

FOREWORD BY SYLVIA A. EARLE, PhD  
NATIONAL GEOGRAPHIC EXPLORER IN RESIDENCE

# Organizational Survival

*Profitable  
Strategies*

*for a Sustainable  
Future*



GREGORY  
BALESTRERO  
AND NATHALIE UDO

STRATEGIC ADVISORS, LEADERSHIP, SUSTAINABILITY & CORPORATE  
CONSCIOUSNESS, INTERNATIONAL INSTITUTE FOR LEARNING, INC.

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New York Chicago San Francisco Athens London  
Madrid Mexico City Milan New Delhi  
Singapore Sydney Toronto

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# Contents

Foreword vii

Preface xi

Introduction xvii

## **PART 1 The Case for Change**

**1** THE DOUBLE MEANING OF SUSTAINABILITY 3

**2** DWINDLING SUPPLIES AND GROWING DEMAND 25

**3** RELUCTANT CARETAKERS OF PUBLIC TRUST 47

## **PART 2 The Awakening of Organizational Leadership**

**4** SUSTAINABILITY AS A CORE VALUE 69

**5** SOCIAL INNOVATION FOR SUSTAINABILITY 83

**6** COMPANIES IN TRANSITION AND THE NEED  
FOR STRATEGIC CHANGE 103

## **PART 3 Payback Is Real**

**7** ARGUMENTS FOR THE RELUCTANT MAJORITY 135

**8** DOES CORPORATE SUSTAINABILITY CREATE  
MEASURABLE VALUE? 153

**9** BUILDING A STRONG AND LONG-LASTING  
REPUTATION 173

**10** COMMON TRAITS OF SUSTAINABLE COMPANIES 191

**PART 4 A Road Map for Changing Our Future**

**11** CREATING THE ROAD MAP TO A SUSTAINABLE  
FUTURE 209

**12** ADDING VALUE AND PROFITABILITY 235

**13** THE CONVERSATION CONTINUES 263

Appendix A: Sustainability Leaders 275

Appendix B: Sustainability Indexes and Rating Systems 281

Notes 285

Acknowledging the Power of Collaboration 303

Index 309

# Foreword

On Midway Island, halfway across the Pacific Ocean, I recently contemplated a nesting Laysan albatross sheltering her single egg. Observers who have documented her return to this place since the 1950s call her Wisdom. A serene gray and white bird, Wisdom began a lifetime of flying over the surface of the ocean at about the same time I launched myself into decades of exploring the depths below. Over the years, we have both witnessed the appearance of masses of drifting plastics, slicks of oil, and an increasing abundance of ships—as well as a steady decrease in the number of squid and fish necessary for Wisdom’s survival, and that of her future hatchlings. Both Wisdom and I have experienced an era of unprecedented changes, but she cannot understand the causes, nor could she know what to do to about them even if she did understand. But humans can.

Owing to the advances of technology in the past century, humanity has learned more about the nature of the world and the universe beyond than during all the preceding time. By some accounts, at the same time, more has been lost. Since the middle of the twentieth century, half of the planet’s coral reefs have disappeared or are in a state of sharp decline. Populations of many fish and other ocean species have decreased by 90 percent. Only five percent of North America’s old growth forests remain from their former expanse across the continent. Globally, mangrove forests, coastal marshes, kelp forests, and sea-grass meadows have declined by as much 60 percent. Oxygen-generating, food-producing phytoplankton populations are changing, with hundreds of dead zones in some coastal



regions and reduced levels of production in others. Measurements of ice decline in polar regions are coincident with increasing temperature, sea level rise, and ocean acidification—all closely coupled with the swiftly increasing emissions of carbon dioxide generated by burning vast reservoirs of fossil fuels—coal, oil and gas—that were millions of years in the making.

Astronauts in training learn everything they can about the systems that keep them alive during journeys in the hostile environment beyond Earth's atmosphere. While flying through space, they take care of their air, water, food, and temperature control as if their lives depend on it, because they so clearly do. Less obvious to most people is that we are all aboard a great, blue spacecraft hurtling through an otherwise inhospitable universe. Until recently, we could take for granted the processes that generate oxygen, maintain favorable temperatures, yield water, furnish building materials, provide food, and much more. But complacency is no longer an option. Now we know: the world is not too big to fail.

From the smallest microbe to the largest whale, all living things impact the world around them, but never before has a single creature—humankind—so swiftly and so comprehensively altered the nature of the entire planet, with consequences that put much more at risk than profits on a balance sheet. Increasingly, there is evidence that our actions are eroding the underpinnings of the natural systems that keep us alive.

What about “Tomorrow’s Child?” That is the message I heard from Ray Anderson, founder and CEO of Interface Inc., a highly successful carpet company, at a conference early in the twenty-first century. In a voice resonating with soft, drawn-out vowels, Anderson said he personally had come to recognize that what is taken from nature, or alters, contaminates, or destroys land, air, water, and wild plants and animals must be recognized as costs that we deal with or they will become debts passed along to our children. Leaders in business and industry not only have the power, he suggested, but also the responsibility to reverse the disastrous trends currently in motion. He challenged his colleagues to find ways to be successful in business using approaches that not only did not degrade

the integrity of the natural world, but also helped restore what already has been lost.

In this work, authors Greg Balestrero and Nathalie Udo provide provocative examples and thoughtful strategies on how companies can embark on a path to sustainability based on understanding the need to find an enduring place for ourselves within the natural systems that sustain us. They share stories of companies like Interface Inc. that have transformed in order to excel in a sustainable future—not just for the organization’s survival, but also for the future of humankind. And they provide insights about how you can achieve similar goals. At a time when many despair about the near and distant future, here you will find engaging stories, practical solutions, inspiring examples—and plenty of reasons for hope.

Sylvia A. Earle  
National Geographic Explorer in Residence  
September 3, 2013



# Preface

*The world needs dreamers, and the world needs doers.  
But above all, the world needs dreamers who do.*

—SARAH BAN BREATHNACH

**GREG**—After a long and successful career, I have come to the embarrassing conclusion that I may be a slow learner. It took over 30 years and three big “aha” moments to get to the point of writing this book. It boils down to the fact that unless people sense a real crisis, they most likely won’t react. If you see a bus coming toward you, you step out of the way. If something is flying at your face, you duck. The right question is, how far ahead should you plan to avoid these risks to life and limb before they are upon you?

My first “aha” moment came in October 1980, when I was offered a position as program manager of a national program for improving energy efficiency in the industrial sector. Eight years in energy conservation had prepared me for this job, and the program was expected to have a dramatic effect on national industrial energy consumption. The funds for the program came from the newly created U.S. Department of Energy (DOE), formed in 1977. Although the start date was delayed until after the November presidential election, I was ecstatic and wildly optimistic about the future.

Then Ronald Reagan was elected, and he lived up to his campaign pledge. Funding was diverted from the DOE and other areas to rebuild the economy and the country’s defense. At first I was confused and angry. How

could anyone make this trade-off when the data was crystal clear? Energy consumption was growing exponentially; production was flat. How could the government be so blind? My frustration gave way to understanding as I realized that the economic and defense crises were right in front of us. The bus was coming, and we needed to step out of the way. Government acts when the crisis is upon us.

My next “aha” moment came 10 years later. Working for the Institute of Industrial Engineers (IIE), an association dedicated to performance and productivity improvement, I watched one U.S. industry after another die on the vine due to shortsightedness about the challenges posed by emerging international competitive and technological trends. Shipbuilding, the auto industry, electronics, computers, and more were fast being eroded due to this lack of foresight. How could this happen again? I thought U.S. companies were recognized for their powerful strategic planning. I came to realize that the “strategic horizon” of U.S. companies tended to be about three to five years, and unless the crisis was upon them, most would not react.

