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9. Introduction to sustainable value

AUTHOR(S)

Chris Laszlo

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Aizlewood's Mill, Nursery Street, Sheffield S3 8GG, UK
Tel: +44 (0)114 282 3475 Fax: +44 (0)114 282 3476
info@greenleaf-publishing.com <http://www.greenleaf-publishing.com>



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Introduction to sustainable value

Creating sustainable value is a way for companies to advance their business priorities, drive innovation, and achieve competitive advantage. Doing so in today's competitive context requires leading companies to carefully consider the social and environmental dimensions of their business activities.

At the core of the idea lies an expanded definition of value that includes value for stakeholders previously marginalized by corporations. This chapter introduces the concept of stakeholder value and reframes it in terms of business value. The sustainable value framework is outlined and illustrated. In the new perspective, "societal" stakeholders such as environmental NGOs and local communities are viewed as potential business partners rather than as illegitimate adversaries; stakeholder value becomes a source of competitive advantage rather than only a moral obligation.

As described in Chapter 4, the need for a sustainable value approach reflects the emergence of a new, stakeholder-rich competitive environment. The growth of stakeholder power has been driven by quantum increases in information combined with rising societal expectations about health and the environment, leading to a tighter interface between

business and civil society.¹ Consumers, employees, investor groups, and NGOs—to name just a few stakeholders—are now able to instantly, and globally, access data about any company. Their power to act on the information lies in the growing role of their relationships and other intangibles, such as goodwill, that drive business value.

The rising importance of intangibles in determining stock price is now well documented by economists.² Today over 70% of a company's market capitalization is driven by intangibles such as reputation, goodwill, and stakeholder relationships. By comparison, one hundred years ago 70% was based on tangibles such as plant, property, equipment, and hard financial assets.

For all these reasons, the need to take a systematic approach to managing stakeholder impacts has become an important business challenge in addition to a moral one.

The concept of stakeholder value

The core concept behind the framework is that the business value created by a company is always associated with a stakeholder value that can be either positive or negative. Value is created when a business adds to the capital or well-being of its stakeholders. It is destroyed when a business reduces their capital or undermines their well-being.

Executives often ask who defines value for stakeholders. They are confronted with a bewildering array of sources that claim to know what is good for society and the environment. In some cases, government regulators define it. Black box warnings on prescription medication are a way for regulators to signal product issues affecting human health. “Eco-labels” such as the United States Department of Agriculture (USDA)'s Organic Seal, the European Union's Flower, Germany's Blue Angel, and Japan's Eco-Mark provide industry standards of environmental and social value. Socially Responsible Investment (SRI) ratings agencies such as Innovest provide benchmark assessments for investors. Scientific reports and research studies—often sponsored by the companies themselves—provide yet another source of information, as do consumer groups and NGOs.

Ultimately, the most important measure of stakeholder value is the *perception* of value. The individual and collective perception of a given stakeholder group is as important as the technical and scientific “reality” that

the company projects about its products. Companies such as Monsanto and Aventis, in the case of genetically modified organisms, learned the hard way that pushing science in the face of stakeholder fears is not productive. Mobile phones with electromagnetic frequency radiation and polyvinyl chloride (PVC) plastics with dioxin issues are both cases in which entire industries have attempted—unsuccessfully—to use science to quell emotion-based perceptions of environmental, social, or health risks.

Example from the construction materials sector

Consider the following example of an aggregates company (mining sand and stone for the construction sector) and the business value of its relationship to local communities and NGOs. It faces two very different scenarios.

- **Scenario 1: the negative stakeholder value case.** The aggregates company operates quarries in ways that negatively affect the local community and ecologies through dust, vibration, visual and noise pollution, and poorly restored spent quarry lands. It does only what is required to comply with government regulations and local permitting authorities. There is little or no communication or coordination with the local community and NGOs
- **Scenario 2: the positive stakeholder value case.** The company operates its quarries with standards for dust, vibration, visual screens, and noise control that are *beyond* compliance levels. It uses landscaping such as planting trees and bermed banks of earth to mitigate the impacts of quarry operations. It restores spent quarry lands through a reforestation and rehabilitation plan that is co-designed with the local community. It works in partnership with NGOs to resolve ecological pressures coming from its operations

In the positive stakeholder value case, the aggregates company can benefit from more favorable permitting terms (faster permit approvals for extensions) and permits of longer duration. Having good relations with local authorities may allow the company to site its quarries closer to urban markets. Positive stakeholder value can also reduce the risk of NGO and community opposition to quarrying activities. Beyond-compliance restoration leads to higher land values once the spent quarry site is sold.

