

**CHAPTER 12**  
Guess Who's Coming to (the Board) Dinner? ..... 223

**CHAPTER 13**  
Ten Companies That Will Shape the World in 2020.....241

**CONCLUSION**  
Sustainable Excellence = Excellence..... 261

**ACKNOWLEDGMENTS**..... 266

**INDEX**..... 271

**CHAPTER 1**  
**WHAT IS**  
**SUSTAINABLE EXCELLENCE?**

**WHEN WE INTERVIEWED GOOGLE CEO Eric Schmidt** for our book, he asked us a seemingly simple question: Just what did we mean by “sustainable excellence”? That’s the question this book tries to answer, and the fact that Schmidt asked it shows that even though “sustainability” has become a mainstream term, it still means different things to different people. In fact, as the practice of sustainability has come into wider use, the word has become a Rorschach test whose interpretation says as much about the person using the term as it does about the idea itself.

Eric Schmidt is not alone in being unsure of its meaning. The seminal definition—which continues to be used today—was introduced in 1987 by a United Nations (UN) commission headed by former Norwegian prime minister Gro Harlem Brundtland: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This formulation works for the United Nations, but it provides only a starting point for companies grappling with what it means for them. What’s more, some critics have dismissed sustainability and its cousin, corporate social responsibility, as nothing more than feel-good activities that divert attention from business’s core mission of providing high-quality products and services that deliver

returns for shareholders and value for customers. A long cover story in the *Economist* in 2005 made many of these points, often with a dismissive tone, concluding that “most corporate social responsibility, in fact, is probably delusional . . . and reduces both profits and social welfare.” Critics on the left have charged that the term is devoid of meaning—or worse—because it’s been hijacked by corporations focused more on marketing a kinder image than in achieving real change.

All of these claims miss a larger truth: The world is changing, and changing *fast*, and sustainability has become the defining factor in business success.

What do we mean by “sustainability”? A sustainable business is one that delivers value for investors, customers, and employees; improves the living standards of its employees and the communities it touches; makes wise use of natural resources; and treats people fairly. In many respects, a sustainable business is simply a well-run business. Until quite recently, however, issues such as environmental impact, efficient use of resources, and human rights were not core concerns of many companies. Today, companies achieve sustainable excellence when they integrate consideration of society and the environment into their DNA. How they do that is what this book is about.

First, it’s important to note that one thing has not changed: Companies are organized to make a profit and deliver returns for investors and value for customers. Because businesses need to be profitable, no company can achieve sustainable excellence if it does not ensure its own survival in a hugely competitive environment. The ingredients of a profitable enterprise include access to capital, to a reliable and affordable supply of natural resources, and to the best possible talent; a commitment to innovation; effective marketing and communications; and the support of regulators and the communities where they operate. When combined with solid execution, these ingredients produce the world’s best enterprises.

These building blocks of winning businesses would have looked as familiar to the GE run by Thomas Edison as they do to the GE run by Jeff Immelt. What is different is that the context in which these building blocks are formed has changed radically over the past two decades, and it continues to evolve rapidly. In today’s world then, companies need to do two things: They must not only embrace superior business practices; they must also be good at applying principles of sustainability. Hence “sustainable excellence.”

Sustainable excellence encompasses environmental questions like climate, water, and biodiversity; they are central to this story. But this is not a book whose only shade is green. Sustainable excellence includes myriad issues, including the impact of business on emerging economies and the labor rights of all workers in global supply chains. Our view is a comprehensive one, and it reflects our belief that companies whose definitions of sustainability are too narrow are likely to fall short in their attempts to innovate and thrive in today’s world.

Practicing sustainable excellence has become essential today, and it will be even more so in the future due to fundamental changes in the world’s economy.

Globalization is no longer just about outsourcing Western business operations and manufacturing to the developing world. We are on the brink—if we are not there already—of a business climate where markets in emerging economies present equal or greater promise than the more mature markets of the United States, Europe, and Japan. Global multinationals compete not only with their established peers, but also with new rivals from China, India, Brazil, and beyond, such as mining giant Vale from Brazil, steel manufacturer ArcelorMittal of India, and the world’s largest telecommunications provider, China Mobile.

Social contracts—those informal but vital understandings between business and the larger society—are being rewritten, leading to charged

debates over the relative roles of business and government in providing public goods such as water, health care, and security. In many parts of the world, the old division of labor, where government sets rules and passes laws while business deploys capital and creates employment, no longer exists. Privatization across the globe has led more people to look to business and the private sector for solutions to everything from education to health to water. Demographic pressures add yet another volatile element, with some regions and countries such as Europe, Japan, and China facing aging societies and some like India and Indonesia facing youthquakes that require countless new jobs to sustain social stability.

