Finding ‘True North’ for Sustainable Business
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Reflections on closing the gap between ambition, strategy and execution on what it will take to find ‘True North’ for business in the transition towards a sustainable economy.

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This paper is intended as a bridge between business and academia, drawing on applied research and experience blended with academic research. From our research and experiences, we see business leaders increasingly recognize the importance of sustainability for instrumental and normative reasons, and they believe that there is still work to be done in embedding environmental, social and governance issues into core business.¹ But looking at the pace and scale of efforts to date, current business activities on sustainability may represent a journey towards a ‘magnetic north’ of incremental change, rather than towards the transformative ‘true north’ of a sustainable economy. True North is where the whole adds up to more than the sum of the parts at an aggregate level and meets the needs set out by the best science we currently have available on sustainability.

This paper outlines the sustainability challenge, and identifies two key gaps that will need to be addressed in order to bring about what academic literatures refers to as the ‘grand transition’ towards sustainability: the ‘Execution Gap’, between business leaders’ ambition for sustainable business and the level of implementation currently being achieved; and the ‘Transformation Gap’, between current levels of understanding and ambition on the one hand, and the radical change that will be required economy on the other. The paper finishes with some of the big questions that business leaders, academics and other stakeholders will increasingly need to ask to set global business on a pathway towards a sustainable.

¹ Definitions of sustainability and sustainable business abound. As a working definition - and an aspiration: at the individual level, we use the term ‘sustainable business’ to mean a company or organization that creates value for owners, stakeholders and society through its products and services, operations and value chain, while delivering a ‘net positive’ social, environmental and economic impact, embedded within this concept is the idea of ‘zero-harm’ to people and planet; and at the aggregate level, we take ‘sustainable business’ to mean the ‘net positive’ contribution of businesses to global sustainable development, “development which meets the needs of current generations without compromising the ability of future generations to meet their own needs”. Put another way, a sustainable business ‘system’ that aligns market outcomes with sustainable development outcomes.
History is marked by waves of transformational change: from great wars and the end of slavery to the advance of globalization and the technological revolution, gradual accumulations of social and political pressure have resolved themselves in an avalanche of tumultuous change. For many, the coming century will be the era of sustainability: a period when environmental pressures become so great that they provoke irreversible change in the global economy.

Twenty years on from the original ‘Earth Summit’ – which saw the first systematic engagement of business on the sustainability journey – Rio provides an important and timely juncture to reflect on the state of the business contribution on the journey towards sustainable development: has sustainable business delivered more or less success than meets the eye, and where does ‘True North’ lie for the business contribution to sustainable development at Rio+20 and beyond?

This paper is intended as a reflection on progress in corporate sustainability, and an assessment of what will be required on the part of global business to bring about a ‘grand transition’ to a sustainable economy in which the world’s population can live well and within the planet’s resources.¹ Throughout this paper, we use the term ‘transition’ to mean:

‘...the shift from one dynamic condition to another [...] a permanent and irreversible shift during which one view of common sense is replaced by another.’²

We anticipate the need for a ‘grand transition’, in which ‘norms, practices, ways of thinking, and values undergo profound change’.³ The ‘grand’ nature of the required transition specifically excludes inventions, modifications and improvements to existing systems and ‘business-as-usual’: these are regarded as part of the incremental changes implicit in the existing ‘dynamic condition’, but as insufficient in themselves to propagate the transformation required to bring about a sustainable economy.

In assessing the progress of the global economy towards a grand transition of this nature, we will draw on our own client experience, academic study and practitioner research, as well as ‘standing on the shoulders’ of the wealth of material written in recent years on the subject of corporate sustainability.

We will argue that the current focus on execution – whilst an essential component of companies’ strategies in advancing environmental, social and governance goals – risks breeding overconfidence, as businesses set their sights on a ‘magnetic north’ of incremental change, rather than the ‘true north’ of a transformation towards a sustainable economy. As any traveller will tell you, magnetic north is a close cousin of true north, but the ‘declination gap’ between the two has the potential to leave travellers off course by several miles over the course of a long journey; the journey towards a sustainable economy certainly fits that criterion.

Whilst any objective assessment must recognize significant progress in advancing the sustainability agenda within global business, there is a growing sense of unease amongst sustainability professionals: some speak of a ‘dirty little secret’ that, while publicly celebrating growing awareness and achievement, many are privately pessimistic about the direction of the global economy as it diverges from a pathway of sustainability.

