Briefing note

Corporate water management and stewardship

Signs of evolution towards sustainability

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November 2019

Key messages

- Leading companies show signs of moving, tentatively, towards business models that are supportive of sustainable water management.
- A forward-looking working hypothesis is that the commercial 'health' of food and beverage brands will depend on the social and environmental health of production and sourcing.
- Corporate plans for growth that do not take account of water availability limits, in water-stressed catchments for example, will not yield long-term value. In planning for allocation of water resources to agriculture, what is grown where (the choice of crops, taking into account water availability) is as important as how it is grown (water-use efficiency).
- Measurement of 'water saved' according to the 'Volumetric Water Benefit Accounting' method (published in August 2019), and any similar volumetric tool, may or may not provide data by which to assess companies' sustainability performance – additional information will be needed to demonstrate associated social, economic and environmental benefits. To properly guide sustainable investments, data must be reliable.

Introduction

In November 2016, we published a broad-based survey of water management and 'stewardship' (Newborne and Dalton, 2016). The joint report by the Overseas Development Institute (ODI) and the International Union for Conservation of Nature (IUCN) focused on how private companies were approaching water management in contexts of water scarcity due to increased demand and climate variability.[1]

Water stewardship aims to promote shared responsibility in water management through dialogue and collaboration between water users, for greater water security. Private firms and companies are asked to participate in multi-stakeholder processes so as to be part of the solution to water problems, including those beyond just their own premises and operations. The 2016 report surveyed the 'drivers' of corporate 'water behaviour', including those *intrinsic* to companies (category 'A' in Figure 1, such as company mission/purpose and culture/values) and *external* drivers applied by other actors, such as public regulators (category 'B'), consumers/customers (category 'C') and 'promoters and brokers' of water stewardship initiatives (category 'E'). The role of investors (category 'D') has been largely beyond the scope of recent ODI/IUCN research.

Our verdict was that there had been little evolution in business practice up to that time. Corporate engagement was predominantly applied to corporate social responsibility (CSR) projects funded by philanthropic/charitable arms of corporates, aimed at showing they were responsible 'societal players', although on a conditional, 'if-and-when-the-company-feels-like-it' basis. Corporate attention was focused on the rewards in terms of 'licence to operate' – their own company's entitlements to existing water allocations with the possibility of withdrawing, 'abstracting', more. We concluded that the future of private company roles would depend, in great part, on how corporate cultures *evolved* under the effects of particular drivers.

