

## Doing Business in a Sustainable World

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J o h n D u g g a n



It was just over 35 years ago that Neil Armstrong became the first human to stand on the surface of the Moon and to see our shared home, the Earth, suspended in the void, as no one had done before him. As Ed Mitchell said later, “The Blue Pearl... against a sea of mystic darkness.”

At a recent press launch of the UN report on “The Millennium Ecosystem Assessment” Secretary General Kofi Annan said, “Humans have changed ecosystems more rapidly and extensively in the last 50 years than in any other period; some 60% of ecosystem elements supporting life on earth, such as fresh water, clean air or a relatively stable climate, are being degraded or used unsustainably; and the situation could become significantly worse during the first half of this century.”

World population is predicted to grow from just over six billion today to over nine billion by 2050, with the population of India alone expected to grow from one billion to one point five billion by 2050. The economies of Brazil, Russia, India and China are expected to grow to a level that equals the combined economies of all the G7 economies and to be equal to the US economy by 2025. This scale of population and economic growth will result in an unprecedented demand for all natural resources and in particular water and oil. If we carry on at this rate, and use the same economic model, we are likely to need the resources of four worlds. We only have one.

Continued global economic growth is predicated upon a continually growing supply of cheap oil. Increasingly, this is unrealistic. The demand for oil is likely to rise by 50 percent over the next 20 years. The pessimists believe that oil production will peak in the next few years whilst the optimists believe that we have until 2030. Either way, sometime soon, probably in our lifetime and certainly in our children’s lifetime, we will start to run out of oil. When this reality dawns on the markets and the prices start to rise, our current economic system could be significantly disrupted. The consequence could be a recession similar to that experienced in the 1930s, with unprecedented global unemployment and greatly increased social and political instability.

Meanwhile, our increasing consumption of hydrocarbons, mainly oil and coal, will continue to increase global warming. Weather patterns are already becoming more volatile. An acceleration of this trend could disrupt food production, and melting polar ice caps could result in rising sea levels that will threaten coastal cities.

It looks like our shared world, “The Blue Pearl,” is in trouble. Our current way of doing things is increasingly unsustainable, and it appears that there is a real risk that our legacy to our children could be a world similar to that portrayed in *Mad Max* or *The Day after Tomorrow*.

### **What’s wrong with the prevailing way of thinking in business?**

In less than one hundred years business has already shown that it can bring about unprecedented change. The corporation is the mechanism that built the modern world and has

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served the public good. At the same time the impacts of increasing industrialisation are now threatening the life support systems of the planet. Of the one hundred largest economies in the world, fifty are Multi-National Companies, (MNC's) and only forty-nine are nation states. Wal\*Mart, the world's largest retailer, employs 1.5 million people and has a sales revenue of US \$280 billion, equivalent to the GDP of Austria, which is the 20<sup>th</sup> largest in the world.

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Our current economic and political systems do not hold firms fully responsible for the negative impacts that they have on third parties, their workers, communities, the environment and consumers. The protection of shareholders' investment is the prime concern of the corporation. The conventional business view is that business is a separate closed system and that all impacts on third parties are seen as external. These "externalities" are seen as someone else's problem. This means that society, through government, must pay to remediate the negative impacts of firms on external parties, or live with the consequences if remediation is impossible or too expensive. As long as we continue to subsidise the real cost of fossil fuel, many eco-friendly technologies, such as solar power and wind power, will continue to "appear" to be uneconomical.

Corporate Social Responsibility (CSR), by which companies behave in a socially responsible way, reduces negative impacts. CSR is not enough; by itself it will not bring about a sustainable world. Frank Dixon of Innovest has developed the concept of Total Corporate Responsibility (TCR). TCR builds upon the best CSR practice and helps firms understand they are part of a larger system not separate from it. It provides a "currency" for measuring and setting benchmarks for non-financial impacts of corporate activities, such as impacts on public health and the environment. TCR enables business to formulate strategies to systemically minimize negative impacts and maximize positive impacts on all stakeholders. These include shareholders, customers, colleagues, suppliers, communities and the planet itself.

Only a handful of multinationals are paying close attention to the fact that we are faced with the possibility of rapid and dramatic destructive shifts in our economic, social, and ecological systems. Even the companies that receive triple-A corporate social responsibility ratings from Innovest are not close to being sustainable. "At this point in time, no publicly traded corporation is sustainable," says Frank Dixon.

Bringing about systemic change to create a sustainable world is the most complex challenge business and society has ever faced. A collaborative effort is required to bring about system change through increased awareness, consensus and legislation. The entire corporate machine is supported by international institutions that also operate with linear cause-and-effect reasoning that cannot respond effectively to our increasingly interdependent world. Well-intentioned business leaders are to some extent prohibited by legal mandate from recognising that business is part of a larger system and taking the impacts of their business's activities on other stakeholders into account.

