

ISSUE 77 WINTER 2014

BEST BUSINESS BOOKS 2014: SUSTAINABILITY

# Tomorrow's Bottom Line

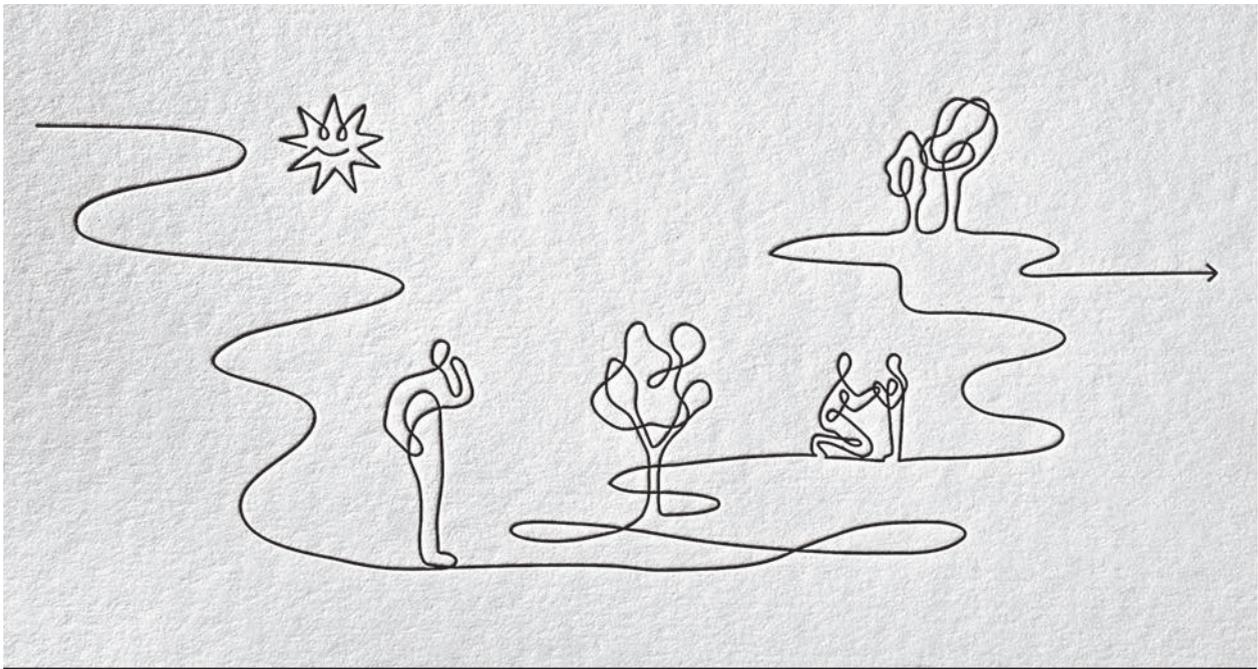
BY JOHN ELKINGTON

# Sustainability

Mark Moody-Stuart, **Responsible Leadership: Lessons from the Front Line of Sustainability and Ethics** (Greenleaf, 2014)

John Hope Bryant, **How the Poor Can Save Capitalism: Rebuilding the Path to the Middle Class** (Berrett-Koehler, 2014)

Andrew S. Winston, **The Big Pivot: Radically Practical Strategies for a Hotter, Scarcer, and More Open World** (Harvard Business Review Press, 2014)



## Tomorrow's Bottom Line

by John Elkington

**MANY OF US** WAX lyrical about paradigm shifts but fail to grasp the dizzying, gut-wrenching impact of the transitions that Thomas Kuhn had in mind when he popularized the term in the 1960s. He was probing the sort of scientific revolutions that change the way people see the world, such as the shift from Newtonian certainty to Einsteinian relativism. Today's business leaders face a similar paradigm shift: from a market reality shaped by economic demand to one shaped by the collision of expanding human numbers and shrink-

ing planetary limits.

