

BUILDING A STRATEGY FOR SUSTAINABILITY
TO PROOF YOUR BUSINESS AGAINST TURBULENCE

Madhav Mehra

For the past ten years since its inception the World Council for Corporate Governance has relentlessly pursued and advocated holistic, integrated and transformational responses to the problems that plague the world we live in. It believes that our failure to achieve intended transformations through a raft of UN led initiatives is due mainly to disintegrated, compartmentalized and piece-meal approaches. The Council firmly believes in using the transformative powers of the market to achieve the goal of an equitable and inclusive society. It strongly advocates that for the world to become a better place for everyone, businesses need to lead the social and environmental agenda. In this rapidly changing world where the nature of change itself is changing constantly, businesses cannot maintain let alone enhance their competitive edge without constant innovation capitalizing the changes in economic, environmental and social landscape. The Council is embarking on three global conferences - 22-24 April (Lisbon), 28-30 May (Palampur), 25 June (London) - focusing on the core issues of sustainability to prepare businesses to assume leadership role in the change agenda and create wealth in a way that brings sustainable happiness all around. This article aims to illustrate the context of these conferences.

Age of Turbulence - New face of the normal

Collapsing economies, burgeoning unemployment, tainted products, scarce resources, failing companies, fading species, ferocity of hurricanes, frequency of earthquakes, melting glaciers, shrinking bio-diversity, sinking oceans and scarcity of wetlands, are but a few reminders of some of the intractable problems that businesses are facing in today's world. The scary news is that it is not going to get any better. As per Philip Kotler, co-author of *Chaotics*, this is the new face of the normal.

The challenge of sustainability

The UN Millennium Development Report has pointed out that, "Nevertheless, we must face up to an inescapable reality: The challenges of sustainability simply overwhelm the adequacy of our responses. With some honourable exceptions, our responses are too few, too little and too late."

Solving problems after they occurred is lot more expensive than preventing them altogether. Instead of looking at ways to minimize the pain after the bubble has burst our effort should be on building a bubble proof economy.

Climate science itself is going through a some cataclysmic challenges. Its own credibility is under scanner. Fewer people believe in the predictions it has made. While few doubt the catastrophic nature of climate change there are now public differences among the scientists about the nature and degree of climate change and its impact on environment.

Primeval contract with the unborn

200 years ago Edmund Burke, an eminent political-theorist of conservative philosophy of the 18th century said “Society becomes a partnership not only between those who are living but between those who are living, those who are dead and those to be born. Each contract of each particular state is but a clause in the great primeval contract of an eternal society”. The movement of sustainable development stems from this profound thought. We have to recognize we all share the same planet. This is our only home and it is not getting any bigger. In fact as human numbers expand the natural environment is shrinking. Natural species and forests are disappearing, oceans are drying, glaciers are melting and land is getting more and more parched. We are in the danger of leaving a very dull, desolate and dreary world for our children.

The creed of short termism

Short term thinking is not peculiar to business, it is endemic to human nature. The flagrant disregard of nature’s laws has led to hurricanes, earthquakes and tsunamis such as Katrina’s disaster, Haiti earthquake and Chilean Tsunami. Again it is the short term goals that triggered the economic meltdown and the comical spectacle of heads of three automotive corporations – Alan Mulally of Ford Motors, Richard Wagoner of General Motors and Robert Nardelli of Chrysler- flying separately on their private jets from Detroit to Washington and begging, as if in high hat and tuxedo, American tax payer to bail them out. In their quest for short term profitability all three had ignored the writing on the wall and were oblivious to the changes in the world around them.

Turning green strategy into a strategy for sustainability

There are lessons to be learned from the automotive saga. It is not that these companies have simply been sitting on their hands. They simply have not been able to take in a holistic and integrated view of market requirements. The case of Bill Ford’s efforts to turn the company green is a classic example of why the compartmentalized efforts do not pay. The man took over the top job from Jacques Nasser and vowed to turn the company completely green and finally spent 2 billion dollars converting company’s River Rouge assembly plant into one of the industry’s greenest manufacturing facility, failed to turn the company around because the environmental goals were peripheral to its core business strategy. Even though Bill Ford’s family owns 40 percent of the company he was unable to translate the green strategy into a strategy for sustainability. The company was profiting on high margin trucks and SUVs and there was little buy in for the sustainability efforts.