In the context of the transformation required to propagate a sustainable economy, modifications and improvements to existing systems may place too great an emphasis on the power of manageable, incremental change. We will suggest that corporate sustainability is beset by overconfidence, and constrained by limited ambition; and that business must guard against the complacency that incremental success could bring, and instead confront the awkward questions that a more complex and unpredictable transition will pose.
Global challenges are mounting: If we continue on a business-as-usual trajectory it is predicted that, by 2050, we will need 2.3 planets worth of ecological resources to support our population of more than 9 billion. The world will face a 40% global shortfall in water between forecasted demand and available supply by 2030. And we will need up to 11% per annum reductions in energy intensity on every global dollar of economic output, everywhere, every year till 2050, to reach the 450ppm upper target for atmospheric CO2 established in 2007 by participants on the Intergovernmental Panel on Climate Change.

In getting our bearings right for the future of sustainable business, we need to set direction for ‘True North’ and the degree of transformational change and innovation required to align the power of market forces with sustainable development. True north innovation on sustainable business means resetting direction from the misleading, frequently distracting and often over-celebrated ‘Magnetic North’ of incremental change – or at least from the idea of incremental change as an ‘ends’ rather than a ‘means’ upon which to build. True north means advancing the sustainable business agenda beyond examples of innovation by pioneers at the margins, to rethinking and reinventing the way we live, work, play and interact as societies. True north means leaders asking the questions that re-orient sustainable business towards scale at speed by triangulating strategy with science, stakeholders and an appreciation of the complex, adaptive and interrelated systems that make up our world. True north means transition and transformation to a sustainable and bright new future.
True North Innovation & Sustainable Business Journey

‘Transition’ to a Sustainable System (‘True North’)

Emergence of Sustainable Business Examples (‘Magnetic North’)

Transformation Gap

‘Incremental Change’

Execution Gap

‘Business as Usual’

Decline until Shock or Systems Collapse (‘Current Direction’)

This illustrative diagram demonstrates the current and potential pathways of the global economy, and the gaps that business must address in order to set the global economy on the most desirable of these pathways and move towards a sustainable economy.

‘Business as Usual’ is the current trajectory of global business; ‘Incremental Change’ the trajectory that could be achieved if global businesses each achieved their own ambitions for sustainability. The gap between these pathways represents the ‘Execution Gap’.

The third pathway, ‘Transformational Change’, charts a course towards the ‘True North’ of a sustainable economy, exemplified here by the realisation of Vision 2050, a world in which nine billion people can live well, and within the planet’s resources, by mid-century. The ‘Transformation Gap’ shows the disparity between the ‘best case’ scenario for sustainability under business-as-usual, and the path that will be necessary to achieve a sustainable global economy.
Awareness and commitment
Laying the foundations

It is apparent from a wealth of recent research that business leaders are acutely aware of the importance of sustainability for their business. Fully 93% of CEOs questioned in the recent UN Global Compact-Accenture CEO Study, *A New Era of Sustainability*, reported that sustainability issues would be ‘important’ or ‘very important’ for the future success of their business.⁷ Similarly, 88% of respondents in a recent MIT Sloan/BCG survey believed that ‘sustainability-driven strategies’ would be necessary to be competitive in the future.⁸

While we will argue later in this paper that corporate sustainability is marked by overconfidence, and that deeper analysis may uncover less success than meets the eye, there is some significant encouragement in the levels of commitment and understanding displayed by business leaders. While it may be tempting – and justified, in some cases – to dismiss businesses’ greater focus on sustainability as lip service to fit in with the currents of the age, our in-depth conversations with CEOs reveal not only an acute and detailed understanding of sustainability challenges – resource scarcity, climate change and human health, among others – and their potential impacts on individual industries, but also a genuine commitment to change. In this regard, perhaps, it could be argued that there is more success than is readily apparent in embedding sustainability at the centre of the corporate agenda – and not only in industries traditionally shaped by environmental concerns and resource constraints.

This belief in the centrality of sustainability to business success is beginning to be translated into action: 70% of CEOs in the UNGC-Accenture study in 2010 reported their company to be incorporating environmental, social and governance issues into their core business more than five years ago, and the
same proportion of respondents to the 2011 MIT survey indicated that their organisation would step up its investment in sustainability over the coming year. More recent research suggests that this ambition met with success: 68% of respondents to MIT Sloan & BCG’s latest survey of business leaders reported that their organization’s commitment to sustainability, in terms of management attention and investment, had increased over the past year.

As investment in sustainability increases, motivations are shifting. The initiatives of leading companies show a significant shift away from marketing-led ‘social responsibility’, and towards sustainability as a non-negotiable element of core business, driven by the traditional business imperatives of revenue growth, cost reduction, risk management and brand & intangibles. While ‘brand, trust and reputation’ remains an important motivator for CEOs surveyed in the UNGC-Accenture study, with 72% listing it among their primary motivations, 44% recognise the potential for revenue growth and cost reduction, with consumers the most influential stakeholder in driving action on sustainability.