All these benefits translate directly into higher earnings power.

Expanding the value horizon

Historically, business has ignored stakeholder value as a source of competitive advantage, preferring to rely on ownership rights and access to resources as key determinants of its wealth-generating capacity. The problem of value creation now requires reframing in a way that goes beyond issues of access to capital, labor, technology, and location.

In 1980, Michael Porter's *Competitive Strategy: Techniques for Analyzing Industries and Competitors*³ helped transform the meaning of business value away from ownership rights and resource access, and toward one driven by industry dynamics and industry structure. Value creation came to be seen in terms of:

- The threat of new entrants and substitute products
- Negotiating power with buyers and suppliers
- Industry rivalry

Now the need is to expand further the concept of value creation to include a broader array of stakeholders who contribute to a company's wealth-creating capabilities. The concept of sustainable value expands the value-creating universe to all key stakeholders including societal stakeholders such as NGOs and social activists (many with blogs that reach a wide audience) who have traditionally been ignored or relegated to the fringes by management.

The sustainable value framework

Stakeholder value requires managers to think “outside-in” about how their companies create and sustain competitive advantage. Outside-in thinking, which sees the world from the perspective of stakeholders, is a powerful new lens through which managers can discover new business opportunities and risks. Leaders who engage stakeholders and proactively address stakeholder issues can better anticipate changes in the business environment. They can reduce the risk of being unpleasantly surprised by emerging societal expectations.⁴ Ultimately, stronger stakeholder engagement allows leading companies to discover new sources of value through innovation.

Business leaders are familiar with managing financial value, whether in terms of economic value added (EVA)⁵ or other measures driving stock price performance. They are less knowledgeable about measuring and managing stakeholder value. Because a company’s impacts on stakeholders are often unintentional, it faces hidden risks and opportunities that managers can no longer afford to ignore. To succeed in a stakeholder-driven business environment, business leaders must think and operate in new ways, shaping strategies and actions with full awareness of their impacts on key stakeholders along their value chains.

Figure 9.1 describes company performance along two axes—shareholder value *and* stakeholder value. Managing in two dimensions represents a fundamental shift in how managers think about business performance. In this framework, companies that deliver value to shareholders while destroying value for other stakeholders have a fundamentally flawed business model. Those that create value for stakeholders are cultivating sources of extra value that can fuel competitive advantage for years to come. Sustainable value occurs only when a company creates value that is positive for its shareholders and its stakeholders.

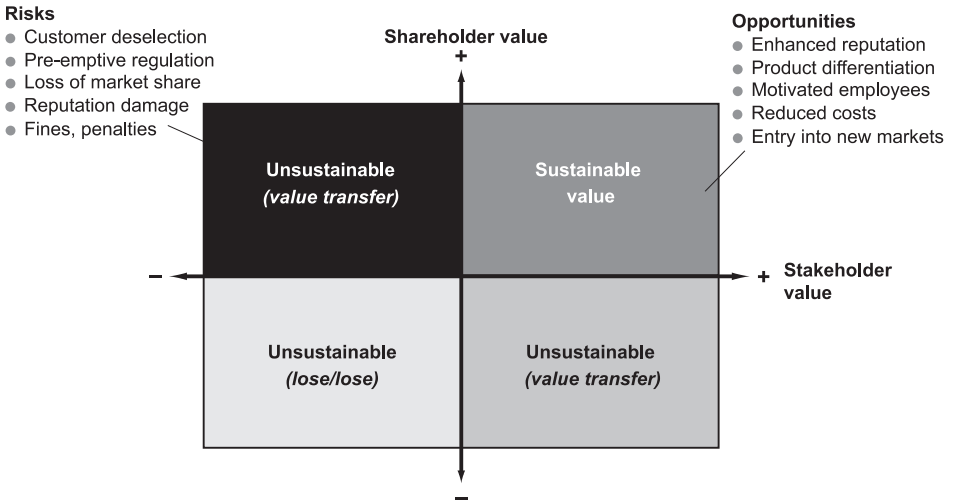


FIGURE 9.1 The sustainable value framework

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Insight into sustainable value

