# A Framework for
Sustainable Business Strategy

Introduction

The COP21 meeting near Paris in December 2015 marked a turning point in global awareness of the issue of sustainability. Now the hard work of thinking through and implementing the consequences of this agreement begins for the rest of us—not only in the area of reducing our carbon footprint, not only in the area of reducing waste, but also in our strategies to create enduring organisations in an environment that is becoming ever more uncertain and turbulent. To do this, we need a framework for a sustainable business strategy.

With environmental consciousness now mainstream, many business leaders in small to medium enterprise and in many non-profit organisations are left wondering: What is our part in this game? What more are we expected to do? Are we expected to fund a "sustainability" initiative (whatever that means), whilst our organisation is struggling to survive?

A different question may help us take a different perspective: *What would the world lack if my organisation did not exist?* This question moves us from feeling we are not doing enough, to realising what our organisation is already contributing, and feeling positive about what we are already doing.

This question not only brings business back to its roots—adding value to the community in which it operates—but also lies at the heart of social enterprise, whose very *raison d'être* is explicitly linked to societal value. I will argue that the creation of shared value with society is the central characteristic of a sustainable business, in both the "green" sense of the word and in the sense of a business that endures. All the other dimensions of a sustainable business strategy revolve around this, as illustrated below.
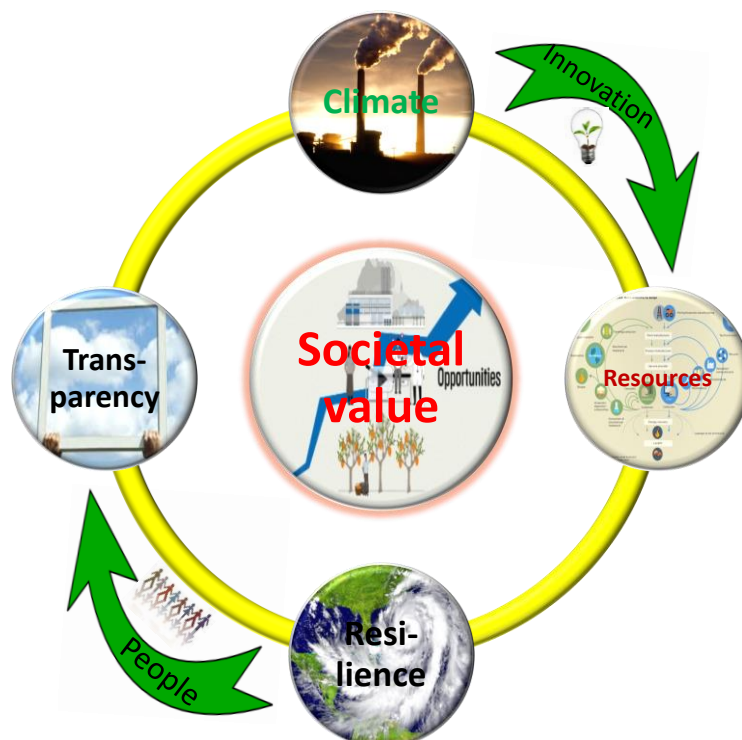
Addressing climate change and managing scarce resources is an opportunity for an organisation to transform to a more sustainable way of operating. Beyond that, building structural resilience into an organisation is of paramount importance, because of the turbulence that climate change and scarce resources will create. Another little-mentioned but key characteristic of a sustainable business is transparency: the sharing of what many companies who operate in a command and control paradigm would consider to be "confidential" information. A new business paradigm is emerging of transparent information and distributed power, which enable an organisation to be more robust under high complexity and uncertainty because of the capacity of its people to react and innovate locally to an ever-changing environment, rather than wait for central orders from their hierarchy. This is why innovation and people are shown as the driving forces that turn the wheel of sustainability around the central preoccupation of societal value.