In addition, the steady march of digital technology has given individuals, nonprofit groups, and other organizations a degree of autonomy that would have been unimaginable a generation ago. These changes have remade the ways in which information flows from, to, and about companies, which now live—like all of us—in an era of radical transparency. Companies know that any and all information will likely become public and that their decisions face a level of real-time scrutiny unthinkable a generation ago. That changes the nature of decision making, and it alters the calculus about everything from strategy to the way research and development are carried out.

At the same time that they are confronting these challenges, businesses are also faced with serious questions about the availability and prices of the natural resources they use. Recent price spikes for everything from oil to copper and other industrial metals are something no company can ignore. And then there is the proverbial eight-hundred-pound gorilla, climate change, which has the potential to remake our energy system, alter the basic economics of natural resources, and produce unforeseen and unpredictable geopolitical consequences.

Climate change, energy consumption, and the depletion of raw materials receive most of the public's attention, but other issues present

equivalent challenges for companies. Many business leaders know that access to water and water quality may dramatically inhibit their ability to operate. Companies that depend on easy access to water include not only obvious examples like Molson Coors and Coca-Cola, but also pharmaceutical giants such as GlaxoSmithKline, apparel companies like H&M, and global manufacturers such as United Technologies, all of which have signed the UN's CEO Water Mandate and pledged to manage water sustainably.

These issues came to the fore before the Great Recession of 2008–2009, and they have only grown more acute since. Industries such as the automobile business that are reliant on the availability of basic materials strained to obtain access to commodities such as iron ore, and they were caught in a bind as prices soared. Other companies, including makers of everyday products like Procter and Gamble and Kimberly-Clark, found basic agricultural commodities suddenly unavailable or more costly because of the intersecting demands for food, fuel, and water in an overheated global economy. Now, with global growth returning, emerging economies are again growing quickly, and it is almost guaranteed that the pressure on natural resources will intensify. The desire for economic prosperity among a rapidly increasing portion of a population that is expected to reach nine billion people by 2050 will bump up against the cold, hard realities of the earth's "carrying capacity." Simply put, we don't have the raw materials needed to replicate the Western consumption-based model of prosperity on a global scale. According to an estimate by the World Wildlife Fund, five planets' worth of natural resources would be needed to deliver American-style prosperity to the entire planet.

All this adds up to a basic point: Business as usual won't suffice. Several aspects of our existing models present barriers to sustainable excellence. The current focus on quarterly earnings promotes short-term thinking that creates unnecessary risks—such as the creative financial

products we came to know all too well during the 2008–2009 recession. This short-term thinking distracts business leaders from investing in the innovation that will be needed to achieve competitive advantage in a low-carbon economy. Companies that depend upon securing natural resources at the low prices that they enjoyed in the 1990s and the early 2000s risk a rude awakening in an era of sharply higher costs and uncertain availability. And assumptions that consumers and regulators will ignore companies' performance in social and environmental matters are similarly misplaced.

**In short, in order to survive and thrive, business leaders must discover the formula for sustainable excellence. It is not enough to measure success in purely financial terms. Companies must be excellent to meet the challenge of competition, and because sustainability is the challenge of the future, they must focus on sustainability in order to be excellent. Those that shape their strategies to meet these conditions will deliver lasting value for investors as well as solutions to the biggest social and environmental challenges of the twenty-first century. This is the essence of sustainable excellence.**

Achieving sustainable excellence means adopting new ways of conducting business and new ways of thinking about global challenges. In our view, there are five core elements. Executives who make these ideas central to their business strategies are positioning their companies to excel over the long run and to produce lasting prosperity that preserves natural resources.

## **1. THINK BIG: CREATE BUSINESS STRATEGIES THAT MEET BIG GLOBAL CHALLENGES**

For decades, business school students have been taught that the paramount test of a company's success is how much value it creates for shareholders. This, in turn, the thinking went, created value for society. But the idea that "what's good for General Motors is good for America" now seems archaic.

In today's world, long-recognized verities like this are being supplanted. We see this not only in companies that explicitly put sustainability at the core of their missions, such as dairy products company Stonyfield Farm and household products maker Seventh Generation, but also in some of the biggest and most influential corporations in the world. PepsiCo CEO Indra Nooyi's call for "performance with purpose" ushered in a shift to a healthier mix in that company's product portfolio. Google speaks about its goal to make the entirety of the world's information publicly available, a stance that informs its product development strategy and will, it believes, enable wider, more sustainable prosperity. General Electric's "Ecomagination" initiative, which aims to increase the business generated by environmentally beneficial technologies, is now joined by "Healthymagination," which focuses on enabling improved health care—and driving the company's future growth. None of these initiatives is about philanthropy. Each is designed to propel their companies' business strategies and to focus on big global challenges like health, nutrition, and the environment. And while strategists like Jim Collins, in his seminal book *Good to Great*, have noted the importance of a corporate mission, sustainability provides a specific and urgent purpose that is redefining business.