Now fast-forward to 2011 for “aha” moment number three. I was preparing to retire as CEO of the Project Management Institute (PMI) and was reflecting on my nearly nine-year tenure. I had spent my career as an advocate for business excellence through project, productivity, and performance improvement. I'd had a great run. The turn of events in 1980 encouraged me to spend my career in the not-for-profit sector, bringing people together to solve common problems without government involvement and hopefully helping companies become more successful. I had traveled to nearly 70 countries, meeting wonderful, ordinary people who were doing extraordinary things.

However, I had been extremely restless for the last five years. I believed that there was a conversation we needed to have, but I couldn't quite put my finger on it. Beyond meeting thousands of wonderful people around the world, I had witnessed a world converging on a point in the future that was going to have a long-lasting negative impact on business and personal prosperity. My travels had shown me firsthand the dilemma of

an expanding population in an era of declining resources. Seven years of scenario planning and reading signpost reports for PMI had made me acutely aware of the problems that could emerge by the middle of the twenty-first century.

To confirm my conclusions, I picked up a copy of *Limits to Growth: The 30-Year Update* by Donella and Dennis Meadows and Jørgen Randers, and I read it carefully. The original set of scenarios, produced in 1972, was the result of the first computer-generated models showing how the competition played out between a rapidly growing population and a resource-limited planet. The book proved that sometime before the mid-twenty-first century, there would be a “kink” in the supply hose for society and businesses. Something had to give, or a global adjustment would put thousands of companies out of business, put millions of people out of work, and do long-term damage to global prosperity. Is no one listening or watching?

I decided to put sustainability on my own public agenda. I spoke globally on the pending dilemma and the changes that needed to be made. I engaged business and government leaders around the world in the conversation, and I began to see changes were brewing—significant changes—that might be able to effect a course correction. I was driven to get someone to listen to me, to act.

I did learn that great environmental entrepreneurs such as Ray Anderson of Interface Inc. and Yvon Chouinard of Patagonia were exercising their own initiative and taking a revolutionary approach to business. I owned BMW motorcycles and cars for years before I learned that the company was also a powerful force for fighting the AIDS epidemic. Companies like Whole Foods were demonstrating that growth with a commitment to building sustainable communities is not only possible but profitable as well. Thousands of individuals were proving that social innovation wasn't a fad but a powerful trend altering the way people interact and prosper.

These companies were transforming the traditional commitment of business capitalism from turning profits and maintaining market share to building global prosperity and improving the planet. But clearly they were

in the minority. I realized that this was the conversation we needed to have. Hope is built not in the political mechanisms that regulate solutions but rather in the boardrooms of the world. The initiative and innovation of businesses can be directed to building a sustainable future while still making money and staying in business. It was time to act. I was going to make people wake up and listen.

The idea of this book began to take shape. I was convinced that studying the transformations that were going on would reveal common approaches that could be shared and utilized. The information was out there, waiting to be mined, sorted, and shared. But I couldn't do it alone. I needed both the opportunity and a development partner. The opportunity came from a friend and colleague who is the epitome of a business entrepreneur—and a person whose default state is “action.” That person was E. LaVerne Johnson, founder, president, and CEO of the International Institute for Learning (IIL). I knew from personal experience that she was committed to building sustainable communities and helping society. She understood the idea of shifting from profits to prosperity. We agreed that we would somehow work together, and in 2012 we committed to this book project.

I also realized I needed a balanced approach to this task. I needed to avoid my own linear view and try to be critical. I needed another strong perspective to uncover and tell the stories and to find the common thread that would transform companies. I needed someone to test my limits and understanding by sharing a strong opinion, a global opinion. I found that person in Nathalie Udo. Together, using the opportunity presented by LaVerne Johnson, we have carried on the conversation about shifting from profits to prosperity. We hope you continue the conversation after reading this book, with one important provision: that you act on it.

Years ago, I attended a workshop by futurist Joel Barker and picked up a saying that has affected my career and helped me motivate others: “Vision without action is a dream. Action without vision is simply passing the time. Action with vision is making a positive difference.” Help your organization develop a vision and take action. That is all we ask. Just do it.

**NATHALIE**—I was very honored when Greg asked me to be his co-author. Growing up in the Netherlands—one of the most densely populated Western countries in Europe—I was keenly aware of the limited availability of untouched nature. Don't get me wrong; we have forests in the Netherlands, but the trees are all in nice, neat rows, almost manicured. In high school I was a member of Greenpeace and dreamed of becoming an activist to protect our planet's nature and wildlife from the exploitation of ruthless corporations. When I was in university, I longed for unlimited wealth so I could buy up large sections of the Amazon forest—the lungs of our planet—and put armed guards around those areas to punish anyone who wanted to cut down a tree. Then my working life began, and the day-to-day reality of paying bills pushed everything else to the side. I felt overwhelmed by the scale of changes needed for us and our descendants to continue to enjoy the world and all its natural wonders.

I have traveled a lot in my life, both for pleasure and work, and in the process I developed a healthy distrust of corporate intentions regarding nature, wildlife, and people, simply from seeing the damage done by corporations on land and under water. When I heard more and more companies talking about corporate social responsibility but could not see real progress, either due to lack of transparency or lack of action, it sounded to me more like a marketing tool than true intentions to sustain our environment and societies. My personal awakening came around 2008, when I started to work closely with Japanese corporations.

Corporations rooted in Japanese culture have long-term visions covering multiple generations. They are concerned with the sustainability of their organizations, but they also care about the societies in which they operate, since that affects the company's sustainability. Working closely with these corporations, learning their histories, hearing their executives talk about sustainability and how it is part of their value system, seeing how they support their words with actions and how they raise the awareness of their employees in this area made me realize two things. First, I realized I was not taking any action in this area that was critically important to me. Second, I realized that corporations hold the key to the social,



environmental, and ethical improvements needed to change the course we and the planet are on. They have the necessary reach through their value and supply chains, and they have the necessary resources.

The feeling of being overwhelmed by the gigantic problem we are facing had muted my “I’m in control” mentality. Experiencing the real passion some Japanese organizations have for improving the communities they touch convinced me that I needed to do something. So here I am writing this book with my dear friend Greg Balestrero. I want to do my part to raise awareness and inspire more companies to transform their organizations to become more sustainable. In the process, they will improve the health of the planet and of society at large—and also the health of their bottom line, as you will read in this book!

The Dalai Lama says, “If we make consistent effort, based on proper education, we can change the world. We are selfish, that’s natural, but we need to be wisely selfish, not foolishly selfish. We have to concern ourselves more with others’ well being, that’s the way to be wisely selfish. We have the ability to take the long-term benefit into account. I think it is possible to make real change in this century.” I also believe that real change is possible, even before the middle of this century!

# Introduction

Why would we write a book on the relationship between global sustainability and corporate strategy when there are already so many other sustainability books out there? In part, we did so because we want to continue a meaningful conversation about the change that needs to happen. The massive global library of information on sustainability is not merely a virtual shelf filled with discrete, unrelated bytes of information. On the contrary, each book and every article contributes to shaping our beliefs about the future of business and the planet. Just as creating this book has shaped our beliefs, we hope reading it will shape yours and encourage you to act.