This article discusses these dimensions of a sustainable strategy and proposes for each one a series of initial questions for business leaders to think through. In this sense it is a practical guide to building sustainability into the heart of an organisation's strategy. I suggest that an organisation that puts the above dimensions of a sustainable strategy at the heart of its business strategy has a better chance of survival in an ever more uncertain and turbulent world.

The Heart of Sustainable Strategy—Societal Purpose

Mainstream authorities on strategy such and Porter and Kramer are saying that the future of business lies in creating shared value between business and the communities in which it operates.

> *Businesses must reconnect company success with social progress… it is not on the margin of what companies do, but at the centre… The purpose of the corporation must be redefined as creating shared value, not just profits per se.[1]*

In their article, Porter and Kramer argue that the traditional narrow definition of the societal contribution of capitalism—to make profits, thereby supporting employment, wages, and taxes—has led capitalism to an impasse. They say that the objective of profits for their own sake, and the relentless focus on short-term returns, has led to a collapse in credibility which, in turn, has incited governments to impose stringent controls to restrain "business and its predatory practices", in a vicious circle of profiteering and ever stronger controls.

I suggest that defining or reaffirming the value of a business with respect to society at large is the first, and essential step to break out of that vicious cycle, and to lay the foundations of an enduring and sustainable business, for two main reasons.

❑ A company's commitment to societal value turns it into an ally of government, whose main purpose is, in principle, to create a better society that needs stable players. This changes the dynamics of the relationship between business and regulators.

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[1] Michael Porter & Mark Kramer: Creating Shared Value. Harvard Business Review, January 2011.

❑ A company's commitment to societal value turns it into a vehicle for meaningful work for its employees. Kim & Mauborgne[2] describe how motivation is currently a major issue in corporations, with employees lacking a sense of meaning. Societal engagement can provide this sense of meaning, which not only provides fulfilment to employees but can also have a hard, bottom-line effect, attracting industry talent, providing greater intrinsic motivation and thereby enhancing personal and organisational performance.

Societal purpose is therefore not a "nice to have" add-on to a hard-nosed business strategy to give an appearance of virtue; it is central to long-term survival. Defining or reaffirming the value of a business with respect to society at large can be done by ensuring that the first question in any strategy review is the following: *What would the world lack if our organisation did not exist?* All strategic initiatives are then measured by their contribution to a central purpose, and profits become an enabler for this purpose, rather than an end in themselves.

Once this central question is settled, the organisation can work through the following questions:

❑ Who are our key stakeholders in society?

❑ In what specific ways does our organisation contribute to society today, and how could it do so tomorrow?

❑ What are the resulting actions and expected outcomes?

❑ How will we measure success?

Answering the above questions can create a thoughtful and creative mind-set about around an organisation's positive contribution to society and have profound effect on its strategy.

A Positive Approach to Carbon and Waste Reduction

Thinking of the carbon impact of an organisation in the context of its contribution to society means that aspirations and targets to reduce carbon emissions and reduce waste take on wider meaning. Instead of framing the question in terms of the burden of reducing waste and carbon impact, reduction of carbon emissions and waste are seen in the light of the organisation's societal goal and generate positive enthusiasm, rather than resigned determination.

An example of this positive approach is the "Net Positive" stance taken by BT in its "Better Future" sustainability programme. It has calculated that through its products, it enabled its customers in 2014-2015 to save 1.5 times more energy than BT's total energy footprint (3295ktons[3], which includes customers and suppliers). In other words, if BT did not exist, then we humans would have emitted 1647ktons more than we did in 2014/15. That represents the carbon emissions of around 350,000 cars, or the energy consumption of 150,000 homes in the USA. In forestry terms, it would have needed 1.35 million acres of forest to have sequestered that much carbon[4]. That is something to be proud of!