What’s more, we can point to examples of sustainability permeating corporate strategies, operations and supply chains around the world in a way that would have been almost unthinkable five or ten years ago. Not just niche disruptors on the margins of markets, but mainstream players in multiple industries. Take the consumer goods sector and Unilever’s much celebrated ‘Sustainable Living Plan’, which interwoven with its business strategy for the next decade, plans to double the top line while in effect halving its environmental footprint and empowering 500,000 smallholder farmers in the process; SAB Miller, Diageo and other brewers’ efforts to rethink water and agriculture in their supply chains; or Natura, the Brazilian cosmetics and personal care brand that sources from natural biodiversity in the Amazon rainforest and empowers one million women as sales agents in their communities, investing in their wellbeing as well as their commercial success. Take a range of companies driving disruptive innovation in the apparel and footwear industry such as Nike with its ‘Better World’ initiative to re-orient its end-to-end value chain; Puma with its ground-breaking approach to valuing and reporting the economic consequences of its environmental impact; Patagonia’s counter-intuitive business strategy to encourage consumers to consume less of its products through its ‘Common Threads’ initiative; or Timberland’s innovative approach to thinking through cradle-to-cradle business models starting right back at the beginning of the design process using innovative computer technologies that allow you to model the differences between using black and brown leather for a pair of Earthkeeper shoes; or Marks and Spencer’s efforts at the retail end of the spectrum to drive a disruptive ‘closed-loop’ approach to fashion with recycling and re-use of clothing.

Take companies like Vodafone using sustainability as an ‘innovation lens’ for new products and services ranging for mobile banking, to machine-to-machine technologies at the heart of smart energy or efficient, connected agriculture. Or take the incredible shift in research and new product development in industrial technology players such as Siemens, General Electric or Schneider who are already making hundreds of billions of dollars collectively out of their current and future solutions that directly tackle sustainability issues.
Making progress
The execution gap

Beneath the encouragement of these headlines, though, it is equally clear that business leaders are encountering significant challenges in embedding sustainability into their organizations. While many leading companies can point to examples of successful initiatives, there is increasing concern over their ability to execute and scale these initiatives sufficiently to have a significant impact on sustainability challenges.

The majority of recent work on sustainability, from a corporate and practitioner perspective, has focussed on the execution of sustainability strategies: the efforts of business leaders to put into action the ambitions they hold in integrating environmental, social and governance issues into core business. The challenge of execution provides the foundation of many of our conversations with business leaders, and most are clear that sustainability is still at a stage where a relentless focus will be required to drive these issues into core business.

Closing the ‘execution gap’ is about delivering real progress against the targets we have already set, whether those are national targets such as those within Kyoto, or the strategies and targets being set by industries and individual companies. This is about embedding sustainability into the heart of organizations – into marketing, R&D, supply chains, IT, HR, finance – and using the existing business toolkit to get serious about delivery and shift the global economy off the ‘business as usual’ trajectory, which, at the most extreme end of the spectrum, risks the collapse of social and environmental systems. Put another way, the ‘execution gap’ is about ‘walking the talk’.

The UNGC-Accenture CEO Study exposed significant gaps between business leaders’ ambitions for sustainability and the realities of execution. In almost every facet of sustainable business, the study revealed a disparity between what CEOs thought companies should do, and what their own company had achieved. These ‘execution gaps’ appeared particularly in relation to embedding sustainability through the supply chain and subsidiaries; to performance management; and to the capabilities of employees and management. While 88% believed that companies should extend their sustainability policies through their global supply chain, only 59% reported that their company had done so; similarly, 72% believed that sustainability issues should be incorporated into discussions with financial analysts, but just 51% reported that their company had such discussions. Questioned on the barriers to execution, business leaders cite the complexity of implementation, competing strategic priorities, and a lack of recognition from the financial markets as critical factors.¹¹

From strategy to execution: Closing the gap

Beyond the internal barriers to execution, what is holding business back from realising its sustainability ambitions? At the heart of many of our discussions with business leaders in recent years has been the ‘dialogue of the deaf’ between companies and investors:

“During the interviews conducted as part of the UNGC-Accenture CEO Study, we encountered what we began to call the 40-minute ‘investor moment’. For the first 40 minutes of each interview, we would discuss the progress their company had made in embedding sustainability into core business, the opportunities, the barriers to further integration, and some of the challenges they saw in shaping a competitive environment conducive to sustainable business. But with 20 minutes remaining, each of the CEOs would turn to us and say, “Look: We’d like to do more on sustainability, but mainstream investors just don’t care about it.” ¹²

This unease – and the disconnect between ambition and reality that the execution gap on investor discussions reveals – is a recurring theme: to make progress in sustainability, business leaders and investors need to find new ways to articulate and incorporate an assessment of sustainability into the analysis of business performance.
While addressing the needs of a potentially significant stakeholder in aiding the transition to sustainability – 85% of CEOs in the UNGC-Accenture study believed that greater value placed on sustainability activities by investors and shareholders would be key to further progress –, this conversation could also go some way towards addressing another repeated complaint: that the links between sustainability and business value are in some cases, at present, insufficiently clear to justify investment beyond pilot projects and initiatives.