Rising societal expectations means that a business unit or product that was seen as creating stakeholder value in the past may in the future come to be seen as destroying it, even though the company made little or no change to its product design or business activities. In terms of Figure 9.1, the horizontal axis 'drifts left' over time.

It is possible for a business unit or product to destroy stakeholder value (left-hand side of Figure 9.1) and still be fully compliant with all laws and regulations.

Sustainable value is not about creating stakeholder value at the expense of shareholder value (bottom right-hand quadrant of Figure 9.1). NGOs and social activists who want companies to contribute to society and the environment in ways that require the company to destroy shareholder value fail to understand the nature of business.

Starting in the upper left of Figure 9.1 and moving counterclockwise, consider the following four cases of value creation and destruction.

Upper left quadrant

When value is transferred from stakeholders to shareholders, the stakeholders represent a risk to the future of the business. Leaded paint and asbestos are historical examples; today phthalates in cosmetics and toxic additives in children's toys, volatile organic compounds in carpet adhesives and paints, heavy metals in fabric dyes, and lead solder and brominated flame retardants in consumer electronics are examples of products that create risks to employees, customers, and society while creating value for shareholders. Companies that avoid environmental regulations in their home markets through exporting production to countries with lower regulatory standards create similar risks.

Also in this quadrant are companies that create shareholder value through a low-cost strategy that tolerates management actions to cut costs through avoiding overtime pay, under-training on employee safety, or discriminating on the basis of gender and ethnic background. Shareholder value in these cases is created "on the backs" of one or more stakeholder groups, thereby representing a value transfer rather than true value creation.

Companies with high levels of greenhouse gas emissions face new and rising financial risks. Being perceived as contributing to climate change is increasingly seen as a case of value transfer from stakeholders to shareholders. Companies can no longer operate as if putting carbon into the atmosphere were free. After TXU (Texas's largest electric utility) announced its plan to build 11 new coal-fired power plants in April 2006, its largest shareholders (including CalPERS and the New York City Comptroller's Office) began organizing opposition based on the financial risks related to climate change. Risks included impending federal climate change regulation that would impose new costs on carbon dioxide emissions, and energy efficiency measures that would reduce consumer demand for new power. The activism led the February 2007 buy-out of TXU by two private equity companies to cancel eight of the 11 coal-fired power plants that TXU had planned,⁶ signaling for many the beginning of a new era for investment calculations in the energy sector.⁷

Bottom left quadrant

When value is destroyed for both shareholders and stakeholders, this represents a "lose/lose" situation of little interest to either. Monsanto and its European competitor Aventis lost large sums of money by underestimating consumer and farmer resistance to their GMO crop products. Before Aventis sold its CropSciences division to Bayer, it is estimated to have lost \$1 billion in buy-back programs and other costs associated with its genetically modified corn StarLink. StarLink was approved only for use in animal feed, but was found by NGOs to have contaminated a number of human food products.

Bottom right quadrant

When value is transferred from shareholders to stakeholders, the company incurs a fiduciary liability to its shareholders. Actions intended to create stakeholder value that destroy shareholder value put into question the company's viability. Environmentalists often unintentionally pressure companies to take actions in this quadrant without realizing that the pursuit of loss-making activities is not sustainable either. Avoiding offshore sourcing to protect American jobs is an example of creating stakeholder value (employee job security) while destroying shareholder value (higher operating costs). Campaigns to "keep jobs in America" may create short-term benefits for American workers but, in most cases, they hurt the companies which end up with uncompetitive labor costs.

