

# Meeting business' greatest transformational challenge

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# Shift happens

- Which two companies combined are worth 5% of Exxon? Google? Ford? GE? GM? P&G?
- Rank these countries by CO<sub>2</sub>e emissions  
Japan – USA – Australia – Indonesia
- Which countries rely most on coal for electricity?  
USA – China – South Africa
- Of Malaysia's top ten companies, what percentage are in hitech? banking? oil palm?
- Which company employed 22,000 people in 2000 and 4 in 2008?

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# In this presentation

- The significance of high impact industries in developing/emerging economies
- Barriers to high impact transformation
- Lessons from past transformations
- A model for managing transformation

# High Impact Industries

- Strong negative association with climate change
- Significant economic importance
- Major transformational challenges

# Transformation vs Transition



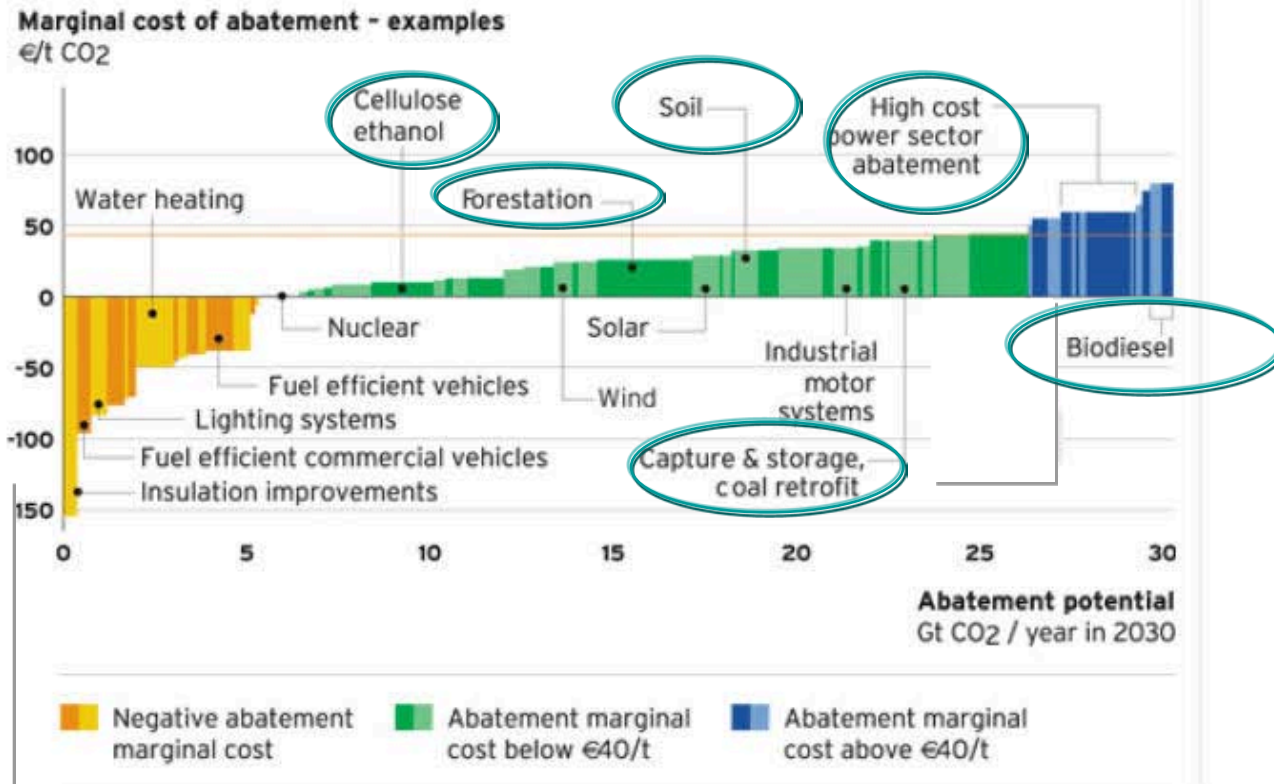
- Gradual
  - Incremental
  - No fundamental shift
  - Motivated by internal efficiency
- Sense of urgency
  - Significant leaps
  - Profound change
  - Motivated by pressure on organisation's licence to operate

# Business' core values

- The right to make a profit
- Fiduciary duties to investors/owners
- A responsibility to support free markets
- A duty of care to wider society
- The need to maintain a licence to operate

# Industries with impact

## Global cost curve



Timber/  
logging  
Coal power  
Palm oil

Vattenfall 2007. <http://www.vattenfall.com>

# Coal power

- 20% of global GHG emissions
- 500MW plant = 3 mln tons CO<sub>2</sub>/year
- 86% of incremental coal demand til 2030 will be from BRICS



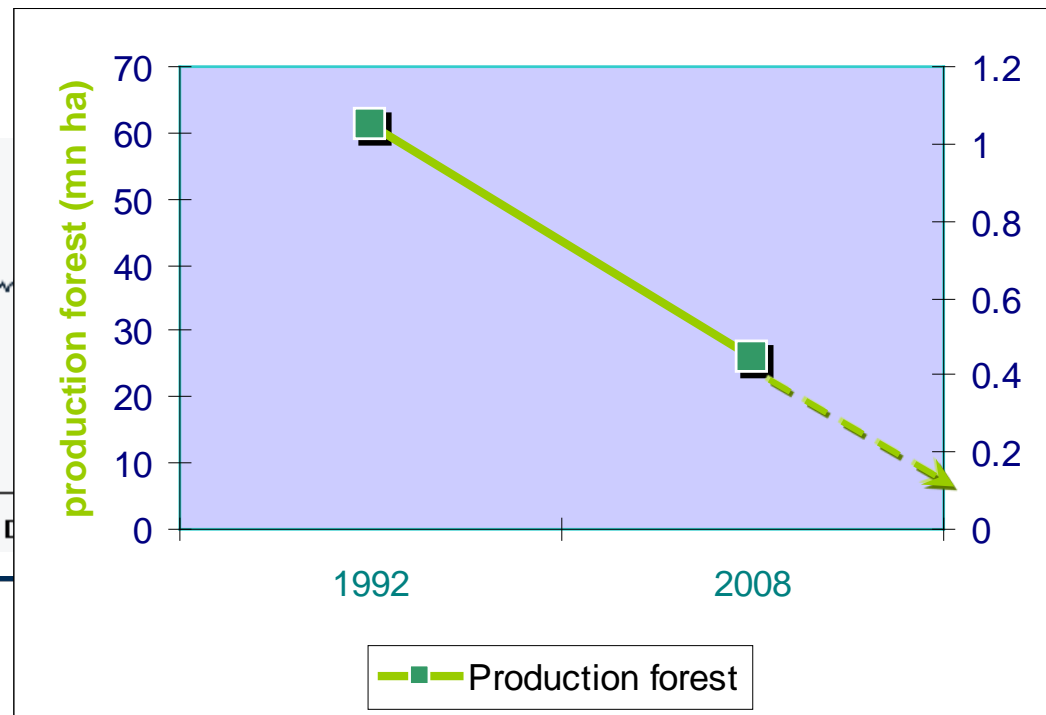
# Coal power in South Africa

- 95% of national energy
- Surplus capacity
- Nuclear investment on hold
- RSA 'under-polluted'
- Political and developmental significance of cheap electricity



# Indonesia timber/logging

- \$87.8 bn market cap worldwide
- Recession hit
- RI is amongst largest CO<sub>2</sub> emitters
- Accelerated deforestation since move to democracy



