

This PDF is governed by copyright law, which prohibits unauthorised copying, distribution, public display, public performance, and preparation of derivative works.

TITLE Foreword

AUTHOR(S) Tyler J. Elm, Senior Director, Corporate Strategy & Finance, Wal-Mart Stores, Inc.

AVAILABLE IN Chris Laszlo, *Sustainable Value: How the World's Leading Companies Are Doing Well by Doing Good*

FORMAT Hardback

DATE January 2008

ISBN 978-1-906093-06-8

PAGES 15-19

MORE DETAILS <http://www.greenleaf-publishing.com/productdetail.kmod?productid=2591>

SUSTAINABILITY • RESPONSIBILITY • ACCOUNTABILITY

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>



Foreword

**Tyler J. Elm, Senior Director,
Corporate Strategy & Finance, Wal-Mart Stores, Inc.**

As you read this book, you will discover that many global businesses are on a journey towards business sustainability, not as an environmental initiative, but as a business strategy that derives economic value from the pursuit and achievement of enhanced social and environmental outcomes. Chris Laszlo illustrates how the competitive strategies of some of the world's largest mainstream businesses are changing as their leaders begin to take on a number of the world's most important social, environmental, and economic issues such as climate change and ecosystem health. In doing so, he asks us to consider the drivers of corporate and competitive strategy as well as what has changed to account for this broader scope for business in civil society. But when did this change happen, and why?

Each of us is likely to have different answers to these questions based on our own personal experience and journey. I recall a colleague presenting me with the following statistic a few years ago: "Of the world's 100 largest economies, 42 are now corporations, not countries." This statistic made us stop and think, and helped create the context for our journey towards business sustainability. For Wal-Mart Stores, ranked first on the *Fortune* 500 and approaching \$350 billion in annual sales by 2007, it contributed to the framing of the opportunity represented by sustainability and, for me, it served as a personal mile marker on that journey.

We incorporated the statistic into presentations on sustainability to peers, senior executives, and the Board. For comparative purposes, we included our estimated rank at the time—20th—coming in just after

Sweden's gross domestic product. Collectively, the organization began to ask itself two important questions:

- What will be the role of business in society during the 21st century?
- What will it take for our company, in every country where we are present, to continue growing at current rates for the next 20 years?

And then, Hurricane Katrina made landfall in the United States. My wife and I had just moved from the Florida coast—four days before Hurricane Rita, and after Hurricanes Frances and Jean. I remember being glued to the television, watching the aftermath unfold in Florida and across the Gulf as this latest storm passed. We watched in disbelief as traditional public institutions failed to meet the needs of their citizens while individuals, non-governmental organizations, foundations, and big business responded in their stead to provide food, water, and shelter. Wal-Mart was one of the many that responded to fill the void, and I was proud of “my” new company and colleagues.

After Katrina, those two questions came up again and again at our company, in meeting after meeting, in presentation after presentation, shaping our sustainability strategy. And our CEO, Lee Scott, presented us with another: “What if the very things that many people criticize us for—our size and reach—became a trusted friend and ally to all, just as it did in Katrina?” Soon after, on 24 October of that year, Lee took the company's business sustainability strategy public with his unprecedented speech: *21st Century Leadership*.

However, what was happening at Wal-Mart Stores was not unique. Indeed, we were “Johnny-come-lately” to sustainability and so we sought the insight and experience of others—thought leaders from academia, governmental and non-governmental organizations, think-tanks, suppliers, and our suppliers' suppliers.

Indeed, many large mainstream companies were already acting on the business opportunities created by a knowledge-based economy in which civil society plays a more active role with correspondingly higher socio-economic expectations and an unprecedented ability to organize enabled by the World Wide Web. In the wake of weak public institutions, these businesses were responding to emerging market mechanisms and legislation designed to target the growing divide among socioeconomic expectations and their (non-)fulfillment. However, what was different than even a few years previous was that some of these companies were con-

necting sustainability to their core business activities. Their managers were starting to incorporate sustainability into key decisions on which businesses to enter and how to compete.