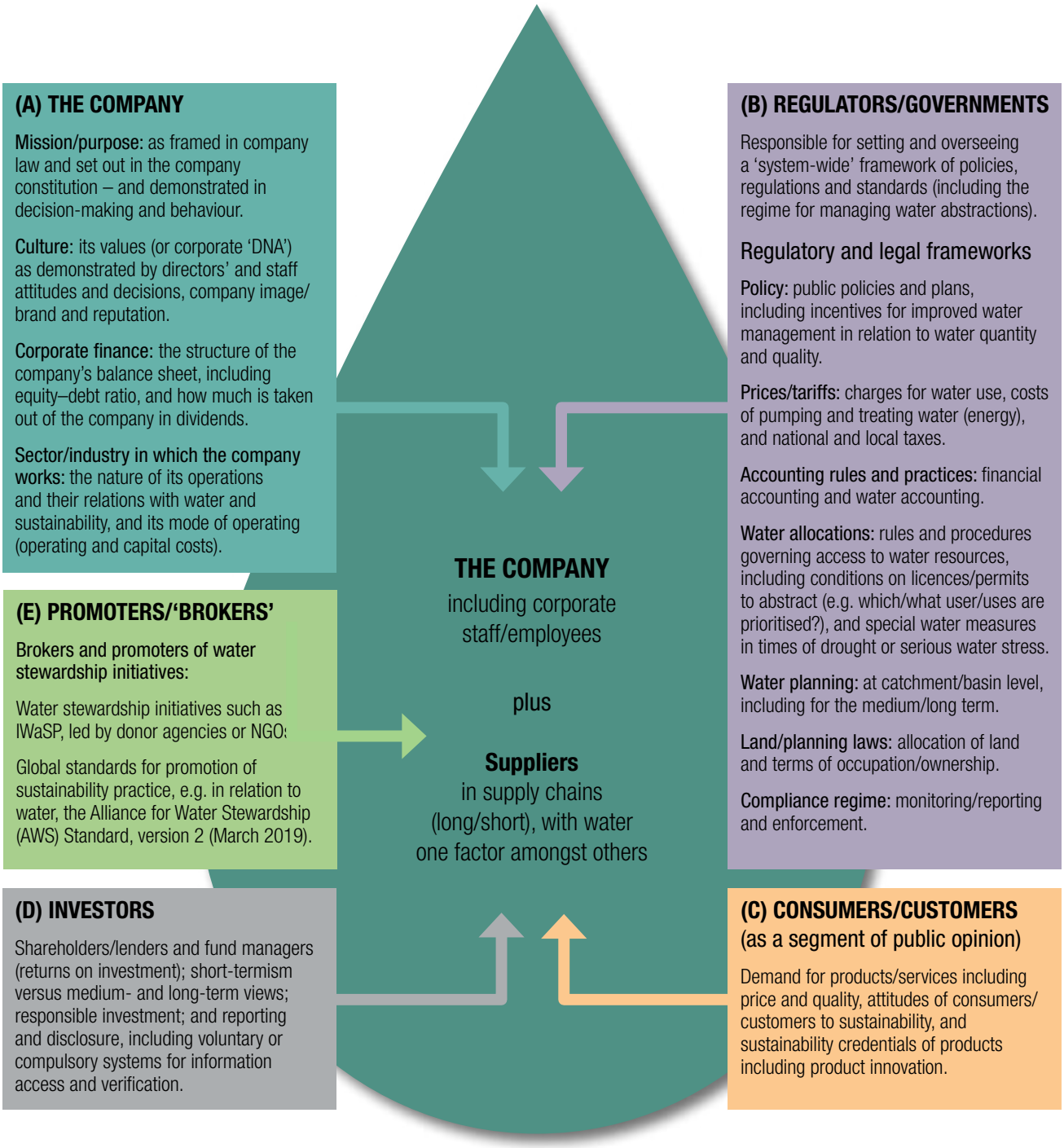
In this briefing we return to the subject after further research,[2] to consider what experience and knowledge has been acquired in water management and what advances have been made in water stewardship since 2016. One corporate representative we interviewed in August 2019 commented: 'The business model is taking shape, but, as yet, not all the elements are in place.' What does that refer to? Which elements/aspects relevant to water management – as one facet of sustainable environmental, social and economic futures – are coming together? What pieces of the water stewardship 'puzzle' are still missing?

While the part played by private firms/companies is again central, we also consider the roles of public bodies and of non-governmental organisations (NGOs), whether acting as brokers or in other capacities.

1 Increasing climate variability is illustrated in northern Europe by the recent periods of high temperatures combined with low rainfall, with the tendency to drought (occasionally interspersed with flood). In France, for example, in July 2019, 33 departments in a broad band across the centre and south-west of the country were in 'crisis alert' (the most extreme warning category) due to shortages of water. Similar concerns apply in many other countries and regions, including many from where northern Europe sources food supplies.

2 Since 2016 we have carried out a survey of, and interviews with, corporate representatives and other actors, and studied sustainability and annual reports of 40 companies in a range of sectors, for the Swiss Agency for Development and Cooperation (SDC) (Dalton and Newborne, forthcoming). We have also conducted an end-term review of the International Water Stewardship Programme (IWaSP) for the Department for International Development (DFID) (Newborne and Dalton, 2019), including convening a roundtable in London and holding a meeting in Stockholm during *World Water Week* 2019. This Briefing Note highlights findings from these two research projects, as well as from the many conversations we have had with stakeholders in water management and stewardship over the past three years.

