

Bridging Concern with Action:



Are U.S.
Companies
Prepared For
Looming Water
Challenges?

Executive Summary | April 2014

Study Partners: VOX Global and Pacific Institute

Authors: Peter Schulte, Jason Morrison, Stefanie Woodward,
Jen Anderson, Tony Calandro, Sarah Howell, and Leah Stonefeld

Contributors: CDP, AT&T, Cummins, The Hershey Company,
MillerCoors, and Union Pacific



EXECUTIVE SUMMARY

Bridging Concern and Action: Are US Companies Prepared for Looming Water Challenges?

Policy makers, the investment community and non-governmental organizations are increasingly focused on social and environmental pressures and their impacts on business. According to the World Economic Forum's Global Risks 2013 report, water crises present one of the three risks of highest concern for the world today. The wide variety of problems that fall under water challenges, such as insufficient water supply, water pollution, contaminated drinking water, crumbling infrastructure or degraded ecosystems, suggest that water is among the greatest social and environmental challenges that businesses around the globe face in the 21st century.

Although internationally many companies are beginning to acknowledge that water poses real risks to their business, limited analysis exists to reveal how companies in the United States specifically perceive and respond to the issue. To help fill that research void, Pacific Institute, a sustainability research organization based out of Oakland, California, and VOX Global, a bipartisan public affairs and strategic communications firm based out of Washington, D.C., conducted a survey of more than fifty US-based companies to better understand both how they view water's impact on their business and how they respond to water challenges. In

