



Natural Advantage of Nations

Foreword by L. Hunter Lovins¹

Young people often ask what gives me hope. Many things make me hopeful, but the best answer, just now, is this book: *The Natural Advantage of Nations* (NAON). The team of young engineers, scientists and policy-makers who bring this to you are representative of the young people who are the future not only of Australia, but also the world. It is particularly pleasing that this book has emerged not from the US or Europe, but from a Southern nation. The numerous examples given here of profitable ways to improve the environment, human well-being and the bottom line come not from the familiar poster children of the sustainability movement, but from communities across Australia and Asia. It proves a belief that has grown in me for several years that while the tipping point of environmental devastation may be frighteningly close, the people with the commitment to implement the solutions we already know can solve the problems are also at hand. This book presents a robust business case for sustainability. It cites the sorts of examples that I am now teaching to my MBA students at Presidio World College. Studying for the first accredited MBA in Sustainable Management, these students are reading material like *Natural Capitalism* that gave rise to this book. NAON will be required reading next semester.

Business as usual is not a safe place to stay

Corporate leadership desperately needs to internalize the message of this book. Companies today reside on the edge of a crumbling precipice. Beneath the feet of the world's major corporations, the edges of the earth that they have taken for granted are disintegrating. Farseeing business leaders realize that change is inevitable and have identified a realm of stability across the chasm. They know that a migration strategy is necessary, but even these business leaders are struggling to manage it. Less innovative companies seek to shore up the ground as it erodes and haven't yet even realized that they need an exit route. As NAON describes, one example of the challenges that face every company is how to limit its emissions of climate changing gases like carbon dioxide.

In March 2004, Reuters reported that:

The world's second largest re-insurer, Swiss Re, warned 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.²

Natural Advantage of Nations

Foreward by L. Hunter Lovins

Environmental challenges are only part of the erosion. As NAON describes, the whole basis of what makes a company competitive is shifting. Companies are increasingly realizing that shareholder value is not only created by the physical product that they produce, their cash profits or next quarter's share price, but by ideas, reputation, brand equity and especially by their ability to attract and retain the best talent.

These 'intangibles' are now a greater component of businesses' value than the physical assets that used to be considered the basis of core business value. Tom Peters in his book *Re-imagine!* states:

We are in the midst of redefining our basic ideas about what enterprise and organization and even being human are – about how value is created and how careers are pursued. Welcome to a world where 'value' (damn near all value!) is based on intangibles – not lumpy objects, but weightless figments of the Economic Imagination. We are in 'a brawl with no rules'. What can we do? Relish the Mess! Enjoy the Fray! We have entered an Age of Talent. People (their creativity, their intellectual capital, their entrepreneurial drive) is all there is. Enterprises that master the market for talent will do better than ever. But to attract and retain the Awesome Talent, an organization must offer up an Awesome Place to Work.³

The penalty for failure? Over 40 per cent of the businesses listed in the 1985 Fortune 500 are not in business today. Companies like Enron and WorldCom that demonstrated a lack of integrity risk the entirety of shareholder value. In an Internet empowered world, a small group of determined citizens can deligitimize any company.

Talk about a crumbling cliff.

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.'⁴

Business leaders must manage all assets of a corporation seamlessly, tangible and intangible, and do this successfully in a time in which the legitimacy of such institutions as large corporations is being questioned. Many companies are finding that the only way to do this is to begin finding their way across the bridge to a more sustainable world.

What's wrong with where we are?

In 1995 Royal Dutch Shell came under worldwide criticism for its complicity in the hanging of African activist Ken Saro Wiwa and its proposals to scuttle the Brent spar oil drill rig in the North Sea. The confrontation escalated to the point that activists in Europe firebombed Shell gas stations. In the words of the *New Statesman*:

Shell found itself forced rapidly to reassess its intentions. Public identification with the campaign was threatening to have a runaway impact on its competitive position in the petrol forecourts of Europe. Better to cut its losses, whatever the short-term loss of face. At the 11th hour, on 20 June 1995, Shell backed down. For Greenpeace it was an historic victory; for the Prime Minister, John Major, who had put the weight of the British government behind the dumping plan, it was a humiliation.⁵

