Sustainable Business Initiatives Will Fail Unless Leaders Change Their Mindset

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Ten years ago, sustainability issues were not considered business issues. But today, most major corporations have a sustainability function. Increasingly, companies are applying data-driven methodologies such as carbon footprinting, product indexing, lifecycle analysis, and ecosystem services valuation to support smarter decision-making and business innovation.

Yet, if the ultimate goal is to bend the arc of unsustainable business practices enough to make a crucial difference, we still have a long way to go.

The accumulating scientific evidence regarding climate change, ecosystems loss, water shortages, and other changes is disheartening. And business leadership knows it. In a recent survey of 1,000 CEOs of large companies in 27 industries across 103 countries, only 32% believed that the global economy was on track to meet the sustainability needs created by a growing population and rising environmental and resource constraints. Far from scaling back on resource use, we’re consuming more resources than ever – even as sustainability mainstreams.
Why?

Some explanations are simple: Gains in efficiencies are almost always offset by increased consumption. The system changes required to make value chains sustainable require unprecedented levels of trust and cooperation among economic actors. Our current tools, methods, and models for sustainable business are not being adopted at the scale and speed needed to shift the numbers noticeably.

We helped create these tools and we have observed the challenges first hand. We have come to realize that these explanations don’t tell the whole story.

A fundamental and often overlooked cause is a leadership mindset that takes only a partial view of the multifaceted relationship between business and nature. This partial view sees business’s relationship to nature as separate, instrumental, and reducible to market transactions alone. This isolated mindset blinds leadership to the necessary innovations required to profitably address the great systemic challenges before us.

With an isolated mindset, leaders focus mainly on the portion of the business-nature relationship that can be quantitatively analyzed. Less tangible social and ecological factors are considered as context – something that is nice but not essential to the decision-making calculus because it is not measurable.

And yet we know that reasoned analysis alone does not always lead to the right set of actions. This is no less true of sustainable business initiatives, where success depends crucially on how effectively a company engages with stakeholders in two kinds of initiatives: non-corporate stakeholders (such as local communities and NGOs) in sustainable development initiatives, and corporate stakeholders (such as employees or suppliers) in corporate sustainability initiatives. In both cases, the success of sustainable business initiatives is driven not just by the extent to which the company can engage the stakeholders’ reason, but also their emotion and other affective drivers.

To do so effectively, corporate leaders need a different mindset. This new mindset would see business, civil society and nature as deeply and existentially interconnected, acknowledging the limitations of what can be formally analyzed or valued in the marketplace. We call this the integrated mindset because it integrates
analytical focus with contextual insights.

First, let’s consider sustainable development. To see why the integrated mindset works better, consider the particular case of a global corporation evaluating the sustainability of major projects in developing countries. Business leaders with an isolated mindset would typically emphasize the economic valuation of natural capital, laws and regulations regarding biodiversity and ecosystems preservation, the availability of economic incentives for sustainable development, return on investment of sustainability efforts, and other factors amenable to quantitative analysis. To such leaders, these are the kinds of factors that will determine the success of their sustainable development efforts.

Leaders with an integrated mindset would consider both the above factors and contextual factors — such as the existential value of nature for many local and indigenous people, the customary rights to ecosystems that are not encoded in the legal systems, the considerable risks related to land tenure and property rights, local perceptions that can damage a corporation’s “social license to operate,” and the impact of poor local and regional governance on sustainable development. While these contextual factors are harder to measure and model, they are nonetheless crucial to engaging effectively with local communities in project design and implementation.

An integrated mindset is especially critical for land-intensive industries like extraction and mining, agriculture, and construction. As the Munden Project reports, the mining giant Vedanta ($12 billion in 2012 revenues) had to abandon bauxite operations in Orissa, India because it did not pay sufficient attention to non-quantifiable contexts. Indigenous groups and other local communities felt shut out of Vedanta’s agreements with the regional government, which agreed to restrict access to land traditionally considered by them to be of cultural and religious importance. The opposition by these local groups led to the abandonment of the project.

And then there is the infamous Madagascar Daewoo project. In late 2008, the South Korean industrial giant Daewoo signed an agreement with the government of Madagascar to eventually lease over 1 million hectares of land to grow food for export. But Daewoo had failed to see the effect it would have on its business context, especially the public perceptions of its project. A new government came to power in early 2009,
fuelled by public anger that the agreement would deprive Madagascar of its ability to feed its own people. The incoming president promptly cancelled the agreement by declaring it to be unconstitutional. The largest farmland deal of its kind in the world at that time, it unraveled in just a few months and destroyed Daewoo’s “social license to operate” in Madagascar.

Second, let’s consider corporate sustainability efforts, where stakeholders such as employees and suppliers need to be fully engaged. The hard reality is that there are only a few prominent companies that are embracing corporate sustainability practices as a central tenet of their business. This is despite a decade-long effort to demonstrate the business case for sustainable business through the many isolated-mindset-based tools and methods useful for formal analysis. Given this lack of progress, an integrated mindset would go further, and ask the following questions:

1. What are the insights and practices that will allow us to scale inspiration and commitment to sustainable business inside our company, industry, and value chain?
2. What are the insights and practices that will encourage a critical mass of corporate coalitions to work together to create a sustainable value chain?
3. How can we create compelling narratives that combine the head and the heart and inspire employees and business partners to embrace sustainable business practices?

Only by integrating our dominant use of analytical tools, methods, and models with the less measurable, more qualitative insights from contextual understanding can we truly tackle the massive challenge of sustainable business in a profitable way. In the absence of an integrated mindset for sustainable business, we will continue to pursue partial solutions that are bound to fail — and lose a lot of shareholder money along the way.

To create truly sustainable businesses, business leaders must evolve to more effectively integrate focused analysis with contextual understanding. As Proust famously said: “The real voyage of discovery consists not in seeking new landscapes but in having new eyes.”
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