Building companies that last

The ability to be radically transparent is a key competency for sustainable business, says Michael Hopkins, editor-in-chief of the *MIT Sloan Management Review*

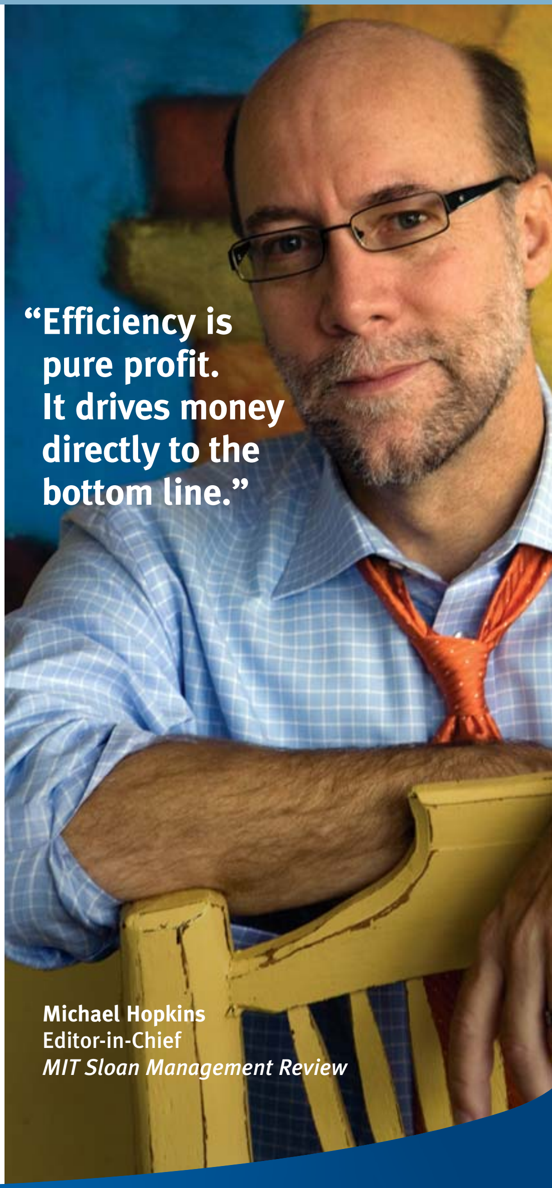
Management trends come and go — and for some "greening your business" might just fall into the category of "passing fad." But is it smart to wait for "green" to pass?

"That's a terrible strategy for business leaders," says Michael Hopkins, editor-in-chief of the *MIT Sloan Management Review*. "I wish that it would be a passing fad. Because if it were, that would mean that the problems that are driving the concerns about it would be fading away. And there's just no chance of that happening, sadly."

Challenges associated with a burgeoning global population and increased demand for diminishing natural resources — not to mention climate change — are only going to grow and become an increasingly powerful driver of change management practices, adds Hopkins. And he should know: as the head of one of North America's premier business journals, Hopkins knows a thing or two about business management theory, the perfect person to define sustainable business.

"I define sustainability pretty differently than most executives at the moment do; though I think they're going to start defining it differently as we go down the road," says Hopkins. "I would describe sustainability as, number one, finding a way to build organizations that last — that really last — which requires building whole communities that can sustain them. If you want an organization to last, then everything else has to last as well."

Since its beginning, the management sciences field has focused on the question of how to grow companies. Sustainability, says Hopkins, is about taking that one step further and "thinking about how to grow companies that grow us. That's well beyond the way most executives currently think about sustainability, but it's where we're headed."



"Efficiency is pure profit. It drives money directly to the bottom line."

Michael Hopkins
Editor-in-Chief
MIT Sloan Management Review

How most executives define sustainability today was in fact one of the questions asked of 1,500 leaders and managers from corporations around the world for "The Business of Sustainability," a special report by *MIT Sloan Management Review* (MIT SMR) in partnership with The Boston Consulting Group.

The responses varied, with novices and senior managers more frequently defining sustainability in terms of "maintaining the viability of our business." Those who identified themselves as having more experience and expertise selected the definition found in the 1987 United Nations report, called *Our Common Future*, by the so-called Brundtland Commission: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

How one defines sustainability is more than just semantics. Results from MIT SMR's special report suggest that the more experience an executive has, the more opportunity they see. "Too often executives just think, 'Sustainability? That means climate change; I can pass on that for now,'" says Hopkins. "It's a pure lack of understanding. But as soon as you start to learn more about it, you see all the ways your company is already dramatically affected by different aspects of sustainability." The sustainability challenge can impact everything from your reputation and ability to attract talent to your operating costs.

Leaders and managers who *do* see the opportunity cite another common challenge — how to effectively make the business case for taking action on sustainability; namely, nailing down the return on investment, according to the research. Making the business case, says Hopkins, is all about defining the different ways that a company can create value for itself by undertaking sustainability initiatives that are unique to its own competitive needs — and that may require businesses to act and think differently than before, says Hopkins, citing the concept of "radical transparency" as an example.