Transparency crucial for an interdependent world

Having faced trillions of dollars of losses and destruction of their pensions and savings the investing public now demands a much higher level of accountability and transparency so that they can witness any changes on real time basis. On December 26, 2004, the Great Tsunami of the Indian Ocean that violently shook the waters of Indian Ocean, wrought havoc in Asia but its reverberations were felt all over the world. In 1972, Edwards Lawrence, father of chaos theory, asked ‘Does the flap of the butterfly wings set up a tornado in Texas’. The phrase ‘butterfly effect’ reflects the idea that the butterfly wings create tiny changes in the atmosphere that ultimately alter a path of the storm system like a tornado

and save or hit human lives far away. In this world where actions on one end can have serious repercussions on the lives of people polls apart transparency of information is the only key to survival.

Natural debt is graver than national debt

Whilst we may have overcome the financial meltdown the crisis resulting from the environmental meltdown is going to be most intractable. In doing that we have to recognize the power of the markets and put its transformative powers to its effect. According to Munich Re, the German Insurer, the economic losses from natural disasters increased 8 folds from the sixties to nineties and about 80% of this stemmed from extreme weather. Munich Re now predicts that by 2065 claims for damages will outstrip global assets as accounted in traditional accounting terms. Insurers of UNEP believe worldwide losses relating directly to climate change will reach an annual figure of £184 billion in 50 years. So not only are we depriving our children from what we have we are also making them liable for our debts several times over.

Diseases due to environmental factors

According to a World Bank concept note published in August 2009, environment strategy will need to take a hard look at trade-offs between *short-term development concerns and longer term environmental sustainability*. There are multiple linkages between different MDGs and environmental sustainability. For example, half of malnutrition is due to poor sanitation and hygiene. The burden of disease due to environmental factors is 15 times higher in developing countries compared to developed countries. About 40 percent of this burden falls on children under the age of 5, who only account for 10 percent of the world's population. Climate change further complicates this picture. In the face of current global conditions, development has become a deeper struggle in many WBG client countries.

Lethal effects of chemicals

Climate change effects are not only restricted to the loss of species. Our human assault on environment is having numerous other side effects. Most of it is being revisited on human themselves by the multitude of new diseases and rising trends in cancer, asthma and allergies roughly 400 million tons of chemicals are produced in tens of thousands of varieties every year. Most have never been tested for their effects on health and environment. According to Vyvyan Howard, a senior lecturer at the University of Liverpool, there are currently 100,000 man-made chemicals in use with another 1,000 added each year. The majority have been foisted without any test or regulation. The aberrations caused by these chemicals are going unnoticed.

Chemical induced puberty

Zac Goldsmith describes a telling example in his book "The Constant Economy" of chemical induced puberty. Dr Marcia Herman-Giddens is a long standing professor of child health at the University of North Carolina School of Public Health. In the years leading up to 1997, she began to notice a change in her young patients. 'I was seeing a lot of young girls coming in with pubic hair and breast development', she said, 'it seemed like there were too many, too young.' So she embarked on what is still the largest every study of sexual development in American children to date, in which 225 physicians examined more than 17,000 young girls. The results, published in the academic journal Pediatrics, were shocking even to the report's authors. At the time, the standard medical line was that signs of puberty, including breast development and pubic hair, could be seen in 1 per cent of girls under the age of 8. By the end of the survey, that figure had risen to an astonishing 27.2 per cent for black girls and 6.7 per cent for white girls. Worse, the doctors reported that 1 per cent of the 3-year-old girls they examined, had swollen breasts or pubic hair.

