Sustainability and your corporate strategy

By Cindy Babski , INSEAD

Sustainability. Can it become a central part of corporate strategy? Today, the answer is: it had better be.

And not only will sustainability be a part of corporate strategy, for the next 50 years it will be the centrepiece. That’s according to Paul Kleindorfer, The Paul Dubrule Chaired Professor of Sustainability Development at INSEAD, who adds that we no longer have a choice. “We are now nearing seven billion people on the planet, about four billion of them surviving on less than two dollars a day, with water and other shortages very clearly imminent."

So, the real question is not if, but how? And equally importantly, at what cost?

The first order of business is the "how." The consensus on that, says Kleindorfer, is what's known as "radical transparency." The term was brought to the forefront of the current dialogue on sustainability in a book called Ecological Intelligence by Dan Goleman, a former science reporter for The New York Times.

"Radical transparency" basically means pulling open the curtain on the chain that links products -- revealing everything from carbon footprints to chemicals used in producing products, to the treatment of workers -- so that consumers can make better-informed decisions about the products they buy.

"It means that you really are prepared to be looked at and to be seen both by your investors and others," says Kleindorfer, "and that entails a number of rather clear implications for the need to develop the positioning and some degree of metrics around that position."

It's a delicate balance between creating a positive public image, while maintaining the bottom line. It can be costly, but if practised deftly, the pay-off can be substantial, even offsetting operational costs.

"The value of sustainability often has second-degree effects that have to do with how you're perceived," says **Christoph Lueneburger** (MBA '00J), the Leader of Sustainability Practice for Egon Zehnder International. For example, customers who share a corporation's values may be willing to pay more for a particular product.

But the benefits don't necessarily stop with the consumer. Stakeholders, employees, and even people in the supply chain may prefer to work for a company whose values are aligned with their own, says Lueneburger.

Social networking can also play a crucial role in how companies are perceived with regard to sustainability. As more and more consumers post opinions on the internet, brand image is moving out of the hands of companies and traditional advertisers, giving the consumer a different power in the marketplace.

“When you think of the exposure for the brand that comes along with that, it’s tremendous,” says Lueneburger, “and it’s happening at the point of purchase. It’s out of the control of companies that, in terms of balance sheet, think of their brand as the main asset.”

It leads back, once again, to the role of radical transparency with regard to sustainability. “The idea of radical transparency is propelling us towards an edge of the market that really has to do with how people, how consumers interact with one another,’ says Lueneburger.

The phenomenon of social networking is also having an impact on the selection of CEOs and corporate boards. Lueneburger says that “getting this balance of having someone who has enough connectivity with what’s happening at the front edge of the market and the next generation is also quite important.”

The issue of sustainability is increasingly an integral part of that selection process, Lueneburger adds. Companies are looking for CEOs who are independent-minded, and who have “the ability to act ethically and to speak and to risk something in speaking to the issues that you think need to be addressed,” he says.

But that doesn’t mean ignoring the bottom line. The ability to think commercially about sustainability is crucial. Furthermore, that thinking has to be something consumers and shareholders can relate to. “Rather than talking about trees in Papua New Guinea,” says Lueneburger, “it has to be something that has real substance with respect to that person’s business.”

When a CEO’s values coincide with moneymaking opportunities, it’s a win-win situation, says INSEAD’s Kleindorfer. Take, for example, Jean-Paul Bailly, the chairman of La Poste. According to Kleindorfer, who is doing a case study for INSEAD on the electrification of the French national postal operator, Bailly fits the mould of the new breed of CEO, one who balances strong ecological values with good business acumen. “The postal operators the world over these days are not flush with cash,” says Kleindorfer. “They’re looking for opportunities to save money and if they can do so in a way that also leads to a lower carbon footprint, well, so much the better.”

The bottom line, says Kleindorfer, is that integrating sustainability into corporate strategy is a must. If handled right, it can be a positive factor in the market-based structure. But if ignored, the consequences could spell disaster. “The world as we know it in the 21st century, is one that is faced with great scarcity,” warns Kleindorfer, “and the new risks must be properly grappled with if we are to leave the planet in reasonable shape for the sustainability paradigm to those who come after us.”

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