It is interesting to note that philanthropy, when it is unrelated to business interests and represents pure charity, is also located in this quadrant. In such a case, philanthropy is implicitly a decision to take financial value from the company's shareholders and to transfer it to one or more of its stakeholders.⁸

Upper right quadrant

When value is created for stakeholders as well as shareholders, stakeholders can represent a potential source of hidden business value. Sustainable value is created only in this case. When companies design manufacturing facilities to use less energy and that cost less to build and operate than conventional facilities, they are creating sustainable value. The same is true when they eliminate packaging waste by right-sizing their products, or when they add environmental intelligence to their products by making them more recyclable, re-usable, biodegradable, less toxic, or otherwise healthier.

Sustainable value is also created when companies find ways to profitably meet unmet societal needs such as by providing nutrition and clean water to the poor. The key is to provide environmental and social benefits to stakeholders without asking customers to trade off higher prices (or poorer quality.) Companies that are global industry leaders cannot afford to require their customers to pay the "green premium" that specialty companies like Patagonia historically charged for their products. Only through innovation and process or product redesign can leading companies create new business and societal benefits without consumer trade-offs.

Creating sustainable value in the automobile industry

This section provides an illustration of expanding the value horizon in the automotive industry. Because of the fossil fuel consumption and greenhouse gas emissions of today's nearly one billion vehicles on the world's roads, their use is one of the most environmentally damaging activities in the world. It is only natural that industry leaders offering a way to reduce, in an economical way, the automobile's negative impacts on society and the environment should find financial rewards. Although

the transition to “clean and green” personal transportation is still in its early stages, the business case for it is becoming central to competitive survival in the industry. Toyota and Honda’s outperformance relative to General Motors, Ford, and DaimlerChrysler is at least in part attributable to better products that meet rising expectations for fuel efficiency and environmental responsibility.

Today senior managers in charge of running Toyota’s business might reasonably conclude that they are doing a good job in creating stakeholder value: their products move their customers and their families, haul materials, and provide other personal mobility solutions. Toyota’s vehicles are safe, fuel-efficient, and highly recyclable. Although not everyone would agree, a large number of people in the world might support the view—publicly promoted by the company itself—that Toyota benefits society. Indeed, the record is impressive, whether measured in terms of improvements in fuel efficiency and safety, in customer satisfaction, in comfort and road performance, or in percentage of junked automotive parts that can be recycled. Furthermore, Toyota has consistently created high shareholder value, posting \$14 billion in profits for the fiscal year 2007, the highest profit level in the industry.

But, when those same managers look 20 years into the future, a different picture emerges. Stakeholder impacts loom darkly on the horizon, and the current batch of incremental improvements in automotive technology does nothing to dispel the managers’ worry. Consider what we know about how internal combustion engine (ICE) cars and trucks impact society and the environment—and then project 20 years forward to a time when an expected 600 million additional vehicles are expected to be on the world’s roads, reaching as many as 1.5 billion vehicles in total.

Negative stakeholder impacts begin with the relatively low energy efficiency (about 35%) of the ICE itself. Additional negative impacts are the result of a chassis design that combines the ICE with predominantly mechanical systems for steering, braking, and throttling. Cars typically weighing 3,000 pounds or more are designed to move four (or fewer) people, contributing to energy inefficiency as well as to safety risks, noise, and urban congestion.

Supply chain risks for car companies are increasingly linked to the environmental and social impacts of their suppliers, which can translate into higher component costs or even reputation damage. For example, suppliers of steel, aluminum, rubber, and plastics are all likely to be affected by greenhouse gas emission regulations. Component suppliers with greater carbon intensity will be at a relative disadvantage to those that offer comparable components with lower carbon intensity.⁹

For the industry as a whole, the manufacture and use of its products translates into the following environmental and social impacts:

- Emissions of greenhouse gases, particularly carbon dioxide, contributing to global warming
- The formation of ground-level ozone and smog resulting in health issues such as asthma
- Other chemical releases such as nitrogen oxides adding to air pollution
- Solid waste and water contamination generated in the manufacture of steel, batteries, paints, plastics, and lubricants
- Safety risks from heavy and mechanically complex vehicle designs
- Unsustainable resource use. The automotive sector is a significant contributor to the depletion of fossil fuels, consuming between a third and a half of the world's oil when the manufacturing process is included

In contrast, “clean energy” drivetrains such as hydrogen fuel cells are twice as energy-efficient as their ICE counterparts and emit nothing more than water vapor. Although it takes energy to extract hydrogen from sources such as oil, natural gas, and ethanol, the fuel cell's high efficiency more than compensates for the energy required to accomplish the extraction. And, eventually, the energy required to produce the hydrogen for fuel cells will come from renewable sources such as cellulosic biomass, hydroelectricity, solar, wind, or geothermal energy.