Millennium Development Goals stalled by environmental concerns

Revised projections of the World Bank Group estimate that as a result of lower economic growth because of the crisis, in 2009, 53 million people would not be removed from living in extreme poverty and an additional 200,000 to 400,000 infants will die. The food crisis, resulting in high and volatile prices, is also closely linked with the long-term agenda embodied in the MDGs. More than 900 million people were hungry even before the current "crisis;" the number has now increased to 963 million. All of these development deficits have an uncomfortable underlay in environmental shortfalls. Given that the demand for food will increase by 50%, for fresh water by 30% and the planet's population will reach 8.3 billion by 2030, lack of attention to environmental concerns poses risks to achieving the MDGs.

The ever increasing levels of turbulence lead to further demands for transparency

The fact is we are entering a new age of turbulence even more heightened turbulence than the one described in the 'The Age of Turbulence', 2007, written by much reviled Alan Greenspan in his diverse experience as the Federal Reserve Chairman and one of the most powerful man in the world. Greenspan was confronted with a variety of challenges and shocks such as burgeoning trade deficit, astronomical rise in credit default swaps leading to bankruptcies and foreclosures. The challenges faced by Bernanke, his successor, are much more pronounced and intractable. The perpetual nature of this turbulence demands a lot more transparency from those who are in power.

Wear your failure as a badge of honour

Economic turbulence creates the same impact on us as the turbulence in nature. As soon as we hear that Miami has built more condominiums than buyer are buying, the speculators short the market, the banks freeze the loans, cancel mortgages and call for foreclosures. This worsens the situation and the prices fall even further creating further hardship and misery all around. But this turbulence can be short-lived and people revert back to normalcy as has been witnessed recently. Indeed companies go through this all the time. Andy Grove in his well known book 'Only The Paranoid Survive' describes the conditions of turbulence that his own company has gone through and survived. The national intelligence Counsel released a 2008 report entitled global trends 2025: a transformed world. Its purpose was to stimulate a strategic thinking about the future by identifying key trends, the factors that drive them where they seem to be headed and how they may interact. It used a number of scenarios such as demographics, globalization, emergence of new powers, the decay of international institutions, climate change and geopolitics of energy. It provides a description of the storms that we are likely to face in the immediate future that could exceed the shock that the world felt on 9/11 when the terrorists brought down the Twin Towers or the three terrifying days in late November 2008 when armed Islamist terrorists mounted a multipronged staggering attack on Mumbai and its Taj Hotel. We have to recognize the harsh reality that whenever an event like this occurs, you have little more than a fig leaf to hide behind. In this hour of crisis you need to elicit commitment from everyone who can help. It is not going to be possible if you do not share all the information including the one that shows your own failure. A frank admission is going to be your best armour. Even better to start by wearing your own failure as a badge of honour and have the courage to say: "I am sorry . It was all my fault . We misread the signals". Only the truly transparent will have a chance to survive.

Resilience is the Key

It is not that our environment, the political institutions and global economy are undergoing rapid, structural changes, what is most disconcerting is that even the nature of change is changing rapidly. Our strategies of sustainability would need a constant analyses of changes in society, technology and resources to determine the overarching superordinate goals. Your performance has to be tied to these

goals in a manner that conforms to the requirement of transparency, engagement and accountability throughout the organisation.

Sustainability goes beyond saving the planet

Leaders have to move beyond the relentless pursuit of short term prosperity towards long term sustainability. This does not mean just becoming green. The notion of sustainability goes way beyond saving the planet and combating climate change. We need to add the issue of how do we go about doing our business in the new social, environmental and cultural context much more holistically than ever before. New challenges demand business strategies which are resilient enough to respond to any change in the shortest possible time. The resilience is going to be the key word for dealing with the upcoming age of turbulence. It describes the process by which objects revert to their original shape after being bent or stretched. In medicine it refers to the ability of individual patients to recover from injury or illness. Businesses would need to mimic the human body while responding to changes.