Another example, in the area of waste reduction, is the car maker Renault, which has begun to implement circular economy[5] principles into its design and manufacturing. Renault's

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[2] W. Chan Kim & Renée Mauborgne: Blue Ocean Leadership. Harvard Business Review, April 2014.
[3] BT Better Future Report 2014-15 http://www.btplc.com/BetterFuture/BetterFutureReport/
[4] United States Environmental Protection Agency http://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator
[5] The concept of the circular economy means that everything we use is considered as potentially recyclable, and recycling is built into products from the design phase onwards.

remanufacturing plant near Paris re-engineers a set of mechanical sub-assemblies, from water pumps to engines, to be sold at 50 to 70% of their original price, with a one-year warranty. Renault also adjusts the design specifications of certain parts to allow closed loop or 'functional' recycling, which enables high-quality reuse of parts of end-of-life vehicles in new cars.[6]

The business case for carbon and waste reduction may become compelling if one asks the following questions:

❑ What hard savings can we generate through reduced consumption of energy and raw materials?

❑ What might be the effects on employee motivation and productivity of a focus on reducing carbon and waste?

❑ What product and portfolio benefits might be achieved through low-carbon, low-waste design, including the impact on innovation?

❑ What benefits would there be for customers if we redesigned our portfolio around helping them reduce carbon and waste through the products we provide?

❑ In the light of the fact that sustainability is a key component of brand value, what marketing benefits might be achieved through a "greener" company reputation and brand?

❑ Given that the "Green" agenda is becoming more and more important for pension fund and other major investors, what potential investment funds might be open up to us if we showed a commitment to sustainability?

❑ In the context of ever stronger regulations on energy and waste, how might a "Green" agenda increase our visibility and influence, so that regulation can help, rather than hinder our industry?

As an organisation works through the above areas, it will often realise that "going green" is also often simply good business, as Dan Bartlett, EVP of public affairs for Walmart went on record as saying:

> *We can put to rest that old debate about whether sustainability and business go hand in hand … We can demonstrate with real metrics that it's good business.[7]*

Creating an Enduring Business by Building Resilience

It is widely recognised that tomorrow's world will be more volatile, more uncertain, more complex and more ambiguous (VUCA).[8] There are at least three reasons for this.

Firstly, a key reason why world leaders at the COP21 in December 2015 at last came to an agreement to limit global warming was the grave consequences of climate change: the increased frequency of natural disasters, especially in less developed areas of the world, and the resulting potential social unrest and migration movements. Already, business is being affected by unprecedented climate events. Historic floods in Thailand in 2011 disrupted supply chains for hard drives and cars across the world. Hitachi, and Western Digital who had major facilities in Thailand, lost around half their production that quarter, and each suffered around $200 million in financial losses. Thai factories

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[6] Ellen McArthur Foundation: Towards the Circular Economy. Volume 3: Accelerating the scale-up across global supply chains. http://www.ellenmacarthurfoundation.org/business/reports/ce2014.

[7] Quoted in Andrew Winston: The Big Pivot: Radically Practical Strategies for a Hotter, Scarcer, and More Open World, Massachusetts: Harvard Business School Publishing, 2014.

[8] The common usage of the term VUCA began in the 1990s in the military and has been subsequently used in discussing strategic leadership in an uncertain world. See for example Bennett and Lemoine: What VUCA means for you. Harvard Business Review, Jan-Feb 2014.

were also the only source of certain parts for Honda and Toyota, resulting in a drop in production of more than half a million units.[9]

Secondly, according to the Global Footprint Network[10], humanity uses the equivalent of 1.6 planets to provide the resources we use and absorb our waste. This depletion of raw materials on which to run our economy, has resulted in commodity prices increasing by nearly 240% from between 2000 and 2013.[11] Manufacturing is facing the prospect of significant escalation in prices for raw materials, while customer expectations for prices of end goods continue to fall. When the inevitable crunch comes, only the most resilient will survive.

