

Before the Storm

At the Conference Board's two premier 2008 conferences on corporate citizenship and sustainability, the message was clear that the time has come for "doing well by doing good." But that was before the financial meltdown. So what gives?

"Business as usual" clearly has no place today, given the world's harsh economic realities. Yet, I would argue that this business climate heightens the need for sustainability – environmental stewardship, strategy and governance – as a key driver of business efficiencies and innovation.

At the *Conference Board Corporate Citizenship Conference* in 2007, Jim Press – then President of Toyota USA—said "at Toyota we have short-term plans and long-term plans. Short term is my lifetime – long term is 100 years."

The Big Three automakers face extraordinary losses (some \$26 billion loss in the first nine months of 2008 for General Motors, whose market value is a mere 2% of that of Toyota) and seek help from Capitol Hill. At the same time, Toyota's "dire" profit warning after the two worst days of Dow Jones losses says it will "do little better than break even in 2008." Why is Toyota successful? As the *Harvard Business Review* reported (June 2008), Toyota:

- Sets impossible goals – to drive innovation
- Moves slowly, yet takes big leaps
- Grows steadily, yet is a paranoid company
- Is frugal, but splurges on key areas
- Keeps internal communications simple, yet builds complex social networks
- Has a strict hierarchy, but gives employees freedom to push back
- Rigorously maintains the values from the founders

The Toyota story is a wonderful success of the past decades and a beacon of the future.

2008: Finally on the Brink

Two major transformations have engulfed society over the past 1,000 years (according to Peter Drucker and Peter Senge, among others). The first came to life following Gutenberg's invention of the printing press and the second,

the industrial revolution, followed the discovery of oil. Think as we might that our lifetime has seen radical change (and it has), we are still burning black rocks to keep the lights on and the Blackberry alive. So it was inevitable that the third transformation is now taking place.

Sir Terry Leahy, CEO of Tesco, the major UK retailer, may have characterized this new transformation best (*The New Yorker*, February 25, 2008):

"There comes a moment when it is clear what you must do. I am determined that Tesco should be a leader in helping to create a low-carbon economy. It is to take an economy where human comfort, activity and growth are inextricably linked to emitting carbon and to transform it into one that can only thrive without depending on carbon. This is a monumental challenge."

We are, quite literally, in a brave new world. CEOs own the full sustainability agenda.

The Right C-Suite Conversation

The Conference Board's 2008 *Corporate Citizenship and Sustainability* conferences had one simple and compelling conclusion: *The race is on to create the company that society will want to exist.* A few messages from those meetings follow:

Larry Selzer, CEO of The Conservation Fund, in his keynote address made reference to the fact that 7 of 10 Americans distrust CEOs of large corporations, and nearly 8 in 10 believe executives of large companies will take "improper actions" to help themselves at the expense of their companies. This – in stark contrast to corporate claims to responsibility, stewardship, and citizenship – defined as being vested with the rights, privileges and duties of a corporation.

Matt Kisler, Senior Vice President of Sustainability for Wal-Mart, gave insights into the bold commitments CEO Lee Scott is driving and the increased focus on suppliers.



Kim Jefferies, CEO of Nestle, N.A., told how the Swiss-based company in a business that respects natural resource constraints and social and demographic realities is poised for the future.

Peter Senge suggested that the extraordinary constraints of natural systems and our entirely unsustainable *modus operandi* will unleash huge creativity and innovation in the years ahead.

Pat Penman (SC Johnson) quoted H.F. Johnson, Sr. (1927): “The goodwill of the people is the only enduring thing in any business. It is the sole substance ...the rest is shadow.”

Jane Nelson of Harvard noted that, at the World Economic Forum in Davos, global environmental and CSR issues were among the top two matters for CEOs – and growing at the scale and speed of change unimaginable even four years ago.

The War for Talent was a common theme. The United States will launch 70,000 graduates, India 350,000, and China 700,000 graduates!

Leading executives from around the world reinforced the formula for change. **Akhtar Badshah (Microsoft), Bo Miller (Dow), Brian Boyd (Johnson & Johnson), David Knight (WebEx), Niels Christiansen (Nestle), Phil Lewis (Rohm & Haas), Neil Hawkins (Dow), Niel Golightly (Shell), and David Kiser (Eastman Kodak)** among others painted a picture of transformation, grounded in values that transcend decades.

Tomorrow’s leaders will be those who see the changes in the world clearly. They are willing to boldly redefine their businesses to be 21st century winners. Surviving and thriving in the 21st century demands a profound global mindset, radical innovation, and rethinking everything. Happily and sadly, this is all about our kids.

With knowledge – and global reach – comes responsibility. And with responsibility comes a call to action.

Actions to Take Now

Our current work with global leaders who, as Senge noted, “*are able to allow signals of a radically changing world to penetrate their corporate immune system*” suggests three actions to take now...

1. *Keep a Finger on the Pulse.* See the world your company will compete in tomorrow and conduct 24/7 competitor benchmarking to understand material impacts on your company. Use these insights to drive innovation in strategy and products, beating competitors to the punch.
2. *Get Environmental Governance Right.* Completely rethink, reshape, and redefine the structure, processes, and conversation from the boardroom to the shop floor.
3. *Get your Sustainability Strategy Right.* As Scott Noesen of Dow says, the past was all about *addition* (incremental improvement) and *subtraction* (waste reduction). The future is about *multiplication* (step-change investment in new green products) and *division* (shedding unsustainable businesses).

Conclusion

2008 marks a turning point in history. It is the year the kaleidoscope of peak oil, climate change, and financial meltdown worldwide landed on the plate of Barack Obama – and all of us. Like the “magic eye” books that we read to our kids many years ago, where suddenly the maze of colors and figures came into sharp focus – the race is on to invent the next industrial revolution while also succeeding financially.

These times pose stark questions about sustainability for those who see robust growth opportunities in a greener future. Yet, leading companies are quietly taking a long-term view – seeing huge growth opportunities in cleaner and greener products and services. These companies have embarked down a leaner, fitter path that *soon* will seem so obvious to all.

About the Author

Gib Hedstrom has 25 years of experience in helping boards of directors, CEOs, and senior executives manage environmental and social issues to reduce cost, limit risk, and strengthen reputation and shareholder value.

For more information about this Insight contact Gib Hedstrom at gib@hedstromassociates.com, or by phone at 978.371.9814. Visit our website at www.hedstromassociates.com.