# Palm oil

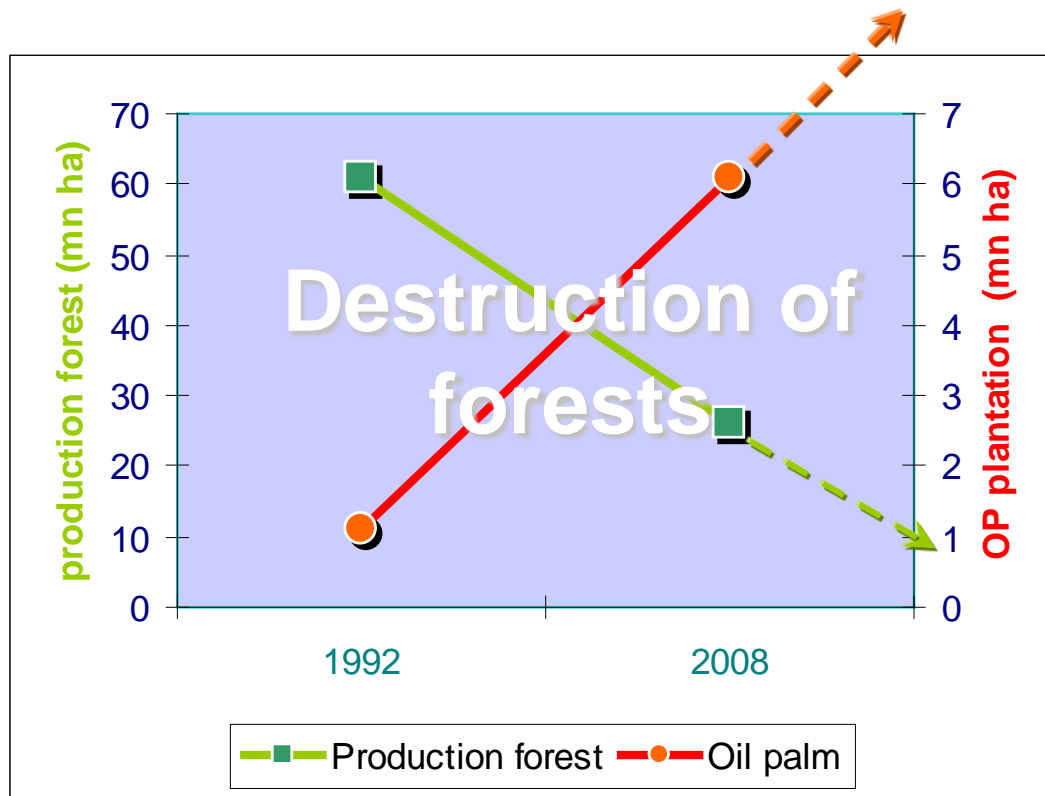


# Students on palm oil

What comes to mind when you think of PO?

- Don't know – 20%
- Clean hands – 4%
- Affordable food – 10%
- Rainforest destruction – 28%
- Orangutan extinction – 30%
- Climate change – 6%

# The next generation of political and business leaders associates palm oil with ...



# Perceptions of high impact industries



# Opposition Perceptions

- “cooking the climate”
- “the evil operators of dirty power”
- “not evil, just wrong”
- “it is time for civil disobedience to prevent the construction of new coal plants that do not have carbon capture and sequestration”
- “in 2009 I pledged to only wipe my bum with my hand”


# Business perceptions

- Protectionism
- Developed world's debt to the poor
- Neo-colonial interference
- Where is the investment coming from?
- We want sustainable supply chains
- Self-regulation preempts bad legislation

# Transformation to what?

- Close down the industries
- Fight off the colonialists
- The journey from A to find C

# 'Extinguish these climate cooking killers'<sup>TM</sup> Greenpeace

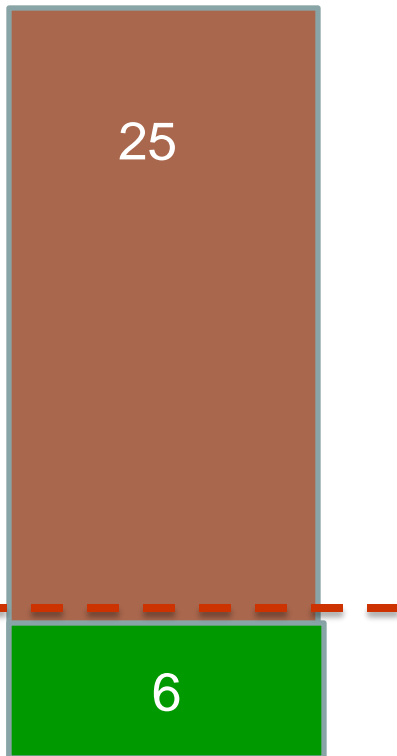
- 
- 95% of energy in S Africa
  - 1m direct jobs in oil palm
  - Affordable food
  - Strong long-term ROI
  - Successful indigenous economic growth
  - Areas of competitive advantage vs other emerging economies
  - Contribution to political stability

# 'This is CO<sub>2</sub> colonialism'™ Walhi

- Global problems with local costs
- Developing countries will lose out in climate change head to head
- Importing countries will count embedded carbon



# The journey from A to find C



95% of power

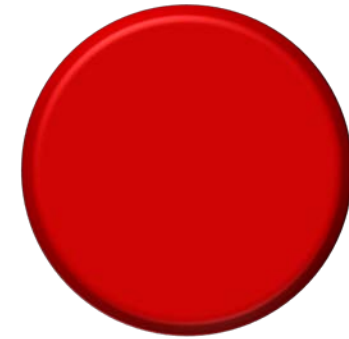
\$275 bn industry

6-8 million jobs

# Five forces of transformation

contested

Extent to which there is the need for and plausible provision of technological solutions



Technological plausibility

possible

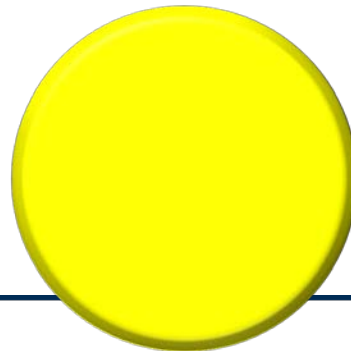
# Five forces of transformation

contested

Financial viability

Extent to which change can be achieved at acceptable financial cost (risk and opportunity)

possible



# Five forces of transformation

contested



Societal desirability

Extent to which society wants the change, and recognises it to be for society's good

possible

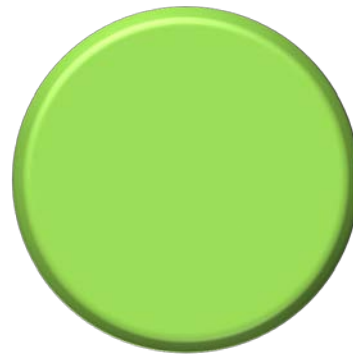
# Five forces of transformation

Regulatory feasibility

contested

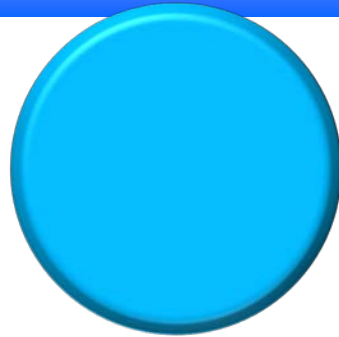
Extent to which change can  
be realised through  
government regulation

