

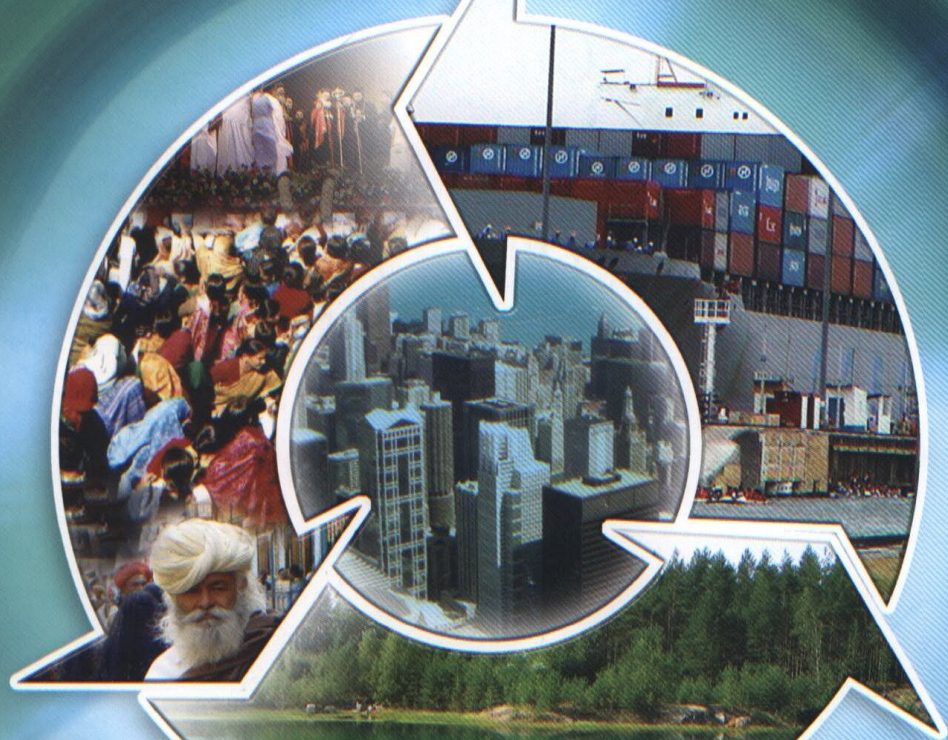
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# Sustainable Development



## **Title: Sustainable Executives**

### **L. Hunter Lovins**

President, Natural Capitalism Solutions

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## **Business As Usual is Not a Safe Place to Stay**

Corporate executives lived for years comfortable in the conventional wisdom that their role was simply to look after their enterprise. Issues of the larger world belonged to the realm of policy. Executives paid lobbyists to promote policies friendlier to their activities, but felt little professional responsibility for a greater good.

Milton Friedman praised this approach, stating that for “businessmen to preach the pure and unadulterated socialism” of corporate social responsibility would be a “fundamentally subversive doctrine in a free society... in such a society, there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits”<sup>1</sup> Former CEO of GE, Jack Welch, echoed that business is socially responsible only when it is creating jobs and shareholder value.

Margaret Mead said that the only person who likes change is a wet baby. Thus the growing group of executives believing that good management demands they take responsibility for more than next quarter’s share price, or their own well-padded future, appears uniquely courageous. These leaders, the vanguard of the growing corporate social and environmental responsibility movement, are demonstrating that this approach is, contrary to Friedman’s outmoded views, also the best way to achieve their traditional goal: enhancing shareholder value.

In today’s world, change is now more pervasive than stability. Leaders, as opposed to managers, take personal responsibility for doing whatever is needed to meet the challenges facing them. They understand themselves well enough to take risks, to confront change, and, well... to lead. This quality is increasingly what will distinguish the effective executive from those whose companies, because they are more conventionally managed, are actually at greater risk.

Companies and communities,<sup>2</sup> and by extension, their people—us—stand on the edge of a crumbling cliff. The ground we have taken for granted is collapsing. Some deny the need for change and seek to shore up the precipice even as it erodes. Most people sense that a migration strategy is necessary, but most lack the visionary leadership to begin it. Some far-sighted executives, however, are now pointing to a realm of stability across the chasm that they call sustainability. These leaders are finding that it is simply better business to behave more responsibly towards their own people, and the world.