More important, we believe leaders at the corporate, business, and government levels continue to assume that we have plenty of time to change course. In reality, time is running out. We are now well into the second decade of the century, and while we have seen remarkable transformations taking place, there still isn't sufficient progress to avoid catastrophic damage to our businesses, our societies, and global prosperity. We want to raise the level of urgency in the conversation and spur rapid, transformational changes.

But we also believe the changes we need aren't just about the environment or natural resources. Most sustainability books focus on those angles, and no doubt they are critically important, but the change we need today is far more complex. Consumers expect companies to do the right thing and to help the society they serve. Ethics and trust have never been higher on the lists of important criteria for successful companies.

In addition to making profits and protecting their value chain, corporations have to stand up for society and demonstrate ethics above all. These changes have to be embedded at the very heart of the business philosophy.

We want to explain the common traits and actions that we have uncovered at the core of companies making this transition successfully and profitably—from entrepreneurial businesses to multinational titans. These organizations have identified the problems we face and have made real, meaningful commitments to changing the way they do business. Those changes have resulted in huge benefits to the organizations, to their brands, and ultimately to their long-term survival. We want to point the way: a way that is not only the right thing to do but also a way of surviving and thriving in a rapidly approaching future.

## HOW THIS BOOK IS ORGANIZED

One of the common themes you will find in these pages is that *you cannot accomplish this change alone*. You will need to build alliances and partnerships to meet your goals. To that end, we have gone to great lengths to help you develop a strong argument for change and to build a common belief across your organization that change is no longer an option but a mandate for survival—a belief that will result in changes to strategy and execution.

### The Case for Change

In Chapters 1 to 3, we lay out the case for change, not just from an environmental standpoint but also from a practical one. Of course you know that our global population is growing, but did you know that a huge percentage of that growth comes from an emerging middle class in developing countries? New cities are springing up all over the world, and people are migrating to these urban centers in record numbers, searching for a better way of life. The resulting demand for middle-class goods and services will put enormous strain on resources and supply chains that are already stretching to the breaking point.

The message of these chapters is crystal clear: there is no longer any doubt that global demand will become unsustainable by 2050. Sustainability is no longer a choice. It is an imperative. Businesses are in a unique position to meaningfully alter the shape of our future. The new paradigm has to be based on the belief that organizations' long-term prosperity is joined at the hip with global prosperity. Bea Perez, Coca-Cola's chief sustainability officer, is very clear on this issue: "There will be no companies 100 years from now if companies do not focus on sustainability!"

## **The Awakening of Organizational Leadership**

The rapid demographic, economic, and environmental shifts we are facing will present unprecedented challenges—and also unprecedented opportunities for businesses willing to embrace sustainability in their strategic planning. In Chapters 4 to 6, we share our research into companies worldwide that are making dramatic changes and realizing dramatic successes as a result.

The organizations discussed in these chapters were carefully researched and chosen based on a set of very specific criteria. (See Appendix A for additional discussion on our selection process.) We hoped to find companies that either were founded on the values of sustainability or acted on the trends discussed in Chapters 1 to 3 by implementing strategic changes to reposition themselves for a sustainable future.

The companies we identified and researched have put sustainability at the core of their business. For some, sustainability was built into strategy and decision making from their founding. For others, sustainability has moved from the margins to the center of the corporate agenda. And for others still, new business paradigms are being created through social innovation that will shape an entirely new economic model. All of these companies believe that profits will follow sustainable business practices and have proven that this is the case.

We quickly found that these companies were making dramatic and innovative strategic changes throughout their supply and value chains, leading to impacts that could change entire industries. It is this corporate

performance and strategic change that we highlight in these chapters. Their stories show how organizations build respect, improve stakeholder loyalty, and increase profitability by doing the right thing and exercising leadership in their sector.

## **Payback Is Real**

While consumers, employees, and society are scrutinizing companies more and more about their sustainability strategies, there is a widely held belief that Wall Street has not caught up yet. The prevailing view is still that investing in sustainability comes at the expense of the bottom-line results. One of the issues companies face is that the business case for long-term sustainability can seem ambiguous—the return on investment is not always immediately clear. Chapters 7 to 10 describe the value and payback elements of the transition to sustainability, dispelling the myth that sustainability comes at the expense of profits. These chapters show that the payback is real, puts money in the bank, and builds a valued brand.

The success stories shared earlier in the book may seem both remarkable and unrealistic to many in your organization, and you may be confronted with skepticism and roadblocks along the way. In Chapter 7, we provide a practical guide to anticipating and responding to the myths and questions that you may encounter during your transition. We will help you analyze the success stories and be prepared to respond directly to these challenges.

Chapter 8 shows that the stocks of those companies that have adopted a sustainable strategy consistently outperform those that haven't. Chapter 9 explains how companies can change the conversation by tailoring it to the values, ethics, and cultures of specific communities in which the company operates. We describe how the conversation with the financial community needs to change to recognize and reward sustainable behaviors, which would inspire many more organizations to adopt sustainable strategies.

Finally, Chapter 10 focuses on collaboration and the common traits we (and others) have observed in sustainable companies. This will help

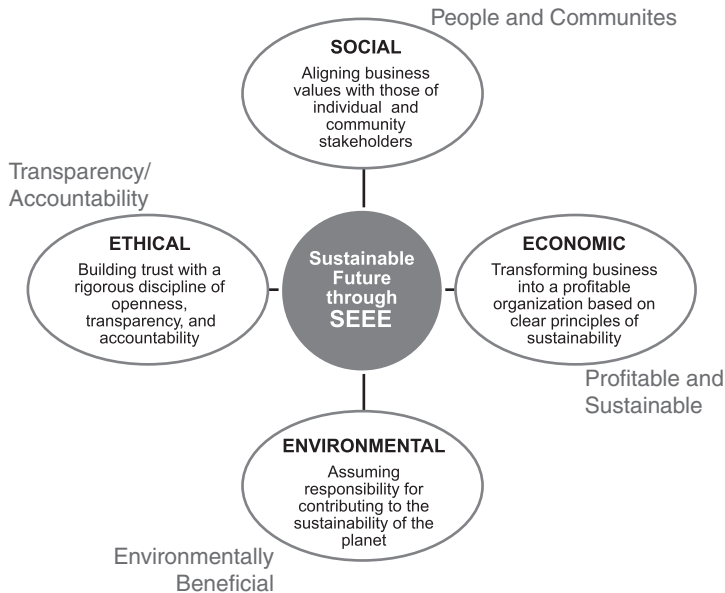
you self-assess which traits you need to develop to guide your company through the transition. Cultivating these traits will allow you to successfully transform your business into an organization driven by sustainability while benefiting from the financial payback it provides.

## **A Road Map for Changing Our Future**

The core of this book is a new approach to assessing and developing a strategy to transform your business. This approach focuses on using risk management, scenario planning, and the SEEE model™ we have developed in conjunction with International Institute for Learning, Inc.—a framework that takes into account the Social, Economic, Environmental, and Ethical factors of strategic change. This new model will help you integrate sustainability into your strategic plan and to create and instill a new, sustainable outlook throughout your organization that will enable real and lasting change. The last chapters of the book introduce the tools you need to make this change successful. We help you answer key questions like: Where do I start? How do I build an agenda for change? How do I create and balance the portfolio of change? And how do I make sure that this change survives me—that it becomes sustainable beyond any one person, management team, or board? All of these questions are critically important to the leader in transition. This will not be an exhaustive treatment, but it will be a guide to real progress and a compass, if you will, to get started on this important change process.