**Pilot paralysis: the challenges of speed and scale**

The challenges of scale are equally apparent beyond the realm of the firm, at the level of industries and the wider economy. Promising progress has also been made on sustainable business in key sectors via industry-level collaboration, self-regulation and voluntary initiatives. Many prominent examples exist across industries from the Forest and Marine Stewardship Councils to the Rainforest Alliance and Roundtable for Sustainable Palm Oil, to the International Council on Mining and Metals. These are matched by the growth and impact of a range of cross-sector initiatives such as the United Nations Global Compact, the World Business Council for Sustainable Development, the Principle for Responsible Investment, the Global Reporting Initiative, the Carbon Disclosure Project, and others.

But despite the increase in awareness and commitment among business leaders, governments and other stakeholders, the evidence suggests that we are collectively failing to make progress towards a sustainable economy – and indeed that our current pathway may be diverging from that which will be required. Notwithstanding the debate on the degree to which such goals should be achievable, patchy progress on the Millennium Development Goals is just one sign that ambitions for development and sustainability have not been met. At every level of the system – from global organisations to national governments, and from international industries to individual companies – progress is not sufficient to set the economy on a sustainable pathway.

Sustainable business has, in large part, been the victim of what might be called ‘pilot paralysis’. Pilot paralysis is best described as a situation where we see many exciting pilots and examples of innovative sustainable business practices emerging, but nothing that fundamentally challenges business as usual either within a company or as a new industry dynamic. Nothing that goes to scale at speed. At its most pernicious ‘pilot paralysis’ can actually be a dangerous distraction of managerial time and attention, a dilution of investment, and even act as a smokescreen for the level of change required to achieve sustainability. It often garners unnecessarily effusive praise for a job ‘partially done’ which indirectly, and even directly at times, reinforces that ‘pilots constitute leadership’. Pilots are an essential stage of innovation, but businesses could be forgiven at times for thinking that pilots are so desirable and lauded that they are an end in themselves.

The World Economic Forum’s report on sustainable consumption, *More With Less,* demonstrates the challenges of speed and scale encountered in two of the consumer goods industry’s most successful sustainability initiatives. The Forest Stewardship Council (FSC), for example, was formed as a collaborative effort between business, social groups and environmental organizations to improve forest management worldwide. Within the first fifteen years, the FSC has certified 144 million hectares of forest, but its reach remains at a fraction of timber supply worldwide: in 2011 only 3.4% of global forests were FSC certified, and if current trends continue FSC-certified timber will represent just 12% of the market in 2020. Similarly, the Roundtable for Sustainable Palm Oil (RSPO), a flagship programme of many leading consumer goods companies, has certified 10% of all palm oil production as sustainable, but within demand growing at an estimated 13% a year, the current growth trajectory of the initiative will not be sufficient to make sustainable production mainstream. And in each case, the speed and scale of deforestation is outpacing these pioneering efforts.
From these examples it is apparent that even leading sustainability initiatives are struggling to achieve an impact beyond the incremental; while both the FSC and the RSPO have achieved remarkable penetration through their industries, the scale of their influence cannot yet be regarded as transformational. The focus on sustainable ‘business’ should not deny the critical role of policy-makers, investors and others in shaping and defining the enabling (or disabling) context for the markets in which companies exist: the current failure of market signals for sustainable business at scale are perhaps the key barrier preventing real progress. They are linked to many challenges of global governance and collective action on sustainable development. But in the absence of likely global solutions any time soon on a governance front, looking at what business can do to go beyond successful pilot projects, in driving innovation in products and services, in business models, in processes, in management cultures, seems ever more relevant and pressing.

Stripping it down to the brutal reality of the facts and figures, the numbers tell us that inequality and poverty persist, and our environmental systems are declining at an alarming rate. One of the most authoritative studies is WWF’s Living Planet Index, which shows that global biodiversity shows a 28% decline between 1970 and 2008, which increases to a 60% decline in tropical areas. The Global Footprint network shows similar results spanning carbon, energy, water, waste, land-use, fisheries and other dimensions of sustainability. We are already in what scientists have called ‘ecological overshoot’, with the planet taking 1.5 years to regenerate the renewable resources being used in a single year; put another way, we are living off ‘capital’ not ‘interest’. Put simply, sustainable business, and efforts on sustainability more broadly, are not keeping up with what the science tells us we need to do.

Pilot paralysis is not the exception; it is the norm in industries and companies. Although there are real pioneers out there, they are at the margins. Similarly, although many companies can point to pockets of innovation, in my experience, and from research studies in recent years, rarely has sustainability fully penetrated core strategy or business models. This is true even in those considered ‘leaders’. Pilot paralysis is the quietly whispered secret of current reality even amongst many of those trying to genuinely drive transformational change and held up as champions. For the sake of moving beyond this state, it’s time to be clear on where we are and where we are headed.