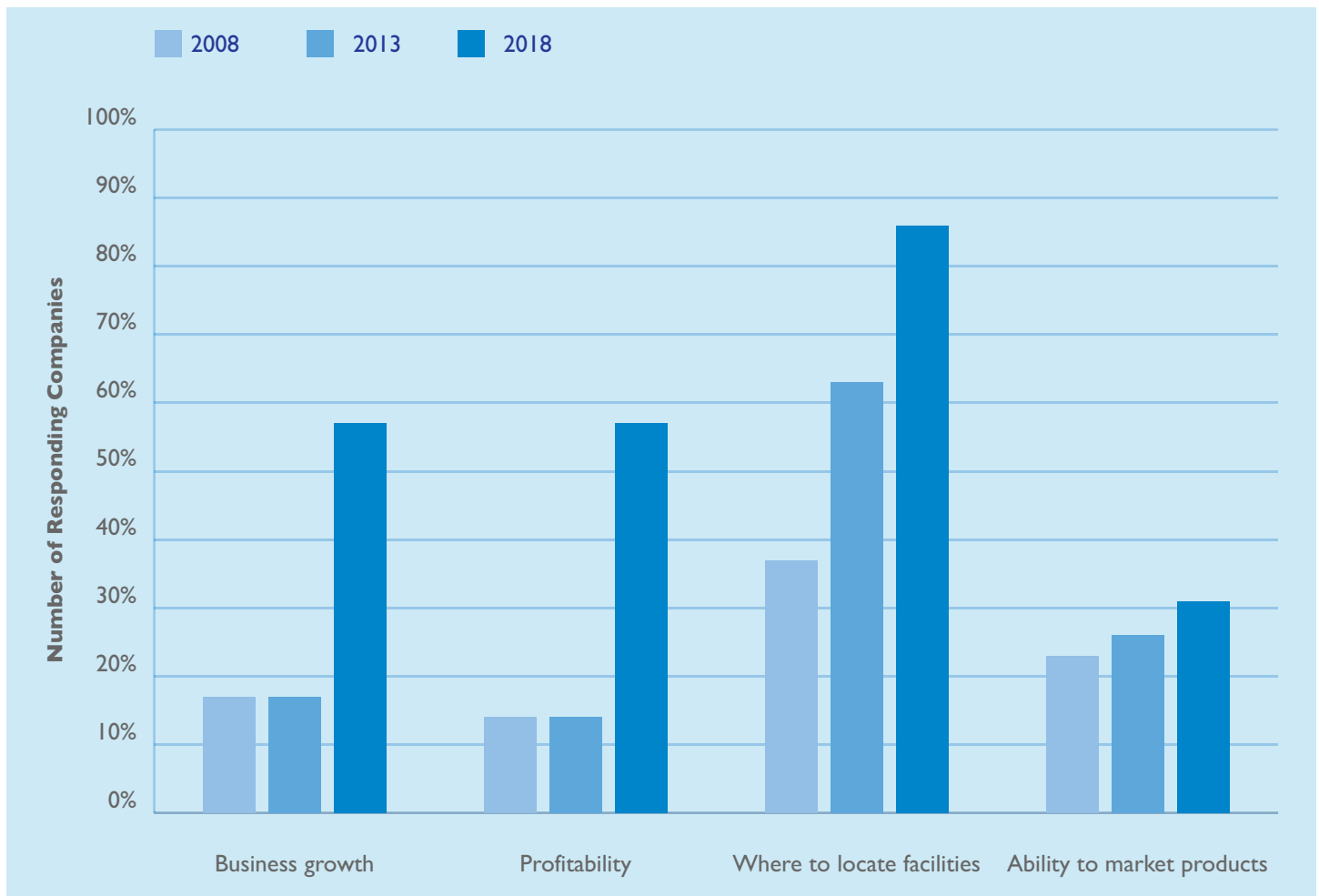


Figure ES-1: Water's Effect on Core Business Objectives

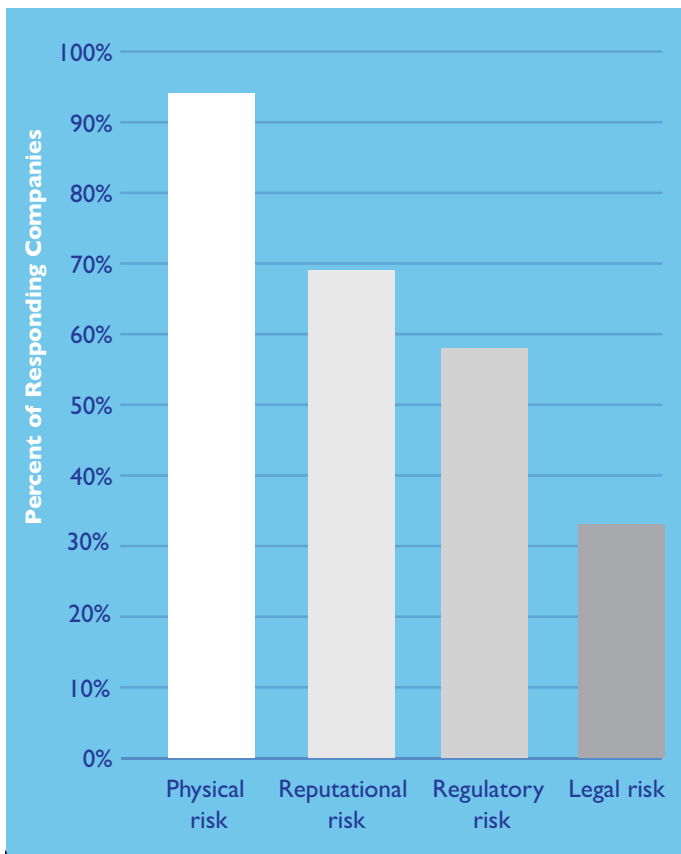


Figure ES-2: The Types of Water Risks US-Based Companies Face

In addition to the survey, the project team conducted five case studies of companies across a variety of industries to provide added context to the survey findings.

Key Findings

Water is a key U.S. business challenge, now and in the future

One of our survey's most resounding findings is that water challenges are not just a future concern, but a current problem that already affects many businesses. When we asked our survey respondents to rank the importance of several natural resource risks to their business, including energy security, climate change and others, water emerged as their leading concern. 79 percent of responding companies claim that they currently face water challenges, while 84 percent believe they will face water challenges in the next five years.