possible



# Five forces of transformation

contested

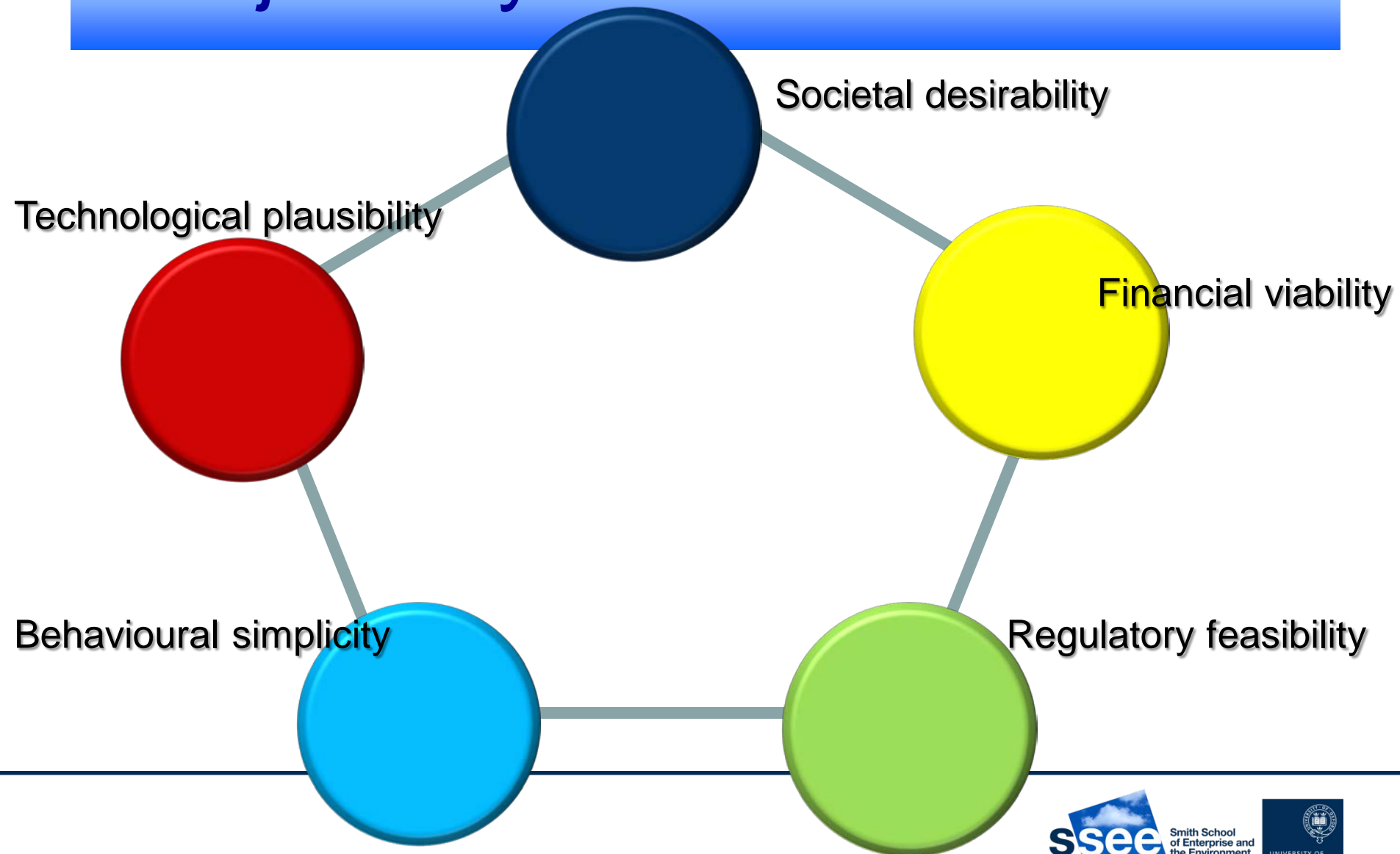


Behavioural simplicity

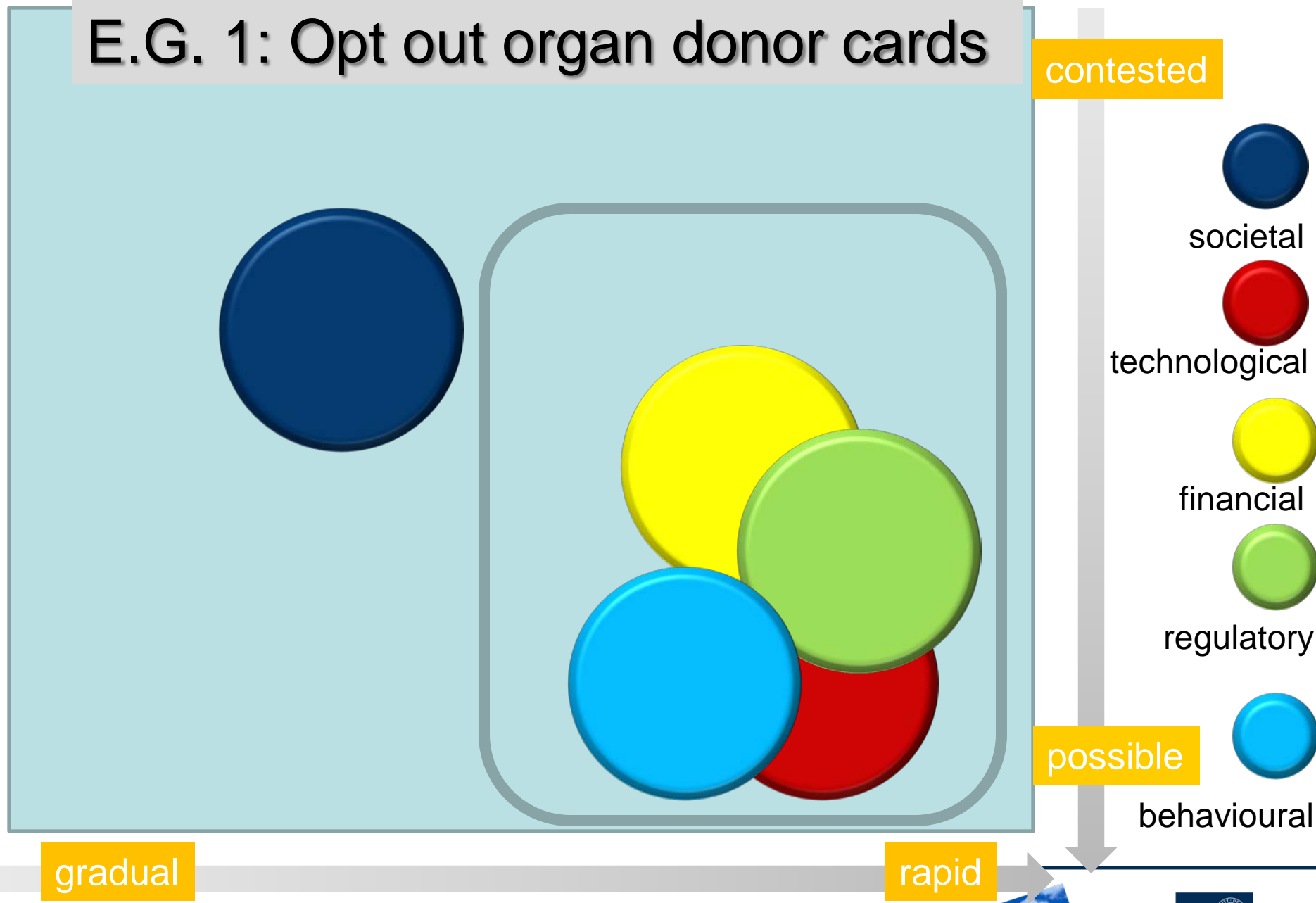
Degree of difficulty in behavioural changes required to shift from current to desirable state (Institutional and individual)