Confidence – or overconfidence?

Growing levels of awareness and commitment have led to greater confidence that sustainability challenges can be tackled through embedding social, environmental and governance issues into core business. The achievements of individual initiatives, along with countless innovations at the firm level, are encouraging to those seeking to advance the cause of sustainable business. Progress is rightly celebrated, and leading companies in sustainability perceive a positive impact on their brand and reputation through communicating their success.
But our experience suggests that this focus on sustainability ‘initiatives’, and the gaps to their execution within the context and framework of ‘business as usual’, may be damaging to hopes of forging a sustainable economy. A 2011 survey by SustainAbility and Globescan has been cited as evidence that business executives are becoming ‘complacent’ about sustainability challenges. In an article headlined ‘Execs Getting Complacent about Environmental Problems’, the Environmental Leader reported that “the five most urgent issues on the sustainability agenda – climate change, water scarcity, food security, poverty, and biodiversity loss – were all perceived as less urgent challenges than they were in 2009.”

The authors suggest a combination of factors behind the apparent complacency, among them economic pressures; an acceptance of sustainability challenges as a permanent part of the social and political landscape; and a frustration with a lack of political will to enact meaningful change.

Similarly, a recent study by CERES on US companies progress on sustainability makes for a stark reality check. Despite numerous bright spots, few of the 600 companies assessed against sustainability leadership criteria had made anything more than minimal progress against their four-tier performance measures.

Furthermore, an examination of the numbers in many industries on issues such as carbon and natural resource use shows that, while efficiency is improving and there are real pioneers, in most sectors growth continues to mean rising absolute emissions levels. A similar story is true at the global economy level where – although progress is being made, and more than $250 billion was invested in clean energy in 2011 – overall emissions levels have increased despite the downturn in global economic activity in recent years.

This mismatch between the confidence of business leaders and the evidence of the numbers means that the charge of complacency among executives is beginning to exert a grip on the minds of sustainability professionals, both within business and outside. We see a growing perception that business leaders are not collectively acknowledging the scale of the sustainability challenge, or taking sufficient steps to address it.

Our experience, however, suggests strongly that ‘complacency’ may not be an accurate charge. While business leaders may not collectively have internalized the nature and scale of the sustainability challenge, many executives individually demonstrate a detailed and nuanced understanding of the issues facing their business. Individually, in our experience, ‘complacency’ could not be further from the truth; but individual actions may be adding up to less than the sum of their parts.

Closing the execution gap in corporate sustainability has been the focus of much research in recent years, notably in the practitioner research represented by many papers cited here. This paper, however, aims to pose a different question: even if we were to solve, at a stroke, the execution challenges that businesses face, and meet business leaders’ ambitions for sustainability within their own companies, what more would be required to realise a transformative vision of a sustainable economy – and what questions need to be answered?

The majority of our conversations with business executives on the subject of sustainability focus almost exclusively on execution: specific, manageable and addressable gaps between ambition and reality in the implementation of sustainability within the current systems and structures of business. Understandably, executives’ attentions focus on the ‘controllables’: those factors which they can manage within their own organization to deliver against sustainability objectives and traditional business metrics. By necessity, their thinking is bounded by the current expectations of multiple stakeholders – from executive boards to governments, regulators and consumers – and represents a series of incremental responses to individual challenges: the need to reduce carbon emissions, for example, or to secure future water supplies. Each of these responses addresses a specific challenge through the traditional tools of business management; but this faith in orthodoxy may be insufficient to shape a new, sustainable economy, shaping new systems and solutions for the demands of the sustainability imperative. If we are to provoke a ‘grand transition’ towards a sustainable economy, braver thinking will be required, together with a greater comfort in tackling the awkward questions that such a potentially chaotic transition may pose.
The grand transition
The transformation gap

The gaps that business leaders identify offer a compelling justification for their focus on execution. But such a focus may create a ‘glass ceiling’ for sustainability, in which potential progress is capped at the level of current ambition, and by which progress is assessed. This laser focus on the execution of current strategy can distract attention from the scale of the challenge: if companies are seen to ‘tick off’ their achievements quarter-by-quarter, it can contribute to the overconfidence that sees four-fifths of CEOs claim that sustainability is ‘fully embedded’ within their business.

Closing the ‘transformation gap’ requires rethinking the systems in which we live, work, play and interact at a more fundamental level, and the role that business can play in delivering the products and services people want, need and desire in new ways. As explored in the World Economic Forum report on Sustainable Consumption, ‘More with Less’, it means influencing supply, demand and policy. If the ‘execution gap’ is about driving incremental change, then the ‘transformation gap’ is about driving radical change and the transition to a new system.