Interconnectivity and sharpening contrasts

Everything in this world is interconnected. The global population will soon reach 9 billion people forcing major demographic shifts. More people live in cities than in rural areas. 19 cities will have over 20 million people in the 21st century. More so in major cities where a shock or an outbreak or any other aberration of one's system will impact on another rapidly reverberating through the global commerce and air travel. Governments are too local to solve these cross borders issues. It is here that corporations especially the multinational ones are uniquely qualified to protect the operating environment and therefore the public wishes these corporations to act as model corporate citizens and become liable for corrective actions. Any failures to do so could have serious repercussions on company's brand. Both civil society and the investor groups are likely to punish the slackers heavily for any safety of environmental lapses which would be amplified several folds because of the power of communication technology.

Scarcity amidst plenty

80% of the cost of healthcare in the US comes from 5 major diseases, heart, diabetes, asthma, cancer and obesity, all of which can be moderated or prevented through behavioral changes and yet people refuse to change. We live in a world of sharpening contrasts and contradictions - a world of scarcity and abundance living side by side. The worst paradox is that more people are dying from over eating than under eating. As many as 1.6 bn people are suffering from the effects of having too much to eat. Twice as many people on the planet are dealing with problems of too much food as are dealing with the problems of too little. Food waste is posing tremendous challenges to some of the civic authorities in the western world.

PROACTIVATE – a model for sustainability

As has been emphasised earlier sustainability is much different from and much bigger than just greening. It takes into account not just the natural environment but also the social, economic and cultural context. Developing and executing a strategy for sustainability is critical for survival in a world where the very nature of change is changing by the hour. Quest for sustainability has led to the development of a model called PROACTIVATE, an eleven point programme that puts natural capital at the heart of value creation and uses market driven approaches that enhance the value of natural capital by challenging traditional assumptions and offering triple bottom line benefits.

We are approaching an environmental meltdown because businesses are not factoring the environmental costs of procurement, production, packaging, transportation, usage and disposal. Gross Domestic Product gives a grossly distorted picture of growth. Our wealth is growing at the expense of our natural treasure. None of what we are creating can be transferred to our children.

Back in 2005 the World Environment Foundation, in response to its initiative called PIAS (Partnership In Action for Sustainability) developed a sustainability model called PROACTIVATE. The model called for Pricing natural capital, Radically increasing the efficiency of natural resources, Opting for minimalist lifestyle, Adopting zero waste and close loop systems, Combating CO2 by afforestation, Turning to renewables to meet all our energy needs, Innovating business models that encourage hiring instead of acquiring, Vigorous pursuit of market mechanisms to reward clean businesses and punish polluters, Actively involving people specially women and children in changing behavior, Training people on eco-innovation and setting Example by starting with yourself. The model reflects the social, cultural and economic context by factoring these issues in the model. The model has been tested and validated at various conferences. While climate change is the biggest catastrophe that has befallen this planet, it is also an opportunity of unprecedented proportions which has the potential to change "business as usual" in a way that would have been unimaginable earlier.

Changing behavior by setting example

The good news is that the businesses with long term profitability and growth are homing on to the concept of sustainability. The home for furnishing retailers Ikea has 'air-hunters' people who search for empty space to reduce the size of packaging and the merchandiser will stop giving out plastic bags and start selling solar panels and smart energy meters. Caterpillar is now remanufacturing old engines to save both raw material and money by recycling more than 2 million pounds of engines and transmissions into almost new components. Anheuser-Busch, the beer brewer, has committed to brewing 5 billion bottles of beers a year with renewable energy. The UK based food retailer J Sainsbury has printed double sided register receipts with the simultaneous thermal printer from NCR corporations cutting paper consumption by 40% leading to enormous saving in paper roll replacement. The global airlines network international air transport (IATA) association has bid farewell to paper tickets saving \$9 of cost per flight. Herman Miller the furniture maker in Michigan has reduced waste sent to landfill by 80%, hazardous waste by 91%, overall emissions by 87% and water usage by 67% while doubling sales to more than \$2 billion.