## **2. USE SUSTAINABILITY TO DRIVE INNOVATION**

We are already witnessing how sustainable excellence opens exciting new avenues for growth. The long-term success of most companies will be determined by their ability to navigate a world in which environmental questions are crucial and the greatest market opportunities lie in meeting the needs and desires of the rising middle-class populations in emerging countries. The only way to capture those new opportunities is to innovate.

Nike, a company predicated on innovation, created a business unit centered on principles of sustainability. Its Considered line began as an

experiment in designing products to incorporate more natural materials and produce less waste than its other offerings. Because the Considered line demonstrated the viability of the model, Nike is now extending the same principles to all of its footwear as it moves toward “closed loop” manufacturing.

And, as befits the global nature of the challenge, innovation is coming from all corners of the world. In India, ICICI Bank is experimenting with mobile phone technology to bring financial services to rural Indians, a potential market of half a billion people. Another example is Broad Air Conditioning of China, which has rethought its entire purpose. Instead of focusing solely on manufacturing air-conditioning units, its CEO is leading a drive to find new ways to deliver overall solutions that produce cooler buildings. For both, sustainability is driving companywide innovation. And after decades of false starts, there are signs that Detroit’s auto industry is looking afresh at transportation, designing alternative fuel vehicles and exploring radical ideas like car sharing and public transport that were anathema until recently. Each of these innovations is propelled by the pursuit of profit and is intended to deliver new sources of revenue for companies that understand how the market is moving.

### 3. SET THE RIGHT INCENTIVES INTERNALLY AND EXTERNALLY

Tomorrow’s most successful companies will reorient employee incentives, encouraging innovation already that promotes sustainable excellence. Many companies are already establishing sustainability principles as factors in determining compensation. Intel now allots bonuses that consider sustainability goals as part of the calculus. Royal Dutch Shell in 2010 joined several other Dutch companies in linking executive compensation to how their companies perform relative to the Dow Jones Sustainability Index, arguably the premier ranking of companies according to sustain-

ability criteria in environmental, social, and governance issues.

The current shareholder model of business includes incentive systems that interfere with the pursuit of sustainable excellence. In the financial markets, while there are some signs of movement, such as recent moves by the US Securities and Exchange Commission to compel companies to disclose their climate-change policies, and investor alliances organized by the UN around its Principles for Responsible Investment, short-term thinking too often remains the order of the day. Long-term investments face high hurdle rates—the minimum rates of return required for investments to break even—unless investors are convinced of the prospects for immediate cost savings or returns. Because climate change is a new and somewhat amorphous concept, even companies that want to invest in changing their business models face skepticism from the markets. But companies know that this kind of thinking thwarts the investments they need to make in order to shift to a low-carbon economy. This is why leaders like Jim Rogers of Duke Energy and Andrew Liveris of Dow Chemical are aggressively urging investors and regulators to put a price on carbon, and why business coalitions have popped up to promote action on water, climate-change, and human rights issues. Businesses that want to pursue sustainable excellence know that they have a strong interest in the establishment of policy and market frameworks that reward them for their innovations and create incentives for other companies to do the same.

### 4. EMBRACE THE TRANSPARENT WORLD—AND COLLABORATE

The companies that embrace collaboration and transparency are most likely to make the transition to sustainable excellence. In today’s world, collaboration is no longer simply a matter of “playing well with others;” it’s a strategic imperative. As we noted earlier, the notion that governments regulate, companies produce, and consumers buy is outdated. In

today's networked world, businesses must engage in a complicated dance with both governments and nongovernmental organizations (NGOs) to achieve mutual goals none can reach on their own. What's more, the rules of the global economy are now being set by shifting coalitions of companies, NGOs, and governments. And as we will discuss, some goals, like achieving significant reductions in carbon emissions, will happen only by aligning entire value chains, involving the various entities that add value at successive steps from product design to disposal or reuse. Companies that learn how to navigate this complex architecture have a competitive advantage. This is why businesses like Ford, Nestlé, and Avon are now working with NGOs rather than strong-arming them, extending their collaboration even to product development. Greenpeace and Coca-Cola, in a case we will discuss later, jointly developed an environmentally friendly refrigerator system. Transparency, too, has become a business imperative; it is the key to forging the partnerships with NGOs that are now so important. It is also why, after years of resistance, consumer product companies like Levi Strauss and Company make their lists of contract factories public, enabling anyone to know where their goods are made. The expectation of transparency is why the number of corporate sustainability reports has exploded in the past decade, and in the future, new ways of keeping tabs on company actions will be as likely to emerge as new digital information tools.