To build a successful, profitable, and sustainable company with a solid reputation, you must weave sustainability into business strategy and day-to-day decision making. When sustainability is incorporated in organizational strategy, the decision processes for all initiatives will include a basic question: How does this affect our plans for sustainability? More important, sustainability becomes a variable in the formula for determining value in all company operations.

At any company, an integrated strategy that affects the entire value chain of the organization is critical to success. Figure I-1 displays a framework for establishing sustainability integration using the SEEE model:



**FIGURE I-1** The SEEE model makes sustainability an integral part of strategic decision making throughout the organization.

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the Social, Economic, Environmental, and Ethical elements of strategic change. Strategy development and the associated strategic decisions must embrace all four of these elements:

- *A social commitment* that integrates key individual and community stakeholder interests into the company's strategy and aligns them with the business values and principles. This requires a clear understanding of the key stakeholders in the organization and of the impact that the organization has (and can have) on its stakeholders.
- *An economic commitment* that transforms the organization into a profitable business based on clear principles of sustainability. This goes beyond the cost savings from concepts like zero waste. It embraces an economic model with a long-term vision that avoids trading sustainability for profits during economic challenges and that values

commitment to sustainability as a corporate principle with intrinsic value.

- *An environmental commitment* that takes responsibility for contributing to the sustainability of the planet. This requires the organization to take a full and complete look at its impact on the planet throughout its entire value chain, accept responsibility for its products and services throughout their life cycle, and take action accordingly.
- *An ethical commitment* that builds trust through openness, transparency, and accountability. This requires an organization to set clear measures of change, to assign objectives based on clear metrics, and to provide public reporting on progress against these objectives. It also requires the organization to own the impact of its mistakes by taking responsibility for failure and committing to overcome it and change.

The SEEE approach covers a lot of territory, but it takes effort and perseverance to implement a profitable sustainability strategy. One of the common traits of truly successful sustainable companies is that they work toward long-term change. Most of the organizations we discuss in this book have based their plans on a 10-year horizon. Obviously, such a long-term view requires an investment in ensuring that the change is real and substantive. Strategies must be built on a solid foundation of knowledge. Accumulating this knowledge requires conducting detailed analyses of value and supply chains, engaging stakeholders in discussions about key issues in their communities, understanding the most critical risks in the future and how those risks drive strategic change, and embracing partnerships to address critical supply issues that are beyond the resources of the company. The last section of this book addresses the strategic changes needed. Chapter 11 goes into more detail about how to create this long-term view and collect the required information, and Chapter 12 describes the process of integrating them into your company's strategy and decisions.

A successful sustainability strategy must be built carefully, so the SEEE approach uses phase-based strategy development. Figure I-2 shows an example of the different stages the change can go through.





**FIGURE I-2** The SEEE approach and the four stages of change: an information-gathering foundation that establishes a foundation or baseline, incremental changes to begin the transformation, a period of disruptive change moving the organization into the future, and finally a radical transformation of company operations and perceptions in the market.

Establishing a progressive step-by-step framework for strategic changes that embrace sustainability allows you to consider all of the changes needed to become a sustainable company. As you begin the process of strategic change, you will progress through four stages:

- *The foundation.* In order to build a socially responsible company, you first need to understand and meet the minimum required level of sustainability. The organization should understand, embrace, and comply with all legal and regulatory requirements for each element of the strategy. Compliance is the operative word for this level.
- *Incremental change.* In this stage, you ensure that the right steps are taken to begin the transformation, such as engaging stakeholders in discussions, measuring the organization's environmental footprint, and evaluating reporting methodologies. During incremental change, companies focus on finding efficiencies like reducing their carbon or water footprint and energy use.
- *Disruptive change.* Initiating deliberate, measurable change will disrupt the organization, but in a positive way. This is where the

organization moves from certainty to uncertainty, from the present into the future. In this stage, innovation is used to drive change. Strategic goals, for example, might include targeting a zero environmental footprint in carbon and water, or using only renewable energy sources and contributing to the communities in your value chain.

- *Radical change.* This is where aggressive changes occur that propel the organization into the future, not only in the way it operates but also in the way it is perceived. This could mean dramatic changes in product design, or taking an approach that actually removes more carbon from the atmosphere than your value chain adds.

## THE CENTRAL MESSAGE

This book is a story of hopefulness rather than gloom and doom. It is intended to show that there is a reason to change—a burning platform, if you will. More important, however, this book is intended to show that it literally pays to change, by providing many great examples of how companies changed, made a difference, and ensured survivability well into this century.

In addition, this book presents a model for changing strategy that integrates the elements of economics, social responsibility, environmental sensibility, and a long-term commitment to building public trust through a rigorous devotion to ethical behavior. Thus, the real leverage of this book is in a truly integrated model for strategic change. We believe that the model described in this book will help companies navigate the critical era ahead of us and contribute greatly to positive change in society and the planet.



# PART 1

## THE CASE FOR CHANGE



# THE DOUBLE MEANING OF SUSTAINABILITY

*Before you start some work, always ask yourself three questions: Why am I doing this? What might the results be? Will I be successful? Only when you think deeply and find satisfactory answers to these questions should you proceed.*

—CHANAKYA, INDIAN TEACHER, PHILOSOPHER,  
AND ECONOMIST (370–283 BCE)

**GREG**—Waking at six o'clock in the morning on the last day of our trip into the Amazon River basin and the Peruvian rainforest was both exciting and sad. My wife and I jumped out of bed and ran to the board ramps for the skiffs to begin our last expedition of the trip. We didn't want it to end, but we knew we needed to drink in the world around us one last time. We had spent eight days aboard a small riverboat with 25 other passengers, searching out and witnessing life and biodiversity in this amazing place. Our expectations weren't just surpassed; they were blown out of the water.

The rainforest is an incredible place. I relished the scents, the sounds, the feeling—a remarkable experience. Each day we spent six to eight

hours in small skiffs, riding through the estuaries and tributaries, walking through the rainforest, and watching for signs of prey and predator alike. My mind ran through the huge variety of experiences we'd had and what this rainforest and others like it represent to the world.

The rainforests of the Amazon River basin cover parts of seven countries: Venezuela, Peru, Brazil, Bolivia, Colombia, Ecuador, and Guyana—approximately 40 percent of the continent. Though the percentages vary according to the source, experts estimate that the Amazon rainforest produces between 15 and 40 percent of the world's supply of oxygen, second only to the oceans of the world.

Oh, and let's not forget the biodiversity. More than one-half of Earth's millions of species of plants, animals, and insects live in rainforests throughout the world. In the Amazon basin alone, more than 1,500 species of birds are found. A recent study identified 1,500 plant species, 750 species of trees, and 900 tons of living plants in one hectare (2.47 acres). Nearly 500 reptiles find a home in the rainforests of the Amazon River basin. The river itself supports over 2,500 species of fish.<sup>1</sup> Can you imagine? I couldn't believe that I was there, witnessing this abundance and diversity of life.

And of course there is the Amazon River itself—nearly 6,500 kilometers (4,000 miles) long—stretching from its beginning just east of the Pacific Ocean in the Peruvian Andes to the massive estuary emptying into the Atlantic. The water passing through the Amazon in one day would meet the needs of the entire U.S. state of New York for a full year! Truly amazing.

But the marvels of the Amazon Basin aren't limited to wildlife. The river and forest people are wonderful. They are beautiful and friendly and very accepting of outsiders. They are extraordinarily resourceful, using the land, the water, and the wildlife to live, eat, and thrive. From the palm wood they use to build their homes, to the fish and animals they eat, these people owe their lives to Mother Earth, or Pachamama, as the Incas say.