Thirdly, the connectedness of today's world has exponentially increased uncertainty and the risk of cascade failures. The fragility of connected systems is particularly visible and their failure especially dramatic in the domain of electricity grids. Watts[12] talks of cascade failures, and their increasing likelihood in an ever-more connected world. He describes the spectacular failure of the electricity grid in Western USA in 1996, due to the failure of one minor generator that then overloaded a larger generator running at the edge of its capacity, which then took out other generators that were on the edge of their capacity. The implication of being connected is that that we are all vulnerable to failures in other parts of our connected world, even if our business appears to be healthy according to all its internal indicators. The sub-prime financial crash in 2008 rippled across the whole world, resulting in the failure of thousands of otherwise viable businesses that were indirectly connected to poisoned assets.

The only thing of which we can be reasonably certain is the occurrence of more and more unexpected catastrophic events—"Black Swan" events to use the term coined by Nassim Taleb[13]. Any organisation wishing to be resilient in a VUCA world needs to have analysed its potential fragilities and put in place structural means to respond to them.

Questions an organisation can work through in this area might be:

❑ What are the different worst-case scenarios we can think of, knowing full well that a Black Swan event will be unexpected, but we may have prepared ourselves mentally for something similar?

❑ How connected are the key parts of our organisation between themselves, or with the external world?

❑ How can we structure our organisation to limit cascade failures between its different parts or with parts of the external environment?

❑ Are we able to structure our organisation to take advantage of any Black Swan events?

Taking time now to think through these implications will not guarantee survival, but will significantly reduce the overall risk of the organisation being eliminated in a VUCA world.

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[9] Aon Benfield Analytics, 2012. http://www.aonbenfieldevents.com/Pages/120710_analytics_conference.aspx
[10] http://www.footprintnetwork.org/en/index.php/GFN/page/world_footprint/
[11] Ellen McArthur Foundation (2014): Towards the Circular Economy. Volume 3: Accelerating the scale-up across global supply chains. http://www.ellenmacarthurfoundation.org/business/reports/ce2014
[12] Duncan Watts: Six Degrees - The Science of a Connected Age. London: Vintage, 2004.
[13] Nassim Taleb: The Black Swan - The Impact of the Highly Improbable, London, Penguin, 2008.

An Enduring Business through Transparency

We are already moving into a transparent world, where apparently private information can become public overnight. WikiLeaks, the Edward Snowden affair, Sony pictures... The list goes on of supposedly confidential information that is made available to the world. The OWASP (The Open Web Application Security Project) lists privacy as fifth in their top ten Internet of Things vulnerabilities, after Insecure Web Interfaces, Insufficient Authentication/Authorization, Insecure Network Services and Lack of Transport Encryption/Integrity Verification[14].

Transparency raises two key issues for a business that wishes to be sustainable: trust and ethics. The reason the revelations of Edward Snowden were so damaging is that they revealed a darker side of an administration that had played to noble aspirations of its electorate. A business that espouses noble values, and then is found out secretly to have contradicted them will be deserted by customers that bought their goods because they feel the values the espoused have been betrayed. This perceived breach of trust means they are highly unlikely to return. A business that is transparent is likely to be more ethical and trustworthy, because it will have nothing to hide. OWASP leads by example here: the first of its four key values is "Open: Everything at OWASP is radically transparent from our finances to our code"[15].

The reverse also holds true. In a growing number of companies across the world, some business leaders have dared to trust their people, to the extent that ALL financial information (including salaries) is shared with ALL employees. At FAVI, a brass foundry in Northern France that makes gearbox parts for motor manufacturers, there are computer stations with open access on the shop floor so that machine operators can consult company data at any time, and this information is the same as that available to the CEO. Over the past thirty years, the company has grown steadily, has remained profitable through a number of crises without any layoffs, and has increased its market share to over 50% in the face of fierce competition with cheaper labour rates from Asia. FAVI has shown itself to be a sustainable company over 30 years of industry disruption and delocalisation, in part because each and every one feels responsible for the results that are there for all to see, and they feel responsible because they feel trusted.