When integrated with drive-by-wire technology, cars and trucks can be designed to be much lighter. The design has fewer constraints because a mechanical drivetrain is no longer needed. The freeing-up of space and weight contribute to a potentially safer, more comfortable, more personalized, less expensive vehicle. In the General Motors (GM) conception, drive-by-wire fuel cell vehicles (called Hy-wire, for hydrogen-by-wire) consist of an integrated skateboard-like chassis containing the fuel cell, electric drive motor, hydrogen storage tanks, electronic controls, heat exchangers, and braking and steering systems. The vehicle's body sits on top of the chassis, fitted together much like plug-and-play computer components. A simple visit to the dealer could enable the owner to pop up the existing body—say, a sports sedan—and replace it with another body such as a minivan, while keeping the same chassis. From the consumer's perspective, it's somewhat analogous to being able to switch the bezels

on a Swatch watch—you get several interchangeable models with one base unit.

Although the financial returns of mass-producing drive-by-wire fuel cell vehicles remain unproven, it is possible to discern the logic of increasing shareholder value from improved stakeholder value. Consumers who value the clean emissions, fuel efficiency, safety, comfort, and personalized designs of such vehicles will eventually pay more for them as the costs of air pollution and climate change rise. The higher starting torque also provides a classic performance benefit—faster acceleration from stationary.

Clean-energy vehicle manufacturers will also benefit from raw materials savings and the lower capital intensity inherent in the greater design freedom afforded by the drive-by-wire and stackable fuel cell technologies. Modular design could lower development costs through economies of scale of the base chassis models required to fit multiple body types. Having a smaller variety of components (such as can be achieved with fuel cell stacks that can be scaled up or down) will further reduce costs.

Shareholder value will be created for those companies that succeed in shaping the automobile industry's rules of the game in their favor and who are better prepared for sudden shifts in regulatory requirements. Legislation such as California's AB32, mandating a 25% reduction in carbon dioxide emissions by 2020, foreshadows a national mandatory cap-and-trade scheme in the US. In a carbon-constrained world, car manufacturers that achieve a cost advantage in low (or zero) emission technologies will find that they have a significant new competitive advantage.

While the fuel cell vehicle remains commercially unproven, Toyota's growing portfolio of hybrid models is an example of successful product design that effectively integrates stakeholder considerations. Yet the success of the Prius and other hybrid models is hardly a decision by the company to suddenly "go green." By some measures, Toyota's overall environmental performance improvements are unimpressive. Between 1990 and 2005, Toyota's new fleet average CO₂ emissions rates decreased 3%, a relatively small improvement.¹⁰ Its sales of gas-guzzling SUVs such as the Sequoia and full-size pick-up trucks such as the Tundra actually rose as a percentage of its total vehicle sales. According to Toyota insiders,¹¹ selling more SUVs and trucks is a pragmatic response to a market opportunity in the short term that also provides a means to fund long-term growth. Part of the company's long-term growth strategy involves moving into environmentally responsible technologies including hydrogen-powered internal combustion engines and fuel cell vehicles.

The Prius, its first major foray into new clean technologies, became a surprising success with nearly 200,000 units sold worldwide in 2006. (The company's 2007 sales target for all hybrids is 430,000.¹²) The Prius hybrid drivetrain increases gas mileage and reduces emissions. At the same time, it reduces operating costs for the owner (especially at higher gasoline prices), while sacrificing little in performance or styling. The car has created a small but growing cadre of passionately supportive customers, and added an environmental and innovative cachet to the Toyota brand's aura of superior quality. If gasoline prices continue to rise, Toyota will have a real advantage in the market as it extends hybrid drivetrains to its complete range of new vehicles. In 2007 Toyota's vice president of powertrain development, Masatami Takimoto, said that the company would convert its entire fleet to hybrid drivetrains by 2020.¹³

As global climate change creates increased pressure for reduced use of fossil fuel, Toyota's advantage will increase further. In addition to creating a competitive advantage in hybrid technology (which Toyota is already licensing to other car makers such as Ford and Nissan), the knowledge and experience Toyota has gained with the electric portion of the hybrid drivetrain also positions it to be a leader in fuel cell electric vehicles as that technology matures.