The new reality involves a higher order of risk than most business leaders are used to. Whatever their PR folk say, corporate leaders recognize that they and their staff are human and fallible. They accept minor tactical missteps, and even a few major strategic blunders, as a fact of business life. But the risk associated with sustainability is systemic. The old paradigm of business as usual doesn't change, but now it threatens to overrun the ecological systems that make civilized life possible.

Many books have been written about sustainable business. (By this, I mean the broad definition of *sustainable business* that encompasses environmental, social, and financial responsibility—the “triple bottom line” that I've spent so much of my career exploring.) By way of solutions, the authors of these books propose the adoption of new rhetoric, promoting citizenship, responsibility, and organizational change. But proposals

are only the first step. Few companies have taken the next step—concrete action for making the transition to the new paradigm. This distinction, between rhetoric and action, shaped my choices as I confronted the task of identifying the best business books published on this topic in the past 12 months.

Happily, I found a number of books offering practical takes on how to drive the transformative changes needed to build sustainable businesses. More than a few of them are based on the real-world experiences of corporate leaders who are pioneering new forms of value creation. Unhappily, my brief requires me to home in on only the best of the crop.

### Lessons for Leaders

Few companies have been through the sustainability wringer to quite the same degree as Royal Dutch/Shell. According to Mark Moody-Stuart, Shell's *annus horribilis* came in 1995, in the middle of his decade-long tenure as managing director, when the company was hit hard on two fronts. These were the Brent Spar oil platform controversy in Europe and the outrage that followed Nigeria's execution of environmental activist Ken Saro-Wiwa and his colleagues.

Moody-Stuart's *Responsible Leadership: Lessons from the Front Line of Sustainability and Ethics*, which he bills as "part memoir, part confessional, part manifesto for leadership," provides a detailed view of these events and much more. It draws mainly on the author's 40-year career at Shell. Moody-Stuart grew up in Antigua, where his family had lived since the 17th century and was instrumental in the development of the island's sugar industry. He joined Shell in 1966 after earning his doctorate in geology at Cambridge, and worked for the company in 10 countries on his journey to becoming its managing director and chairman—posts he held until 2001.

The book, which bears my endorsement on its dust jacket, provides candid accounts of Moody-Stuart's dealings with prime ministers and dictators, colleagues and competitors, and investors and NGOs. This is an insider's view of the machinations within organizations as disparate as Shell and the United Nations, and it engages hot-button issues, such as top team remuneration,

human rights abuses, and corruption, head-on.

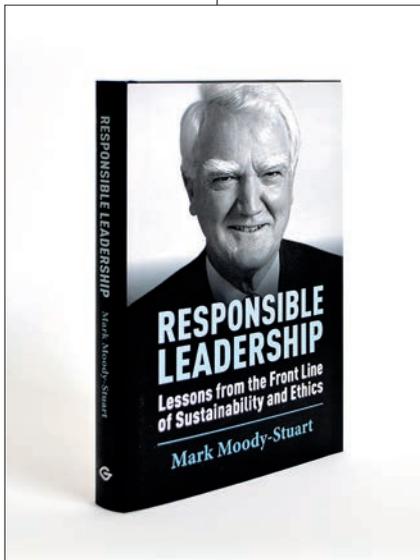
But Moody-Stuart delays his account of how he awoke to the corporate sustainability agenda until the book's biographical coda. The key moment was when he first became chairman of a public company, the Shell refining company in Port Dickson, Malaysia, and attended his first shareholder meeting—the company was listed on the Kuala Lumpur Stock Exchange. This is when he fully recognized his responsibility to the thousands of people who had invested their savings in the company he led. What is most striking about Moody-Stuart is how this newfound sense of responsibility to shareholders continually expanded until it encompassed all of the stakeholders in a business, producing one of the wisest leaders I have ever come across.

