

## FEAR, REGRET AND TRANSPARENCY

The sustainability and climate change debate heats up now that the Copenhagen Summit is in sight, and this amidst a global financial economic slowdown if not outright recession. How should firms prepare themselves?

The financial crisis has caused *regret* because past decisions resulted in huge losses in investment. Many individuals and firms are afraid. Fear has taken over the previously bullish exuberance that nothing could go wrong. Although regret reflects the risk of losing a certain amount of money or foregone business opportunities as result of a certain management or investment decision, such feelings should caution us but not stifle any decision out of fear of losing more. Being too much locked into the past (bad) experience or bad decisions, won't help leadership to make the right strategic choices for the future. We should learn from mistakes made but risk is not about the past, it is about the threats and opportunities in the future. What about the next enormous challenge: how to remain competitive within a changed business realm of new environmental "constraints" and increased societal expectations?

A certain consensus has developed around cap-and-trade systems – though details need to be formulated and agreed upon - that can help slow climate change. Firms, however, should start to prepare, to pre-empt and to be pro-active to take full advantage of the upcoming new environmental regulations instead of lobbying against an irresistible upcoming wave of change.

Management need to think beyond mere Corporate Social Responsible activities, and to align strategies, to prioritise areas of organisational action or to optimise environmental investments that could be the source of competitive advantage. While most firms are expected to become "better corporate citizens", only a few will most likely be able to transform such environmental investments into real sources of competitive advantage.

Identifying the firm's capability building and positioning will be a first step. Competitiveness results from the firm's technical capabilities, organisational structure and culture, ownership of intellectual property, brand leadership and financial capabilities

to serve the goal of creating competitive advantage around environmental innovation. Moreover, as ecological and social responsibility becomes increasingly important forces in society, consumers will value the inherent ecological value of the product as in the way firms manage their production process and supporting activities. In other words, clients will value how organizations manage their processes independently on the quality or performance of the product or service. Firms could determine the following generic strategies: eco-branding, eco-efficiency, beyond compliance and cost leadership.

(1) Timberland uses “radical transparency” in displaying its ecological footprint on the soles of the shoes they sell in terms of (non-)”green” products, procedures and energy used in the value chain. That kind of voluntary transparency, beyond any possible regulation, positions Timberland as a profitable front runner while putting the yardstick quite high for its competitors. The value of the Timberland shoes lie not just in its high quality but even more so in the intangible value of taking social and ecological issues seriously by successfully incorporating it in their strategy. This *eco-branding* differentiates Timberland from its competitors by sharing reliable information about its product’s environmental performance which is quite hard for competitors to imitate and it assumes that consumers are willing to slightly pay a premium for the costs of this ecological differentiation.

(2) Another strategy could be to focus on reducing costs and the environmental impact of organisational processes. In San Francisco, most food and beverage shops do not use plastic bags anymore in order to reduce waste. Wal-Mart has extended this eco-efficiency to its supply chain by directing its suppliers to reduce waste and cut packaging costs by 5% by 2013 and to increase the energy efficiency of products supplied to Wal-Mart stores by 25% by 2012. *Eco-efficiency* saves money in the production process while decreasing the environmental impact on their processes.

(3) When firms not only increase the efficiency of their organisational processes but also want to communicate and publicize these environmental efforts, they might adopt to the global recognised Global Reporting Initiative, ISO 14001 or the Accountability Standards or other global standards, whose voluntary standards of environmental and social excellence may positively influence the stakeholders of the firm. Shell – after the disastrous Brent Spar debacle years ago –demonstrated that their? *“beyond compliance*

*strategy*” has significantly improved the image consumers and shareholders have about its operations. Obviously, the danger remains that such strategy is interpreted as a mere well crafted public relations campaign without too much substance behind. History will reveal to what extent such certified processes can be a competitive force or whether it will become a non-competitive “normal” practice in the near future, bring the bar to an even higher standard.

(4) When companies are not immediately able to charge a price premium for ecologically oriented products – which they usually only can for niche ecologically oriented products such as food and baby products (where “being green” often costs more) – and when regulatory measures will put pressure on price and performance, firms will need to reduce their costs. Hence, focusing on radical product or service innovation such as material substitution and dematerialisation, makes a lot of business sense compared to mere incremental process innovation. The use of hybrid cars in Germany, being 42% more fuel efficient than conventional trucks, and replacing old aircraft with Boeing 757s which has reduced fuel consumption by 36% and increased capacity by 20% and soon with Boeing 777s which will reduce fuel consumption by a further 18%, has enabled FedEx to become a *cost leader* in delivering packages in the most effective and environmental friendly way.

Management should question whether the new product or service, or new process is real and whether the market is ready for such a change. Subsequently, one need to make sure that the product and the company will be competitive in such a changed environment. Finally, risk parameters should guide the decision makers in launching such a new project and critical success factors should indicate some form of sustainable revenue stream for the company to make that investment – however small – worth it. Nidumolu, Prahalad and Rangaswani convincingly articulate in their most recent article ‘Why sustainability is not the key driver of innovation’ in *Harvard Business Review*, October 2009, that in the future, only companies that make sustainability a goal will achieve competitive advantage. They argue that business should not be focused on past processes but to put their attention purely to the future and attempt to establish milestones on the path to that desired future. It is also important that business experiments allow pilot projects to be tried out as in real options from which one can learn and scale. Although one should be consistent about the ultimate objectives, one

obviously will need to tactically adapt and adjust where necessary. Moreover, firms will need to form alliances to create new mechanisms for developing products, distributing them and sharing revenues. And where possible, firms should use their global presence to foster innovation in promising emerging markets where it may be easier to overcome traditional mind-sets or firmly entrenched systems. Preempting the environmental regulatory onslaught by re-focusing the way business produces and delivers its products and services will become inevitable.

Those who will try to hide behind opacity and secrecy will be flushed out in the longer term. If 10% is the average extinction rate of companies over the last 30 years in the developed world, then business should prepare for a tough and challenging but nonetheless exciting ride in the next decade. Politicians and law makers should do their part to endorse sensible legal frameworks which are as detached as possible from strong biased lobby groups. New types of firms will be established in the process of creative destruction; weaker firms who refused to adopt to the new environmental realm will die out. Status quo is no option anymore.

Only responsible firms with a transparent strategy that embrace social and environmental objectives, aligned with profitability goals won't need to be afraid of the future. Transparency will allow such a firm to open up opportunities for further improvement and innovation. By sharing information broadly inside and outside the firm and by going beyond bringing operations into mere compliance, firms will gain the trust [back] of its investors and its most relevant stakeholders. When leadership is serious about environmental sustainability, talent will line up to work for such visionary companies where continuous innovation is part of the organisational culture. As in life, we must constantly keep moving forward, seeking ways to create a more perfect union between different and sometimes seemingly contradictory objectives. It is in that tension that progress unfolds, that great leaders and companies are formed. There won't be any regret when environmental objectives have been embedded in the business objectives that will sustain long term profitability.

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