
Embedded Sustainability: A strategy for market leaders

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In recent years three big trends – declining resources, radical transparency, and increasing expectations – have redefined the way companies compete. The linear throw-away economy, in which products and services follow a one-way trajectory from extraction to use and disposal, can no longer be supported, as we are simply running out of things to unearth and place to landfill. Consumers, employees, and investors are beginning to demand socially and environmentally-savvy products without compromise, while radical transparency is putting every company under a microscope.

With a new set of pressures on hand, what is business to do? We are not talking about the Body Shops and Ethical Banks of this world but rather the Unilevers and HSBCs: industry leaders pursuing middle-of-the-road customers, who find themselves often blindsided by ecological and social burdens. So, how are we as business unit and functional managers to treat social, health and environmental demands in the mainstream?

There are many managers who still go with familiar approaches, treating these new pressures as annoying obligations and merely tipping their hats to corporate social responsibility. While many more now recognize social and environmental performance as business opportunity, most continue to “bolt it on” to existing strategy and operations.

Only a handful are choosing to embed sustainability into the very DNA of what they do, incorporating environmental, health, and social value into core business activities with no trade-offs in price or quality. They

are learning to leverage global challenges, such as climate stability, for enduring profit and growth. Through innovation – in product design, process and business model – these pioneers are creating even more value for their customers and investors than they would otherwise.

In a decade of working with companies in the US, Europe, South America and Asia – big and small, manufacturing and services – we have observed the following *lessons learned*. The first is that managers need an awareness of the external competitive environment that MBA programs and on-the-job training typically do not provide. The second is that embedding sustainability creates business value at many levels – not just risk mitigation or

cost efficiencies – that managers fail to fully leverage. The third is that the pursuit of sustainability involves hidden choices – whether to reduce negatives or provide positive solutions, and whether to pursue incremental change or heretical innovation – which are proving crucial to business strategy. The fourth and fifth lessons concern the nature of change management at the systems level.

II. Sustainable value creation

For those pursuing embedded sustainability, there are many ways to create business value. Companies in every sector have already made great strides in complying with and anticipating environmental and social regulations. They have learned operational best practices in

level of business context, it is about shaping government regulations or industry standards that favor the market leaders over the competition.

Whatever the sustainability project or company-wide initiative, managers can benefit from assessing, and acting on, its value creating potential at these multiple levels.

III. Hidden choices

Are you intent only on making your products less wasteful and more energy efficient? If these are your sustainability goals, you are probably focused on doing less harm. On the other hand, if you are in



the typical business decision. If decision-making is all about making a hard choice between easy-to-identify alternatives, design attitude assumes an easy choice between difficult-to-create alternatives. Tim Brown, CEO and President of IDEO, ranked among the ten most innovative companies in the world, illustrates this point in the following way: "a management philosophy based only on selecting from existing strategies is likely to be overwhelmed by new developments at home and abroad. What we need are new choices – new products that balance the needs of individuals and of society as a whole; new ideas that tackle the global challenges of health, poverty and education; new strategies that result in differences that matter and a sense of purpose that engages everyone affected by them. What we need is an approach to innovation that is powerful, effective and broadly accessible. Design thinking... offers just such an approach."⁷

The next two competencies – *Inquiry* and *Appreciation* – build respectively on what is possible and on the existing strengths present in every business system. We have had the privilege of working closely with Professors David Cooperrider and Ron Fry, co-origins of Appreciative Inquiry, a change management methodology that, as its name implies, has these two competencies at its very core. Appreciative Inquiry has enabled managers at leading firms such as Hewlett-Packard, Walmart and McKinsey to discover the best of their shared experiences and tap into the larger system's capacity for cooperation. Efforts to discover and elaborate the positive core – the past, present and future capacities of the whole system – lead to innovations that integrate societal stakeholder issues that are often excluded from consideration in conventional approaches to decision-making.

Wholeness is the final skill needed to master the complex challenge of embedding sustainability across entire business systems. It requires an ability not only to see the big picture, but also to understand the linkages within the system. Donella Meadows, the systems scientist, quotes an ancient Sufi teaching that captures this focus: "You think because you understand one you must understand two, because one and one makes two. But you must also understand and."⁸ Learning systems tools such as feedback loops, lifecycle analyses and

stakeholder value maps can help managers develop solutions that are less fragmentary and contradictory than bolt-on sustainability measures developed in isolation.

From bolt-on to embedded: A growing competitive advantage

We know how to meet the demands of shareholder value – years of managerial excellence testify to this achievement. We know how to create stakeholder value: traditional approaches such as CSR and philanthropy that predictably lead to added costs. We also have a growing number of bolt-on sustainability efforts producing fragmentary and symbolic wins at the fringes of the company.

What we are still discovering is how to meet both shareholder and stakeholder requirements in the core business – without mediocrity and without compromise – creating value for the company that cannot be disentangled from the value it creates for society and the environment. Embedded sustainability is just such a strategy, one that will only grow as today's global challenges continue to deepen.

About the authors

Chris Laszlo and **Nadya Zhenebayeva** are co-authors of the just-released *Embedded Sustainability: the Next BIG Competitive Advantage* (2011), Greenleaf Publishing and Stanford University Press. www.EmbeddedSustainability.com

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Notes

1. "Fish Story: Big Tuna Sells for Record \$396,000", MSNBC news, January 5, 2011