## What's Wrong With Where We Are?

In April 2005, the United Nations released the Millennium Ecological Assessment. The work of 1,360 experts in 95 nations from 22 national science academies, the study reported that over the past 50 years a rising human population has polluted or over-exploited two-thirds of the ecological systems on which life depends.

“At the heart of this assessment is a stark warning,” said the 45-member board of the Assessment. “Human activity is putting such strain on the natural functions of Earth that the ability of the planet’s ecosystems to sustain future generations can no longer be taken for granted.”

UN Secretary-General Kofi Annan added, “...human activities are causing environmental damage on a massive scale throughout the world—the very basis for life on earth is declining at an alarming rate.”<sup>3</sup>

Problems range from destructions of biodiversity to climate change.

In March 2004, Reuters reported:

The world’s second largest re-insurer, Swiss Re, warned on Wednesday that the costs of natural disasters, aggravated by global warming, threatened to spiral out of control, forcing the human race into a catastrophe of its own making.

In a report revealing how climate change is rising on the corporate agenda, Swiss Re said the economic costs of such disasters threatened to double to \$150 billion (82 billion pounds) a year in 10 years, hitting insurers with \$30-40 billion in claims, or the equivalent of one World Trade Centre attack annually.<sup>4</sup>

Swiss Re subsequently opined that if a company does not take its carbon footprint seriously, perhaps it did not wish to insure that business. Or its officers or directors. Coming a year before Gulf hurricanes cost insurance agencies \$70 billion,<sup>5</sup> this warning made Swiss Re appear prescient.<sup>6</sup>

In January 2005, Dr. Rajendra Pachauri, the chairman of the official Intergovernmental Panel on Climate Change (IPCC), told an international conference attended by 114 governments: “Climate change is for real. We have just a small window of opportunity and it is closing rather rapidly. There is not a moment to lose.” He concluded, “We are risking the ability of the human race to survive.” Pachauri agreed that the impacts of climate change will fall disproportionately on the poor.<sup>7</sup>

Pachauri may seem a bit late to the party, but his statement is actually an unusual act of leadership. Promoted by Exxon and the Bush White House to head the IPCC because they were confident that he would take no action, Pachauri's principled stand was unexpected and brave. It is also emblematic of the gravity of the situation.<sup>8</sup>

Both the Millennium Assessment and the threat of climate change represent a loss of natural capital on a global scale. The problem is not so much local losses of environmental amenities or that we are running out of stuff.<sup>9</sup> Rather the integrity of the Earth's life support systems is now threatened.

### **The Business Case for Change**

Business leaders have an important role to play in addressing these environmental challenges. Most of the threats to the planet result from the conduct of business or the consumption of its products. Business may be the only institution on the planet big enough, resourceful enough and well enough managed to be able to respond effectively.

So the good news is that business leaders seem to be realizing that they can no longer ignore these issues.

In Spring of 2005 a group from the UK called the Carbon Disclosure Project, representing institutional investors managing \$20 trillion in assets, sent a questionnaire to the Financial Times 500, the largest companies in the world. The document asked about the carbon footprint of the companies: what emissions of climate changing gasses were they responsible for? They had sent this survey out for a number of years. But this time over 60% of the companies surveyed answered in extensive detail. Ford Motor Company replied with an accelerated timetable for the release of its hybrid cars.

Why the difference? Under Sarbanes Oxley, corporate executives who fail to release to shareholders information that might materially affect the value of share-price can be held personally, criminally liable. So... what's your carbon footprint?

Companies are increasingly realizing that shareholder value is not created only by increasing next quarter's share price. The real value of a company is determined by an array of assets including the quality and utility of the products it makes, its intellectual capital, the reputation of the company, its brand equity, the ability to innovate and especially the ability to attract and retain the best talent.

Leadership, the ability to inspire and elicit the best from its people, is perhaps the most important asset that a company can have. This quality is what venture capitalists look for in deciding whether to back a start-up. Established

businesses, too, must learn such skills, particularly at a time in which the legitimacy of large corporations is being questioned.

Peter Drucker writing in the Economist stated, “In the next society, the biggest challenge for the large company—especially for the multinational—may be its social legitimacy: its values, its missions, its visions.”<sup>10</sup>

The 2004 Gallup International and Environics International ‘Voice of the People’ Survey found that well under 50% trusted large national or global companies. Companies like Enron and WorldCom that demonstrated lack of integrity not only destroyed shareholder value, but eroded the company’s very “franchise to operate.” Even for a company that does not engage in illegal ventures, in an Internet empowered world, a small group of determined citizens can de-legitimize any company, or country.