The themes of trust and inclusion ring through the book—not just as values to be adopted, but as core leadership attributes to be developed and exercised. Moody-Stuart calls on business leaders to "take off the 'corporate hat' and put on the 'citizen hat.'" This ability is key to building the trust needed to successfully manage the kind of coordinated action necessary in addressing global issues. Although the book is not a detailed primer on how to work for the common good, it contains

many forceful recommendations, with the weight of experience behind them. For example, the best way to build the trust needed for cooperation with the not-for-profits of civil society is exceptional transparency. The author tells us that he and Royal Dutch/Shell learned that lesson the hard way in 1995.

Moody-Stuart extends the need for transparency and inclusion into his views on regulation. "Business people should support sensible regulatory frameworks instead of instinctively arguing against all forms of regulation," he says, adding that even though business should be involved in framing sensible legislation, "to prevent special pleading it is advisable to have input from other business sectors as well as civil society."

Trust and inclusion are also essential to dealing with climate change, a critical issue that emerged during Moody-Stuart's tenure at Shell and one that is covered in a key chapter in the book. The gist of the former



oilman's argument is that whereas business, government, and consumers have all been prone to blaming each other, the situation now calls for a "three-cornered approach" that enlists all three in the achievement of low-carbon outcomes. For such an approach to work, argues Moody-Stuart, two conditions must be met: First, the solutions—alternative transportation and energy—that business espouses must provide consumers with levels of utility and cost that are similar to those of conventional solutions. The author believes this will translate to "significant investment in public transport, particularly urban public transport, and work on low-carbon vehicles."

Second, a "broad regulatory framework driving efficiency... as well as a framework to establish carbon cap and trade schemes" will be needed that, in essence, place the onus for action on business. "This is a case where the market on its own will not deliver solutions," argues Moody-Stuart, eschewing price-driven solutions—such as gasoline taxes—for their unintended side effects. The framework he proposes would include "building regulations, transport efficiency standards, industry-sector efficiency standards, and so on."

Almost as an afterthought, the author adds a third condition: "that the creativity of the market is necessary to find solutions, to provide choice, and to guide the allocation of resources." He does not elaborate on this condition, but clearly he has faith that business can deliver on it.

There's an interesting footnote in this chapter: Moody-Stuart says that he often discussed environmental issues with John Browne, then CEO of BP—in the

mate Coalition, an industry-supported group with the express aim of lobbying against any action on climate change. And both companies did resign, because "NGOs regarded such membership as hypocritical and criticised both Shell and BP."

Many activists argue that such discussions among senior corporate leaders usually end up in collusion to protect the unsustainable status quo. But in a time when sustainable solutions often require broad-based cooperation, we should encourage those discussions because they also can ensure that the leaders mired in the established paradigm do not drown out those who see the need for change.

### Beating Poverty by Bootstrapping

Whereas Moody-Stuart's social consciousness was rooted in a sense of *noblesse oblige*, John Hope Bryant came by his in poverty-stricken, gang-infested South Central Los Angeles. As Bryant explains in *How the Poor Can Save Capitalism: Rebuilding the Path to the Middle Class*, that was where he saw how major institutions abandon the poor, after his father—a concrete contractor—lost his tenuous position in the middle class and his family imploded. Bryant knows firsthand how capital, in the form of business loans, mortgages, and financial investment, can vanish from ailing communities.

What is striking about Bryant is the degree to which he has been able to transcend, both in his own life story and in his work, what he characterizes as a modern form of slavery. "To not understand the language of money today is to be an economic slave," he says, and the path out of that slavery is knowledge about finance and business.

He is a successful, self-made businessman and CEO of Operation HOPE, a nonprofit that he founded in 1992 in the aftermath of the riots following the Rodney King trial in Los Angeles. Since then, Operation HOPE has directed

more than US\$1.5 billion in capital to low-wealth communities in the United States. (See Jeremy Rifkin's *The Zero Marginal Cost Society: The Internet of Things, the Collaborative Commons, and the Eclipse of Capitalism* [Palgrave-Macmillan, 2014], another top contender this year, for more on the growing role of organizations such as Operation HOPE in the new paradigm.)