To bring about change in these powerful global systems, business leaders need to begin to demand accountability from each other and to lobby governments to agree to introduce and enforce a new code of conduct for global corporate citizenship. The duty of directors will continue to be to make money for the shareholders in a sustainable way, not at the expense of the environment, human rights, public health and safety, dignity of employees and the welfare of the communities in which the company operates. TCR shows businesses a way to bring about incremental systemic change, whilst continuing to be profitable and sustainable in the long term.

#### **What can business do?**

*Cradle to Cradle: Re-making the Way We Make Things* is a groundbreaking book by William (Bill) McDonough, a leading environmental architect, and Michael Braungart, a brilliant chemist. They show us the way forward. "Reduce, reuse recycle" urge the environmentalists: in other words, do more with less so as to minimise damage. Bill and Michael take the view that such an approach perpetuates the "cradle to the grave" manufacturing mode. This dates from the Industrial Revolution and creates increasing amounts of waste and pollution that is

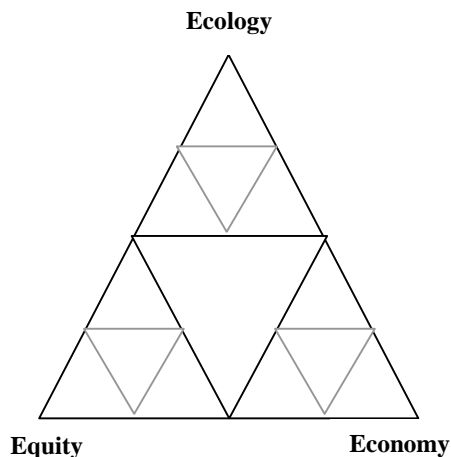
damaging all the life support systems on the planet. We are the only species that makes unusable waste; every other animal makes waste that is useful to others.

They challenge the belief that human industry must damage the natural world and ask us to consider using nature itself as a model for making things. They take the view that eco-efficiency; "being less bad" is not good enough. They take us far beyond the belief that life on earth can only become sustainable by restraining our activity and impact on the planet. Their proposal is that products can be designed in such a way, that after their useful lives, they will provide nourishment for something new; "Waste equals food."

"Waste" can be conceived as "biological nutrients" that will easily re-enter the water or soil without depositing synthetic materials and toxins. Or they can be "technical nutrients" that will continually circulate as pure and valuable materials within closed loop industrial cycles, rather than being "recycled," or more accurately "down cycled", into low grade materials and uses. They call this approach "eco-effectiveness," to make the world a better place, not less worse.

"Eco-efficiency, minimising the negative impacts is still in the mechanistic paradigm because it still assumes we are separate from nature. "Cradle to Cradle" shifts the paradigm to a systemic one. It enables us to apply our creative potential to be generative and life giving. Eco effectiveness allows us to consider encouraging a bigger footprint rather than just minimising our footprint.

It uses a fractal to help us to cope with complexity asking three questions:



? **Can we afford it? Economy sector.** This is the sector where we look at Economy, Equity and Ecology through the lens of Economy. First the Economy/Economy corner, at the bottom right hand of the triangle; A business needs to deliver fair returns to shareholders and stay in business otherwise it will not be able to transform. As we move to the Economy/Equity equity corner we consider questions of money and fairness. We might ask; are employees earning a living wage appropriate to this locality? Sustainability is local. Then onto the Economy/ Ecology corner; this is where we have eco-efficiency, making things less bad whilst still working within the mechanistic paradigm. It is a valuable tool in optimising the broader eco-effective approach.

? **Is it fair? Equity sector.** This is the sector where the emphasis shifts more towards fairness, so that we look at Economy, Equity and Ecology through the lens of Equity. Moving into the Equity/Economy corner, we might ask; are men and women receiving equal pay for the same work? In the extreme equity corner, Equity/Equity, the questions are purely social. Are

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people treating one another with respect, with no consideration of economics or ecology? This is where we can consider issues of racism or sexism. Moving to the Equity/Ecology corner of the Equity sector, the emphasis shifts again, Equity in the foreground with Ecology in the picture. Here we might ask is it fair to expose workers or customers to toxins in the workplace or in products? We might also ask; how is this product going to affect future generations?

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- ? ***Are we working with nature? Ecology sector.*** This is the sector where the emphasis shifts towards the environment, so that we look at Economy, Equity and Ecology through the lens of Ecology. In the Ecology/Equity corner, we consider questions of ecosystem effects, not just in the workplace or at home, but with respect to the entire ecosystem: Is it fair to pollute a river or poison the air? Now deep into the Ecology/Ecology corner, this is where the Earth comes first, without worrying about Economy or Equity. Does waste equal food? Are we using current solar income? Are we sustaining not only our own species but all species? Then on to Ecology/Equity corner, where money re-enters the frame: Is our ecological strategy economically sound too?