Sustainability is not about putting your business to risk or compromising profitability. It is about making your business risk proof and continuing to ensure profitability despite turbulence in the market place.. The case for sustainability has been strengthened more than ever by the value destruction caused to companies that focused on short term goal during the global meltdown. Sustainability is beyond green businesses, green jobs and combating climate change. Some of the top corporations such as Interface Corporation, the US carpet maker, Bridgestone, the Japanese tyre manufacturer, Frito-Lay, the US manufacturer of potato chips have already recognized this aspect. For instance Bridgestone no longer sells tyres in Europe. It hires them out. Clients pay on the usage. Frito-Lay has already moved away from potatoes to whole corn, sun flower oil, whole wheat, oat flour etc, which are far more healthier and nutritious and are beginning to manufacture them with solar energy. It is this image that has made Frito-Lay the fastest growing new brand in a decade. Sustainability endeavors offer exponential opportunity for building and enhancing brand value and goodwill has been demonstrated by following examples.

Procter and Gamble have used life cycle analyses, a tool for value-chain transparency to see that its greatest impact was in the hot water its customers were using to wash clothes. It is this insight that led

them to create Tide Coldwater, Nike used transparency to help- its designers understand how they could use fewer materials to produce high performance shoes. The real advantage is that products perform better when they are built with the strategy for sustainability.

Tenets of Sustainability

Adam Werbach, CEO of Satchi and Satchi and one of world's best known exponent of sustainability, describes following seven tenets of sustainability, in his book 'Strategy for Sustainability':

1. Factoring the cost of natural capital in balance sheets as well as profit and loss account. Until recently the businesses had profited from reckless destruction of environment. Planning and implementation of business models assumed natural resources were cheap, abundant and easily accessible. They never realized that if a business has to provide each employee clean air to breathe, portable air to drink, protection from ultraviolet sunlight, protection from pest and exotic deceases it will become bankrupt.
2. Equally important is massive changes in demographics. Many of the developed countries are finding themselves with aging workforce and unable to manage their own pension and health liability while the developing economies such as Egypt, Iran and India have young population. These demographic shifts are creating new power houses with insatiable domestic markets as in the case of Asia, South America and Africa. Big global brands that demand strict uniformity in branding have to radically adapt their business models to serve local markets.
3. People are the most important renewable resource. Excellence today depends strictly on the degree of innovation. This requires management to intensely engage with employees so they are motivated to use the power of their brain and creativity for products and services that do not exist. Google invites their employees to participate in the innovation process in the same way as 3M allowed its engineer freedom to experiment in company time at Live Lapse, Microsoft disruptive innovation campus employees compete for start up funding. Adam Werbach in his book 'Strategy for Sustainability' quotes a classic example of an engaged employee of Interface Corporation, a carpet manufacturer in Georgia. 'A senior leader of a large multinational company asked for directions from a fork-lift driver of Interface Corporation. After she received the directions she asked the driver 'what's your job'. 'My job is saving the planet', the driver replied. Astonished by the answer the lady who had asked for the directions became curious and followed it with other questions about his experience at Interface. After a few minutes the driver begun showing increasing anxiety and finally said, 'I'm sorry, ma'm, I have to go. Because if I don't get this delivered soon, it will slow down our line, making more waste and pollution hurting the planet and not saving it'.
4. Cash flow matters more than quarterly earnings. The ends of a quarter and the ends of the fiscal year can take on a Monte Carlo spree, with money either slashing about or withheld depending on expenses already incurred. Even though Business Schools teach that a company derives its value from the present value of its future cash flow, analysts continue to use quarterly earnings as the single determinant of a firms head.

According to Michael Mauboussin, the gap between valuations and future cash flows is substantial. Focusing on earnings leads to unsustainable business because:

- Earnings do not account for the cost of capital.

- Calculation of earnings can vary substantially depending on accounting methods
- It does not include additional capital that may be required for further growth

The focus on quarterly earnings is one major factor that led to 2008 market crash. While short term incentives kept increasing, the sustainability of the company continued to erode.