The government of Peru invests in the education of its people, including the river and forest people. Every village, however small, has a state-

funded school building to educate children through the eighth grade. Literacy among these river and forest communities is nearly 98 percent. To continue their education, children must travel to and stay in a city with a high school. Many children make this journey, seeking more education and more opportunities for prosperity. As their knowledge of the world grows, their own desires change, encouraging them to look for more opportunity. More than anything, the people of Peru are its greatest resource.

## THE STORY OF OUR FUTURE

Storytelling is a remarkable means of sharing important parts of our lives. It has formed the basis of passing on traditions and principles of life and society over the millennia. However, in the era of broadcast, cable, and social media, it is difficult to tell which story is the right one to listen to, especially when you're trying to make concrete decisions. When one tries to understand the implications of climate change, the reports disputing and supporting the science pile up on either side. Each report, whether by a newscaster or a scientist, tells a story that is embellished by a host of facts, analyses, conclusions, and more important, opinions. To those of us trying to make a decision about strategic change to address the impacts of climate change, this presents a great challenge: a very complex subject, not yet fully understood, contested and supported by thousands of opposing sources. It's tempting to tune them all out and just live day by day.

The story of Peru represents another set of observations, more points of reference that clarify the challenges facing us in the world today and well into the twenty-first century. It helped reinforce our thinking that there are indeed very complex challenges in the future, for which many of us—individuals and organizations—remain unprepared. If organizations don't embrace change, then in all likelihood, their very survival will be in question in a few short years. In other words, the sustainability of companies in the next 40 years is inextricably linked to the sustainability of communities and the planet.



## A Precious Link in Global Supply Chains

Leading organizations today have expanded their view to include the complete value chain of their products and services. The **value chain** is often defined as the successive stages in which value is created when producing, distributing, or servicing a product. The **supply chain**, on the other hand, is part of the value chain and is often defined as the integrated list of suppliers that provide everything from raw materials to semifinished goods to cleaning services and paper towels. When organizations scrutinize their value and supply chains to ensure that they are robust, it can allow them to ramp up and deliver without surprises. These leading companies also look at the supply chains of the *indirect* resources that contribute to their overhead, such as headquarters facilities, administrative personnel, energy to power the administrative offices, and so forth.

Looking more closely at Peru provides a sense of how the rainforest is tapped to provide input to global supply chains. Beginning with its natural habitat, the biodiversity of the Amazon River basin has been under attack for many years. Climate change, deforestation, commercial farming, city growth and overcrowding, pharmaceutical harvesting, and commercial fishing are doing tremendous damage. Since 1970, the Brazilian rainforest alone has lost over 600,000 square kilometers (230,000 square miles) according to satellite surveys by the Brazilian National Institute for Space Research (INPE).<sup>2</sup> This massive deforestation has stripped away countless species, some of which might have provided remedies for illnesses. Many prominent zoologists, such as Nigel Stork of Griffith University in Australia, warn that deforestation is responsible for the loss of thousands of plant, insect, and animal species per year. Some estimates place the rate of destruction at a staggering 50,000 species per year—an average of 137 species every day.<sup>3</sup>

Globally, there are many coordinated efforts to move toward net zero deforestation. One prominent effort is the UN-REDD Programme, a United Nations Collaborative initiative on Reducing Emissions from Deforestation and forest Degradation (REDD) in developing countries.<sup>4</sup> Launched in

September 2008, this program assists developing countries, with the help of several other UN programs, in preparing and implementing national REDD+ strategies. (REDD+ extends beyond deforestation and degradation to address conservation, sustainable management of forests, and “enhancement of forest carbon stocks in reducing emissions.”)<sup>5</sup> The World Wildlife Federation is also working toward a goal of net zero deforestation for the Amazon rainforests by 2020. These programs and others like them are making a difference, but we are still a long way from reversing the destruction.

Why is so much effort expended to strip the forests in the Amazon River basin? We know this area represents a treasure trove of raw materials, food, medicines, and other supplies that can feed, cure, house, and clothe people throughout the region and the world. It is also the location of new cities and agricultural centers. And yet both the river basin and the forest have become exploited links in many supply chains, with insufficient attention paid to making these links sustainable. Recent efforts in Peru and Brazil have slowed this process, but a broad range of industries have been affected by these restrictions, since the Amazon River basin is the raw material link in hundreds of supply chains. This could result in a backlash of lobbying to remove restrictions.

In addition, the domestic transformation of the people of Peru provides a microcosm of the future workforces of the world. Peruvian villagers demonstrate a passion for improving themselves and building expectations of prosperity. Each of the villages has an odd thing in common: satellite TV. Yes, each of the villages has access to the world outside of the region and their country through TVs powered, not surprisingly, by diesel generators. It isn't hard for the villagers to see the numerous and exciting opportunities in the larger cities of Peru and in other developed nations. For them, local education is an answer, but it also provides motivation to move to the cities. They believe they need more education to become more prosperous, so they move to the cities, where they live with families and friends who are willing to house them. There in the cities, the bounty associated with educated middle-class people may very well be available to these relocated villagers.

## The Race to the Cities

According to the UN Department of Economic and Social Affairs, 76 percent of Peru's 29 million residents live in cities, and the influx is growing, leaving small villages and agro-communities abandoned. By 2050, UN projections indicate that Peru will have a population of nearly 38 million, while the global population will have swelled to approximately 9.5 billion. If the percentage of Peruvian urbanites doesn't change, more than 33 million will be living in cities—nearly eight million more people than the current total population of Peru!<sup>6</sup>

Globally, about 51 percent of the population lives in cities today, a first for humankind. Eduardo Lopez Moreno, in a recent report for UN-Habitat, calculated that there are more than 193,000 “city dwellers” added to urban areas across the globe *each day*—that's two every second.<sup>7</sup> The needs to supply this massive urban population grow by the minute: food, building materials, automobiles, public transportation, sanitary facilities, clean water, foodstuffs, educational institutions, and more. The Amazon River basin and forest and others like it are among the primary supply chains for many of the basic and raw materials to meet these needs.

## THE EXPLODING MIDDLE-CLASS MARKET

In the past, developing nations were considered a great source of inexpensive, high-quality labor. Companies throughout the developing world became the low-cost assembly providers for autos, cellular phones, computers, televisions, and more. Along with this burgeoning industry came greater prosperity and—as is the case in India, Africa, and China—a new emerging middle-class market for domestic goods.

So not only is the urbanization of countries like Peru creating more demand on supply chains; so is the growth of consumption of this new worldwide middle class. Throughout the developing world (Latin America, Africa, Asia, and India) there is a passion to move more people than ever before out of poverty and into the middle class.

The 2012 report of the United Nations Millennium Development Goals (UN MDG) for 2015 included preliminary estimates indicating that the global poverty rate has already fallen to less than half of the 1990 rate.<sup>8</sup> If these results are confirmed, the first target of the UN MDGs—cutting the extreme poverty rate to half its 1990 level—will have been achieved well ahead of schedule. This was a massive collective effort by business, government, nongovernmental organizations (NGOs), church groups, and other not-for-profit institutions. It is a remarkable success.

However, this report defines the income threshold for emergence from extreme poverty to the lowest strata of the middle class at US\$1.25 per day. This number may seem remarkably low, but it is a commonly accepted threshold. The economics of this new middle class in the developing world are very different than any in the developed nations. A special 2009 report by *The Economist* titled “Burgeoning Bourgeoisie” highlights these differences in the way the middle class is measured.<sup>9</sup> In the early 2000s, global economists tended to measure middle-class economics by reflecting on the existing middle class. The result was a daily earning power range of US\$12–\$62. This traditional middle class definitely contributes greatly to the engine of consumption, buying the things they have come to expect as a result of their economic status. However, the growth of a middle class in that range of earning power is in the single digits.