possible

# The journey from A to C



# E.G. 1: Opt out organ donor cards



gradual

rapid

contested

possible



societal



technological



financial



regulatory

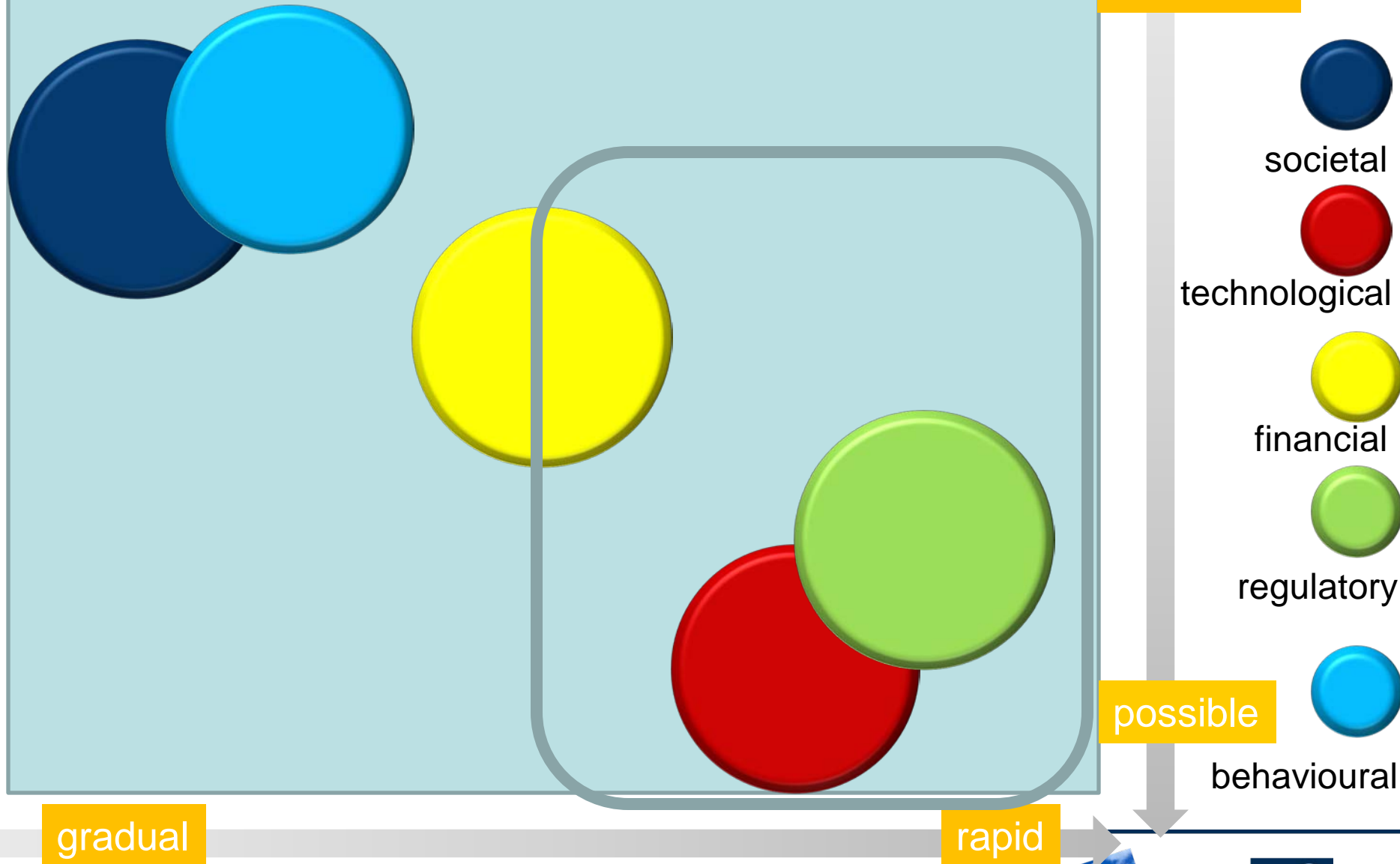


behavioural

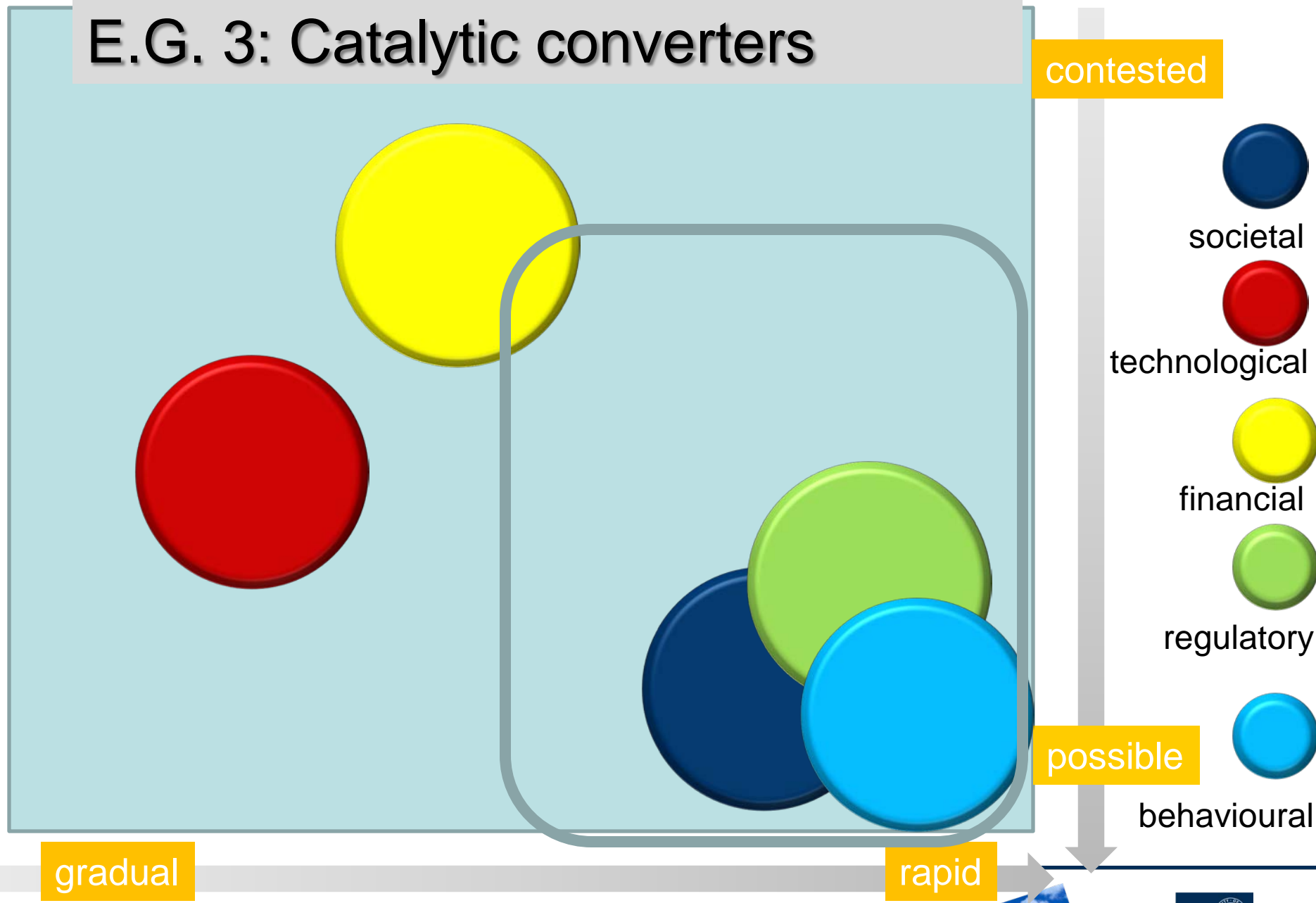
# E.G. 2: Alcohol prohibition



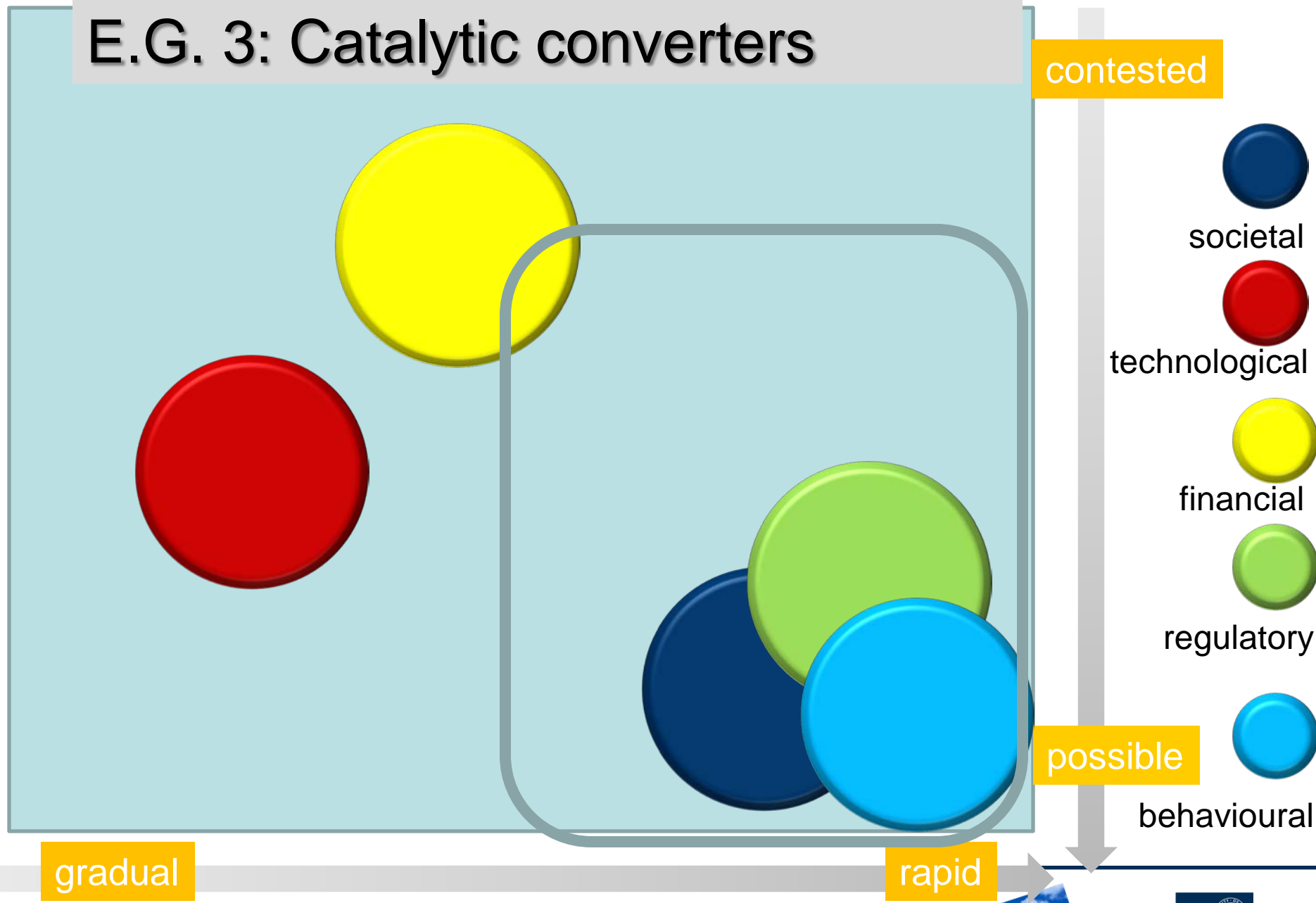
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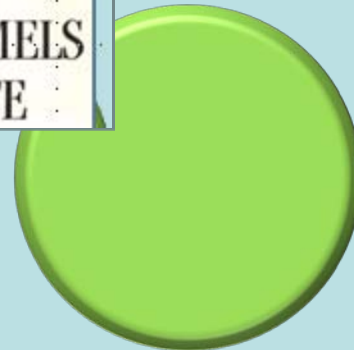
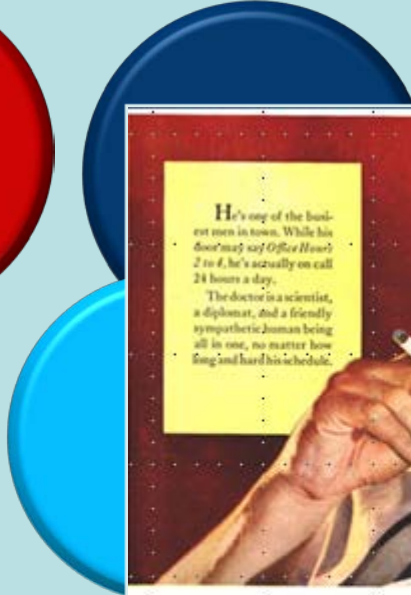
# E.G. 3: Catalytic converters