This radical transition may not require an entirely new approach: much of the transformational change required will come out of what currently look like ‘incremental’ projects. In many cases, incremental innovation will see significant breakthroughs, and will find new ways and compelling business cases to go to scale. It will also build a platform for those businesses not yet ready to take bolder steps towards transformational change. Even if a company disruptively designs the future twenty years out and works back, in most sectors beyond those in Silicon Valley there may need to be an ‘incremental build’ from today to tomorrow, in order not to alienate customers, employees and investors. In some quarters the notion of building on incrementalism is seen as antithetical – or even heretical – to radical innovation and transformational change: in this view of the world, transition will only come from disruptors at the margins. But distinguishing ‘True North’ from ‘Magnetic North’ is not designed specifically to denigrate or detract from an ‘execution’ focus that gets us away from ‘business as usual’ towards ‘incremental change’. Neither is it about the perfect being the enemy of the good. But it is about recognizing that ‘incremental change’ is a ‘means’ and not the ‘ends’.

To locate true north on sustainable business, we should be careful to keep asking searching questions. The evolution of technology in navigation is a useful analogy. Just as modern day navigation relies on overcoming the gap between true north and magnetic north using global positioning systems technology that employs at least three satellites to calculate position and direction of travel, business leaders must look beyond traditional business approaches and thinking to triangulate their current industry context and business against ‘science’, ‘stakeholder engagement’, and ‘systems innovation’. Using an increasingly rigorous and robust approach to incorporating these into strategic direction-setting will require new individual and organizational capabilities, and will require the sustainability community to continue asking tough questions.

Vision 2050: Pathways to transformation

The World Business Council for Sustainable Development’s 2010 report, Vision 2050, lays out a pathway leading to a global population of some 9 billion people living well, within the resource limits of the planet, by 2050. Through an analysis of what will be required to achieve the vision, it is clear that the global economy will require changes beyond incremental initiatives:
“There will be a new agenda for business leaders. [...] The transformation will bring with it huge shifts in terms of regulation, markets, consumer preferences, the pricing of inputs, and the measurement of profit and loss; all of which will impact business. Rather than follow change, business must lead this transformation by doing what business does best: cost-effectively creating solutions that people need and want. The difference is that the new solutions will be based on a global and local market place with “true values and costs”, the “truth” being established by the limits of the planet and what it takes to live well and within them. Business, consumers and policy-makers will experiment, and, through multi-stakeholder collaboration, systemic thinking and co-innovation, find solutions to make a sustainable world achievable and desirable.”

If, as interested stakeholders, we are to realise the vision of a sustainable economy, the call for a ‘transformation’ through ‘experimentation’ and ‘systemic thinking’ must provide the yardstick by which we judge business action on sustainability. In this context, the 81% of CEOs in the UNGC-Accenture study that believe sustainability to be ‘fully embedded’ within their company appears, at best, to be an overconfident assessment, and a failure to absorb the scale of the challenge.

Our client experience and academic research, along with the evidence of numerous conversations that have contributed to our research into corporate sustainability, suggest that few, if any, companies could credibly claim to be on a pathway that could deliver the world described by Vision 2050. Even in our conversations with companies which could objectively be regarded as leaders in sustainability, there is a clear and unambiguous recognition that many challenges lay ahead, and that a step-shift in sustainability can only come about through the rejection of existing models and an adoption of new and transformative thinking: closed-loop manufacturing systems, for example, or mobility solutions that go beyond traditional expectations of ‘transport’.

Building towards transformative change will require business leaders and other stakeholders to confront awkward questions, and to acknowledge that, in requiring wholesale changes to global systems, the transition towards a sustainable economy may not be controllable nor comfortable:

*Technology-based theories of transition adopt an incremental approach characterised by the gradual invention, deployment, and adoption of new ideas. [...] However, some sustainability challenges, notably climate change, are associated with more sudden, less predictable shifts that constitute crises and will need to be managed as catastrophes.*

Managing sustainability ‘as a catastrophe’ may cut against the natural desire of business leaders to isolate and control change within their organization, but to make real progress we must collectively approach the transition to a sustainable economy as a fundamental shift in the established order, rather than as an objective that can be achieved by incremental adjustments that adapt existing systems to new demands.
From our research and experience, it is evident that corporate sustainability may have delivered less success than meets the eye in terms of real progress towards the goal of transformation and a genuinely sustainable global economy. But it is equally clear that the signs of transformation are now there: in Unilever’s ambition to decouple growth from environmental impact, and make sustainability their core proposition; in Timberland’s re-engineering of the entire value chain, and transition from product to service; in Better Place’s disruption of the automotive value chain; in Natura’s naturally-inspired innovation process; and in the numerous new and reengineered cities across the world, we are beginning to see the seeds of transformation. Perhaps, if we can distinguish between incrementalism and transformational innovation, there is more success than meets the eye in corporate sustainability; but we must constantly guard against the temptation to celebrate ambition as success.