The reframing of value creation at Toyota does not focus on stakeholder issues as ends in themselves. The purpose is not to pursue social and environmental causes independent of economic payback. Such would be the case if the company operated only in terms of stakeholder value. Instead, reframing value creation serves to implement an integrated approach to more significant and sustained benefits for a company whose goal is to remain a global industry leader in the decades ahead.

If you want a friend, get a dog

Al "Chainsaw" Dunlap notoriously repudiated the rights of stakeholders, adding: "You are not in business to be liked . . . If you want a friend get a dog. I'm not taking chances; I have two dogs."¹⁴

Despite such views still prevalent in companies, in the minds of many business leaders, stakeholders have gone from having illegitimate claims on business value to having a limited voice primarily focused on ensuring compliance, to now being value-creating partners with whom the com-

pany can collaborate for mutual benefit. Today's mind-set in business is hardly uniform, but it is changing.

The underlying reasons for such evolving perceptions of stakeholders are rooted in the new competitive landscape.

Ann Svendsen, author of *The Stakeholder Strategy: Profiting from Collaborative Business Relationship*,¹⁵ argues that 60% of corporate value is tied to such intangible assets as reputation, goodwill, employee know-how, and stakeholder trust. Her research corroborates the findings of Baruch Lev, in the work cited earlier,¹⁶ that intangibles now constitute 70% or more of a company's stock price. Whatever the exact number, there is consensus that intangibles are a growing part of market capitalization and longevity.¹⁷ According to Svendsen: "Research now shows that companies that treat their employees, customers, suppliers and communities well are twice as likely to be around in the long term."

Ann Svendsen makes a useful distinction between "stakeholder management" and "stakeholder collaboration." In the former type of relationship (fragmented, ad hoc, linked to short-term business goals, and focused on controlling outcomes), companies appear more business-focused yet paradoxically create lower value from their stakeholder engagements. They manage stakeholders in a hierarchical control model in which relative power determines whether the company or its stakeholders achieve their respective aims when one wins and the other typically loses. In this light, Monsanto's attempt in the late 1990s to limit how (and when) farmers could use its genetically modified corn and Roundup Ready® soybean seeds could be seen as a failed attempt to manage consumer and environmental impacts by tightly controlling the outcomes. This is not the view of stakeholders or of their relationship to a company implied in the sustainable value model.

In the sustainable value model, the focus is on building relationships and on creating opportunities for mutual benefits linked to long-term business goals. In collaborative stakeholder relations, there is an explicit coherence among economic, social, and environmental objectives that leads to business innovations that might not otherwise have occurred.

The leadership challenge

Stakeholder value is often poorly managed in companies that are otherwise global industry leaders. Several factors contribute to this situation. An incomplete awareness exists about the company's impacts on stakeholders and how these impacts might in turn affect future business value. Responsibility for social and environmental issues are typically

fragmented across the organization and often delegated to those outside the core management team. Finally, line managers are naturally focused on short-term drivers of shareholder value and view stakeholder-related issues as a distraction from their business objectives.

These factors are usually symptoms of what is the most critical barrier to effectively managing stakeholder value—our mental models. A new leadership mind-set is needed to capture the systemic interrelationships between a company and its societal context. In this mind-set, the goal is not only competing with industry rivals, but also meeting the changing expectations of an ever-growing and diverse set of stakeholders.

Capturing sustainable value requires the CEO and leaders with profit and loss (P&L) responsibility to see stakeholder value as essential to the growth of their companies. The primary barrier to adopting a stakeholder perspective stems from the leader's mind-set, not from whether there is business value to be found. Mind-set can be understood as the hidden set of beliefs about the individual, others, and the world. Much as computer operating systems allow only certain software applications to run, our mind-sets dictate the range of possibilities we draw on to solve problems.¹⁸ For instance, if an executive believes that an NGO's primary commitment is to put her company out of business, the actions that occur to her to engage with them will be very different than if she believes that they are both committed to solving a common problem.