Radical transparency

Increasingly, companies are under pressure from stakeholders, including investors, to be more transparent, and thereby enable more accurate risk assessments. At the same time, rarely can an organization undertake a large sustainability initiative without engaging stakeholders such as employees, suppliers, customers, the community, the government under which it functions and even competitors, in some cases, to collaborate with it.

What that means is that in order to be successful at implementing sustainability strategies, companies need to attract partners — no easy feat these days with heightened concerns about risk. Companies that are really good at being

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transparent, says Hopkins, make it easier for others to look at it, see inside it and make a judgment that says, "Those guys…I trust those guys. I understand them. I see what they're doing. Nothing's hidden from me. I want to work with them." Organizations that can practice that kind of transparency in a way that attracts all those partners and stakeholders gain an enormous competitive advantage, says Hopkins.

"Just imagine," he explains, "that you're the company that other people want to work with; that investors want to invest in; that the best talent wants to come and work for; and that partners — whether in your industry or outside of it — want to be involved with because they trust you. Because they understand your business, they feel like they can adequately assess the risk of working with you. All of that comes from finding a way to be more radically transparent…If all of a sudden you can out-compete your competitors in terms of talent and finding the best collaborative partners — you win."

Ultimately, what this insight means is that to be successful, you will increasingly need to develop and strengthen your competencies around stakeholder engagement. "Companies are going to be forced to somehow be better at seeing outside of their walls, not just operating inside them, which too many companies do," says Hopkins. "Too many companies have been able to function in a siloed sort of way."

Know thy company

Besides the ability to be transparent and collaborate, companies that are really good at sustainable business, says Hopkins, are also good at understanding their own organizations. "They understand what is going on in their companies," says Hopkins. "They measure and keep track of things well and [are] extraordinarily good at sharing information within." You would be surprised, he adds, at the number of senior leaders, whom when asked questions about their company, do not have the ability to capture information about their own operations, "and a sustainable business is really good at that. It knows what it's doing and what the impacts are of that."

Finally, a company that is good at sustainability also tends to take a system-wide approach, understanding both itself and the network of other organizations that its business operates within, and takes a long-term view — easier said than done, Hopkins acknowledges, during a time when many set their sights only as far as the next quarter.

Why employee engagement matters

Employee engagement matters on two fronts, according to the research in "The Business of Sustainability" report. First, companies face obvious pressure from employees who want their employers to be more environmentally and socially responsible. "Companies these days are desperate to ensure that they achieve very high employee engagement [with] high morale, high productivity. And if they can find a way to align the company's interests with what they're feeling to be the employees' interests, that's going to help them achieve progress on all those really important metrics," explains Hopkins, who conducted the research with The Boston Consulting Group.

A second related concern he says proved to be more ubiquitous amongst survey respondents: "Companies attract talent based purely on their reputation in terms of sustainability — no matter what the industry," says Hopkins. "I would have [an] oil company executive tell me, 'Okay, we're an oil company. Not the place maybe that you would expect to have, you know, employees who are the most deeply interested in sustainability, and yet you know they're competing with other oil companies. And if you're one of those companies that has the reputation for pursuing new kinds of energy or more responsible oil policies — or call it what you will, anything sustainability-related — you end up attracting the best young engineers.' Everybody talked about the role that sustainability can play in attracting the best talent, and so there may be no more important factor in a company's success."

Where to start?

Get started by focusing on the low-hanging fruit. Hopkins says he once asked Amory Lovins, founder of the Rocky Mountain Institute, a non-profit organization with a mission "to drive the efficient and restorative use of resources," where companies should begin to grapple with sustainability issues. Capture the flows and impacts, Lovins told him. Figure out where the materials come in, what happens to them and how they go out, and that includes looking at the flows of money. "He'll describe very graphically how he has yet to walk into a factory… where he doesn't feel like he can stand at the threshold, look around at the way the place is operating and feel like there's money sloshing around on the floor that he could just pick up."

It's that easy for companies to look at how their operations function and see how things can be made more efficient, says Hopkins, and well worth the effort. "Efficiency is pure profit," he adds. "It drives money directly to the bottom line."

Hopkins suggests mapping out all the flows and impacts to better identify leakages, inefficiencies and, ultimately, opportunity. Though actual tactics and strategies will vary, the next step, says Hopkins, is to "attack those areas of opportunity." And do not even think about waiting for government to mandate policy around such areas as climate change and waste.

"I am probably in the camp that thinks that commercial concerns are going to have the primary role of solving problems," adds Hopkins. "I think that government will be a follower, not a leader."

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Lessons from first-class companies

What makes a company succeed at sustainability?

When it comes to managing sustainability, many companies — even those with the best intentions — are faltering in execution, according to recent research from 1,500 global executives and thought leaders.

Many more, however, are successfully progressing with their sustainability strategies and gaining competitive advantage. Here are three common characteristics of these so-called "first-class companies" to learn from:

1. They understand and are able to clearly articulate sustainability's impact on their organization.
2. They create a robust business case for sustainability, assessing their investments in sustainability strategies like any other.
3. They take a holistic approach by integrating their sustainability strategy throughout the business.

Source: "The Business of Sustainability," a special report by *MIT Sloan Management Review* and The Boston Consulting Group, 2009.

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