Survey respondents also made the connection between these challenges and their bottom line: nearly 60 percent

of responding companies indicated that water is poised to negatively affect business growth and profitability within five years, while more than 80 percent say it will affect their decision on where to locate facilities over that span (see Figure ES-1). Furthermore, these challenges and risks are concerning enough to warrant discussion at the highest levels of the company, as three out of four responding companies report that water-related issues have been discussed at the board level and nearly 90 percent believe that water will be discussed at that level within the next five years. Respondents also indicated that water challenges are not just a physical issue of supply but also about reputational, regulatory and legal risks to their business (see Figure ES-2).

Survey results and the supplemental case studies pointed to the reality that a wide array of industry sectors is vulnerable to water risk, not just the water-intensive industry sectors like agriculture or food and beverage. For example, Union Pacific, a transportation company covered in one of our case studies, has found that drought and flooding events can cause erosion that threatens their railway infrastructure.

Meaningful data drive strategic responses

Survey respondents indicated monitoring and assessment-related activities provide information that is essential for developing water management strategies. When rating the current and future importance of various water practices, companies indicated that three of the top five most important current practices were related to assessing internal operational conditions and external watershed conditions. Four of the top five practices deemed most important in the future relate to assessment.

Some companies, as exemplified in the Cummins case study, gather data on what is often referred to as the "embedded" or "true" cost of water. This type of accounting can provide the financial information useful for justifying and developing water management strategies that more accurately reflect the level of risk water poses to a company.

A "one size fits all" approach does not work

Water issues are local in nature and, as such, every responding company has already assessed regional differences in water risk. A majority of responding companies indicated that they face water challenges in both the South and Southwest. However, companies report facing water challenges in nearly every region listed in the survey. (Figure ES-3 demonstrates how water stress, often resulting in risk to business, spans many different areas across the nation.) **The localized nature of each operation's particular set of water challenges could explain why a majority of responding companies utilize a multi-pronged approach to water management. Their water strategies**

Most respondents already face water challenges, while many anticipate that water challenges will become increasingly problematic for their company within the next five years. Respondents expressed their growing concerns over water challenges in a variety of ways.

Respondents who...	2008	2013	Next 5 Years	% Change, 2008-2018
Face water challenges	N/A	79%	84%	5%
Discuss water-related issues at board level	28%	78%	89%	61%
Consider water when deciding where to locate	37%	63%	86%	49%
Believe water impacts growth	17%	17%	57%	40%
Believe water impacts profitability	14%	14%	57%	43%