Nike, attacked by social activists because it had erroneously thought that it could draw the boundary within which it had to concern itself with social responsibility at its American plant gates, was forced to seriously consider eliminating the “Swoosh,” its multi-billion dollar brand symbol, when it was attacked by citizen’s groups protesting the labor practices in the companies overseas from which Nike purchased its products. In response, Nike recommitted itself to sustainability, implementing third party verification of its human rights policies, undertaking a major effort to increase its environmental performance. In April 2005, Nike made its entire supply chain transparent, discovering as it did, that this act made management of it easier.

The unwelcome attention Nike found itself having to manage is part of a growing phenomenon. A 1999 poll by Environics International, the research firm that conducts an annual, global survey on corporate social responsibility, found 67% of North Americans willing to make their decisions to buy or boycott products on ethical grounds. This means that companies wanting to build lasting relationships with these customers must be willing to subject their values and practices to scrutiny.<sup>11</sup>

Environics’ 2001 survey found that social responsibility was the factor that most influenced a person’s impression of companies in almost half of respondents. The 2001 Cone Corporate Citizenship Study indicated that 81% of American consumers said they would consider switching brands—price and quality being equal—to support a cause. 80% of American consumers said that a company’s commitment to causes was important when deciding what to buy or where to shop.<sup>12</sup>

In an article in Business 2.0 in February 2002, Don Tapscott and Anthony Williams argue that North Americans admire corporations that rally and show leadership. They ask: Why can’t companies do that every day?

A 2004 survey of some of the world's leading CEO's, undertaken by the World Economic Forum at Davos, found that the responding leaders feel that corporate reputation is now a more important measure of success than stock market performance, profitability and return on investment. Only the quality of products and services edged out reputation as the leading measure of corporate success. 59% of the respondents estimated that corporate brand or reputation represents more than 40% of a company's market capitalization.<sup>13</sup>

## **Building a Bridge to Tomorrow**

The world's leading companies are showing how to transition from business-as-usual to the greater profitability, lowered risk, enhanced brand equity, and stronger shareholder value that more sustainable behavior can confer.

Many are implementing elements of what has been called Natural Capitalism<sup>14</sup>. Its principles are:

1.) **Radical Resource Efficiency:**

Radically increase the productivity with which all resources are used, including energy, water, materials and people. The growing number of profitable solutions to environmental challenges can buy the time needed to implement measures that will attain true sustainability.

2.) **Design for Sustainability:**

Such innovative design processes as Biomimicry, Cradle to Cradle and other forms of green design enable businesses to harness nature's wisdom to drive innovation. These approaches allow us to create systems that eliminate waste and toxics while delivering superior products and services.

3.) **Manage for Prosperity and Sustainability:**

Employ the emerging practice of Sustainable Management to restore, enhance and sustain the natural and human capital needed for continuing prosperity.

Eco-efficiency, the first step can result in enormous cost reductions, while improving the company's reputation, brand equity and reducing its environmental footprint. The books *Factor Four*, and its successor, *Natural Capitalism*, detail the massive savings achieved by companies that increase the productivity by which they use resources. For example over a 12-year period, Dow's Louisiana plant was able to save enough energy implementing worker suggested savings measures to amount to add \$110 million each year to the bottom line. Each measure also reduced Dow's carbon footprint.<sup>15</sup>

In April of 2000, British Petroleum (BP) announced a commitment to reduce its carbon emissions 10% below its 1990 levels by 2010. It only took it two years to achieve this. Doing it is now saving them \$650 million. The results, and the thinking that led to the commitment in the first place also convinced BP to

announce a re-branding to “Beyond Petroleum,” and to regular corporate announcements that its efforts to become a more sustainable company are “a start.” BP sees that it cannot remain on the cliff’s edge. It has begun to build a bridge to the other side.

