Future sustainable growth

Capitalism that works

David Grayson says a number of recent reports and events advance the case for sustainable capitalism

MBA students frequently ask me if businesses can ever be truly sustainable. Or if behind the mantras like "people, planet, profit", do businesses really always want more people to consume more? Students seem genuinely troubled over whether enhancing shareholder value and true sustainability can be really reconciled. I believe they can.

Capitalism is the default mode of human interactions – it is our natural state. But we need a new kind of free enterprise that fully accounts for the externalities of business. One that will stimulate innovation, new technologies and sustainable systems of production, distribution and end of life disposal.

Earlier this year, 29 leading international companies, including Allianz, PricewaterhouseCoopers and Toyota, produced a blueprint for how to do this on behalf of the World Business Council for Sustainable Development, in a report called Vision 2050. The report is billed as laying out "a pathway leading to a global population of some 9 billion people living well, within the resource limits of the planet by 2050".

For me, the core argument of the report – and a good summary of sustainable development in practice – is laid out in one graphic, plotting per capita income levels above and below the poverty line against economies operating within or beyond natural rates of renewal (see next page).

Vision 2050 aims to show how businesses can help move countries into the small, shaded box in the bottom right-hand corner: economies that can achieve environmental and social sustainability.

Vision 2050 provides a high-level analysis of the business opportunities in a number of different sectors such as urban development, transport and energy infrastructure, health and eldercare. The report does not purport to provide how-to guidance for individual companies wanting to become sustainable.

Accenture's 2010 survey of global chief executives produced for the UN Global Compact does highlight some of the key actions, as defined by the chief executives themselves. It was launched at the Global Compact's 10th anniversary conference in New York at the end of June. It is a survey of chief executives of compact signatory companies, so it is not a representative sample of international companies. If they have signed the compact and they are willing to put their chief executives up for interview, the companies concerned must at least aspire to be in the vanguard when it comes to corporate responsibility and sustainability.

Critical for success

Nevertheless, it is significant that 93% of the chief executives interviewed by Accenture believe that sustainability issues will be critical to the future success of their business, and 96% believe that sustainability issues should be fully integrated into the strategy and operations of a company.

Peter Lacy, the principal author of the report, did a similar survey for the Global Compact back in 2007, when he was with McKinsey & Co. It is interesting to compare the increasing percentage of chief executives describing various key activities as critical for successfully embedding the commitment to sustainability, from 2007 to 2010.

Lacy also asked the same chief executives

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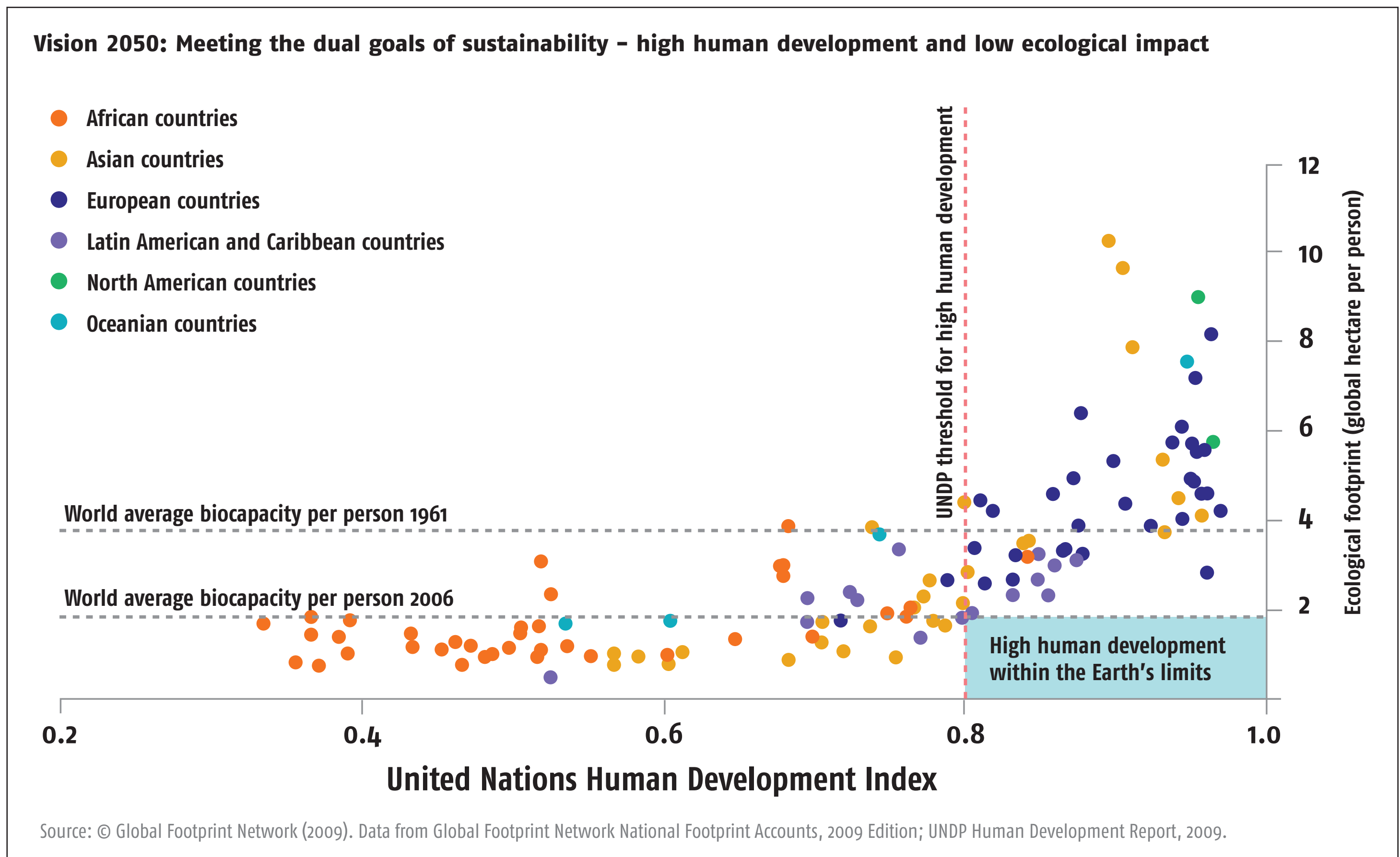