The new global middle class—and its measure of growth—is dramatically larger than the traditional middle class. A study by India’s National Council for Applied Economic Research found that from 1995–2005 there was a movement out of poverty, emerging into a new middle class.<sup>10</sup> The new range was between US\$2–\$12 per day at 2005 purchasing power parity (PPP), and the percentage of the population that moved up from poverty into this range of earning potential grew from 18 percent to a jaw-dropping 41 percent!

As a result, the World Bank and the UN have formed a consensus to use a different figure to measure the daily earning potential of the class of people moving out of poverty: US\$10.68 at 2005 PPP. With this number in mind, the new emerging middle class is massive. Today, India, Africa,

and China are leading the world in middle-class expansion. Based on the revised statistics, Africa, India, and China *each* have a middle class in 2012 that numbers 300–500 million! Any one of those new middle classes represents a population rivaling that of Europe or the United States.

**GREG**—The dream of having a better life is not limited to the developing world of today. People have always dreamed of gaining affluence and prosperity. Both of my parents were Italian immigrants who moved to the United States as children immediately following World War I. My grandparents received education only to the third grade, while my parents ended their education at the eighth grade. They were brought to the United States to seize the opportunity, the “dream,” of moving out of poverty and into the middle class.

My parents were union workers. They wanted a home, a car, freedom from want, and the opportunity for my generation to attend university. To them, these were the hallmarks of being in the middle class.

Those same beliefs exist today in the minds of low-income earners throughout the world, along with the passion to have readily available transportation, a cell phone, a TV, a computer, clothes for every occasion, and the middle-class luxury of spare time to invest in activities not related to pure survival.

This rapidly escalating middle-class demand is wonderful for the global marketer or for the domestic marketer in the affected countries. However, the unexpected consequence of this improvement is a growing consumption of all things “middle class” and growing expectations for more products at prices far lower than ever before. The growth in this desire is exponential in developing nations. Mario Pezzini of the Organization for Economic Cooperation and Development (OECD) calls the middle class “the motor of consumption.”<sup>11</sup> The African Development Bank calculated that while annual global population growth is down to 2.6 percent, the middle class continues to grow annually at 3.1 percent. In his

article on the middle class, Pezzini noted that in Brazil, documented poverty has dropped from 40 percent of the population in 2001 to 25 percent in 2009, a shift with important consequences.

Regardless of your measuring stick, this new, emerging urban middle class represents a massive global engine of consumption, most of which is domestic to the respective countries. And with that market comes a series of expectations that will create a demand for goods and services unprecedented in our history:

- Sanitary facilities (including clean water)
- Clothing
- Readily available food supplies
- Connectivity for family and work (cell phones, Internet)
- Mobility for work and necessities (inexpensive cars, motorcycles, public transport)
- Healthcare for families (medicines)
- Homes, hospitals, and educational institutions (building and construction materials)
- Entertainment (TVs)

### **A Paradox of Opportunity**

All of this would seem to be a boon for manufacturers and service providers. If the UN predictions are correct, the population of the world will be approximately 9.5 billion in 2050, up more than 35 percent over 2011. Though various assumptions and projections surround the size of the middle class in 2050, it appears that there is some consensus that it will be well above 50 percent of the global population, with a vast majority of the global population (70 percent) residing in cities.

Why shouldn't business leaders be excited and aggressively pursue this burgeoning market? This is a great market opportunity for retail goods and services and for the movement and creation of fixed capital. It would mean creating a strategic plan to scale up capacity and distribution

in those regions of the world. In other words, how quickly can business scale up and provide the goods and services necessary to meet that growing demand?

All of us have read about companies that are following their marketing research and instincts and building capacities in developing regions of the world. At first, the move to set up manufacturing and assembly plants in the developing world was made to take advantage of low-cost, high-quality labor. Businesses believe there is a golden opportunity in Africa, India, and Asia to take on a share of these emerging domestic markets. Companies like Ikea, BMW, Samsung, and Ford Motor Company have been moving quickly to capitalize on this new market. This is less news than it is history.

### **A Distant, Fragile Middle Class**

However, there are implications of this new, emerging middle class that create potential hazards for companies and organizations alike. First, this metamorphosis in the urbanization, population, and economic condition of humanity is not occurring in the same places as in the past. In fact, the highest growth in the middle class is moving east, with the largest contribution in Asia, India, and Africa. Homi Kharas, a Brookings Institution scholar appointed by UN Secretary-General Ban Ki-moon to lead the panel to develop the UN MDG for 2015, presented a compelling paper at the World Economic Forum in 2012.<sup>12</sup> He shared a projection that indicates 64 percent of the middle class in 2030 will be in Asia, while the middle class in Europe and the United States—today composing some 50 percent of the world's middle class—will fall to 22 percent in 2030. In addition, his research projected that 40 percent of global middle-class consumption in 2030 will come from Asia.

Second, and more important, this new middle class is fragile, dependent heavily on freedom to work, improvement in healthcare, improvement in education, a strong economy, and interlinked with issues such as national governance, domestic racism, and more. Those in the lower part of the US\$2–\$12 per day range are particularly vulnerable to all of

these factors. Also, there has been little reduction in what the UN calls *vulnerable employment*—that is, unpaid family members or own-account workers. Vulnerable workers account for 58 percent of all employment in developing regions. UN and World Bank studies have proven earnings in this income range are quite fluid, sliding up and down the scale and easily falling out of middle class and back into abject poverty. It is a difficult market to target and stay with.

The reality of this new middle class is that it is shifting from the traditional Western, developed nations to Latin America, Asia, and Africa. And this movement is not due only to a shift in percentages. While the new paradigm of the middle class proliferates in the developing world, the old paradigm of the middle class in the developed world appears to be shrinking. For example, a 2012 joint study by the Bertelsmann Foundation and the German Institute for Economic Research (DIW) found that “Germany’s once robust middle class has been shrinking rapidly for years” and “confirmed that low-income earners in Germany hardly ever move up the social ladder.”<sup>13</sup> Once the backbone of society, the German middle class has dwindled over the past 15 years:

Based on a poll of 20,000 adults, the study found that [at the end of 2012], middle-income earners accounted for 58 percent of the overall German population, down from 65 percent back in 1997. In absolute numbers, the middle class thus decreased by 5.5 million over the period under revision to total 47 million people.

At the same time, four million more people were added to the army of low-income earners, the survey said, while adding that once relegated, a renewed promotion to the higher income league was the exception rather than the rule.<sup>14</sup>

This convergence between the shrinking traditional middle class and the growing new low-earner middle class may very well mean a “motor of consumption” that will be greater than any we have witnessed in our history.



## UNRELENTING DEMAND AND DIMINISHING SUPPLIES

There is no question that this emerging motor of consumption and its associated urbanization is growing exponentially. Over the next 40 years, with continuing prosperity and proper supply, it will present a tremendous opportunity to provide thousands of classes of goods and services such as housing, clothing, food, transport, medicines, consumable goods, communication devices, and more. Even with the knowledge that the new market is in the developing world—and that it is also quite fragile, expanding and contracting with the cycle of fluctuating prices and changes in local and global economies—it remains a powerful magnet for new and existing providers of these goods and services throughout the world.

