

THE FUTURE IN PRACTICE

THE STATE OF SUSTAINABILITY LEADERSHIP



The critical link:

strategy and sustainability
in leadership development

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Leonid Tishkov's exhibition *Arctic Diary* – an extension of his *Private Moon* series – recreates the almost unbelievably beautiful and magical Arctic world.



The critical link: strategy and sustainability in leadership development

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Successfully embedding sustainability principles into corporate practice ultimately requires those principles to be embedded into leadership and management development processes. Before any of this can happen effectively, they have to be integrated into the vision and strategy of the organisation. So how are leaders developing the insight and understanding to build sustainability into strategy? This article examines some of the ways leaders are doing this and suggests that building the kind of long-term vision that is needed involves a different type of leadership development.

Over the past 25 years, business has shifted its response to sustainability issues from a focus on compliance and reputation management to longer-term risk management and building competitive advantage. Today, with many parts of the world facing issues such as food shortages, severe income disparity, volatility in energy and agriculture prices, and the sobering likelihood that global temperatures are likely to increase by 4°C,¹ most leaders of multinational companies – 93% of CEOs, according to an Accenture study² – recognise that sustainability issues should be fully integrated into their strategy. Partly, this reflects a shift in perception

about value creation. Many top executives, according to a recent McKinsey study, believe that sustainability programmes enhance their companies' short- and long-term value through improved brand reputation, cost savings from resource efficiency, and revenue generation potential from new markets and products.³ Yet the research also finds that very few companies are leveraging the sustainability of existing products to find new growth or committing R&D resources to bring sustainable products to market.

72% of senior executives surveyed on CPSL's leadership programmes (already a self-selected audience) believe that sustainability is strongly or quite strongly embedded in the awareness of senior leaders, but only 42% agree that sustainability is to any meaningful extent embedded into existing strategies, plans and processes.⁴

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Integrating sustainability into corporate strategy and practice is still rather slow and piecemeal for most companies. There are many reasons for this, not least the genuine need for short-term stewardship and the not inconsiderable challenge of defining the long term and building it into present-day operations. Perhaps more important is that the market does not yet consistently reward companies that do attempt to invest in creating more long-term, equitable and sustainable growth.

A challenging context

Very few public companies can report that their efforts in sustainability positively impact their share price. Current ownership and investment structures inexorably drive the focus on short-term results; traditional valuation methodologies like discounted cash flow do not adequately incorporate uncertain future market or policy conditions (a conclusion supported by our work with the Banking and Environment Initiative – BEI – and Cambridge's Judge Business School on assessing clean energy investments); there appears to be a lack of real understanding by asset owners of the 'big system' challenges and opportunities created by issues such as climate change; and the system is locked in by embedded inertia and negative lobbying of many economic beneficiaries of the status quo. The result is that many – if not most – company boards still do not see sustainability as an unequivocal strategic priority.

Against a global backdrop of ever-increasing complexity and uncertainty, with continuing market turmoil, a focus on conventional economic growth, and pervasive national, regional and international policy gridlock on climate and carbon, many company leaders feel constrained in taking a longer-term view. The challenges in the system are so great that no

one individual player can resolve them, and the easiest thing for most businesses is to remain focused on the short-term.

A capacity to respond?

Yet despite these barriers and the challenging market conditions, we do see some companies whose leaders have a vision that includes sustainability at its heart. These businesses are making headway in integrating sustainability into their business systems and processes by making real attempts to resolve the tension between short and long-term goals, redefining measures of success and re-examining the nature of their business models to reflect longer-term considerations. Ensuring the right attitudes and behaviours of leaders and employees will be fundamental if these companies are to succeed. The question is, how effective have companies been at integrating sustainability into their core leadership and management development programmes? And to what extent has this integration played its part in shaping organisational vision, and led to a more fundamental incorporation of sustainability into corporate strategy? In order to answer these questions, during 2012 CPSL interviewed 200 senior executives on its leadership programmes and undertook qualitative research with a small group of companies, paying particular attention to senior management development – the findings of which have informed the reflections contained in this article.

Embedding sustainability

Very few of the companies we interviewed had achieved integration of sustainability into the curriculum design of their formal executive development programmes. And even in the few instances where this was the case, the inclusion of sustainability tended to be rather reactive, in the form of bolt-on modules or sessions – typically delivered by

the sustainability director or by an outside speaker – rather than an integrated theme that permeated the whole development process and reflected the world-view of the company and the top leadership vision.

Unsurprisingly, the clearest form of specific leadership development on sustainability is usually aimed at senior executives in the sustainability function (eg sustainability directors or supply chain directors). These individuals often pursue self-selected education and training opportunities that enhance their expert knowledge on sustainability for their sector and connect them to various cross-sector initiatives and networks. The role of these functional experts is often seen as being to create and drive their organisation’s sustainability vision, and to frame arguments in a way that is accessible to senior leadership teams. Occasionally they are called on to contribute to core leadership development programmes, but these tend to focus on technical issues like climate change or labour rights in the supply chain. The risk is these experts are seen as ‘non-core’ – technical, specialist, or even worthy, but rarely strategic.