These managers are now beginning to play a leading role in solving some of the world's toughest problems because they can do so while earning a fair profit. In the process, they are developing new relationships, knowledge, and competencies as they respond to value propositions defined by a broader set of stakeholders with pressing social, economic, and environmental needs. And many are finding that they can better serve their economic *and* societal stakeholders by re-examining the very business activities that define their organizations today. These business leaders are learning their way into a new mode of operation, tapping new sources of value, and, through the journey of business sustainability, developing new sources of inimitable competitive advantage.

In my case, I had not detected this change as a competitive force outside of the natural resource industries and industrial products companies until 2003. By 2004, it was an emerging strategy among a few mainstream consumer businesses. By 2005, I found myself in the middle of an effort with the world's largest company as it applied the principles of sustainability to its core business in its quest to become an even better company. But what was driving this change in competitive strategy? Was there more to it than risk management and process efficiency?

Less than two years after first coming across the statistic that would serve as a personal mile marker and while killing time by reading as I waited for a plane that should have come and gone three hours earlier, I again came across that statistic, only it had changed: "Of the world's 100 largest economies, 51 are now corporations, not countries." It was the last weekend in March 2007 and, as before, the statistic was already outdated. I remember thinking "business has reached the tipping point" as I considered the happenstance of having embarked on our sustainability strategy at that time—as the wealth of nations and the political economy that was birthed during the industrial revolution pivoted on a fulcrum. Would it redefine itself in the process? How soon after the tip would momentum follow? How will business redefine itself in the global socioeconomic network that is today's global economy?

While we may not be able to provide definitive answers to these questions, I challenge you with the following question: Do you really think the role, or even the expectations, of business in society will be the same in the next 25 years as in the last?

If you answer "no," then I urge you to consider the corporate culture within which you work and how it might best adapt to significant change

in the social expectations and economic opportunities that affect the very decisions of what businesses to enter and how to compete. Do you, or your organization, have the competencies, skill-sets, and networks that will enable you to take advantage of such change? At Wal-Mart Stores in early 2005, the answer was “no.” However, our sustainability strategy provides us with a gateway to becoming an even better company because it enables Wal-Mart to develop the managerial competencies, skill-sets and organizational networks that we will need to take advantage of the increasingly networked, global political economy.

In short, my learning was this: in addition to the economic value derived from the outcomes themselves, the process of “learning-by-doing” through collaborating with multiple and diverse stakeholders changes the way we work. The experiential learning that comes from examining value chains and developing strategy within a collaborative network of external thought leaders generates value for the business by further developing personal and organizational perspective, systems thinking, and an enhanced awareness and understanding of the external business environment. In doing so, managers and their organizations develop the means to incorporate this enhanced world-view into decision-making and business activities. Similarly, non-governmental stakeholders are better able to address the systemic challenges of society, and to replicate and scale desired outcomes. In the process, they often end up taking approaches and organizational models more typical of social entrepreneurs.

While we are still picking low-hanging fruit, if the early results of Wal-Mart’s business sustainability strategy are any indication, these organizational capabilities and processes—and the managerial and leadership skills—will prove to be a phenomenal source of inimitable competitive advantage. The value of sustainability as a business strategy is not what is written on a whiteboard or the scribbling on the back of a napkin. It is the value of developing prepared minds, and the ability of an organization to incorporate innovation into the corporate culture. Ideas are inert; people make the difference, and culture eats strategy for breakfast every day.

In summary, we are witnessing a metamorphosis in the role of business in society, with for-profit companies targeting many of the emerging social issues once reserved for the non-profit sector. Friedman’s edict (that the business of business is business, and the creation of shareholder profit its fundamental mandate) is just as true now as it ever was. Yet what *has* changed is the context within which business operates, and thus how one applies this edict. The sources of value available to business

and the competitive forces acting upon it continue to change; they are different today compared with 1982, and they will be different yet again in 2032. And so we should not be surprised by shifts in the sources of business value, or by changes in the business activities required to deliver a winning value proposition.

Perhaps it is merely the cumulative inertia of our institutions and the busy work of “heads-down” execution? Perhaps it is the discontinuity of such change with our own personal understanding of business models and our individual experience of what has worked in the past? Regardless, the notion of a static socioeconomic and environmental context for business—with unchanging sources of value and stagnant preconceptions of the very role of business in society—is absurd when viewed in the abstract and even more so when viewed in retrospect.

Peter Drucker may have said it best: “Every single pressing social and global issue of our time is a business opportunity.”