A new industrial revolution, and a new era for business

Addressing sustainability challenges will require not just sustainable business, but a new industrial revolution. It will create new winners and losers as companies compete and collaborate for new markets, products and services, and as rising resource costs force them to rethink operations and global supply chains. But the power of aligning market forces with sustainable development outcomes in creating a new industrial revolution is a tantalizing, and transformational, prospect.

To close the transformation gap will require business leaders to ask questions of themselves, their business and their industry which challenge and disrupt the established order; put another way, ‘business as unusual’. Or for those who believe that there is enormous creativity and adaptability intrinsic to well-structured markets if we can align them with sustainable development outcomes, ‘business as extraordinary’.
For businesses seeking to avoid the allure of magnetic north, and instead chart the course towards the true north of a sustainable economy, constant questioning and position-checking will be required. Modern-day explorers might employ the ‘trilateration’ technology offered by GPS, where multiple sources of information are correlated to determine position; modern-day business leaders might seek multiple sources of objective information from within their business and outside, from multiple stakeholders, to determine their position on the journey.

In our experience, what marks out business leaders prepared to grapple with the questions of the new century is their willingness to ask difficult questions in certain areas; questions that make demands beyond the incremental, and forces their business to explore uncomfortable dilemmas and trade-offs. ‘True North’ questions on sustainable business might include:

1. **Innovation**
   How can we drive disruptive innovation on sustainability which decouples growth from natural resource use and environmental impact? How can we ensure this spans products and services, new business models and new approaches to management?

2. **Circularity**
   How can we rethink our end-to-end value chain in a way that eliminates the concept of waste, based on closed loop business models and cradle-to-cradle use of resources? Could we shift from a product-based to a service-based industry? Could we explore shared ownership models? How can we re-engineer or build new sustainable, intelligent cities?

3. **Convergence**
   How can we shape new types of partnerships that sit across traditional industry and sector boundaries, in our own value chain, but also across civil society, academia, government and entrepreneurs? How do we balance the need for collaboration with competition?

4. **Shared Value**
   How can we go beyond traditional definitions of value creation to deliver for shareholders and owners, while explicitly delivering for stakeholders? How can we measure and communicate that value and engage stakeholders in the process?

5. **Leadership**
   How can we do what business leaders do best in setting clear vision and goals on the journey to both execute and transform, amidst ambiguity, while making it exciting and inspiring? How do we use the tools available to us such as the marketing mix to both shape and respond to our business environment on sustainability?

Leadership will evidently be critical to further progress, and leadership will increasingly mean having a distinct plan for sustainability: a plan that creates a narrative as to why change is necessary; defines broadly the end point; and sets a detailed plan to take the first steps along the long road to the sustainable end point. Leadership will mean integrating sustainability into the business, through leadership, accountability, governance, reward, reporting, assurance, skills; through building partnerships – from suppliers, to NGOs and charities, peers and competitors across every aspect of its value chain; through redefining the customer proposition, taking customers (B2B and B2C) on a journey, tapping into their desire for more sustainable products and services. It will mean unleashing radical innovation across all they do, in the short term (improving today’s approach), the medium-term (redefining the value chain), and in the long-term (helping to change the entire ecosystem – political, economic and social – in which the business operates. These are the business leaders that will be able to drive change at scale in their organizations, and find ways to deliver ‘breakthrough innovation’ to transition towards True North.
Already, business leaders that are asking tough questions – such as Paul Polman at Unilever, Ian Cheshire at Kingfisher, Alessandro Carlucci at Natura, Marc Bolland at M&S, Stef Kranendijk at Desso, Marjory Chen at Esquel or David Rosenberg at Aerofarms – are beginning to see that answers and actions can quickly add up. If industries aggregate their impact and actions, the effects are comparable with the impacts of entire countries and continents. The top 50 consumer goods and retail companies emit as much CO2 as Germany and France. Or put another way, the consumer goods industry is the world’s 6th largest source of CO2 emissions if these companies were a country. The top 50 consumer goods and retail companies have combined revenue of almost US$ 3 trillion. Investing just 1.2% of this in a step shift in manufacturing and logistics for producing and transporting consumer goods around the world would match European in-vestments in clean energy in 2011.

But these radical changes cannot happen in isolation. Even with the best will in the world, consumer goods and retail businesses simply can’t make enough progress without the market signals from policy-makers, from capital markets, and ultimately, and all importantly, from consumers in the choices they make. For the vast majority of businesses there still needs to be a ‘why’ for action. A True North with a chance of creating ‘a systems transition’ would include a ‘why’ involving the convergence of policy-makers, capital markets – and of course consumers – to reshape supply, demand and regulation.