Natural Advantage of Nations

Foreward by L. Hunter Lovins

In 1997, Sir Mark Moody-Stuart took over the helm of a battered Royal Dutch Shell group of companies as Chair of the Managing Directors. Among his early actions was the announcement of a commitment to transform Shell into a more sustainable company. This included creating a department of sustainability in the company, public apologies and in 2000, the release of a Shell Sustainability Report that admitted to a variety of mistakes and committed Shell to transparency and a transition to becoming a sustainable company. Shell acknowledged mistakes and identified needed areas for reform. It acceded to Greenpeace's demands and dismantled Brent Spar on land. It is actively engaged in conversations with the local tribespeople in Nigeria to try to reestablish the company's legitimacy and regain its franchise to do business there. During Sir Mark's reign, Shell invested in a variety of renewable energy and energy efficiency technologies. Shell Hydrogen was founded. Its Chair Don Huberts remarked: 'The stoneage did not end because we ran out of stones, the oil age will not end because we run out of oil – hydrogen will be a better business to be in'.

In an interview in the UK newspaper the Independent, Sir Mark stated that:

*Shell was investing heavily in developing renewable sources out of self-interest, 'to be seen' as an energy company to be serving the needs of society not damaging it. People want somebody to do something about global warming, and we need to look at new sources of energy. The role of energy companies is changing from an enabler of mobility to the developer of innovative, clean technologies, says Sir Mark Moody-Stuart, and within that role there is a huge and commercially viable scope for improvement.*⁶

In 2000, Business Wire reported:

*Responding to new, higher expectations of stakeholders, Shell not only has implemented company-wide guidelines for ethical behavior, but plans to invest millions of dollars in programs and projects that reflect the company's commitment. In an article for World Energy(R) magazine, Shell's chairman, Sir Mark Moody-Stuart, said, 'Successful companies will need to develop new approaches for addressing key ethical, social and environment concerns, "but" good intentions are meaningless without real action to put ethical principles into practice'. Shell plans investments of half a billion dollars in commercial renewable energy resources and \$30 million for the new Shell Foundation, which will focus primarily on sustainable energy. Already, 20 projects to bring energy to poor communities in developing nations have been announced.*⁷

During Sir Mark's tenure revenues rose and Shell was hailed by many former critics as a company that merited investment.

Fast forward to 2001. Sir Mark left Royal Dutch Shell in the company's usual rotation of Chairs. He took a far larger role on the world stage, headlining the World Summit on Sustainable Development (WSSD) in Johannesburg, and assumed the Chair of Anglo- American. Meanwhile, back at Shell his successor, Phil Watts, began a quiet campaign to dismantle Sir Mark's commitments. Watts ordered the removal of the section of the Shell website that invited criticism. He oversaw a move to promote exploration and extraction technologies in the American West that would be extremely environmentally damaging. He fired Anita Burke, the prior head of Shell's sustainability operations in The Hague. These acts enabled BP to eclipse Shell in the seriousness of its commitments to transition

Natural Advantage of Nations

Foreward by L. Hunter Lovins

to renewables and environmentally responsible behaviour. Shell also began making efforts to regain its operations in Oginiland in Nigeria, eliciting a return of tribal activism.

Three years later, it turns out that Watts cooked the books. Despite his rhetoric about sustainability, Watts was really an old-line oil-man. A New York Times story describes his enthusiasm about oil:

Arriving on stage in a spaceship and an astronaut suit, Philip Watts, then the senior executive in charge of exploration and production for the Royal Dutch/Shell Group, glowed as he delivered a message of optimism to a conference of 600 company executives in June 1998. 'I have seen the future and it was great', he declared. He was talking about the success of a special management program that had recently addressed a fundamental problem of the company – that it was pumping oil and gas out of the ground faster than it was finding new supplies. Internal documents show, however, that the program allowed Royal Dutch/Shell to increase its oil and gas reserves not by discovering major new sources, but by changing its accounting to add reserves that it was not sure could ever be tapped.⁸

Not everyone was enthusiastic about Watts' manipulations. The New York Times story went on to state that:

A July 2002 memorandum to the Royal Dutch/Shell Group's committee of managing directors from Walter van de Vijver, the head of exploration and production at the time. It indicates that the company's senior executives had concerns about shortfalls in its proven reserves of oil and natural gas. Most of the misstated reserves were recorded from 1997 to 2000, when Sir Philip was in charge of exploration and production. Last year [2003] executives began to grow increasingly concerned about the way the company was accounting for its reserves, and they commissioned a review that led to the revisions made in January.⁹

In March 2004 Watts and the two other top managers were forced to resign. The annual general meeting of shareholders was held two months late because of the turmoil. Shareholders were livid that managing directors be absolved of responsibility for their management for the year 2003, and that Watts was paid a lump sum of over £1 million. Shell stock took a pounding and various lawsuits are pending.