Historically, the mind-set required to rise to the top of a large corporation has run counter to adopting a stakeholder perspective in the process of value creation. Executives have tended to focus narrowly on maximizing shareholder value. They have privileged activities that, often unintentionally, externalize negative social and environmental impacts. They have risen to their positions of power precisely because they are able to create shareholder value by maximizing "efficiencies" that legally drive externalities elsewhere.

The idea that maximizing the value of *all* key stakeholders is of interest (much less essential) for business success is quite heretical to what has made leaders successful in the past. Yet stakeholder power is now a reality in the new global business environment. Business leaders who fail to adopt a new mind-set risk putting their companies and careers at risk. In Table 9.1, key aspects of the new mind-set are compared and contrasted to the old mind-set prevailing in many companies today.

There are two powerful motivators for leadership to integrate a stakeholder perspective in everything the company does. The first is **pain**, which is often the primary attention getter. DuPont mobilized its sustainability efforts in 1988 after Greenpeace activists scaled the wall of one

Old mind-set about stakeholder value	New mind-set about stakeholder value
It's not a core business issue	It's part of the core business target
It's a cost center	It's a source of innovation, profit and growth
It's limited to incremental change (minor cost reductions or product extensions)	It's about breakthrough change and game-changing moves
It's a project for EHS specialists	"I own it"
I'm a victim (of the media, of NGOs, etc.)	I'm responsible for stakeholder perceptions
I'll deal with it if I'm forced	I choose it because I see its value
It's us versus them (company versus stakeholders)	It's us <i>and</i> them
Not part of short-term financial results	Paybacks can be under a year; both near- and long-term results are needed
It's an issue-by-issue problem	It's a whole-system opportunity

TABLE 9.1 The "old" versus "new" leadership

of its plants and hung a giant banner "DuPont Number One Polluter" facing a highway used by thousands of commuters. DuPont CEO Chad Holliday recalls that event as the spark that led the company to clean up its act. The 1995 Brent Spar media circus that followed Shell's failed attempt to dispose of an oil platform in the North Sea was a similar wake-up call for its senior management.

The second motivator is a compelling **vision** that encompasses the company's societal contribution. Companies with CEOs who have personally espoused a vision for sustainability include Ray Anderson at Interface, Patrick Cescau at Unilever, and Rick George at Suncor.

In other cases, a stakeholder mind-set arises out of the company's culture and historic way of conducting business. Toyota's passionate focus on efficiency and getting rid of waste (*Muda*) allowed it to adopt environmental sustainability as a natural extension of its existing business mind-set. By building on what is best in a company's existing culture and business model, the risk of slow adoption or rejection is lowered.

Leaders who prove adept at mobilizing their organizations play to people's emotions as well as intellect. A stakeholder value mind-set requires an ability to connect to others and to be empathetic. Perceptions of accountability, trust, and reputation stem from the company's ability to

live its values. Companies such as SC Johnson, Timberland, and Novo Nordisk have cultures that successfully emphasize strong employee–stakeholder relationships in the field. Enron, with its intellectual commitment to ethics but failed ability to live them, is the perfect anti-example. At some level, Enron and other examples like it are failures to connect emotionally to the world around them.

The stakeholder management process described in the next section is contingent on leadership that is willing and able to alter the dominant mental model of the organization. It is not necessary for every single employee to buy into a stakeholder view, but the risk of failure is significantly elevated if the CEO and key senior executives do not actively promote it.

Creating sustainable value requires specific financial, strategic, and measurement competencies to integrate stakeholder impacts into the value delivery capability of a company. Based on the experiences of global industry leaders that have adopted the sustainable value approach, these competencies fall into the eight disciplines described in Chapter 10. The following toolkit is structured to help companies excel at sustainable value creation. The eight disciplines can also easily be fitted to change-management processes designed to help companies deal with discontinuous change. In Chapter 11, the eight disciplines are reframed in terms of change management for large complex organizations.