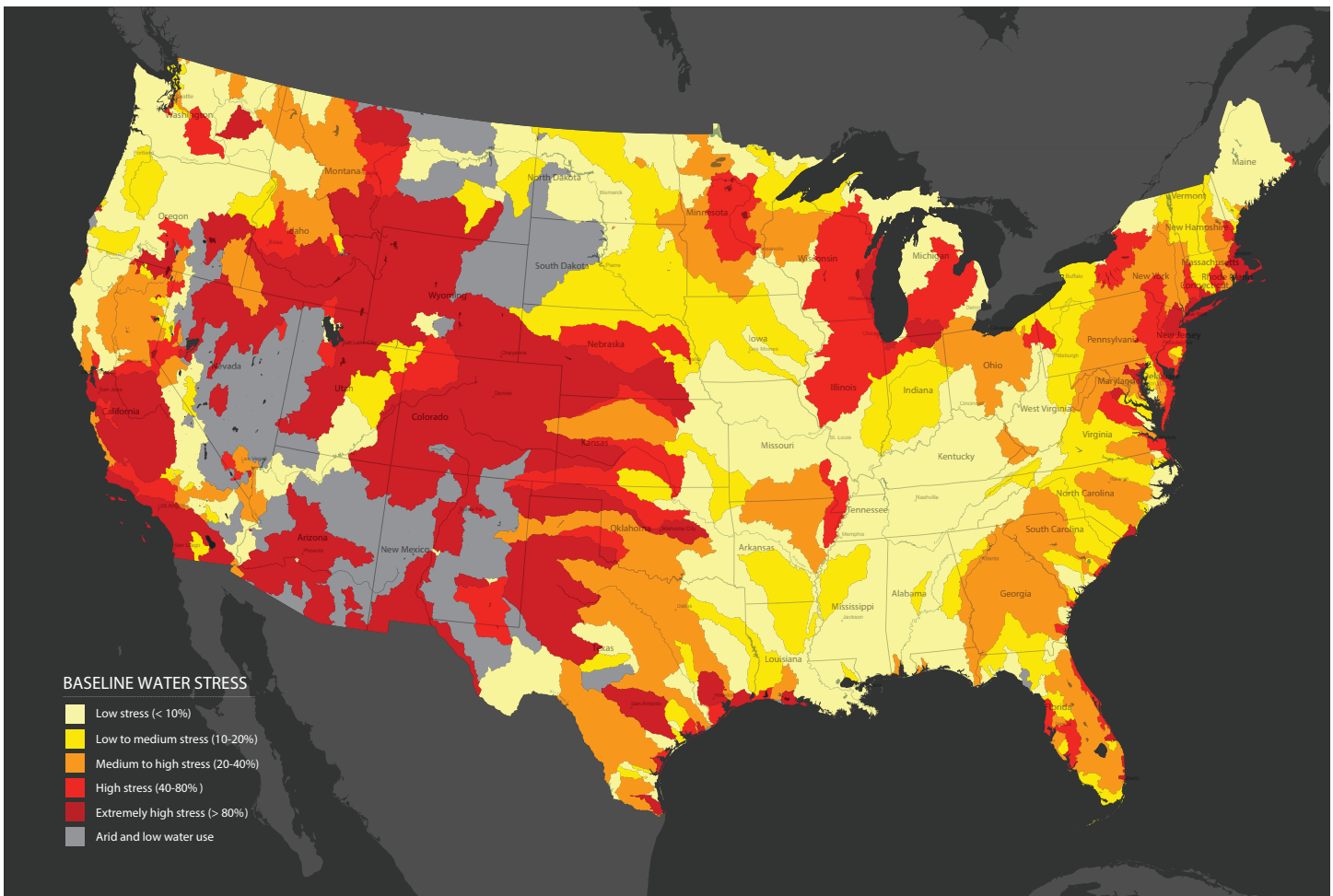


Figure ES-3: US Baseline Water Stress WRI Aqueduct

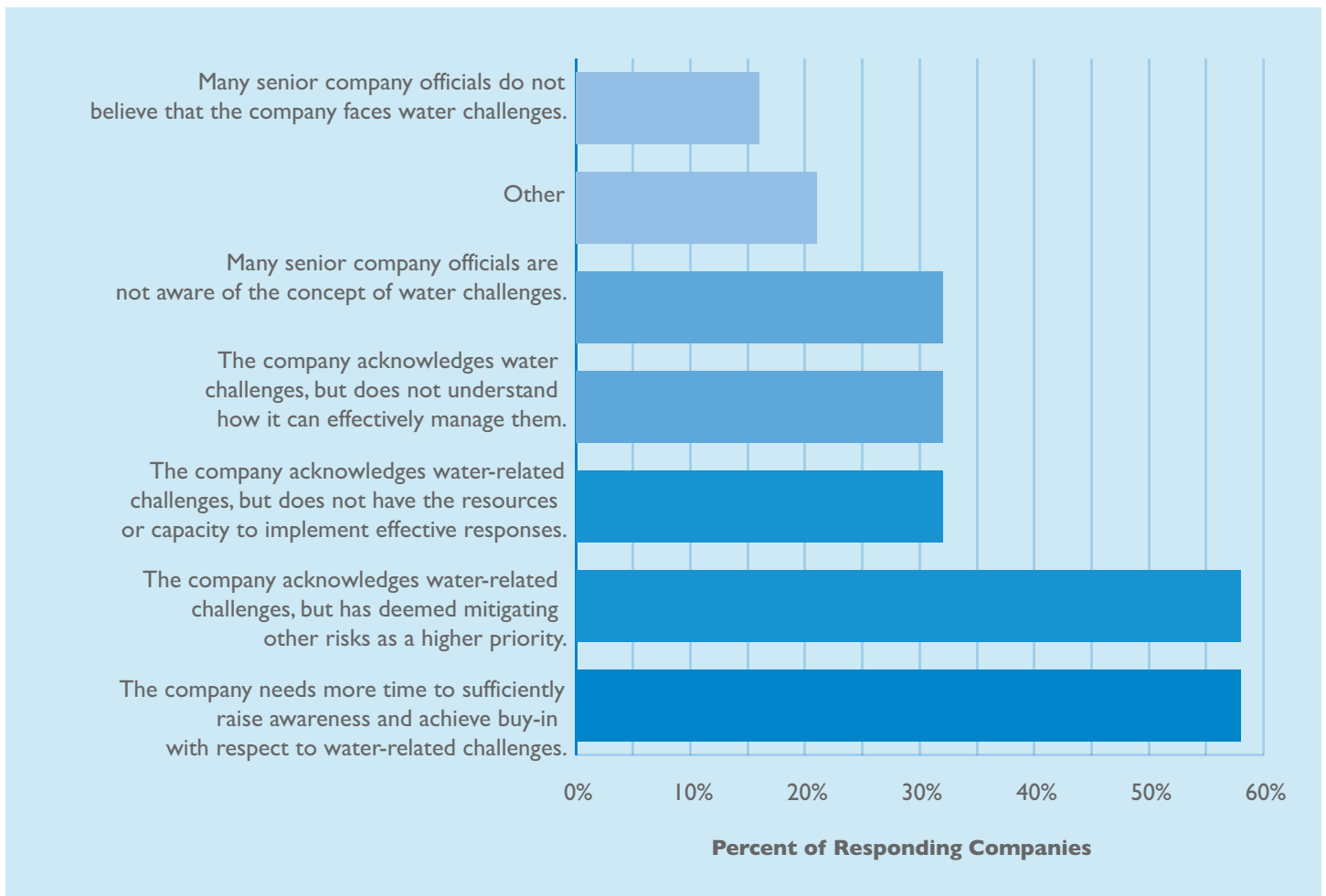


Figure ES-4: Key Obstacles to Greater Awareness and Acceptance of Water Challenges at All Levels of Business

include a variety of efforts aimed at reducing water use and pollution, monitoring and accounting for water, setting goals and targets related to water, communicating and disclosing water efforts and engaging with external stakeholders to support sustainable public water management.

Is there a gap between concern and action?

Overall, we found a possibly significant set of findings that appear to be potentially contradictory: while companies believe water challenges will significantly worsen in the next five years, the majority of companies surveyed do not appear to be planning corollary increases in the breadth and scale of their water risk management practices. In fact, nearly 70 percent of responding companies said their current level of investment in water management is sufficient.

