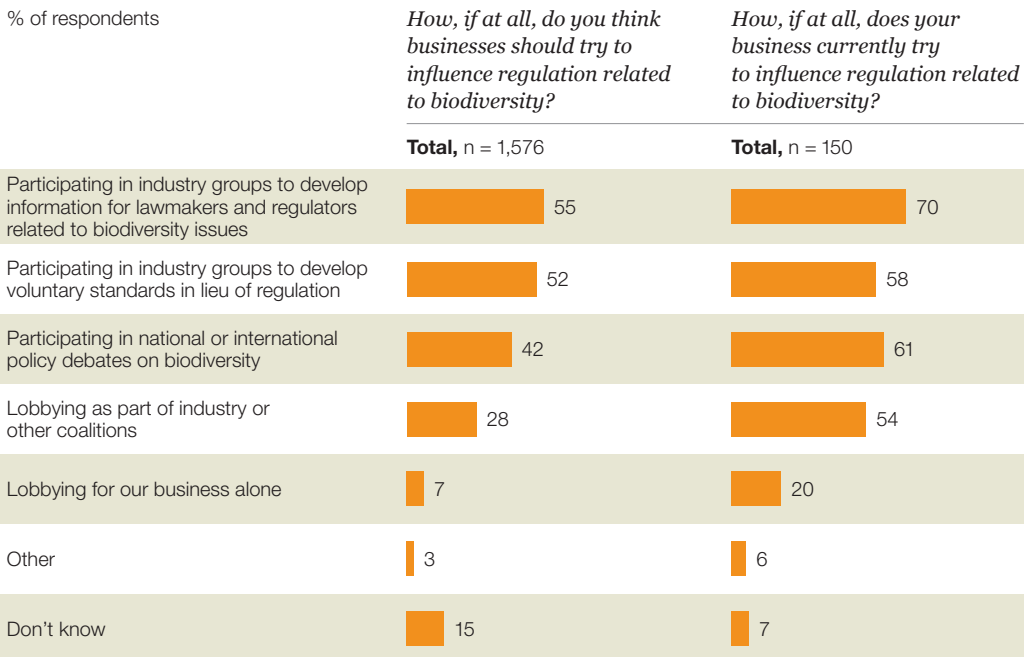


Exhibit 5

Taking action on biodiversity% of respondents¹¹ Respondents who answered "don't know" are not shown.

Respondents say consumers, followed by regulators, are the stakeholders with the most impact on the actions their companies take to address biodiversity.

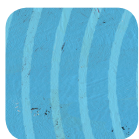
Exhibit 6

Influencing regulation**Not all companies need to act**

More than a third of respondents say their companies aren't taking any actions related to biodiversity.⁶ Among them, 37 percent say the reason is its lack of importance; far smaller shares cite a lack of external pressure or more important uses for their businesses' time or money. There's little consensus on what might spur them to take action; the top choice, selected by only 23 percent of respondents, is regulatory requirements.

Separately, almost equal shares (37 and 36 percent, respectively) cite consumers and regulators as the stakeholders who are likeliest to encourage action. These segments were also the top two choices among the 2007 survey respondents whose companies were not then taking action on climate change. The results highlight both the similarity between the two issues and the potential—if consumers and regulators ratchet up the pressure to take action on biodiversity, as they have for climate change—for more companies to do so.

⁶The rest of the respondents answered "don't know."



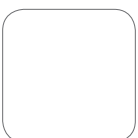
Managing threats to biodiversity

When asked to pick the best way to influence regulations related to biodiversity, more executives choose participating in industry groups to develop information than anything else. Describing what they are currently doing to influence regulation, an even higher share say they are participating in industry groups (Exhibit 6). The type of regulation favored by most respondents (45 percent) is tax incentives or direct subsidies for actions related to conservation; 38 percent say industry-created voluntary standards on the use of renewable natural resources would be acceptable. Less than a quarter say their companies would support mandatory standards or reporting.

However, the responses suggest that addressing threats to biodiversity will take a concerted effort. Sixty-five percent of executives say the threats need to be addressed at a global, not local, level, and 61 percent say that although threats to biodiversity are linked to climate change, addressing the latter alone won't resolve all of the threats to the former that exist today.

Looking ahead

- Given that threats to biodiversity are getting more and more public attention, companies with any direct or indirect exposure to biodiversity issues will benefit from addressing them in some way.
- For a company that wants to understand its exposure to these issues, a good first step is assessing the entire value chain to determine where it might be vulnerable to risks, which operations might be threaten biodiversity, or where it might supply opportunities.
- A collaborative, industry-wide approach is necessary for understanding issues such as biodiversity and exploring potential solutions. Although many companies are already involved in such coalitions related to biodiversity, more could benefit from getting involved. □



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Contributors to the development and analysis of this survey include **Sheila Bonini**, a consultant in McKinsey's Silicon Valley office, and **Jeremy M. Oppenheim**, a director in the London office. Copyright © 2010 McKinsey & Company. All rights reserved.