SC Johnson has taken the same approach with its customers, and publishes the sources of the ingredients for their products on its website[16]. With the Internet of Things, and RFID tags being embedded into components of products, it is relatively easy for a computer-savvy person to trace the origin of product components. Companies moving early in this area will spare themselves significant discomfort and potential damage.

Social networking enables inside information about companies to be made freely available, even without hacking. Andrew Winston[17] notes that it is possible to find out the conditions for workers making clothes for major sportswear companies and describes how the NGO Labour Voices did this. It published a Freephone number to call in Bangladesh (which has 100 million mobile subscribers), which enabled workers to answer automated surveys about their working conditions. This enabled

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[14] https://www.owasp.org/index.php/OWASP_Internet_of_Things_Project#tab=Main
[15] https://www.owasp.org/index.php/About_OWASP#Core_Values
[16] www.whatsinsidescjohnson.com
[17] Winston, *Op Cit.*

information to be obtained about major companies for whom they were working, including working conditions.

Some companies have made the bold move to make "proprietary" information available to the world at large. In March 2000 Rob McEwen the CEO of Goldcorp, a gold mining company, put all the company's geology data gathered since 1948 online in what he called the "Goldcorp challenge", offering $575,000 in prize money to find gold on their 55,000-acre property. Publishing this data contravened one of the most fundamental assumptions in the industry: you don't give away confidential geological data. The results, however, were spectacular: not just geologists, but researchers in all walks of life contributed, and identified 110 targets, 50% of which had not previously been identified, and over 80% of which yielded substantial quantities of gold. This turned the struggling company into a successful and profitable business[18].

Questions an executive team may wish to work through in the area of transparency might be:

❑ Do we have any "skeletons in the cupboard", and what should we do about them?

❑ How far do we wish to be transparent? A board of directors may choose to make all its financial information transparent, but if it records and publishes all the discussions for all the decisions in all its Board Meetings, board members are likely to self-censor themselves.

❑ What specific areas might we be transparent about (finances, salaries, production issues, proprietary information), and to whom (employees, customers, or everyone)? Why would we wish to do this, and what might be the consequences?

❑ To what extent should we require transparency from our suppliers?

Working through one's transparency policy can help an organisation significantly clarify roles and responsibilities, and may raise searching questions about the culture of trust an organisation may wish to develop.

The Drivers for an Enduring and Agile Business—the Energy and Capacity for Innovation of its People

If societal value provides a solid foundation for a sustainable business in a volatile and uncertain world, and the factors of energy and waste reduction, resilience and transparency are key components, it is the energy and capacity to innovate of its people that are its driving force.

It is the motivation on the ground to save energy and reduce waste that makes any initiatives in this area effective. These are the people who will be switching off lights and heating when not needed. These are the people who will discover, with delight, innovative ways to save energy and reduce waste.

It is the capacity of front line people to react to and make meaningful decisions when faced with unforeseen events that is a key factor in company success and survival in a VUCA world. If an operator needs to refer to a chain of management before reacting in a crisis, it is likely that any decision will come too late. FAVI has no such chain of command, and can therefore react immediately to the unexpected. One of FAVI's main customers, FIAT, regularly received a truckload of parts on Monday morning. One Friday, FIAT asked if they could send over two trucks on Sunday

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[18] Williams & Tapscott: Wikinomics – How Mass Collaboration Changes Everything. London: Atlantic Books, 2007.

night. The FIAT team at FAVI (the salesman and the machine operators—there are no managers, and no exec team) decided they could do it, and asked for volunteers from other teams to help them add three shifts on Saturday and Sunday to make the parts. Everyone piled in, and two trucks delivered the goods to FIAT on Monday morning. When Jean-François Zobrist walked in on Monday morning, he was greeted by beaming smiles when he toured the factory floor: "We did it!" He had no idea of what they were talking about until they explained to him the challenge they had decided to take up. This feat would have been impossible if the decision had needed to go up the hierarchy, be validated, and then be cascaded as an order to reluctant workers who saw their weekend being taken away from them.