5. Whatever made you successful in the past won't in future. Whatever be your business the fact remains the pace and scale of changes that are taking place is continually dwarfing our past experience and making it more and more irrelevant for the attainment of future goals. The US auto industry is a classic example how their excellence has been dwarfed by Japanese car makers.
6. A chaotic world requires total resilience. This is possible only by being lean, mean and keen. Lean organizations have the capability to adapt to changes as they happen. They continually learn from everyday experiences and adapt themselves fast to the challenges of a turbulent world.
7. Only those who are truly transparent will survive. By widely sharing information about failures and weak spots the company can tap into the enormously creative manpower and prevent the same failures to be repeated. Opacity is the enemy of sustainability. Sustainability demands involvement of all stakeholders. It is possible only with the free flow of information. You must have pertinent information readily available and accessible inside and outside the organization at all times. Far too many initiatives fail because of lack of communication within the organization. The companies that faced the worst economic meltdown such as Bear Stearns, Lehman Brothers and AIG had a cultural acceptance of lack of transparency. It blocked communication at a time it was needed most to use the company's mind power to solve the problem.

Importance of dissent , dialogue and diversity

A strategy for sustainability is incomplete without incorporating 6 Ds – diversity, dissent, dialogue, disclosure, dispersion of power and disruption of status quo. The cornerstones of sustainability are innovation, engagement , transparency and accountability. Innovation needs clash of ideas and acceptance dissent as a value enhancer . If two persons think alike only one is needed. This requires a culture where people can freely discuss contrarian view points. It is only through diversity and difference that ideas are generated and innovation is stimulated. People cannot work together if they are not open with each other. Disclosure is a prerequisite for trust.

Decades ago Adlai Stevenson, US Ambassador to the United Nations said, “We travel together, passengers on a little spaceship, dependent on its vulnerable reserves of air and soil; all committed, for our safety, to its security and peace; preserved from annihilation only by the care, the work and the love we give our fragile craft. We cannot maintain in half fortunate, half miserable, half confident, half despairing, half slave – to the ancient enemies of man – half free in a liberation of resources undreamed of until this day. No craft, no crew can travel safely with such vast contradictions. On their resolution depends the survival of us all.”

Leveraging change for a better world

There is no change in the problems that were envisaged by Stevenson despite lapse of so many years. The world is still afflicted by same problems – poverty, pollution and global conflict. They are as acute

today, if not more, as before. But because of the aspirational nature of this interconnected world their impact can be far more lethal than ever before. The good news that never before in history there was a time when the distance between what is dreamt and what can be achieved was so less. Our businesses today possess a lot more technology and are far better organized to resolve the contradictions that Stevenson envisaged. Putting businesses to solve these problems provides them a means of improving their competitive edge and in turn an opportunity to make money for themselves. Sustainability differs from the corporate philanthropy and the public perception of CSR. This is because social and environmental problems including that of climate change which has tragic consequences for the planet and civil society provide an unparalleled and infinite opportunity for innovation – key for radical businesses to beat the incumbents. Contrary to a dominant thinking, strategies for combating climate change can be critical drivers of development of poor regions. Think what development of solar energy can do for regeneration of Africa?

It is time to act

Douglas Adams, author of the Hitchhiker's Guide to the Galaxy series, once said, "If you try and take a cat apart to see how it works, the first thing you have on your hand is a non-working cat. Life is a level of complexity that almost lies outside our vision; it is so far beyond anything we have any means of understanding that we just think of it as a different class of object, a different class of matter; 'life', something that had a mysterious essence about it ...". Says Adam Werbach, "when the situation seems too complicated to grasp, grasping it isn't always entirely necessary, or even possible, so do what you can, when you can."

There is a Chinese saying that the best time to plant tree was a hundred years ago. The second best time is right now. Sustainability strategy has been conspicuous by its absence in our businesses. The upcoming turbulence is going to make it impossible to run businesses If your business has no strategy for sustainability is non-existent or has passed its sell-by date. It is time to rethink your business model. It is time to act.