Figure 1 Drivers of corporate 'water behaviour'



Source: adapted and updated from Newborne and Dalton (2016)

Multi-stakeholder dialogue

While the principle of collaboration in resolving water problems is generally accepted, in practice the testimony of participants in water stewardship initiatives returns, again and again, to the gaps – often a gulf – in language and mind-sets between representatives of the private and public sector and NGOs, when they meet to discuss. The first required cultural shift, therefore, is genuine openness to dialogue, although that active readiness to collaborate may not be present – or not to the extent needed – to gather and share information and understanding. Facilitators of those discussions talk of the substantial time required to establish mutual comprehension and trust. These brokers of dialogue (driver 'E' in Figure 1) need to apply patience and skill.

One conspicuous example of brokerage is the Lusaka Water Security Initiative (LuWSI) in Zambia, part of the International Water Stewardship Programme (IWaSP) which has supported efforts to promote multi-stakeholder dialogue in target countries.[3] LuWSI has succeeded in building an interesting and dynamic platform for collaboration. This experience has provided clear pointers to key ingredients for building a broad-based coalition to address water problems (see Box 1).

LuWSI illustrates the rewards that can come from multi-stakeholder collaboration, and the hard work and craft needed to achieve it. The list of partners within LuWSI is long, including both public agencies (e.g. the Lusaka city council) and private companies – LuWSI is not an example of a 1:1 partnership between a stewardship 'broker' and a single private company. The 1:1 format has perhaps an initial attraction because of its simplicity and apparent low risk, but this can often be illusory. There is a need for balance around the table of participants, to avoid domination by one or more large private companies, who (as IWaSP experience shows) may turn out to be irregular and inconsistent participants in a partnership.

Box 1 Lusaka Water Security Initiative (LuWSI): key ingredients for a broad-based coalition

- Identification of a water management problem that is common to multiple actors and needs a solution.
- Actors from public and private sectors and civil society come together in a neutral space to talk around the common purpose.
- The platform is sufficiently solid and flexible to act as a vehicle to support projects, whether activities are jointly conceived in the stakeholder group or brought to the table by an individual group member(s) and then discussed and agreed.
- There is careful problem analysis and creative problem-solving with water as a thematic anchor, but not exclusive of related topics.
- Actors are sensitive to the institutional and political context.
- The facilitator or 'broker' is independent, objectively helping to find the fit between problems and solutions, guiding the stakeholders to participate in joint or coordinated actions.
- The combined efforts and contributions of a range of water users generate more action and impact than if they were working alone.

Source: Newborne and Dalton (2019), drawing on interviews with staff and partners in-country.

3 The International Water Stewardship Programme (IWaSP) was supported with funding from the British and German governments (DFID and the Federal Ministry for Economic Cooperation and Development (BMZ) respectively) from 2014 to 2019.

Understanding water realities

The second cultural shift required is awareness and understanding of each context. The companies that are sector leaders in water stewardship acknowledge that measures to improve water efficiency within their own operations (i.e. volume of water consumed per unit of production) are insufficient alone to meet water management challenges. Water users – companies and others – who aspire to be 'stewards' need to understand the effects of their water consumption in the areas (water 'catchments') around their premises/operations and in their supply chains.

As the head of sustainability at Nestlé Waters said at *World Water Week* in Stockholm in August 2019: 'It is not possible any more to be resilient by just managing water inside the four walls of the company's operations.' Companies and other water users need to gather data on shared water challenges and understand how water behaves and moves in the environment and between users. While this proposition is accepted by some leading companies, a review by ODI/IUCN of recent reports of 40 companies in a range of different sectors has shown that too many corporates are still busily engaged with their own plans for greater water efficiency without participating in dialogue and action to address levels of catchment water demand exceeding supply (Dalton and Newborne, forthcoming).

This is the hydrological bottom line which tends to be ignored in debate on water stewardship. The 2018 annual report from CDP highlights that the total volume of water consumption and abstraction by companies disclosing to CDP has increased (CDP, 2018). How do companies square that with their stated intentions in relation to sustainability? As demand for water increases in a context of accelerating climate change and more frequent droughts, will companies pursue plans for growth in water-stressed locations, pushing and pressing, and sometimes imposing, their claims for increased withdrawals? Or will they stand back and take account of local limits on water availability?