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# E.G. 4: Tobacco and health



contested



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behavioural

possible

gradual

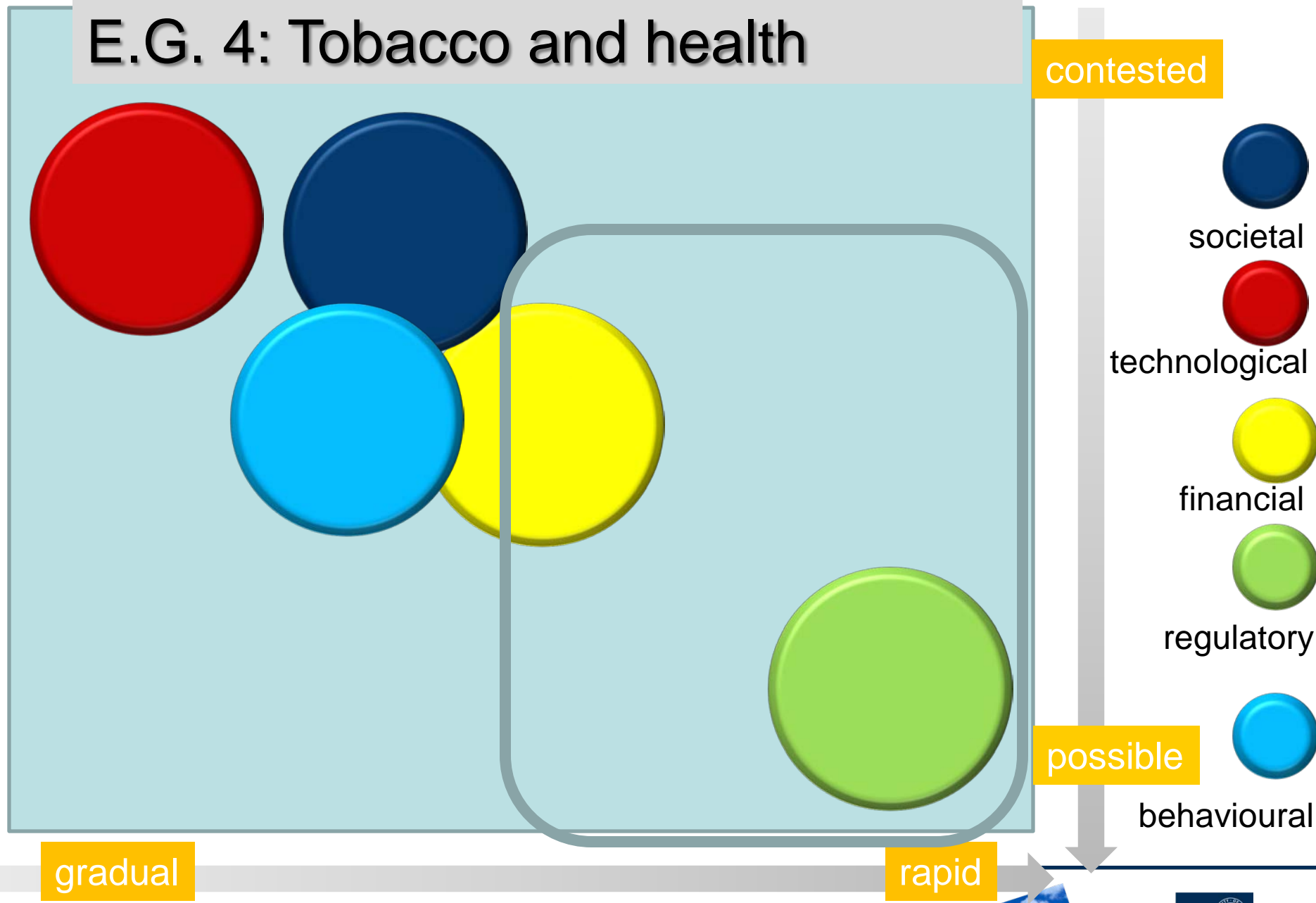
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# E.G. 4: Tobacco and health



contested



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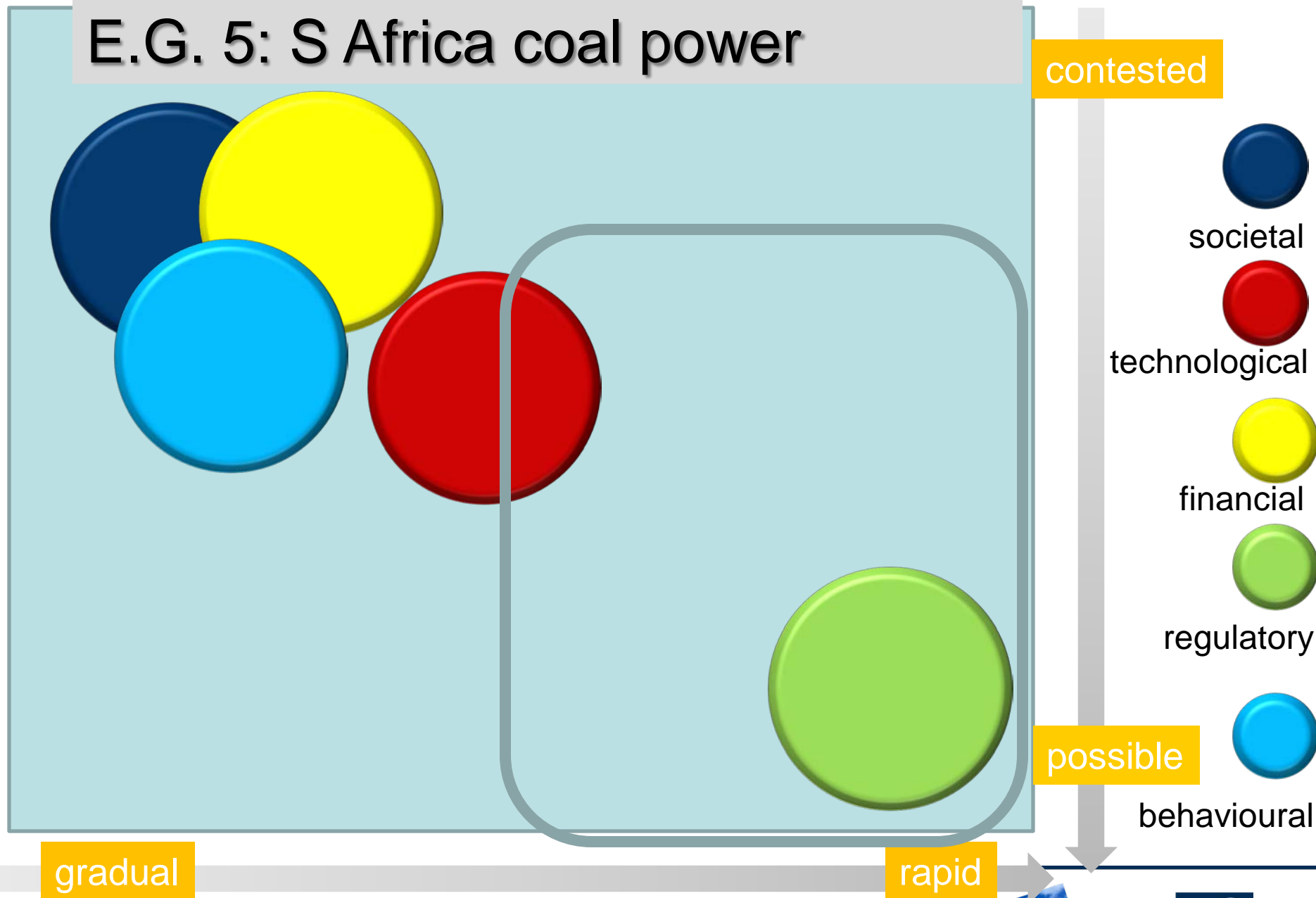
behavioural

possible

gradual

rapid

# E.G. 5: S Africa coal power



# E.G. 5: S Africa coal power

Vastly inadequate  
inward investment



Investor pressure to  
change (but little  
guidance)