But this unrelenting demand is not affecting only the finished goods that are available. All one has to do is look up the supply chain to the source of the raw materials that are the genesis of most goods and materials. From the most fundamental resources such as water and wood, to the most enjoyable resources such as cocoa for chocolate, to the most exotic materials for telecommunications devices, supplies are diminishing and will continue to diminish at alarming rates unless something is done soon. Chapter 2 will address the issue in depth and how this demand will challenge nearly all supply chains, but a brief preview here will begin building a stronger case for the need for a new, more sustainable strategy.

### Quenching a Global Thirst

In the 2012 UN MDG report, much attention was directed to one of the most critical goals: broad use of safe drinking water. The report indicates that while 19 percent of the rural population of the developing world used unimproved sources of water in 2010, the rate in urban areas was only 4 percent. However, the report further indicates that since safety, reliability, and sustainability are not factored into tracking progress on this goal, it is likely that these percentages overestimate the number of people using safe water supplies. Worse, nearly half the population in the developing world—*2.5 billion people*—still lacks access to improved sanitation like

toilets and proper bathing facilities. With rapid urbanization on the horizon, safe drinking water and sanitation become critical to a healthy and strong populace and global workforce.

Industry and manufacturing are the greatest competitors for fresh drinking water in the world today. Manufacturing, energy, and production must compete for a share of water not used in agriculture, drinking, or sanitation. When water is permanently polluted in the manufacturing process, the total clean water available—whether on the surface or below ground—is reduced. The need for water in agriculture will grow in developing nations, even if agriculture becomes more sustainable and productive throughout the world. The hidden competition for water among industry sectors anywhere in a food-related supply chain will become intense throughout the century.

The 2012 UN MDG report also indicated that progress in diminishing food deprivation had slowed or been reduced in many regions of the world. In fact, even though there have been dramatic improvements in moving people out of abject poverty, undernourishment rates—especially in sub-Saharan Africa and in Southern Asia (outside of India)—have not improved. Nearly one-fifth of children in the developing world remain undernourished. The battle for water is under way and with a growing population may very well become a battle for life.

Water is an undervalued resource. It sustains our people, it irrigates our crops, it cools our machines, it helps produce our energy, it creates our refreshment drinks, and it nourishes our animals. In short, freshwater is the most valuable of all resources on the planet. We often limit our thinking about water usage to drinking, cooking, and agriculture, but it is the factories and offices that will create an ever growing need for water as these engines of production attempt to meet the demand of the massive population of the mid-twenty-first century.

### **Supplying the Raw Materials**

In his landmark 1970 book *Future Shock*, Alvin Toffler predicted that developing nations might very well leapfrog over mature technologies

and use new and emerging technologies in ways previously unheard of. Nothing proves this theory more than the use of cellular phone technology. The 2012 UN MDG report indicates that in 2011, more than 75 percent of mobile cellular subscriptions were in developing regions, up from 59 percent in 2005. In sub-Saharan Africa, mobile cellular penetration is 50 percent, while landlines are at only 1 percent! The International Telecommunications Union (ITU) 2012 statistical report confirms this growth. For consideration, in 2011:

- Mobile cellular subscriptions reached a global penetration of 86 percent
- 80 percent of the 660 million new subscriptions were in the developing world
- 142 million new subscribers were added in India alone
- 144 million broadband subscribers were added in the BRICS (Brazil, Russia, India, China, and South Africa), which is 45 percent of total global subscription growth
- 105 countries—including nations such as Botswana, Namibia, and Gabon—had more cellular subscriptions than inhabitants<sup>15</sup>

This increased use will drive greatly increased demand for the materials used to manufacture these products. Chapter 2 highlights the challenges in finding and accessing the raw materials to meet this demand—not the rosiest of futures for the information and communications technology (ICT) field, or for any other industry sector. The sources are few, and the locations are volatile, from both an economic point of view and a governance point of view. Regardless of the associated technology business, a clear understanding is required of the trade-offs and “deals” that have to be brokered to ensure some sort of supply in the future, and this brokering will challenge business ethics.

### **Outsourcing—What About Accountability and Ethics?**

No doubt, the supply chains spanning the globe today will only stretch further in the years to come. Constant vigilance and negotiation will be

required to ensure that these supplies are readily available. However, a challenge that continues to grow is deciding who is ethically responsible for the work done by suppliers in other parts of the world. This question, or the lack of a suitable response, has made headlines for years.

**GREG**—In 2007, while I was in Singapore for my association, I was asked to be a subject matter expert on CNBC regarding a dilemma involving Mattel. That year, there were seven Mattel product recalls (toys) due to quality and safety problems.<sup>16</sup> All seven recalled toys were manufactured in China as part of Mattel's outsourcing processes. Mattel, by the way, had been outsourcing in Asia since 1959, and by 2007, more than 65 percent of its toys were manufactured in China. By most measures, Mattel was a very successful outsourcer.

Mattel's initial response to the recalls was to blame China, and frankly, the press tried to do the same. When I was asked about the so-called outsourcing responsibility, I was compelled to answer with the question, "Who owns the brand?" As I saw it, the responsibility sat squarely in Mattel's executive suite—a view later shared by Mattel's leadership. Mattel's products could be outsourced, but not Mattel's brand—and it was the brand that was tarnished by the situation. Mattel had become somewhat complacent due to its very significant success, and the company failed to maintain due diligence in supplier inspections. In many cases, Mattel allowed its trusted suppliers to do their own inspections.

This is not new, nor is it a surprise. Today the question focuses on where responsibility for the brand ends. Also, does that responsibility involve only product quality and safety, or does it also involve the way that employees are treated?

Apple, Inc. is one of the most remarkable ICT companies in the world. The successes of its iPod, iPad, iPhone, and Mac computers have become legend in the industry. In the interest of full disclosure, Greg, like millions across the globe, owns an iPod, iPad, iPhone, and an Apple Mac Pro. In 2012, Apple stock prices hit an all-time high for

any company in the history of publicly traded firms—valued for a time at nearly US\$750 billion!

To produce these millions and millions of products, Apple—like many of its industry competitors—outsources some manufacturing and final assembly to Asia, Africa, and Latin America. In 2011, a problem surfaced that affected not only Apple but also its competitors. Specifically, the problem involved the quality of work-life practices at Foxconn, a provider of inexpensive, high-quality labor used to produce, manufacture, and assemble, among other ICT products, the iPad and iPhone product lines. Though Foxconn was founded and headquartered in Taiwan, the company has factories throughout the world. Fifteen of the world's largest ICT providers had outsourced the assembly and manufacturing of many of their products to Foxconn.

To some extent, many of these providers viewed Foxconn as responsible for the care and well-being of its employees. Typically, some of these client firms (but not all) have supplier codes of conduct and ethics, and they ask that contractors be responsible for maintaining their policies in accordance with the codes. It is up to the clients to verify compliance, but many do not.

In early 2011, the Foxconn factory in Chengdu, China, was targeted by two different Chinese fair labor practice NGOs for safety violations, employee suicides, and an explosion that killed three employees.<sup>17</sup> Unfortunately, Apple did not react quickly and publicly enough, and the problem went viral when employees at the plant began tweeting and publishing reports of problems on the Internet.

Apple was forced to act—and acted aggressively. Apple was also forced to provide a list of its outsourcing providers, and all of Foxconn's other ICT contracts were also vulnerable. The public's reaction to these events has shifted accountability for compliance with supplier codes from the outsourcing providers to their clients, and has created a need for companies to be transparent about such activities. The novel element of this situation is that the NGOs were Chinese nationals investigating labor practices in their own country, and the entire affair became public through social media, which served as the whistle-blowers' tool to reach the public.