If companies stand any chance of meaningfully embedding sustainability policies and principles into business practices and performance, they must invest in integrating sustainability into their mainstream leadership and management development programmes. But this will take some time given how strongly leadership development programmes follow the strategy and goals of an organisation, and the limited extent to which sustainability has been integrated into strategy. That is led from the top – from those who set the agenda and determine what people are going to focus on.

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Strategy drivers

Ultimately, a successful sustainability strategy is dependent on leadership vision with buy-in from at least some of the Board or Executive Committee. Sustainability quickly makes its way into strategy when it is clearly material to the business, when it is directly linked to value creation, or when it represents a current business problem that has to be solved. But some of the longer-term sustainability challenges will not immediately show up in this way and require real understanding in the top team about the changing global context, the deep interconnectedness of many issues, shifts in societal norms, and an appreciation of how all this relates not just to the current but also the future prospects for the business.

So how is that vision and understanding created and where does the thinking that drives sustainability into strategy come from? How are leaders enhancing their thinking and capacity to respond to global challenges like poverty, loss of biodiversity and climate change? How do they develop a broader understanding of what society’s general expectations are for their countries and their communities, and from the corporate sector? What are the risks and where are the opportunities? What leads to top-level commitment to sustainability? The answers certainly do not lie in traditional or formal leadership development processes or programmes.

Our experience has shown that, first and foremost, the most progressive leaders on this agenda are personally and consciously tuned into the shifting global context and societal norms, and are dedicated to understanding the implications for their business. As Jeffrey Immelt, CEO of General Electric, put it, “The most important thing I’ve learned since becoming CEO is context. It’s how your company fits in with the world and how you respond to it.” Similarly, Unilever’s Paul Polman stresses the importance of context: “It is very clear that this world has tremendous challenges – the challenges of poverty, of water, of global warming, climate change. And businesses like ours have a role to play in that. And frankly, to me, that is very appealing.”⁵

That thinking is rarely derived from formal leadership development processes, but rather from a complex set of interactions which exposes leaders to the latest thinking and research, deepens their intuitive understanding of the direction of travel, allows them to learn from the wisdom and experiences of others, and opens their thinking to transformative possibilities in the way they might shape their business for the future. In effect, such interactions are the real leadership developmental processes that help the top team guide the company when it comes to sustainability. They are usually external to the company; they are explicitly framed around systems thinking, and shaped by the global context and developments in societal norms. The model below summarises how these processes feed into leaders’ thinking, inform the organisation’s vision and, in turn, drive strategy and business practice.

Mainstream leadership development programmes tend to focus on building

individual leadership skills, on motives, drivers and personal purpose, on managing for results, and in leading and building teams to compete and succeed – in other words, on leadership development that focuses on the individual and reflects existing business strategy rather than shaping it. Putting sustainability at the heart of boardroom decisions is more likely to happen as a result of leaders’ active engagement with peers and other stakeholders in the external business and policy environment, in a whole range of business platforms, leadership forums, tailored sustainability programmes and experiential learning.

Going beyond the conventional

Companies that see sustainability as a competitive advantage know that they need their leaders to be able to think and operate at the cutting edge of the topic, to keep pace with a rapidly unfolding agenda, and to understand the issues before they become part of the mainstream. So they are looking beyond the ‘off-the-shelf’ training or conventional routes



to leadership development which tend to lag behind the latest thinking, and instead are putting their senior leaders through pioneering or specifically tailored learning interventions. The Prince of Wales's Business & Sustainability Programme is a good example of how companies develop their senior leaders' thinking through exposure to state-of-the-art thinking and practice, and unique opportunities for cross-sector, cross-functional learning. Where more in-depth strategy sessions are needed, organisations such as Tata Sons, the African Development Bank and Unilever commission customised programmes for senior leaders, to establish a shared understanding of the global challenges, critically evaluate risks and opportunities for their organisation, and agree how to respond; while in South Africa, companies such as Nedbank, Engen, Sasol and Namdeb join CPSL workshops to identify how sustainability can unlock innovation and new forms of value creation.

Beyond these programmes which create broad awareness and understanding of global challenges, we have also seen that the most proactive leaders go further by personally engaging with sustainability issues through public discourse, collaborative enquiry, strategic partnerships and input into policy development. Each of these engagements is in its own right a powerful form of leadership development on sustainability. They go beyond what can ever be achieved by traditional, internal leadership development programmes – which, by and large, are not intended to deal with global challenges and 'wicked problems' in the first place.