**“To not understand the language of money today is to be an economic slave,” says Operation HOPE CEO John Hope Bryant.**

days before the Deepwater Horizon disaster. (For more on Browne and BP, and insight into responsible leadership at the middle management level, see Christine Bader's *The Evolution of a Corporate Idealist: When Girl Meets Oil* [Bibliomotion, 2014], a fine book that just missed my final cut.) For example, Moody-Stuart and Browne discussed resigning from the Global Cli-

Bryant is confident—perhaps overly confident—in his solution to poverty: “People seem genuinely confused about how the poor get out of this mess. I am not.” But his argument is compelling: If poor people are provided with the right tools, policies, and inspiration, they will lift themselves up—becoming tomorrow’s middle class and “a new generation of customers and entrepreneurs” who will boost the entire economy.

United States, issues of money and good decision making are often wrapped up and mixed up with issues of individual self-esteem and confidence, community culture and belief systems, values, and, quite frankly, emotional and psychological depression.”

Bryant stresses that he is building on the work of C.K. Prahalad and Muhammad Yunus, and that even though his focus is on U.S. poverty, his approach is applicable in other nations.

Indeed, Operation HOPE already has begun to expand its purview internationally—in Morocco, Saudi Arabia, South Africa, and the United Arab Emirates.

*How the Poor Can Save Capitalism* is not the kind of deep inquiry into the dynamics of capitalism that Thomas Piketty gave us this year (see “Economics: All Things Being Unequal,” by Daniel Gross, *s+b*, Winter 2014), but it is an inspirational and invigorating book about achieving paradigm change by “reimagining the poor,” understanding the critical difference between good and bad selfishness, and embracing the power of bottom-up solutions. The key to driving change, says Bryant, is to give people a more tangible sense of opportunity.

Opportunity is also the driving force in the year’s best business book in this category, *The Big Pivot: Radical-ly Practical Strategies for a Hotter, Scarcer, and More Open World*, another title for which I provided an endorsement. In it, Andrew S. Winston, a consultant and sustainability advisor to corporations, including PwC, describes the opportunities inherent in the “three mega challenges that we now must face: (1) climate change, (2) resource constraints and rising commodity prices, and (3) technology-driven demands for more transparency.” (This magazine, *strategy+business*, is published by PwC Strategy& Inc., a member of the PwC network of firms.)

#### A Seismic Shift in Mind-Set

To capture these opportunities, Winston says, leaders first must elevate sustainability as a strategic priority. It can no longer be treated as a “side department or a niche conversation” within a business, he writes. “We must *pivot*—sometimes painfully, always purposefully—so that solving the world’s biggest challenges profitably becomes the core pursuit of business.” This pivot

## Sustainability can no longer be treated as a “side department or a niche conversation” within a business, writes Andrew Winston.

Toward this end, Operation HOPE is undertaking Project 5117, a program that underscores the importance of ambition and of stretch goals when leaders decide to play into the new paradigm. The project’s goals are fourfold.

First, by 2020, it aims to raise the financial literacy of 5 million young people across the U.S. using “financial dignity” education programs that have already been taught successfully in 3,500 schools across the country. These are classes that teach basic consumer financial literacy—such as “what’s an interest rate?”—content that Bryant notes is woefully lacking in schools in poor communities.

Second, it intends to help 1 million of these students become future entrepreneurs and local job creators through “HOPE Business in a Box Academies”—a program sponsored by Gallup that first challenges students to plan a business startup costing under \$500 and then finances the best plans.

Third, it aims to provide financially underserved families with access to banking: HOPE Inside will establish 1,000 “bottom-up” branch banks across the country and certify 5,000 additional banking locations.

Fourth, it intends to increase the credit scores of people in communities with average scores between 500 and 550 to a bankable level of 700, largely through credit counseling.