whether their own companies were doing each of these key elements for embedding. Collectively, the chief executives admitted there was a performance gap between what they thought was needed and what their own companies were doing. In areas like governance and incorporating into strategy, the chief executives report a narrowing of the performance gap between 2007 and 2010.

In two critical areas, however, the Accenture/UNGC study shows a deterioration: embedding through subsidiaries and through the supply chain. For, "these issues should be fully embedded into the strategy and operations of subsidiaries", the performance gap rises from 27% in 2007 to 32% this year. And for "companies should embed these issues through their global supply chain", the gap widens from 32% to 34%.

Some critics of business will no doubt interpret this data as showing business condemned through its own leaders' mouths for hypocrisy. I prefer to interpret the performance gap as illustrating the chief executives' understanding of the inherent difficulties and complexities of embedding sustainability. Indeed, elsewhere in the chief executives' survey, there is a summary of key obstacles to progress.

Arguably, the increased gap between CEOs recognising that to really succeed, sustainability has to be embedded in subsidiaries and through the supply chain but believing they are yet to achieve this, shows a greater understanding that it is not enough just to set standards and requirements, or even to check on whether they are being adhered to. Like every other aspect of the switch to sustainability, this is classic change-management. It has to involve all the elements of successful change-management.

Decouple growth from impact

One company that is trying to change to sustainability is Unilever, named in July as Business in the Community's Company of the Year 2010-11. Unilever talks of working towards a "longer-term goal of developing a sustainable business". Unilever's vision is – in the words of chief executive Paul Polman – "to double the size of the company" while reducing its overall impact on the environment. "In short, we intend to decouple growth from environmental impact." Here is one global company answering my MBA students' question.

A concrete way that Unilever is going about this is an intensive exercise with each of the major Unilever brands to assess their environmental, social and economic impacts. This has involved life-cycle analysis, consumer insight and multi-disciplinary teams from market research, marketing, research and development, sales and communications. It took four months per brand to complete.

Marks & Spencer is another major company to

Understanding change

1. Establishing a greater sense of urgency.
2. Creating the guiding coalition.
3. Developing a vision and strategy.
4. Communicating the change vision.
5. Empowering others to act.
6. Creating short-term wins.
7. Consolidating gains and producing even more change.
8. Institutionalising new approaches in the future.

Source: Leading Change (1996) John Kotter

UNEG embedding corporate sustainability – performance gap

	2007	2010
These issues should be fully embedded into the strategy and operations of a company.	22%	15%
Boards should discuss and act on these issues.	24%	18%
These issues should be fully embedded into the strategy and operations of subsidiaries.	27%	32%
Companies should embed these issues through their global supply chain.	32%	34%
Companies should engage in industry collaborations and multi-stakeholder partnerships to address development goals.	13%	14%
Companies should incorporate these issues into discussions with financial analysts.	20%	24%

MARKS & SPENCER

M&S's Rose and Bolland are aiming high

expand its sustainability ambitions, announcing this year that its enhanced Plan A programme now aims to make M&S the world's most sustainable retailer by 2015. The latest Plan A progress report outlines two additional pillars to the original five. The new pillars are about embedding through the business and engaging customers.