Many leaders keep informed and deepen their understanding about global challenges through participation in focused, outcome-led forums designed to bring about systems-level change, whether it be through policy reform or sector change events. These include involvement in initiatives such as the World Economic Forum, the Clinton Global Initiative or leadership meetings of the World Business Council for Sustainable Development (WBCSD). Others engage in leadership platforms, such as those run by CPSL, to find shared solutions for wicked problems or to join forces to champion policy change. CPSL examples of such business platforms are summarised in **Table 1** below.

Another form of 'learning by doing' is senior leaders' involvement in cross-sector partnerships. These will typically require top leadership commitment and brokering processes which in themselves deepen understanding and build senior leaders' capacity. A recent example of this is GlaxoSmithKline's partnership with Vodafone to harness innovative mobile technology to help vaccinate more children against common infectious diseases in Africa, spearheaded by Sir Andrew Witty, CEO of GSK, and Vittorio Colao, CEO of Vodafone. Another example is the CEO-led Deforestation Partnership in the Consumer Goods Forum (CGF), which has teamed up BEI banking leaders to determine how the banking industry can align with the CGF goal of eliminating Forum's contribution to deforestation in its supply chains by 2020.

These projects will never appear as leadership development processes, but in most successful

instances top-level buy-in – and thus a greater degree of understanding – is a key ingredient. Experiential learning, on the other hand, is a more explicitly recognised form of leadership development. Here, learning is seen as a process of self-discovery, rather than knowledge transfer. Typically, participants are required to respond to a real-world challenge beyond the scope of their experience. It is rare for top leaders to be able to find the time to undergo such a process, but there are cases such as the legendary 2001 Unilever leadership journey to Costa Rica which was seen by many as transformative in the company's response to sustainability. More recently, former CEO of TNT, Peter Bakker, now at WBCSD, required his top leadership team to be directly involved in projects of the World Food Programme as a transformational leadership experience. Similarly, many CEOs have had life-changing insights through participating in The Prince's 'Seeing is Believing' Programme. The key to the effectiveness of such experiential learning programmes is immersion in an unfamiliar and challenging environment that stimulates creative thinking and deep reflection in an unfamiliar context.

Conclusion

Leaders who are most effectively integrating sustainability into their organisation's strategy have a clear vision that is informed by the changing context. These individuals are deriving knowledge, insight and inspiration from a rich and complex set of external interactions with their peers, within a diverse network of stakeholders, and from sustainability learning experiences. They have found new pathways to gather insight beyond the formal leadership development processes offered by their companies.

In future, as sustainability becomes more strategic, we expect mainstream leadership development programmes to change quite radically: to become more proactive (rather than responsive) and to put the individual's development into a much richer global context shaped by social and environmental trends and emerging norms. Until this happens, parallel processes of engagement – effectively 'learning by sharing and doing' – will remain critical to the development of that all-important leadership vision and leaders' capacity to shape the strategy that can respond more effectively to our most pressing sustainability challenges.

¹ Potsdam Institute for the World Bank, 2012. *Turn Down the Heat: Why a 4°C Warmer World Must be Avoided*

² Accenture, 2010. *A New Era of Sustainability: UN Global Compact – Accenture CEO Study*

³ McKinsey, 2011. *The Business of Sustainability*

⁴ Internal survey of 200 senior leaders taking part in CPSL Executive Programmes in 2012

⁵ McKinsey, 2011. *McKinsey conversations with global leaders: Paul Polman of Unilever*

Table 1: CPSL Business Platforms & Leadership Forums

ClimateWise	Brings together 40 of the world's leading insurance companies to reduce climate risk to a manageable level
Natural Capital Leaders Platform	Influential companies addressing the impacts of ecosystem and natural capital degradation on business, customers and society
Banking Environment Initiative (BEI)	CEOs of some of the world's largest banks working to redirect capital towards sustainable, low-carbon growth
The Prince of Wales's Corporate Leaders Group on Climate Change (CLG)	Business leaders from major UK, EU and international companies calling for new and longer-term policies for tackling climate change

The State of Sustainability Leadership is CPSL's annual thought leadership report, delivering insight and challenge from our world-wide network of business leaders, policymakers and academic experts. This year's edition, to be published in full in December 2012, is focused on the theme of business and the long-term – what leaders can do to understand and shape the future. CPSL is an institution within the University of Cambridge's School of Technology. www.cpsl.cam.ac.uk



Having voyaged to the Arctic with Cape Farewell in 2010, a year later Leonid Tishkov created the exhibition *Arctic Diary*, reflecting on his experiences in the far north. "Miracles can happen in this realm: the moon comes down from the heavens, glistening polar bears walk on ice floats, white clouds bathe in the sea together with blue whales, and delicate icebergs float in the sky. The snow there emits light and the melting glacier calls out to us, humans, whispering 'I am still alive...'" CPSL is proud to be collaborating with Cape Farewell, which works with artists and scientists on a cultural response to climate change. www.capefarewell.com