Rodney Chase, Deputy Group Chief Executive of BP stated that even if BP’s climate abatement program cost them money, it would be worth doing because it makes them the sort of company for which the best talent wants to work.<sup>16</sup>

Organizations such as the World Business Council for Sustainable Development now help members, including 160 major corporations, capture such opportunities. In the WBCSD book, *Walking the Talk*, the CEO’s of DuPont, Anova and Royal Dutch Shell state,

Sustainability’s business case is strengthened by the ways in which thinking of sustainable human progress encourages us toward innovation.... Taking eco-efficiency and environment seriously can, and should, lead to strategic corporate innovation.... By capitalizing on these assets a company stands to gain customer success, brand strength, first mover advantage, motivated employees and potentially more profits.”<sup>17</sup>

Other companies are implementing practices that mimic the that way nature does business, running on sunlight, using waste as a valued input rather than a cost, designing products to be inherently non-toxic and re-manufacturable. Far from imposing a penalty on business, such innovative designs frequently work better and cost less. The book, *Biomimicry*, by Janine Benyus<sup>18</sup> details this approach that represents the future of industry.

How do you ensure that innovation and market leadership will emerge from these investments? Bob Doppelt, in his book, *Leading the Change Towards Sustainability*,<sup>19</sup> details the organizational development practices that corporate and community leaders can implement to guide this transition. Such consultancies as Natural Logic, Domini and Natural Capitalism Solutions help companies and communities profitably integrate these approaches.

### **Commitment to sustainability: the hallmark of an investment worthy company**

Some financial advisors already state that a commitment to sustainability is the hallmark of good corporate governance and the best indicator of management capacity to protect shareholder value.<sup>20</sup>

Indeed, the Dow Jones Sustainability Index outperforms the general market, and the Domini Index of Socially Responsible Companies has outperformed the Standard and Poors for over a decade.

In spring, 2005 the socially responsible investment research firm, Innovest, released a report showing that in whole industry sectors, from forest products and paper, to oil and gas and electric utilities, the environmental leaders in the sector are outperforming the environmental laggards.

A corporate commitment to sustainability enhances every aspect of shareholder value. Implementing more responsible behavior allow a company to strengthen what is called “The Integrated Bottom Line”<sup>21</sup> As the examples above show, using resources more efficiently, redesigning products in ways that mimic nature and managing to restore and enhance human and natural capital offer ways to:

- Reduce costs, increase profitability and financial performance
- Reduce risk
- Franchise to operate, legal liabilities
- Attraction and retention of best talent
- Ability to drive innovation
- Labor productivity—increased worker health
- Market share—enhanced brand equity
- Product differentiation
- Supply chain and stakeholder management

Taken together, the elements of sustainability confer the ability to be “First to the future.” The companies that practice this approach will be the billionaires of tomorrow.

In May, 2005 Jeffrey Immelt, the man who replaced Jack Welch at the helm of General Electric, stood with Jonathan Lash, the President of World Resources Institute, a leading environmental organization, to announce the creation of GE Eco-magination. Immelt committed the only company which, had there been a Fortune 500 around in 1900, would still be on it, to implement aggressive plans to reduce emission of greenhouse gasses. In a joint article in the Washington Post, and subsequent ads purchased in major sporting events, GE trumpeted its commitment to behave more sustainably.

The point is not so much the substance of the announcement, which amounts to less than companies like DuPont (whose senior management was understandably annoyed that the newcomer was getting all this ink) actually do on a daily basis, and have, under Chad Holliday’s leadership, for over a decade. Rather the announcement signaled a tipping point. How do you carve out a legacy when you follow the man widely credited with saving the company? You announce you are going to save the world.

### **Needed: Leaders**

How does a DuPont retake the lead? The challenge for DuPont or any company that wishes to be around for the next century is to ensure that all of its operations are sustainable. The leadership at DuPont seemed to think that a worthy goal.

DuPont is comfortable with reinventing themselves. They know they will not be making in 100 years what they are now, because 100 years ago they were making explosives and are now making Teflon and Tyvek.

In today's world, business as usual is not a safe bet. Perhaps it should not come as a surprise that essentially all of the world's top 150 companies now have a sustainability officer at the VP level or higher.<sup>22</sup> Only a sustainability strategy can protect shareholder value in the long run. Companies that realize the seriousness of the challenges, and commit to a transition to more sustainable behavior *and* that deliver on that commitment, will be the companies that succeed in the coming decades. Corporate commitment to and follow-thru on sustainability will come to be the hallmark of corporate integrity and management capacity. The ability to make such transitions will be the distinguishing characteristic of the effective executive.