In the policy sphere, business leaders need legislators and politicians to provide clear signals on areas such as ‘Green Growth’. The expectations that business might have of policy makers are well articulated in WBCSD’s Changing Pace report: 

1. **Set goals** with a clear purpose and specific goals that define the world in which we want to live;

2. **Communicate and educate** the public to foster understanding and commitment to pursue sustainability objectives;

3. **Standardize** by enforcing and introducing performance standards, emission or usage limits and codes of conduct;
4. **Budget** through fiscal reforms to price scarce natural resources and negative externalities;

5. **Invest** for efficient infrastructures, technology developments, and green public procurements that mobilize private capital for green growth;

6. **Monitor** progress through adequate indicators that compensate for the limitations of GDP; and,

7. **Coordinate** governance that is predictable, coherent and persistent.

In return, business leaders need to be much clearer in articulating what they want and need from policy-makers, and recognize their role in asking for it. Governments will have a central role in shaping policy that can help us break out of pilot paralyses: policies such as moving beyond simple measures of national economic output such as GDP, corporate reporting on sustainability as well as ways and means of incentivizing sustainability outcomes through tax, subsidy, public procurement, finance reform, pension rules, ecosystem valuation and resource protection are all essential. We may even need more drastic steps - governments and elected officials that ignore electability in favor of making long term decisions that focus on global common good or citizens of one nation that voluntarily take on personal pain and cost so that citizens of other nations can survive and even prosper; finding creative ways for governments to collaborate to set global industry-level targets in parallel to global goals set by the UN such as the Millennium Development Goals. All of which questions the way we have come to see the role of governance in the era of nation states. But the purpose of this paper has been to show how far business can go even within the existing frameworks and to position ahead of, and even reshape the curve. The answers will not come exclusively from business leaders themselves: - a wide spectrum of interested parties – sustainability practitioners, policy makers, academics, consumers and the media, amongst others – bear a responsibility for creating the conditions in which such questions can be asked. Building the comfort of business leaders to go beyond questions of execution and grapple with the transformation gap will require a more open and accessible debate, and a concerted effort to move beyond a space in which incremental achievements – and even future plans to achieve incremental change – are celebrated as if they provide the answer to the sustainability challenge. It is in this context that we offer some of the key questions that will need to be answered by a wider ‘sustainability community’ if we are to create the right systems conditions to successfully scale sustainability at speed in companies, industries and the global economy.
What will be required to enable business leaders to absorb and focus on the need for transformative change, without distracting from the execution agenda?

If business is collectively to lead the economy towards a sustainable future, there is a pressing need to supplement the focus on execution with new, transformative thinking. But balancing these twin objectives presents a stiff challenge to business leaders. As one senior executive, interviewed for a recent study by the International Business Leaders Forum, commented:

“We try to limit the number of people focusing on transformation – everyone wants to play in that space and it distracts from the execution agenda.”

The trade-offs that business leaders perceive in tackling the execution and transformation gaps pose several key questions: can these two approaches operate in sync, or are they genuinely opposed approaches to change? Can a pure focus on closing execution gaps with temporary, incremental ‘sticking plasters’ contribute to a false sense of success, and delay the crisis that may be required to prompt a shift towards a transformational trajectory? And how do we create the right blend of people to grapple with the transformation agenda without distracting the wider organisation from its focus on execution?
How can we give executives an accurate assessment of their absolute and relative performance, without causing them to give up because the task is too complex?

The overconfidence of business leaders in current progress may be exacerbated by the ever greater attention paid to sustainability. If we accept one of the explanations offered by SustainAbility for the apparent decline in urgency of environmental challenges – that the acceptance of sustainability as a permanent feature of the business landscape has reduced its impact – then it is reasonable to assume that every article or research paper on successful sustainability initiatives may have an unintended consequence in reinforcing the perception that business is adequately addressing the sustainability challenge.

Conversely, it can be argued that celebrating success is critical to further progress: it offers a reward to leaders, a blueprint for followers, and an incentive to stragglers; a pervasive sense of ‘doom and gloom’, on the other hand, could cause executives to conclude that the scale of the challenge is simply too great. In this context, how do we assess and celebrate performance, without inducing overconfidence? How do we enable business leaders to understand incremental efforts in the context of greater, transformational change, without being daunted by the scale of the task? How can we mark and celebrate progress while maintaining focus on further advances? How do we create a culture of constructive criticism without the loudest voices being marginalised?

Formulating answers to these questions will depend on contributions and engagement from every sector: not just from business in addressing the gaps we identify, but from governments, policy makers, academics and consumers in shaping the systems necessary to propagate the transformative change that can bring about a grand transition. Through this paper we have identified some of the key challenges that we face, and some of the questions that need to be asked – and answered. In the spirit of collaboration, we invite and welcome contributions on these questions or others, to shape our next stage of enquiry into the conditions that will shape a sustainable economy.

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