

Why Moving 'down and out' is Positive

Leading the Journey to Responsible Business

by LYDIA J PRICE

Over the past decade corporate responsibility initiatives have mostly looked inward and upstream. Production managers cut energy, waste, and water footprints. Procurement teams were trained and tracked to eliminate corruption. Suppliers were culled to avoid labor practices that risk brand reputations. CSR activities looked outward, but bore only weak links to business strategy and profits. This work all falls under what I would call Responsible Business 1.0, which is motivated by efficiency, risk mitigation, cost control, and legal compliance. That is now changing as pioneering leaders seek new business models and revenue streams from solving global problems, or new markets for the current generation of improved products. The downstream push that I call Responsible Business 2.0 is challenging leaders to upgrade their own competencies and build organizations that drive business today while simultaneously innovating and collaborating on problems that transcend corporate, industry, and national borders.

The historic agreement reached at the 2015 Paris Climate Conference (COP21) to keep global warming below 1.5 degrees offers a case in point. Incremental efficiency gains in existing transportation systems are insufficient to meet the 1.5-degree target, prompting vehicle makers, technology providers, financiers, regulators and city planners to ramp up collective efforts at disruption and innovation for radical de-carbonization. Another example is the fast growing pool of cities and organizations advancing a Circular Economy in which costly and scarce resources stay out of landfill at the end of a product's use cycle by circulating continuously in closed loop systems that conserve or even increase their productive value over time. Experiments in material fabrication, product design, and reverse logistics underpin the early advances of the Circular Economy and suggest entirely new types of alliances, business models and profit streams.

Leading the New Order

Responsible Business 2.0 needs leaders who set visionary goals and take calculated bets that accelerate corporate transformation. The late Ray Anderson – founder and CEO of Interface Carpets – set a 20 year vision of a 'regenerative' manufacturing firm that does more good than harm to the environment. The ambitious goal energized employees and attracted collaborators from science, government, and non-profits to help him forge the path toward that vision. After Responsible Business 1.0 generated process improvements

and material recycling and recovery innovations, the firm embraced biomimicry as a path to product innovation. Interface Carpets today delivers a value proposition of high value, beautiful carpets inspired by, and supporting nature. Anderson's vision of regenerative firms is now echoed by a growing list of leaders committed to Net Positive principles.

Jim Keane, CEO of furniture maker Steelcase, took even less time to galvanize his firm and spur innovation. After a lengthy push to gain cradle-to-cradle certification for a single chair that received kudos at an annual trade fair, he defied the wisdom of both internal and external advisors to block every product in the firm's entire portfolio from entering the next season's fair unless it was fully certified. To deliver a full product line within a year required that every person in the company align behind cradle-to-cradle principles. The resulting change in corporate culture and spurt in innovation positioned the firm well for the future. Technology firms, attracted by the observed innovations, are now collaborating with Steelcase on a new generation of products that use IOT technologies to understand how office furniture impacts worker comfort and productivity.

Understanding Growth Restrictions

Along with vision and a balanced appetite for risk, leaders of Responsible Business 2.0 must have a dynamic and systemic understanding of growth. Executives at Dow, for example, drove interlocking systems of development by investing the cost savings of Responsible Business 1.0 into the innovations that are driving profits for Responsible Business 2.0 and beyond. They carefully channeled funds to keep investor skepticism at bay while supporting those investments that simultaneously generate cash and build social and environmental well-being for the future.

Leaders of stage 2.0 realize that the gains of stage 1.0 typically reside in production and procurement departments and thus will be copied by competitors before long. They invest in stage 2.0 to find value-added innovations and build higher competitive barriers. Chinese manufacturers have lagged behind the west in adopting Responsible Business 1.0, but education from buyers and pressure from government, NGOs, and consumer groups is accelerating their transition. A key factor driving that change is realization that

Responsible Business 1.0 can reduce costs and deliver an immediate boost to the bottom line. The traditional Chinese emphasis on cost and efficiency suggests that Chinese firms will forge ahead quickly on Responsible Business 1.0 once that understanding is more widespread.