Focus on new  
technologies not old  
heritage



Very weak technical  
skills base

High short/medium  
term political and  
economic costs of  
transformation

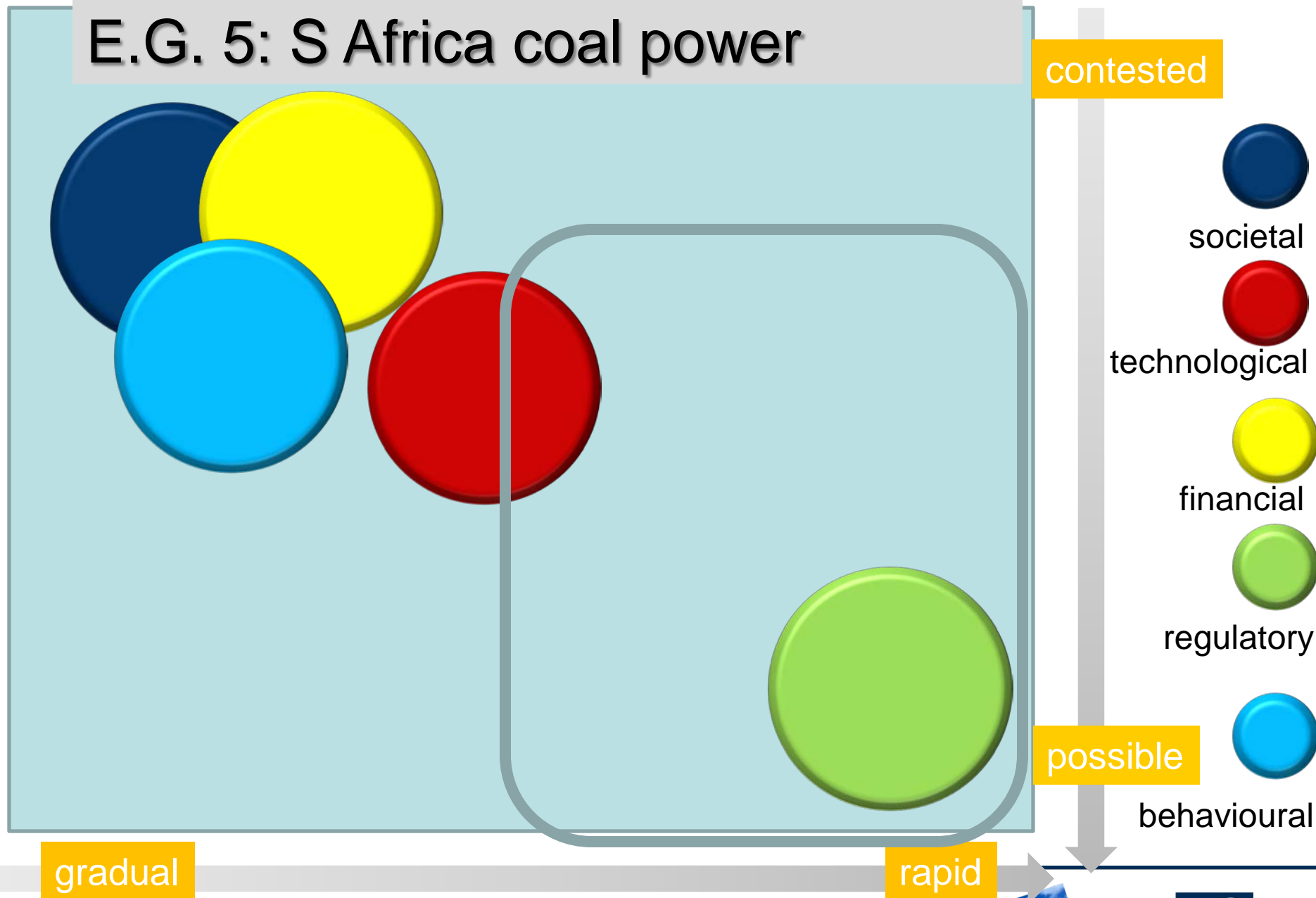


Energy policies ignore  
transformation



Skills shortage

# E.G. 5: S Africa coal power



## More than finance and technology?

- Would it bankrupt an industry?
- Was the industry in decline?
- Could technology replace slave labour?



CHARLESTOWN, *April 27, 1769.*

TO BE SOLD,  
*On WEDNESDAY the Tenth Day of*  
MAY next,

A CHOICE CARGO OF

Two Hundred & Fifty

**NEGROES:**

**A**RRIVED in the Ship  
COUNTESS of SUSSEX, THOMAS DAVIES,  
Master, directly from GAMBIA, by

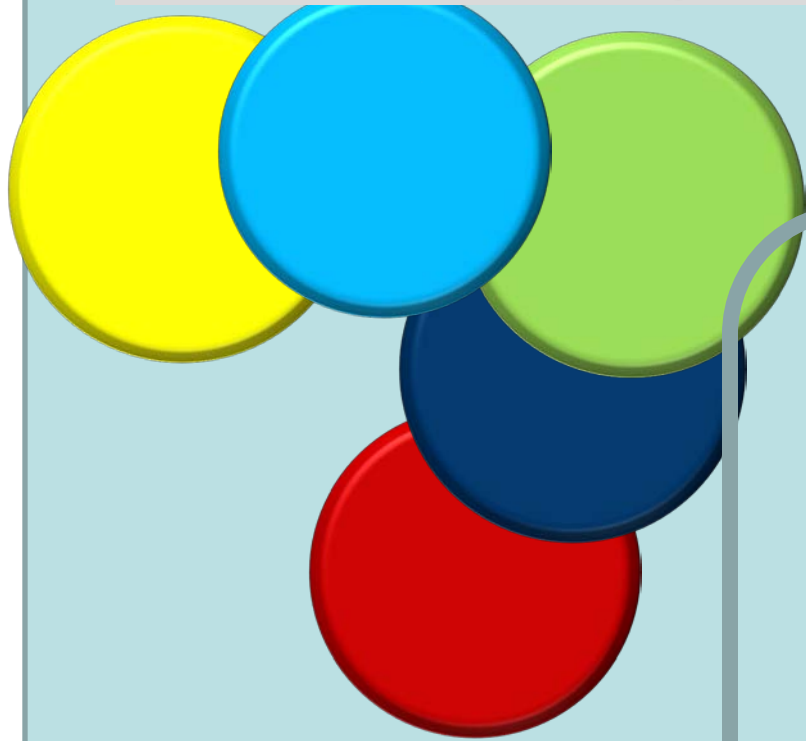
JOHN CHAPMAN, & Co.

*THIS is the Vessel that had the Small-Pox  
on Board at the Time of her Arrival the 31<sup>st</sup> of  
March last: Every necessary Precaution hath since  
been taken to cleanse both Ship and Cargo thoroughly,  
so that those who may be inclined to purchase need not  
be under the least Apprehension of Danger from In-  
fection.*

*The NEGROES are allowed to be the likeliest Parcel  
that have been imported this Season.*

1769

# E.G. 6: Slavery



contested



societal



technological



financial



regulatory



behavioural

possible

gradual

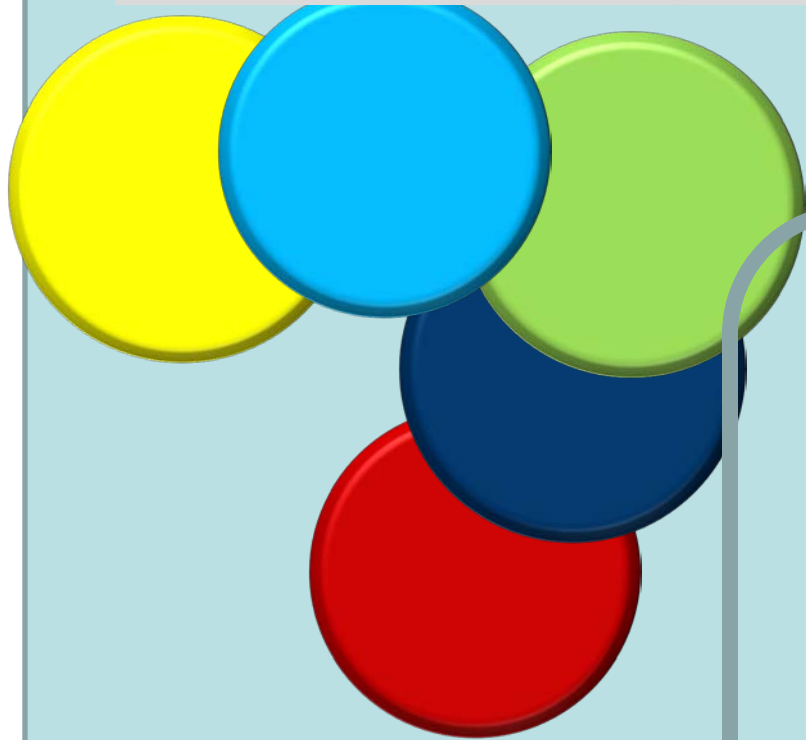
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# E.G. 6: Slavery