## 5. MAKE CONSUMERS YOUR PARTNERS

Ultimately, the road to sustainable excellence is easiest to travel if market demand for sustainable products and services grows. Companies devote immense resources to stimulating demand for their offerings, and a wide array of companies, from Walmart to SC Johnson to Starbucks, are now aiming to integrate sustainability into their brand identities with the goal of inspiring consumers to choose products on that basis. For years, companies

dismissed the polling data that said that consumers would pay a premium for ethically produced, environmentally friendly products. Evidence showed that people simply didn't follow through at the cash register. That's now changing, as the natural resource crunch is forging a stronger link between environmental considerations and household savings. When Procter and Gamble shows its customers that washing clothes in cold water saves money *and* reduces P&G's carbon footprint, it's a win for everyone. When Walmart offers organic products, often at prices lower than other retailers', it is "democratizing sustainability," as the company's chairman, H. Lee Scott, puts it. Members of the rising cohort of consumers, the so-called millennials, actually do make different choices about what they buy. A 2009 survey by the Sage Group showed that millennials are the generation most interested in green business, a fact of no small matter because companies are particularly eager to lock in the loyalties of such young consumers. In addition, digital tools, including a fresh wave of mobile phone applications, are making it possible for all of us to learn a lot more about where a product was made, who made it, and how much of a footprint it has—all at the touch of a button while wandering the aisles. The ease of accessing that information will increase exponentially over the next decade.

None of these changes is easy, or automatic. Consumers can be slow to change; institutional change is hard to implement; and experimentation brings both a mix of success and failure. Our goal in this book is to highlight examples of companies that are trying—often strenuously—to make sustainable excellence central to their very being. The book also focuses on business leaders who are willing to take the long view and are pushing their companies to embrace sustainable excellence. They do not speak with a unified voice, but their assumptions about the future and the direction they are headed in are similar. We are still in the early days of this transformation. And so while these examples are important, the companies we write about

here are learning by doing, and very few can be said to have gotten it right yet. Sustainable excellence may not guarantee success, but companies that fail to pursue it will be left behind.

The perspectives and stories we present in this book come from our experiences over the past fifteen years. Aron has spent that time working with companies across the globe at Business for Social Responsibility (BSR), where he has been president and CEO since 2004. Beginning in 1995, he pioneered efforts to integrate human rights principles into global business practices and led the first human rights training workshops for companies in China. Since then, he has advised and worked closely with BSR's members, a lineup of global businesses numbering more than 250 and including many of the world's largest and most influential corporations. BSR's team of one hundred people in North America, Europe, and Asia spends each day working on projects ranging from increasing the energy efficiency of Walmart's suppliers, to advancing freedom of expression on the Internet, to promoting conflict resolution in mining villages in Patagonia, to building collaboration between businesses, government officials, and NGOs. BSR's journey and Aron's own path track the story we tell here of the shift from a time when the outside world tried to convince and coerce business leaders to take sustainability seriously, to one in which those businesses see it as crucial to their very futures. Indeed, several of the stories we tell here draw on experiences Aron and the BSR staff have amassed in making sustainable business a reality.

Zachary, who began his career as an academic and a writer, started to focus on these issues when he was chief economist, head of marketing, and president of Fred Alger and Company. As part of an organization that managed more than \$13 billion in assets and as portfolio manager for a

fund focused on business opportunities in China, he watched as more companies began to grapple with the challenges of rising raw material costs and shifting public mores that demand that companies pay greater attention to the environmental and social costs of their operations. He helped create one of the early green funds at Alger, and then left to set up his own fund that focuses on sustainability as a driver of profitability.

That is the background we bring to these stories and to our discussion. Throughout the book, we highlight companies that have tried to look into the future and have begun the journey of creating products and services that will position them to compete, to deliver a return for their investors, and to provide sustainable value for society. As in any era of great change, some experiments succeed, and some fail. There is much to learn from early success stories, but there is also something to learn from visionary leaders who have tried and fallen short.

But this much is clear: Sustainable excellence represents a new way of doing business. It is no longer an option, and it is the key ingredient for lasting success in a fast-changing world.