Trade-offs are inevitable between access to water for different users and uses, especially in catchments where there is already intense pressure on water resources. Freshwater is a renewable resource, which is in principle recyclable (repeatedly), but there are limits to its availability between multiple users at any given place and time. One corporate's sophisticated circular economy of water reuse and recycling can, for another user downstream, constitute an economy of exclusion. The experience of IWaSP in East Africa suggests that the culture of small local firms may be more sensitive to local conditions and circumstances than multinational companies (MNCs), for whom water risks in a given catchment/locality may be just 'pin points' on a global map of 'water risk'.

Mind-sets and roles

The question commonly posed by corporate executives is: what is the business case for water stewardship? This question, however, is problematic as so expressed. Is this the short-term, business-as-usual case or the medium-term business-encountering-disruption case, soon to be coming the company's way because of water stress and climate variability? The enquiry needs to be reformulated to take account of the latter: what signs are there of businesses in *evolution*, in transition?

The following are examples of shifting approaches to, for example, procurement of agricultural ingredients for products. Agriculture including food production is key because it accounts for the largest proportion of water consumed, estimated at 80% of total global water use (Hoekstra and Chapagain, 2007). The representative of a European MNC which sources many agricultural ingredients highlighted that she is part of the *combined* sustainability and procurement division within the company. She and her colleagues are working to establish more direct relations with growers in known locations and contexts, for security and quality of sourcing.

Similarly, United States-based company Mars foresaw in 2018:

> [the] end of the commodities era. Commodities were all about buying materials of unknown origin, on short-term contracts, with price being the only differentiator. What we now know is that there are big differences in terms of the social and environmental impacts of what you source. It is no longer acceptable not to know where your materials are from. There are going to be very different sourcing models in future…. We are in a transparency race. As a company we had better find out where our materials are coming from, and under what social and environmental conditions they are produced…This is happening and it is happening quickly, it will be less than 10 years before you know exactly where your materials come from. This is a transformational shift. (Askew, 2018, quoting the chief procurement and sustainability officer at Mars)

When that shift occurs (some sceptics might prefer to say *if* that occurs), it will indeed constitute a substantial change in agricultural procurement.

At the retail level, the downward pressure on food prices – as part of intense competition between retail chains in Europe and the US – has been accompanied by a reduction in prices 'at the farm gate'. Commentators (see, for instance, Allan, 2019) emphasise that this leaves little or no room for farmers to invest in improved soil and water management, unless they are actively supported by public subsidies or through agricultural services provided by procuring companies – or both.

Agricultural commodity traders, such as Cargill, Bunge and Archer Daniels Midland (ADM), who constitute a powerful presence in the middle of the supply chain, have been slow to include sustainability in their thinking. Judging from their published reports, they are no longer ignoring sustainability, but they are behind the (leading) food and beverage companies.

How far, then, will the big global traders advance towards sustainability, and at what pace? They are suppliers to food and beverage companies and, despite the latter's ambitions for supply-chain transformation, they will presumably continue to be so, at least in the medium term. So what should be the direction of travel? The answer is that, in planning for allocation of water resources to agriculture, *what* is grown *where* (the choice of crops, taking into account water availability) is as important as *how* it is grown (water-use efficiency). The aim will be to determine which crops in what locations are 'appropriate products' in water terms, based on the concept of 'natural comparative advantage' (Porter and Kramer, 2011). But the reality is that plans for growth in surface hectarage of heavy water-consumptive crops such as sugar and cotton in water-stressed catchments will not yield long-term value.

In this context, what will be the strategy of retailers who are battling to retain and attract

customers? What kind of corporate culture and image or brand will they seek to create? Will the food division of a company such as the British retail chain Marks & Spencer be able to maintain the progressive sustainability goals set out under its 'Plan A' or will it be forced, in what is already a very competitive commercial environment, to reduce its sustainability ambitions in the face of the drastic price-cutting of rivals? According to the representative of another major retail chain in Europe, the answer to this dilemma may be a 'pyramid' of prices over the range of the goods it puts on sale, with higher-priced premium products towards the top. But is it feasible to simultaneously establish and hold an image of socially and environmentally sustainable sourcing and of bargain-basement prices?

The typical customer buying food in retail outlets is unaware of the water management (and wider environmental) implications of her or his purchases, but this could change as part of a wider shift in public consciousness and demand. The executive of an international food company expressed the view that consumers, especially the younger generation, will increasingly identify the health and attractiveness of commercial brands along with a healthy environment and society.