contested



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regulatory



behavioural

possible

gradual

rapid



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# E.G. 7: Palm oil

Bad for the environment

Wealth for smallholders

Bad for biodiversity

Good for health  
24% of vegetable oil

Bad for the environment

Good for economic growth

Good for the environment

contested



societal



technological



financial



regulatory



behavioural

possible

gradual

rapid



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# E.G. 7: Palm oil



contested



societal



technological



financial



regulatory



behavioural

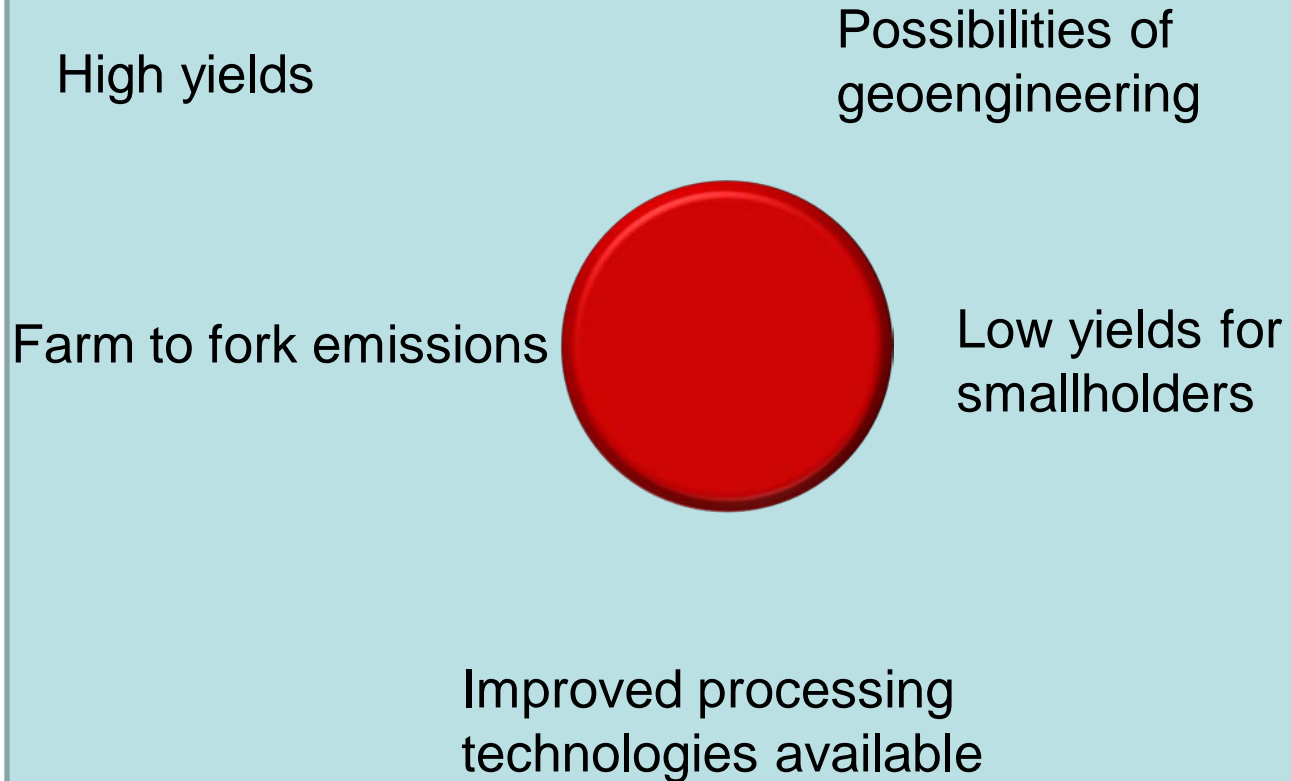
possible

gradual

rapid



# E.G. 7: Palm oil



contested



societal



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regulatory



behavioural

possible

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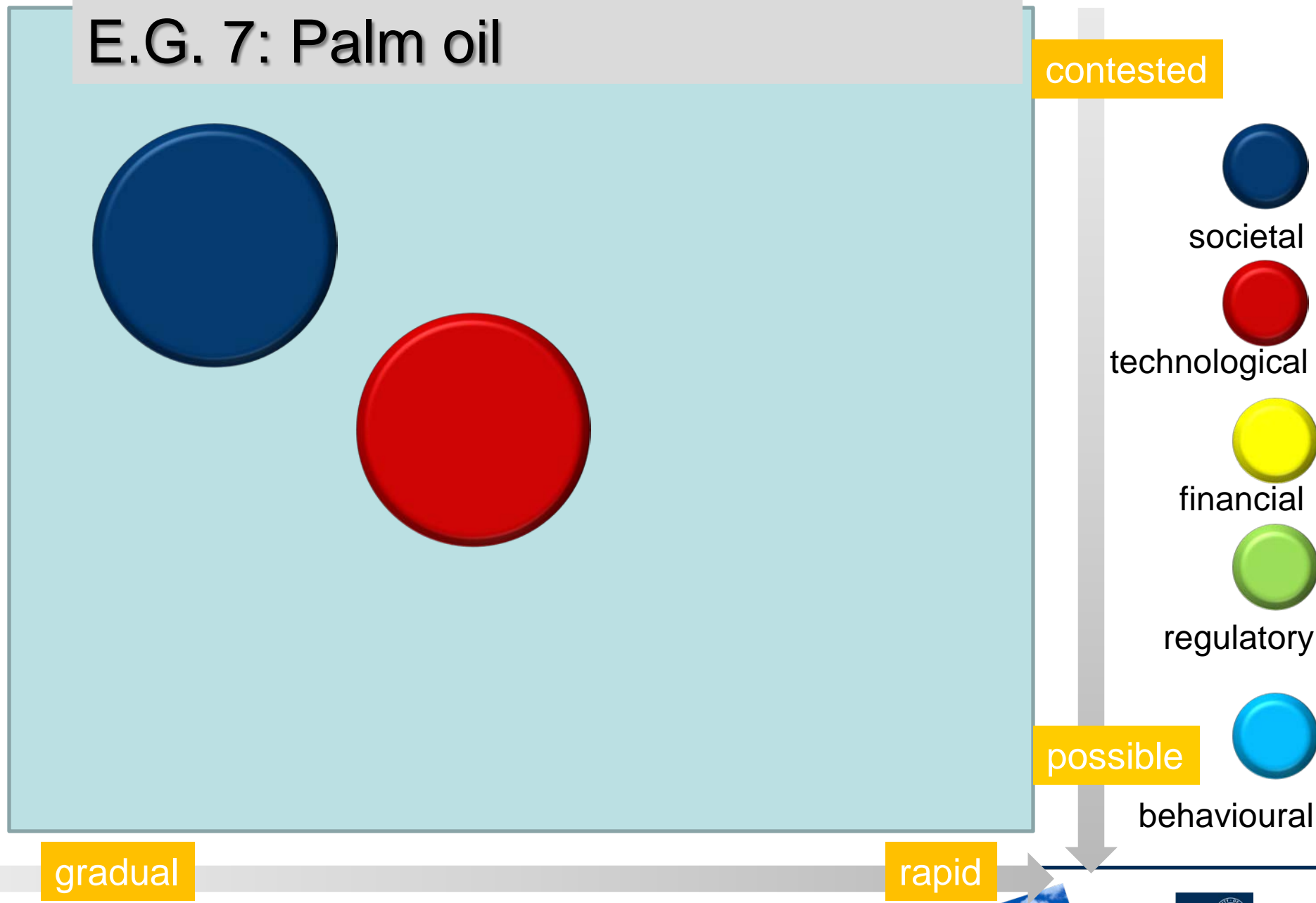
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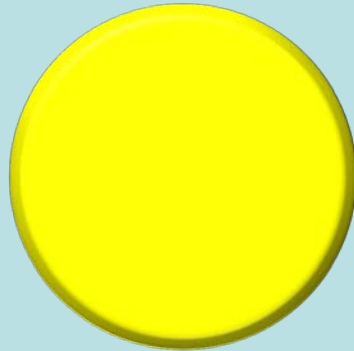
# E.G. 7: Palm oil