Cradle to Cradle thinking sees commerce as the engine of change, but also recognises that our current economic system does not take account of "externalities."

### **How does business change its way of thinking?**

Often large corporate businesses are organised in functional silos, where impacts of action taken in one part of the business do not properly consider the impact on other parts of the business and/or external impacts—"externalities." Rigid corporate structures are like machines and can dehumanise their people. Employees in rigid structures tend to leave their autonomy, ethical concerns and personal responsibility for the impact of their actions on others and the world at the door, when they enter the workplace.

People are changing, however, and becoming more aware as many of their basic needs have been met. Increasingly people want to be part of a successful organisation that is respected and has a larger purpose. They want to learn and grow, to be part of a community, and to share an inspirational vision. When people are aligned with a larger purpose which brings meaning to their lives, they are motivated to bring their whole selves to work. They are then prepared to give the company their deep commitment. When they are empowered, the business is then energised and new creativity released. The predominant way of thinking in most corporate organisations is that they are part of a market-driven economic process that sets pay and prices, and where individuals are free to build wealth and status. Many people in organisations now think that communally based distribution should meet human needs before anybody benefits from excess or profit. In the new operating reality of accelerating change, and increasing interdependency, uncertainty and complexity, companies need to build a strong, agile, resilient core culture based on a shared vision, mission and values. In this new operating culture a company will be guided by its values. Culture will be the basis of its competitive advantage.

To bring about cultural transformation or "whole systems change" of this magnitude we need to recognise that people value different things; they think in different ways. Every organisation will be different and will have to develop strategies that match their people, their vision and relate to the reality of the jobs that they do. They need a consistent, systemic and comprehensive approach to all organisational issues so that they can be aligned, integrated and synergised. To cope with the complexity of systemic thinking, organisations need to be both "top down" and "bottom up" to link functions, expertise and ways of decision-making necessary to deal with the new challenges of ever-increasing complexity.

Organisations are in danger of failing if they continue to manage in the ways that made them successful in the first place. Many employees are ahead of their bosses in their ways of thinking. Marketing strategies often fail because they wrongly assume their audience share the same values as the system does. People have a right to be who they are, so the organisation needs to reflect their values. The challenge is creating the appropriate environment, one that

reflects their values and where colleagues are empowered and can choose to motivate themselves. This will release the energy and creativity needed to transform our organisations to rise to the challenges ahead. It will require a different style of leadership; one that recognises who our people are and who they are becoming. Different ways of learning will be needed to reflect how different people learn in different ways.

Business leaders are beginning to recognise that the current way of doing business is not sustainable. The word *leadership* is an old English word that means to go first. Organisations don't transform, people do; and to transform the culture of an organisation the leadership must go first. The way of thinking, the consciousness of the leader, has a significant impact on the way of thinking of the organisation. You cannot take people to places you have not been. Organisational transformation begins with the personal transformation of leaders by increasing their awareness and self-knowledge. The role of the leaders is to become the enablers of transformation that releases power and creativity within the organisation rather than just managing for financial results. We need courageous corporate leaders to be guided by TCR principles and to become champions of "Cradle to Cradle" thinking to start to bring about systemic change. Business leaders need to demand accountability from each other to change these powerful global systems.

Cultural transformation, or "whole systems change," of this nature has the potential to bring the vision of eco-effectiveness into reality through a new capitalist creativity. Large corporations with hundreds of thousands of employees and operations around the world still sit in larger systems. It is larger business, educational, and political systems that actually have to transform if our way of living together is to be in harmony with the living systems upon which we all depend.

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#### **What is the way forward?**

There is increasing evidence that our current economic system is becoming unsustainable. It has delivered real benefits over the last one hundred years and at the same time the impact of increasing industrialisation is now threatening the planet's life support systems. It is becoming clear that we need a new worldview which recognises that everything is interdependent and where the firm is seen as part of a larger system.

By adopting TCR, businesses recognise the "external" impacts of their activities and are encouraged to align their activities to work with nature rather than being in opposition to it. This would bring about radical change in some of the most powerful corporations on earth.

A new form of corporate capitalism is needed, based upon "Cradle to Cradle" thinking, where "waste equals food." The effects would be staggering and could lead to a creative transformation at every level of our global society, starting in Europe and the United States. There are real commercial opportunities for Corporations that embrace this approach and start redesigning their industrial and business processes. They are likely to gain a competitive advantage and create truly sustainable business at the same time as delivering fair returns to shareholders.

Firstly we need a few brave leaders to stick their head above the parapet, to be the first to go and lead cultural transformation, guided by TCR and the vision of eco-effectiveness. Each and every one of us has a part to play. We can start treating the world as if we intend to stay and choose to co-create a sustainable world.

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