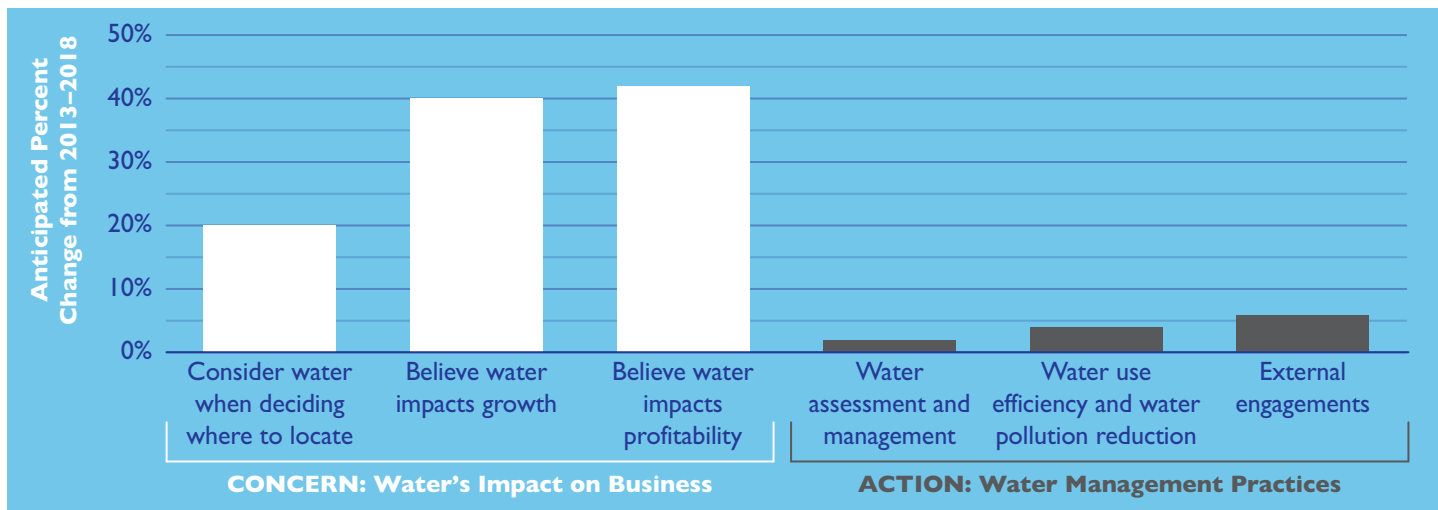
Internal obstacles hinder companywide buy-in

Respondents identified several obstacles to gaining companywide recognition of water challenges within their company (see Figure ES-4). Lack of time to raise awareness and buy-in and the company deeming other risks as a higher priority over water stood out as the most significant challenges.

Conclusion

Water is becoming a core business issue

Our results confirm that water-related challenges and risks are a business concern today that will only increase over time. That said, one of the most compelling findings was **the majority of companies surveyed do not appear to be**



ES-5: Respondents' Anticipated Concerns and Actions Regarding Water's Impact on Business

planning corollary increases in the breadth and scale of their water risk management practices (see Figure ES-5).

There are a wide range of possible explanations for this apparent gap between concern and response. For example, though survey respondents noted the importance of integrating water into their business strategy, it may be premature to assume that all have done so. Perhaps the potential impact of water challenges on the business is of deep concern among the company representatives in charge of sustainability and natural resource issues, but not yet fully integrated into core strategic decisions. Similarly, as indicated in the survey, many companies may simply prioritize other issues over water and not have the resources to adequately address growing water concerns. This may be due in part to a failure to adequately evaluate the true cost of water. As a stand-alone cost, water remains relatively cheap. When compared to a company's electricity costs, for example, water is substantially less expensive. For those companies that have chosen to dig deeper, however, they realize a wide variety of hidden costs associated with water and thus better appreciate the financial need to address the business challenges that water may pose to their company.

Other companies may delegate water-related responses to specific business units and facilities, due to the highly-localized nature of water risk and response, and not have an overarching water strategy that guides the business's water-related decisions. Others may believe that social or environmental issues — such as water — are “sustainability”

risks that are the responsibility of a special team designated to deal with those particular types of issues, rather than a core strategic issue for the company. Both scenarios frame water into silos and maintain the perception that water management is peripheral to business success. Combined, these factors could explain what respondents identified as the most significant internal challenges to increased investment in water management:

- *Company needs more time to raise awareness and achieve buy-in; and*
- *Mitigating other business risks is a higher priority.*

As stated in the beginning of this summary, policy makers, the investment community and non-governmental organizations are increasingly focused on social and environmental pressures and their impacts on business. Our survey results suggest that water is no longer a peripheral business concern, but an essential aspect of business strategy. As more and more boards discuss the impact of social and environmental issues like water on their profitability and growth, topics such as water-risk will emerge as central issues to company strategy. This new economic reality necessitates that companies better understand the many ways that water affects both their bottom line and reputation as well as the multitude of communication and management strategies they may need to adequately address related business challenges.