Is a commitment to sustainability the hallmark of good corporate governance and a guarantor of shareholder value?

But wait!? How can a company be committed to sustainable behaviour and a transition to greater corporate responsibility and at the same time be hiding vital information that indicates the company's core business value from investors?

If your business model is a transition away from oil to a company that produces an array of energy products and services, then falling reserves are less of a worry. But if your mental model is to mine oil until the day you die, it's a serious problem. Shell under Sir Mark's management was undertaking a strategic redefinition of its future. He understood that to survive Shell had to capture the high ground of brand equity. A Shell official chastened by the Nigerian and Brent Spar disasters privately said, 'We're not so worried about regulation, because through the World Trade Organization we can get round anything we don't like. But we're absolutely terrified of the way these citizen networks can

Natural Advantage of Nations

Foreward by L. Hunter Lovins

instantly delegitimize our company and destroy our franchise. It's terribly difficult to get all our people worldwide to appreciate the risks of this new accountability'. Shell's then Vice President of sustainability Tom Delfgauuw stated that the challenges Shell had faced were 'the best thing that ever happened to us, first because we've come out of it much stronger as a company and second because it accelerated a great many needed corporate developments'.¹⁰

The issue is management integrity: integrity of vision, and integrity of performance. Sir Mark captained Shell's essential turning of the corner, its embarkation across a 50- year bridge away from the business that had built the company to its future. Phil Watts, perhaps lacking that integrity, tried to turn back, and fell into the abyss, wreaking havoc on shareholder value. Watts's return to Shell's former direction, forced him to hide from investors the news that this about face was bad business for a variety of reasons.

From a purely capitalist point of view, either strategy can be viable. This book argues, however, that business-as-usual is no longer a safe bet, and that only a sustainability strategy can protect shareholder value in the long run. It argues that even the most doctrinaire capitalists should reassess their assumptions about whether what is happening to the environment, how external stakeholders perceive their company, and how a company's definition of its responsibility to the rest of the world affects its own employees should become a core part of their planning for the future. My belief is that companies that realize the seriousness of these challenges, and commit to a transition to more sustainable behaviour and that deliver on that commitment, will be the companies that succeed in the coming decades. Corporate commitment to and followthrough on sustainability will come to be the hallmark of corporate integrity and management capacity. The investment community will see the absence of such a commitment, or any backsliding on one, as a real red flag.

Building a bridge to tomorrow

Milton Friedman once queried, 'If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is?' The leading companies, some of them profiled in this book, are showing how to construct a bridge across the gulf that now confronts us all, from business-as-usual to the greater profitability, lowered risk, enhanced brand equity, and stronger shareholder value that sustainability can confer. No business, even an imperiled one, will embark on a course of action that would compromise profitability. But as companies shift their behaviour, taking the first steps across the bridge, they are also realizing that this can make them more profitable. They are realizing that they live in a very different world from the one in which Milton Freedman wrote.

In April 2000, British Petroleum announced a commitment to reduce its carbon emissions 10 per cent below its 1990 levels by 2010. It only took it two years to achieve this. Doing it is now saving them US\$650 million. The results, and the thinking that led to the commitment in the first place also convinced BP to announce a rebranding 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 recently stated that even if BP's climate abatement programme cost them money, it would be worth doing because it makes them the sort of company that the best talent wants to work for.

Natural Advantage of Nations

Foreward by L. Hunter Lovins

Nike was 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. This forced them to seriously consider eliminating the ‘Swoosh’, its multi-billion dollar brand symbol, when citizen’s groups protested the labour 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 and hiring the sustainability consulting group, The Natural Step, to guide its efforts.