With social media, it is now virtually impossible to keep a problem of this magnitude quiet.

## THE DOUBLE MEANING OF SUSTAINABILITY

We hope that this first chapter grabbed your attention and set up the *why* when you're considering a new strategy for your company. However, it is important for us to reiterate that this book—and more specifically, this chapter—is not intended to be a harbinger of doom. This book is intended to be an eye-opener, representing the contours of the playing field for your organization in the future. More so, we hope this book can help you develop a long-term strategy for your organization that will help maintain marketplace sustainability well into the twenty-first century while creating a strategy that is inextricably linked to survivability and sustainability for communities and the planet.

As we researched the book, it became clear that the *why* was attacking the very core of a company's strategy. The traditional model of sustainability was for a company to continue to maintain a lead in market share while providing the necessary return on investment to its stockholders and its board. Over the last three decades, companies have moved beyond the economic qualifier for success and have added environmental qualifiers. For some companies, sustainability has been about minimal compliance with regulations, while for other companies, it has been about creating a mission that would not be harmful to the planet.

Still other companies pursue sustainability with the “triple bottom line,” as first defined by John Elkington in his book of the same name. The triple bottom line involves a strategy that somehow embraces social responsibility in the day-to-day operation of a business. For some companies, this means contributing funds or workers' time to a worthy cause; for others, it means recycling plastics; and for others, it means building an organization that creates real and continuing value in the world.

Today, however, there is an evolving fourth element of sustainability that must be addressed in all aspects of business: the ethics of strategy.

Like it or not, organizations today are custodians of the public trust. People expect companies to do the right thing, to protect their interests, and to provide safety and quality in the products and services they offer. Protection of this trust is watched over and reported on by all measures and types of stakeholders through broadcast, print, and social media. We are all reporters, we are all whistle-blowers, and we are all responsible.

This means that successful companies of the future will have an integrated strategy, driven by a mission, that meets all of these criteria:

- *Social responsibility.* The company will open its doors to a new stakeholder mentality, starting internally with its own labor force, the supply of future labor, the communities supporting the creation of the organization, and most important, the global social fabric of which we are all a part.
- *Economic performance.* The company must generate surplus money to support and maintain its investors, its employees, and its enterprise, and it must reduce costs and eliminate waste—not only in the office or on the shop floor but also throughout its supply chain, in partnership with all of its suppliers.
- *Environmental responsibility.* The company must focus on protecting the environment in all that it does throughout its value and supply chains, whether in the direct investment in products and services or in the creation of the indirect infrastructure to support the creation of value in its product and service line, including the utilization of raw materials and the removal of carbon from the atmosphere.
- *Ethical behavior.* Finally, the company will thrive on extreme transparency and accountability to a set of stakeholders far larger than the traditional list of stakeholders and customers. It will have to define its brand by ethical behavior throughout its value and supply chain, not just in the internal processes that define its direct work content.

There are many people in the world who genuinely believe that our efforts to date are sufficient and that innovation will solve the problems

of the world. There is no question that much progress has been made. However, the real question is when is enough, enough? It is well beyond the scope of this or any one book to highlight all of the initiatives, regulations, and laws that have contributed to the better world that we live in. Instead, we would like to refer to one of the most noted and profound studies done to project the impact of people on the planet.

In 1970, a man by the name of Jay W. Forrester, considered by many to be the father of system dynamics, quietly received a project contract to conduct a study called “Limits to Growth” for the Club of Rome. The Club of Rome is a global think tank founded in 1968 that deals with a variety of international political issues, and it sponsors and conducts research on root causes of the crises facing the world, particularly in growth, development, and globalization.

Forrester gathered some of the great systems thinkers of the time, including Dennis L. Meadows, Donella H. Meadows, and Jørgen Randers. The team developed a computer model for analyzing population and urban growth, current and future demands on the planet and its resources, and potential future scenarios. The results of the study were published in 1972 in a book titled *Limits to Growth*—the first landmark study on the subject.

Since that time, four 10-year updates have examined the progress made on the planet. The last living author is Randers. His recent book, *2052: A Global Forecast for the Next Forty Years*, looks ahead and provides “an educated guess,” in his words, as to where we will end up in 2052.<sup>18</sup> He looked back at the original Limits to Growth study and highlighted the conclusions. At the time, the group’s main conclusion was that “without big changes, humanity would grow dangerously beyond the physical limits of the planet.”<sup>19</sup> But the required changes would take time: time to recognize that the problem is real, time to come up with realistic solutions, and time to implement those solutions. Even though the clock was ticking, consider that it took nearly 30 years before the United Nations could bring business and government leaders together to develop a set of global goals (the previously mentioned Millennium Development Goals) to coordinate action.



Though it presents a different picture and forecast than the original study, *2052* does not promise a happy future. Randers characterizes his view of the future as “gloomy.”<sup>20</sup> In fact, his projection indicates that we may very well overshoot our use of planetary resources, like overfishing streams and oceans. We can do it for a while, but it will eventually cause irreparable damage. He believes that we need to consider different paradigms about the way the world will operate—different underlying principles. In short, we need to think differently about our future 40 years from now.

We remain optimistic that business and industry can still make a difference, in ways that can have a significant impact on the future of planetary resources, while still thriving in business. Hundreds of organizations are already succeeding along these lines. Later in this book, we will present examples of large and small organizations alike. Size doesn’t matter; the actions in this book are scalable and actionable regardless of how challenging they may seem. As you will see, partnerships are the rule. You don’t have to change alone, since this challenge affects all of us, competitor and partner alike.

Corporate sustainability is not about perfection but rather about deliberate progress in an integrated fashion. Each year, hundreds of companies around the world “get it” and begin to change. We want this book to change your mindset by sharing some of the many examples of successful transformation across the globe and the skill set that many have adopted to make this strategic change. Finally, we want to provide you with the tools to assess and change your organization. This book is about a realistic approach to change. We believe this book can build hope that change is possible, and can present a new perspective on what hope looks like.

*I am not an optimist in the sense that I believe everything will go well. But neither am I a pessimist in the sense that I believe everything will go wrong. I am hopeful. For without hope, there will be no progress. Hope is as important as life itself.*<sup>21</sup>

—VACLAV HAVEL

## CHAPTER SUMMARY

This chapter has provided much food for thought. In review, these are some of the complexities you will be dealing with in the future:

- Growing population will be dramatically more urban and will require all of the trappings of an urban environment, competing for the same supply chains companies need to produce goods and services.
- A new global middle class, more than double the size of the middle class of today, is emerging, and it may well represent the majority of the population of 2050.
- Middle-class growth dominates in developing nations, particularly in China, Southern Asia, and Africa, and not in the traditional markets we know.
- This new middle class will create an unheard-of demand for goods and services, without the robust prosperity that has accompanied the traditional middle classes of the past. This may lead to broader ranges of price without sacrificing quality.
- This new middle-class market will be fluid, fragile, and in many cases still teetering on the edge of poverty.
- The combination of urbanization and this new middle class will place great strains on governments around the globe to provide the education and social welfare needed to support the population and future workforces of the world.
- From water to food to exotic raw materials, supply chains in the future will be taxed more than ever in human history, and they will require innovation and entrepreneurial responses that have never been seen before.
- Companies must and will change, in an integrated fashion, to support:
  - Social responsibility
  - Economic performance
  - Environmental responsibility
  - Ethical behavior

