



Redefining Sustainability

Sustainability must be reframed as an opportunity if it is to take hold.

We've heard the word sustainability a lot lately. Climate change scientists warn countries and companies of the dangers of current levels of carbon emissions. Board directors are being called upon to be more transparent and punish bad behaviour. NGOs and social groups want companies to earn a licence to operate by committing to social good. A few weeks ago, the CEO of the Singapore Exchange announced that following a year of discussions to decide precisely how this would get done, corporations listed in Singapore will be required to report on their environmental and social impact. Sustainability is everywhere!

We can debate many technicalities about our current level of development and its impact on the planet and society, but a few trends have become reasonably clear over the last few years:

- At the current rate of population and economic growth, we are using the **resources of 1.5 planets**. A further acceleration will mean using even more resources we don't have – or may not have for very long.
- Public patience with corporate self-interest has been severely tested over the last few years and has been **decreasing to all-time low levels**. In an era of growing transparency where corporate transgressions are likely to be identified and spread very

quickly, profit at the expense of the environment or society is becoming an increasingly costly and unsustainable proposition for top management teams.

- All over the world consumers are becoming increasingly mindful of the environmental and social implications of the products they consume. While the majority of consumers haven't yet demonstrated that they are willing to pay more for sustainable products, they are still increasingly taking these considerations into account when making purchase decisions between products displaying comparable characteristics and price. This preoccupation is likely to continue to increase as millions join the middle class in emerging markets and greater awareness takes hold.

CSR as opportunity

Many firms have responded to these trends by adding some "corporate social responsibility" activities and ensuring these activities got sufficient attention inside and outside the organisation. Their goal: to reduce the organisation's environmental and reputational risks and to protect the organisation's licence to operate.

This rather defensive approach has its place but it tends to promise limited financial return and hence

typically leads to a lack of urgency and incentive in planning and investment decisions. Fortunately, a number of innovative companies and their leaders are showing that there is a better way to face the challenge of sustainability. Rather than seeing it as a constraint on which they should try to do 'not more than is necessary', they embrace its underlying challenges as unavoidable trends and a call to action, and they look at it as an opportunity.

Indeed, there is great value to be created and captured in sustainability, much like the rise of the poor in emerging markets attracted the likes of **Novartis and Unilever to India**. Doing good while achieving sustainable business growth became a real possibility and such firms have embraced and embedded sustainability into what they do, not because they have to, but because it's good business. Private equity firms have even built up **Environmental, Social and Governance (ESG)** capabilities to spot investment opportunities that create such value.

Let's get sustainable

So what do these leading organisations do to embrace sustainability as an opportunity? In our executive development programme, **Leading the Business of Sustainability**, we examine four key pillars for organisations who want to look at sustainability as an opportunity rather than only a constraint:

First, it's essential to consider the world's sustainability-related challenges as a huge business opportunity! As consumers and regulators demand more sustainable products, as technology evolves to make possible some approaches that heretofore were not options, organisations will have direct and indirect opportunities to create the more sustainable products and services that will solve the world's problems (or at a minimum will help serve consumers' needs without making the world's problems worse). This will create opportunities for organisations that have a keen enough understanding of today's and tomorrow's customer (and customers' customer) needs and are then willing and able to direct their strategy and innovation efforts in the direction of new products, services and business models that leverage present and future sustainability-related challenges.

The second pillar is the deployment of this new "sustainability as opportunity" growth-oriented mindset throughout the organisation. Re-shaping the culture of an organisation is a marathon rather than a sprint. It requires persistence and determination to ensure that the organisation sends consistent powerful and aligned signals encouraging the kind of behaviour that it wants to observe – in this case, more innovative, empowering, inclusive and ethical

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behaviour.

In addition to interacting differently with its employees, the organisation also needs to engage with its key external stakeholders (communities, customers, financial markets) in a more inclusive and effective way. Most organisations find it difficult to look at the world through a lens that differs from their own. Yet this is a necessary condition to identify and pursue value-enhancing opportunities with external stakeholders.

Measurement and reporting is the fourth pillar. But key to this is reporting inside as well as outside the organisation. While reporting to shareholders on sustainability initiatives has become popular and is increasingly demanded by regulators and investors, reporting must remain a means-to-an-end; it should never become an end in itself. The end should remain a) for the organisation to better understand the impact of its activities in order to b) guide its choices in directions that enhance the productive impact of these activities, and then c) honestly communicate to the world these choices and their impacts.

Don't get stuck in the reporting trap

Jan van der Kaaij, the co-founder of strategy and sustainability consultancy Between-us, has been working with us on the development of the **Leading the Business of Sustainability** programme. He argues for integrated reporting – not just as an improved means of transparency towards shareholders - but also as an instrument to improve the sustainability programme. In the next post on this topic, Jan will tell the story of Telenet, the leading cable service provider in Belgium who not only scaled up its sustainability initiatives and reported them efficiently, but completely changed its approach to sustainability, uncovering a wealth of new opportunities in the process.



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