Water management is one facet of production and sourcing among others (e.g. labour standards, carbon emissions and nutrition) and a forward-looking working hypothesis is surely that, for companies that own and market food and beverage brands, to maintain those brands as commercially 'healthy' the brands will have to be transparently linked to environmentally and socially healthy sourcing and production.

The current limits of action by many companies (those that are not leaders) is exemplified by the issue of water quality. Water quality tends to be lost in a focus (commonly) on water quantity/scarcity. Just over half (22) of the 40 companies whose published reports we reviewed have adopted corporate water quality targets/goals in relation to their *own* operations. The sectors that are leaders are food and beverages, mining and metals, and clothing/apparel. In contrast, very few water quality targets/goals are in place that apply *beyond* the companies' own operations, e.g. those of suppliers. H&M and Levis Strauss & Co. are exceptions to this, plus (only) three out of the ten food and beverages companies reviewed. More initiatives on water quality are required, as an urgent matter.

Recognition and verification

The companies that are working to make a shift in culture and practice deserve recognition. CDP compiles an annual 'Water A List' of companies that they have assessed as having made considerable progress over the last five years in disclosing and responding to water challenges. Meanwhile, the Alliance for Water Stewardship (AWS) offers a global standard which companies and other water users anywhere can adopt to demonstrate evidence of compliance with a common framework.[4] The AWS Standard requires aspiring stewards to account for their water use, and works through a process of collaborative planning and action by them with other stakeholders – of the kind adopted by LuWSI in Lusaka (although not all water stewardship initiatives need to involve so many actors). Under the AWS system, independent auditors are available to verify compliance with the water-management objectives set by stakeholders, thereby providing credibility that other water-related claims lack.

For example, water claims based on the concept of 'replenishment' may present misleading indicators of achievement. Replenishment involves the counting up – aggregation – of 'water saved' by water efficiencies and philanthropic water projects across multiple basins/catchments which may or may not be encountering water stress, as a means of justifying (or distracting attention away from) a company's increase in water abstraction and use in other places which *are* water-stressed.

Given that the hydrology and status of water availability and demand differs from catchment to catchment, off-setting in water does *not* work as it does in relation to carbon emissions. Accordingly, companies contemplating adoption of replenishment based on the 'Volumetric Water Benefit Accounting' method published in August 2019 should take note of what the authors say, namely that: 'providing a volume of water alone does not guarantee that shared water challenges are reduced' (Reig et al., 2019: 2). The 'limitations of Volumetric Water Benefit Accounting include … the need for additional assurance to guarantee the associated social, economic and environmental benefits' – 'users of VWBA should also use elements of effective water stewardship activities that increase the likelihood of generating [those] benefits and solving water challenges in the catchment' (ibid.: 1) – for example, elements of dialogue, collaboration and compromise (acceptance of trade-offs) such as those discussed above.

Reig and colleagues underline this important point. 'Complementary indicators' are needed 'to measure nonvolumetric outputs of investments' (ibid.: 2). It is important to understand, therefore, that the VWBA method accounts for water volumes, but not benefits (the title of the methodology is misleading). The measurement of water saved may or may not generate appropriate information by which to assess companies' performance. While investors are certainly looking for data to guide their sustainable investments, they want reliable numbers, not bogus ones.

4 https://a4ws.org/

Conclusion: evolution and missing elements

So, what evolution has there been in the debate and practice of water management and stewardship since 2016? Which of the drivers of corporate water behaviours have shown signs of movement? And what are the missing pieces in the puzzle?

First, as noted above, knowledge and experience has certainly been gained on the key role that brokers (driver 'E') can play in organising actors to collaborate. The IWaSP experience is evidence of that.

Second, the public regulatory driver ('B') continues to be weak in many countries. In 2018 the United Nations Synthesis report on water and sanitation noted: 'at current rates of implementation … most countries will not achieve indicator 6.5.1 relating to Integrated Water Resources Management (IWRM) by 2030' (UN, 2018: 13). There is, in the development jargon, a 'public governance gap'. The authors of the UN report concluded that 'accelerated progress is needed in most regions' (ibid.: 78). For this, elected leaders and government officials need to act decisively to address common water challenges. Public regulatory authorities in sub-Saharan Africa, for example, must urgently demonstrate leadership in better application and enforcement of rules to prevent over-abstraction. Yet governments in low-income countries will require financial and technical assistance from international donors to achieve this.