Although Bryant’s focus is change through financial bootstrapping of the poor, the working class, and the “teetering middle class,” he insists that this is “not just about money and not having enough of it. In the

will require a transformation in perspective from the traditional view of business, “which a solid majority of Western executives still likely hold,” to a more evolved “clean and green” view, and then to what Winston calls Big Pivot principles “with which we can—and must—sustain the success of our businesses, economy, and species.”

To illustrate the distance between the conventional strategic mind-set and the Big Pivot mind-set, Winston runs through a laundry list of corporate “views.” For instance, the operational view of a company will have to evolve from an internal “four walls” focus to a focus on the entire value chain and then a systemic focus. The corporate view of the sustainability function will need to evolve from siloed to matrixed to integrated. And when it comes to reshaping the regulatory rules of the game, the corporate view will have to evolve from hostile to defensive and finally to “guiding and leveraging.” Shades of Moody-Stuart.

Of course, knowing is only the first step in doing. To help leaders put the Big Pivot mind-set into action, Winston devotes the bulk of the book to describing—and offering examples and implementation advice on—10 strategies aimed at creating and executing the vision, valuation, partnerships, and resiliency needed by a sustainable company.

To rebuild the corporate vision, Winston says, leaders must fight short-termism; set big, science-based goals; and pursue “heretical” innovation—that is, ideas that are disruptive enough to seem impossible. For instance, after realizing that the global apparel industry uses an amount of water equivalent to the Mediterranean Sea every two years to dye clothing, Adidas sought a waterless dyeing process, which it is now piloting.

To redefine valuation, leaders must change incentives and build engagement; reinvent ROI; and fully account for natural resources. Consider Puma’s “environmental profit and loss statement,” which put a monetary cost on the natural resources used in its extended value chain—and revealed that the total cost was equal to about half of the company’s annual profit.

To reframe partnership, leaders must lobby for sus-

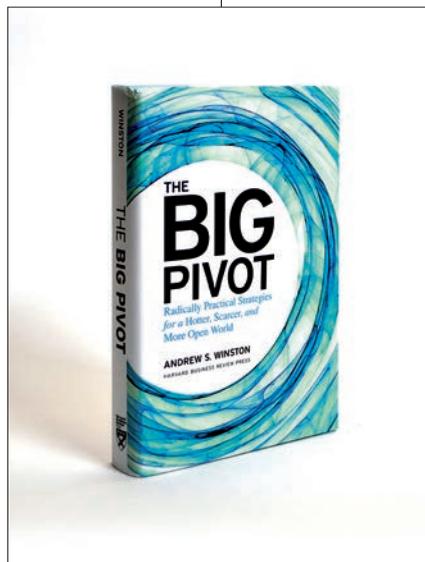
tainable goals, collaborate with all stakeholders, and enlist customers in the cause. Coca-Cola has partnered with Pepsi and other competitors to invest in and speed the switchover from compressors that use hydrofluorocarbon refrigerants to ones that use carbon dioxide refrigerants, which are much more climate friendly in this application.

Finally, to create resilient companies, Winston follows in the footsteps of Nassim Nicholas Taleb and recommends diversification, built-in redundancy and buffers, fast feedback, and rebalancing of risk. For example, oil refiner Valero installed energy meters and real-time monitoring devices to ensure optimal tank temperatures and pressures. Energy cost savings: \$120 million in the first year.

Winston concludes with a question that he was asked by a client: “So, should we make the Big Pivot because it’s profitable, or because we’ll sleep better, or because we’ll ensure a better future for all?” His answer is, of course, yes. But the challenge of aligning environmental, social, and financial responsibility is not so glibly met. In fact, it’s the sort of challenge that separates great entrepreneurs and business leaders—the Edisons and Fords and Jobses—from the rest of the herd. This is the sort of challenge that

can open up immense new panoramas of opportunity for those with the eyes to see, the nerve to dive in, and the stamina to persevere. When the profits, the sleep, and a better future are slow to come, these books show how perseverance leads to a paradigm shift. +

Reprint No. 00292



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is published by PwC Strategy& Inc.  
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