# E.G. 7: Palm oil

Popular with pension funds and insurance firms

\$275 bn industry



Reasonable medium term prospects

Emerging market success story  
- Wilmar  
- IOI

contested



societal



technological



financial



regulatory



behavioural

possible

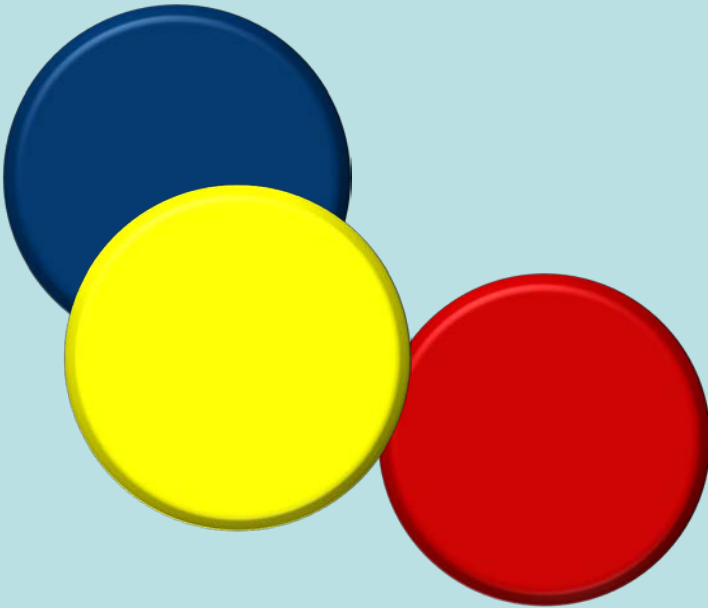
gradual

rapid



# E.G. 7: Palm oil

contested



societal



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financial



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# E.G. 7: Palm oil

Conflict of interest  
between producer and  
consumer jurisdictions



EU biofuel regulation

ASEAN forest  
legislation

Food labelling

Industry self-regulation

contested



societal



technological



financial



regulatory



possible

behavioural

gradual

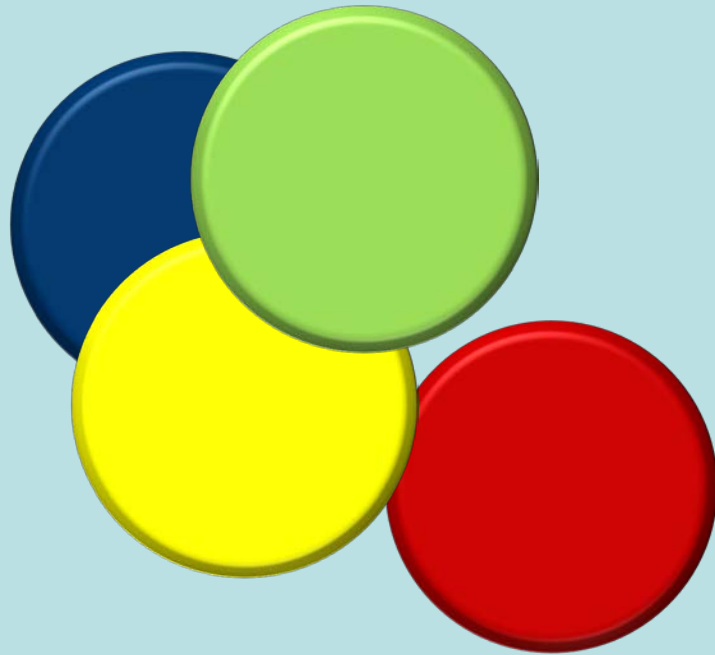
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# E.G. 7: Palm oil



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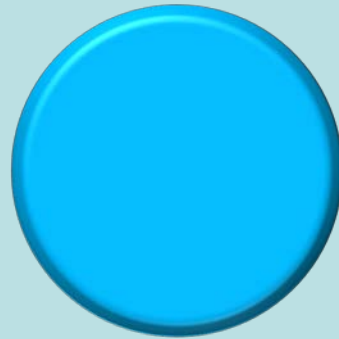
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# E.G. 7: Palm oil

Consumer taste –  
cosmetics, food,  
cleaning, mobility

Substitutes more  
damaging or more  
expensive?



Mixed messages

Consumers unaffected  
by consequences of  
their choices

<10% of plant  
management have post  
high school education

contested



societal



technological



financial



regulatory



possible

behavioural

gradual

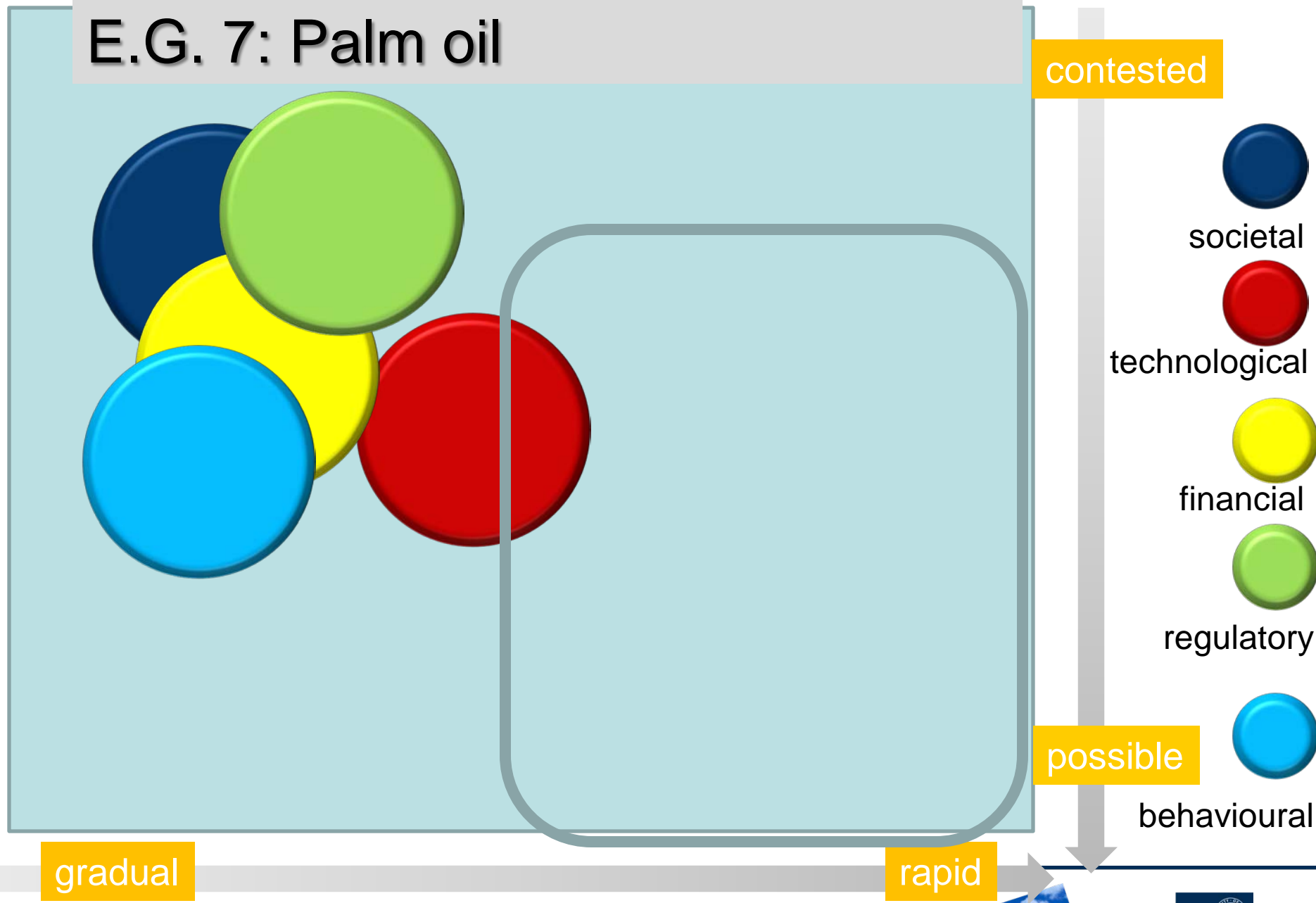
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# E.G. 7: Palm oil



# Learning so far

Principles of transition don't help in climate change context

Huge challenges with real consequences met with enthusiasm, misunderstanding and incompetence

Visions of change built on articles of faith more than acceptance of facts

Visions of stasis need to be taken seriously

Drivers of change can be barriers to change

Silver bullets more seductive than accurate

# Learning so far

There are historical precedents

There is a willingness to engage across a broad spectrum

Growing recognition of climate change's significance in business

Growing body of experience to learn from (good and bad)

Humans aren't as stupid as they appear (Harry)