Third, for consumers/customers ('C'), more information needs to be made available to them, for example through labelling that shows compliance with good agricultural practices and good water management. AWS is in the process of developing a label for use on goods produced at sites in compliance with the AWS Standard. As labels are small because of the limited space available on the products, equally important for standards systems is the information that retailers provide via their marketing and communications. That includes, for example, in-store marketing promoting the retailer's support for various standards, highlighting to consumers goods produced in accordance with sustainability standards and stating why it considers sustainability to be important.

As for the contribution of NGOs, the question arises as to what roles they intend to play in the next phase of water stewardship. A leading water stewardship actor noted that 'major NGOs have carried out useful functions in advising companies about water issues'. The contribution of NGOs in terms of design and delivery of implementation projects is also recognised in response to a survey conducted by IUCN and ODI (Dalton and Newborne, forthcoming). What, however, of NGOs' engagement in policy influencing/advocacy? We have seen little evidence of that. The funding that international NGOs are taking now seems to include significantly more private finance than a decade ago. This has significant implications. As a researcher and scientist commented: 'The consultancy contracts between NGOs and private companies tend to create proprietary knowledge, not the communal knowledge needed to accelerate collective action. NGOs are working in their private self-interest. That accounts in great part for their positioning.'

Returning to private companies themselves – the intrinsic 'A' drivers in Figure 1 – as noted above, the picture is of some progress, though slow. Leading companies have been working to increase their understanding of water management and are moving, albeit tentatively, towards shifts in business models to react to water problems caused by climate variability. Water accounting could support this trend, as long as it does not ignore or conceal the individual catchment context. Companies should *target* growth of operations and supplies in/from locations where it is sustainable in the medium and long term.

As for a shift in corporate culture/values, the US Business Roundtable, in a meeting in August 2019, argued for a change of thinking away from the 'long-held view that *maximising* shareholder value is the defining corporate goal' to, instead, 'a more inclusive vision that takes account of other stakeholders' – a 'wider approach to corporate purpose'. 'Maximising shareholder returns has come at the expense of other stakeholders',

including the environment (*Financial Times*, 2019). The question arises whether such a change of approach, if adopted, will be enough to support the sustainability agendas as expressed by leading food and beverage companies – or whether there will be, as currently, what amounts to a 'corporate governance gap'?

In response, will a change be needed to the constitution of companies and to directors' duties under company laws to firmly anchor broader corporate purposes that are stakeholder-inclusive?[5] This is the type of path that Danone is planning to go down. The company has set itself the aim of converting from the conventional company form to a 'B Corp'. In a company report, Danone explains what a B Corp is designed to do: 'The B Corp movement works to drive a cultural shift to redefine business success. B Lab, a non-profit organization, accredits B Corp certification to for-profit companies that demonstrate high standards of social and environmental performance' (Danone, n.d.). Danone adds that nine of its subsidiary companies have already converted.

The concept and practice of water stewardship, particularly with the participation of the private sector alongside other actors, is here to stay. It will be a continuing and central part of water resources management, as a contribution to achieving improved water security. In the short/medium term, public subsidies from donors to water stewardship initiatives need to continue in order to support more examples of leadership. Public funding to NGOs should require them to act as policy influencers/advocates rather than muted partners in 1:1 consultancy-type relationships. Further, such projects should be designed to leverage more collaboration between NGOs that have tended to create stewardship projects from which they deliberately shut out their rivals. Currently, water stewardship is more of an individualistic market than a collaborative effort.

Acknowledgements

ODI and IUCN are grateful to the UK Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC) for their support, as well as to all the interviewees, survey respondents, and roundtable/meeting participants who shared their views and experiences on water management and stewardship.

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5 The normative parameters of what companies are for, and for whom, as exemplified in different corporate models in different legal jurisdictions, are discussed in Newborne and Mason (2012).

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