It is also the honesty and transparency of employees that enable a company to reduce the significant overheads of controls, performance dashboards and performance evaluation game-playing. In one 700-strong organisation I worked with, the overhead of performance management was estimated at 40 full-time equivalent posts. A counter-example is Buurtzorg, a non-profit healthcare organisations in the Netherlands, which removed its entire management structure, and gave decision power to self-managing teams of 10-12 nurses over everything they did. For 7,000 nurses there are 30 staff at headquarters, who have no decision power over what the nurses should do. There is no time-consuming performance management process, since nurses decide on the spot within their teams when there are performance issues. In a few short years, Buurtzorg has grabbed 60% of market share of local nursing in the Netherlands, firstly because nurses are flocking to join them, and secondly because patients stay in care 40% less longer, providing significant health-care savings to the government, who then gives them more contracts. [19]

Giving power to the front line enables a company not only to react immediately to crises, but also to innovate. Buurtzorg innovated when it set up a network of preventative care in local communities. This was the idea of one team of nurses, who then shared it with other teams who found it worked. The CEO, Jos de Blok, was not the person who thought up or decided on this new strategy, it was the nurses themselves. As Laloux states:

> *In a self-managing organization, change can come from any person who senses that change is needed. This is how nature has worked for millions of years. Innovation doesn't happen centrally, according to plan, but at the edges, all the time, when some organism senses a change in the environment and experiments to find an appropriate response. Some attempts fail to catch on; others rapidly spread to all corners of the ecosystem.*

These ideas are radical and their implications are far reaching, yet a growing number of companies are implementing them and generating stellar business results.[20] From the point of view of a sustainable and resilient organisation, the important factor to consider is the intrinsic motivation of people when they are genuinely trusted, and their capacity to react immediately and locally to unexpected situations, thus making the organisation structurally robust in an ever more turbulent environment.

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[19] Example taken from Frédéric Laloux: Reinventing Organisations. Nelson Parker, 2014
[20] For examples see Laloux: *Op Cit* and Getz and Carney: Freedom Inc.

An organisation wishing to harness the dormant power of its employees may wish to ask the following questions:

- ❑ What are the hidden costs in the organisation of the control mechanisms in place?
- ❑ What might the cost savings and risks be of removing controls and giving decision power to the front line?
- ❑ To what extent does the executive team trust employees to do the right thing?
- ❑ What are the personal fears of each member of the executive team about their value if they relinquish their power? This question may need a professional coach to be worked through.

Summary

All parts of the framework proposed in this article are closely interlinked in an integrated approach to sustainable business strategy. Societal value is linked to energy and waste reduction and also to people motivation. People motivation is linked to transparency and trust. Transparency, trust and delegation of power to the front line create a more resilient organisation, and generate continuous innovation, that in turn can help reduce energy and waste and, ultimately, create lasting and sustainable shared value with society at large.

Executive teams can use these questions above to explore what it means to put sustainability at the heart of their strategy, and then decide whether this is right for them.

Conclusion

COP21 was a milestone and a significant success, but to make not only our planet, but our society and its organisations sustainable for our children, there is a huge amount of work remaining to be done.

This framework gives business leaders a practical framework for doing their part, and creating sustainable business strategies, by pulling together the key factors of a sustainable business in a volatile and uncertain world.

About the author

Guy Bullen holds an MA from Cambridge in French, German and Linguistics, an MSc from University College London in Telecoms Business, and an Engineering Doctorate ("Decision Making in a Complex and Uncertain Environment") from University College London.

After working for BT for nearly 25 years, where he ended up owning the strategy and sustainability agenda for BT's operations (12,000 people). His passion today is helping individuals, teams and organisations to develop themselves in a sustainable manner, in all senses of the term. This involves advising leaders and their teams on how to create a sustainable business strategy, and also coaching them on sustainable execution, based on the premise that the heart of sustainable strategy execution lies in the sustainable development of its people. He is Founder/Owner of ToBeToAct (www.tobetoact.com).