Krishnan Hundal – head of general merchandising technology, and one of the key M&S executive directors in implementing Plan A – describes the company's evolution from yesterday's corporate social responsibility to today's "the way we do business" to tomorrow's "the business we do".

People at all levels of a company need to be trained and thereby truly empowered to handle the transition to sustainability

M&S has been keen to emphasise the commitment to Plan A of its new chief executive, Marc Bolland. He was alongside outgoing executive chairman Stuart Rose for the latest Plan A report to stakeholders in July. It is hard to avoid the comparison with BP where, clearly, John Browne's commitment to "Beyond Petroleum" did not survive his departure. Indeed, it now seems clear that the very high-profile public commitment to beyond petroleum was never fully sold to the BP board or senior management team.

Tone from the top

There is an important lesson here – not just the importance of chief executive leadership and tone from the top. If a company is going voluntarily to make a commitment to higher standards of social and environmental performance, it needs to be certain that the organisation understands what the commitment means, the implications for the way it does business, and that there is an intensive change-management process to win support and to drive it through the organisation.

People at all levels of a company need to be trained and thereby truly empowered to handle the transition to sustainability. This is the central message of a new report – Leadership Skills for a Sustainable Economy – launched by Vincent de Rivaz, chief executive of EDF Energy, this summer in partnership with Business in the Community.

It is a useful complement to a 2008 Ashridge study – Developing the Global Leader of Tomorrow – and ongoing work by a group of business schools involved in the Global Responsible Leadership Initiative, which are exploring what should constitute the business school of the future.

Corporate talent directors and heads of executive development should use the De Rivaz report to help them define the mindset, behaviour and new management skills required for sustainability that they expect from boards and senior management teams, operational managers, customer-facing staff and all employees.

Middle-management is frequently described as the "black-hole" of opposition and indifference to corporate sustainability. A new occasional paper for the Doughty Centre by Sharon Jackson on sense-making by operational managers suggests rather that they may be being brutally realistic and rational based on the signals they receive from their company. It is a timely reminder of the importance of the coherence and consistency required to get internal as well as external buy-in for the change to sustainability.

So, my answer to the MBA students and others is that progress is taking place – but it is painfully slow. But what positive developments (as opposed

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Responsibility should become embedded in recruitment processes

Headhunters asked to find new board members should be screening for ESG awareness

to crises, pandemics, water wars, etc) might speed things up?

How about persuading the creative industries – experts in brands, advertising, marketing and so on – to focus on making sustainability sexy and cool? How about influencing mainstream investors to incorporate environmental, social, governance (ESG) performance in their value-creation models (the Accenture UNGC survey identifies changing investor mindsets as a critical lever)? How about more rigorous ESG reporting requirements (Mervyn King, chairman of GRI, is part of a new initiative to get the G20 countries to adopt the Danish law on CR reporting)? How about fully engaging consumers as some of the major retailers are now starting to try to do?

Corporate boards need to be more proactive. According to the Accenture survey, 93% of chief executives now say boards should discuss and act on sustainability issues (up from 69% in 2007) – although only 75% say their own boards do (up from 45% in 2007). Research by the Doughty Centre suggests that more UK-headquartered companies are starting to do this. Among companies that have completed BITC's annual corporate responsibility index every year from 2002 to 2008, the proportion with formal board oversight of ESG has risen from 13% in 2002 to more than 60% in 2008.

This formal board oversight can take different forms: a single lead non-executive director for sustainability; a formal board committee; an explicit extension of the remit of an existing board committee to include ESG; regular and substantive discussion by the full board; or a hybrid board-executive committee, typically chaired by the chief executive. A number of companies supplement this with formal stakeholder-engagement mechanisms – including in some cases a stakeholder panel to advise the board and/or the chief executive.

Important as these corporate governance innovations are, their impact on corporate behaviour will be limited without several further steps.

Be proactive

Nominations for committees of boards need to be more proactive in requiring basic knowledge and experience of improving ESG performance. Headhunters asked to find new board members should be screening for ESG awareness.

Sustainability and what it means for the board must be part of induction and continuous professional development for board members; and in external, accredited training programmes for would-be directors. This has to be more than lip-service.

Boards need to incorporate sustainability into their regular assessments of risk – but should also be pushing hard for evidence of how it is being factored into new business development and innovation. They need to revisit the principles on which they aspire to do business, and what they expect from their employees and agents in terms of business behaviour.

In short, there are no silver bullets for companies. It requires long-term commitment, hard work, leadership, willingness to experiment, and, I suspect, a fair measure of serendipity. ■

David Grayson is director of the Doughty Centre for Corporate Responsibility at Cranfield School of Management in the UK: www.doughtycentre.info. He is a member of Ethical Corporation's editorial advisory board.