A 2004 survey of some of the world’s leading CEOs, 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. Fifty-nine per cent of the respondents estimated that corporate brand or reputation represents more than 40 per cent of a company’s market capitalization. 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 vice president level or higher.¹¹

Whole organizations such as the World Business Council for Sustainable Development now exist to help their members, including 160 other major corporations, capture such opportunities. In the book, *Walking the Talk*, WBCSD’s prime movers, the CEOs 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. It offers business opportunity, and it pushes companies toward thinking about more ‘sustaining’ forms of energy, agriculture, construction, mobility, and forestry. The relatively straightforward concept of eco-efficiency has already encouraged some companies to make radical shifts from sales to selling nothing at all – and being cleaner and more profitable in the process... 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.¹²

Former IBM executive, Bob Willard, was one of the first to quantify the business case for behaving more socially and environmentally responsibly. He listed seven categories in which a commitment to greater sustainability will enhance doing business. These include: easier hiring of the best talent, higher retention of top talent, higher employee productivity, reduced expenses in manufacturing, reduced expenses at commercial sites, increased revenue/market share, reduced risk and easier financing.¹³

Of these, perhaps the most significant first step that companies can take is to increase the efficiency with which they use resources. Such ‘eco-efficiency can result in enormous cost reductions, while improving the company’s reputation, brand equity and reducing its environmental footprint’. The book *Factor Four* and its successor, *Natural Capitalism*, detail the massive savings possible to companies that enhance their sustainability. 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 an addition of US\$110 million each year to the bottom line. Each measure also reduced Dow’s carbon footprint.¹⁴

Natural Advantage of Nations

Foreward by L. Hunter Lovins

This book takes that work, updates it by four years and presents an even more compelling case. The challenge for strategists is to create a culture in which the journey across the bridge can unfold without undue cost and disruption. It means confronting such common business problems as how systematically to create a culture and adopt a set of processes that continually identify key intangibles for investment (new ideas, reputation, opportunities) while keeping an eye on tangibles (aligned customers = brand equity, ecoefficiency = reduced costs, revenues = market share = brand equity = reduced costs, etc.). How do you assess new trends and determine which priorities should rise to the top? And how do you ensure that innovation and market leadership will emerge from these investments?

This book is an important plank that will enable business leaders, elected officials, and citizen activists together to construct the bridge across the chasm.

Natural Capitalism, Inc
Eldorado Springs, Colorado
20 September 2004

ENDNOTES:

- ¹ The thesis behind this Foreword is being developed further into a publication now being prepared by Hunter Lovins and her colleagues with TNEP.
- ² Atkins, T. (2004) 'Insurer Warns of Global Warming Catastrophe', Reuters, 3 March.
- ³ Peters, T. (2004) [Re-imagine! Business Excellence in a Disruptive Age](#), Dorling Kindersley, New York;
- ⁴ Drucker, P. (2001) 'Will the Corporation Survive?' in A Survey of the Near Future, The Economist, 3 November.
- ⁵ Grove-White, R. (1997) '[Brent Spar Rewrote the Rules: Shell Oil Co's Decision to Dispose the Brent Spar Oil Platform in the North Sea](#)', New Statesman, 20 June.
- ⁶ www.solcomhouse.com/shell.htm.
- ⁷ Business Wire (2000) 'Shell's Commitment to Ethics Includes Hundreds of Millions in Investment, According to Shell Chairman Sir Mark Moody-Stuart, Appearing in World Energy', Business Wire, 31 October.
- ⁸ 8 New York Times (2004) 'At Shell, New Accounting and Rosier Oil Outlook', New York Times, 12 March.
- ⁹ Ibid
- ¹⁰ Holliday, C.O., Schmidheiny, S. and Watts, P. (2002) Walking the Talk: The Business Case for Sustainable Development, World Business Council for Sustainable Development/Greenleaf Publishing, Sheffield, UK p21.
- ¹¹ 11 Pers comm., Professor Peter Newman, Murdoch University, sustainability adviser to the Premier of Western Australia, September 2003.
- ¹² Holliday, C.O., Schmidheiny, S. and Watts, P. (2002) Walking the Talk: The Business Case for Sustainable Development, World Business Council for Sustainable Development/Greenleaf Publishing, Sheffield, UK p21.
- ¹³ Willard, B. (2002) The Sustainability Advantage: Seven Business Case Benefits of a Triple Bottom Line, New Society, Gabriola Island, Canada.
- ¹⁴ Hawken, P., Lovins, A. and Lovins, L. H. (1999) Natural Capitalism: Creating the Next Industrial Revolution, Earthscan, London p245. Both Natural Capitalism and Factor Four (von Weizsäcker, E., Lovins, A. and Lovins, L. H. (1997) Factor Four: Doubling Wealth, Halving Resource Use, Earthscan, London) document hundreds of such savings opportunities.