The shift to stage 2.0 proceeds more slowly for all firms, as it draws on soft skills related to innovation, marketing, people management, and organizational design. Chinese domestic firms may struggle more than multinationals to master this phase since it runs counter to traditional competitive logic of capturing market share at any cost. Phase 2.0 requires investment and empowering of marketing executives who must be agile enough to pivot when initial moves prove to be wrong. Computer printer maker HP for example found that product sales fell when packages intended to inform buyers of recycled material content instead misled consumers to think that the products themselves were second-hand. Similarly, chemical firms who pioneer the circular economy are lamenting the modest current demand for colored plastics that are more readily produced by recycling processes than white plastics. Investments in marketing are required to craft and deliver value propositions that sidestep buyer fears of lower quality from a new generation of products made with materials that are underutilized and undervalued in today's economy.

Building Organizational Structures

Since NGOs and social entrepreneurs often pioneer social and environmental innovations, the leaders of Responsible Business 2.0 must also partner or support those groups in a way that promotes inbound flows of knowledge, culture and resources. Consumer products firm RB, for example, gained a more holistic and systemic understanding of disease control in developing economies through its multi-year partnership with global NGOs dedicated to eradicating diarrhea. Its early NGO philanthropy evolved into broader disease eradication campaigns that informed later commercial efforts to boost sales of existing sanitation products and inspire innovation for novel OTC diarrhea remedies. Transforming CSR from a business unit that funnels cash and employee time outside the firm to one that also funnels ideas and resources into the firm's commercial operations requires a wise leader's intervention and guidance. More generally stated the leaders of Responsible Business 2.0 must be adept at creating organizational structures that break through silos and promote the human interactions that mitigate risk and spur innovation. One multinational consumer packaged goods firm put marketing and sustainability into the same organizational team as corporate communications, with many people adopting multiple roles. Integrating and aligning the functions that typically manage corporate responsibility with those that typically drive profits helps foster communication and shared learning about this new business landscape.

Besides building organizational structures, the leaders of Responsible Business 2.0 must attract people with appropriate skills and mindsets. Syngenta partnered with universities to create social responsibility competitions that attract some of the most innovative young entrepreneurs globally to create profitable business models for sustainably feeding a world population of nine billion. Not only did the firm gain an inside view of cutting edge ideas from this partnership, they also recruited a number of the pioneering students to work for them. In fact many characteristics of the millennial generation make it naturally well suited to Responsible Business 2.0. Millennials are often open to innovation and interested in CSR. To capture their youthful energies profitably, however, firms may need

innovative recruiting techniques as well as onboarding processes that give this youth decision-making power under the tutelage of experienced executives adept at fiscal responsibility.

The Path to Responsible Business 2.0

Finally, in China, Responsible Business 2.0 requires skillful navigation of sometimes inconsistent government priorities. Visionary leaders advocating growth in Chinese consumerism as a viable path toward economic restructuring must contend with the concomitant growth in energy and water resources needed to produce the consumed goods. No one has solutions to this paradox today, but the search is already underway. Interface Carpet, carrying on Anderson's legacy, is currently seeking ways to make factories mimic natural systems that cleanse water, air and other natural resources before returning them to the environment. The firm's long history as a pioneer of responsible business provides it with the visionary, system-minded, balanced and agile leaders and partners that convince observers it just might succeed.

As you start down the path toward Responsible Business 2.0, consider these questions:

- Are your executives equipped and empowered to make transformation happen and to take risk?
- Is the company prepared to invest financially in strategies that take time to show a return?
- Are you part of multi-stakeholder collaborations undertaking a search for solutions to global problems?
- Does your firm's organizational structure foster innovation and cross communication?
- Are systems in place to find idealistic youth and task them with finding new revenue streams without destroying financial value?

If your answer is no, you are not alone. The companies and leaders embarked firmly on this path currently add up to a mere trickle, but their numbers are rising quickly. What better time than now to join them and prepare for a responsible and profitable future.

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