No business, even an imperiled one, will embark on a course of action that would compromise profitability. But as companies shift their behavior, taking the first steps across the bridge to greater sustainability, they are also realizing that this can make them more profitable.

## END NOTES:

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- <sup>1</sup> New York Times Magazine, September 13, 1970. The New York Times Company.
- <sup>2</sup> These arguments apply equally to executives of communities and countries, but space constraints limit this discussion to the corporate world.
- <sup>3</sup> “The State of the World? It Is on the Brink of Disaster?” *The Independent UK*, Wednesday 30 March 2005.
- <sup>4</sup> Thomas Atkins, “Insurer warns of global warming catastrophe”, *Reuters*, March 3 2004
- <sup>5</sup> Jonathan Stempel, “Berkshire Profit Falls 48 pct” *Reuters*, 4 Nov 2005
- <sup>6</sup> Cloudy with a Chance of Chaos, By Eugene Linden, Fortune Magazine  
[http://money.cnn.com/2006/01/17/news/economy/climate\\_fortune/index.htm](http://money.cnn.com/2006/01/17/news/economy/climate_fortune/index.htm), 17 January 2006
- <sup>7</sup> Alex Kirby, “Aid agencies' warning on climate,” BBC News website, 20 Oct 2004,  
<http://news.bbc.co.uk/1/hi/sci/tech/3756642.stm>
- <sup>8</sup> What makes Pachauri’s noteworthy is that he was put into his position by the Bush administration as a Chairman who would not make climate an issue. A memorandum from Exxon to the White House in early 2001 specifically asked it to get the previous chairman, Dr. Robert Watson, the chief scientist of the World Bank be, “replaced at the request of the U.S.”. The Bush administration then lobbied other countries in favor of Dr. Pachauri—whom the former vice-president Al Gore called the “let’s drag our feet” candidate, and got him elected to replace Dr. Watson, a British-born naturalized American, who had repeatedly called for “urgent action.” Global Warming Approaching Point of No Return, Warns Leading Climate Expert By Geoffrey Lean, *The Independent on Sunday U.K.*, 23 January 2005.
- <sup>9</sup> Such resources as fisheries are depleted around the world, and if such theories as peak oil prove correct, absolute resource shortages may come to be a fixture of the policy world.
- <sup>10</sup> Peter Drucker, 3 Nov 2001, “Will the Corporation Survive?” in *A Survey of the Near Future, Economist*
- <sup>11</sup> [http://www.corporateknights.ca/stories/kris\\_kringle.asp](http://www.corporateknights.ca/stories/kris_kringle.asp) 1 November 2005
- <sup>12</sup> [http://trevorcook.typepad.com/weblog/community\\_involvement/](http://trevorcook.typepad.com/weblog/community_involvement/) 1 November 2005
- <sup>13</sup> <http://www.ethicalcorp.com/content.asp?ContentID=1608> 1 November 2005
- <sup>14</sup> This thesis was first presented in the book *Natural Capitalism*, Hawken, Lovins, Lovins 1999, Little Brown. For more information see [www.natcapsolutions.org](http://www.natcapsolutions.org)
- <sup>15</sup> Hawken, Lovins, Lovins 1999, *Natural Capitalism*, Little Brown P. 245. *Natural Capitalism and Factor Four*, Lovins, Lovins von Weizsacker, 1997, Earth Scan, document hundreds of such savings opportunities.
- <sup>16</sup> Personal communication—speech at Fortune magazine’s 100 Brightest People We Know meeting, Aspen Colorado, August 2002
- <sup>17</sup> Holliday, Schmidheiny, Watts, 2002, *Walking the Talk, the Business Case for Sustainability*, BK Publishers, Greenleaf Publications.
- <sup>18</sup> Janine Benyus, *Biomimicry*, 1997 William Morrow and Co, NY.
- <sup>19</sup> Bob Doppelt, *Leading Change Towards Sustainability*, Greenleaf Publications December 1, 2003.
- <sup>20</sup> Personal Communication: Sasha Millstone, Senior Vice President of the Millstone Evans Group of Raymond James and Associates, Inc. Boulder Colorado
- <sup>21</sup> A phrase coined by the socially responsible investment expert Theo Ferguson
- <sup>22</sup> Personal communication Professor Peter Newman, Murdoch University, sustainability advisor to the Premier of Western Australia, Sept 2003