Climate in the Boardroom: Struggling to Reconcile Business as Usual & the End of the World as We Know It

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How does one witness to businesspeople about climate change? Climate change is a problem for the collective and the long term, whereas business often requires a ruthless focus on the individual and the quarter. Climate change is an ethical catastrophe whose solution almost certainly requires a profoundly moral response, but talk of morality in the boardroom is often regarded with profound suspicion. Reconciling these tensions has forced me to navigate between worlds in an ongoing attempt to persuade businesspeople that solving climate change is both an economic and a moral necessity, and that the purpose of business is not only to make money but also to support the institutions that will enable us to build a sustainable world. This has not always been easy.

For many years I was the Eastman Kodak Professor at the Sloan School of Management, MIT's business school. It was a coincidence, but a deeply ironic one, since my research explored the drivers of innovation, focusing particularly on why it was that hugely successful firms like Kodak have so much difficulty responding to discontinuous change. I spent years working with firms like Nokia and General Motors – and indeed even with Kodak – trying to persuade them that embracing change was both central to their survival and an opportunity for profitable growth, while simultaneously writing academic papers about what made it so hard for them to take my advice.

I have always been a passionate hiker and an enthusiastic tree hugger, but for the first fifteen years of my career, it didn't occur to me to bring my passions or my politics to work. I was one of the first women tenured in my department, and I learned early and often that achieving professional success was about mastering the numbers and playing the game. I had a bachelor's degree in engineering from MIT and a doctorate in economics from Harvard. I didn't "do" enthusiasm – or ethics or emotion – at work. I did expertize.

Then a movie changed my life. In 2006 I saw Al Gore's *An Inconvenient Truth*. Gore's message fell on prepared soil – my brother, a freelance environmentalist,

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had been sending me climate change related material for some time – but the film shocked me out of my comfortable assumption that someone else would take care of things. I sent an email to everyone on my contact list telling them that they had to see it and began teaching a course on sustainable business.

In the beginning, I thought of climate change as just another innovation problem: a "Kodak moment" for the planet. It was obviously necessary to decarbonize the global economy, and it was clear that many of the firms who pioneered the transition would do very well. While I was convinced that we would never tackle climate change successfully without appropriately designed and implemented public policy, I believed – and continue to believe – that persuading firms to embrace the reality of climate change and to invest in building carbon-free solutions not only helps drive the kind of innovation we need to decarbonize the world, but also greatly increases the odds of getting appropriate policy enacted.

I started working with Enel, an Italian power company that at the time was building roughly one renewable power plant a week. I became a consultant to Unilever, one of the world's largest consumer goods companies, where Paul Polman, the new CEO, had just announced plans to halve the company's environmental footprint while doubling its revenues. I worked with Walmart, who the year before the release of *An Inconvenient Truth* had promised to transition to 100 percent sustainable energy, to write a case about decarbonizing their supply chain. I partnered with the CEO of one of the United States' largest electrical utility companies to try to persuade his senior team that the world was about to change forever.

It was fascinating. It is now close to conventional wisdom that there is money to be made in addressing climate change, but at the time, it was a new and surprising idea. I learned two things. The first was that there was money lying on the floor. Most firms had never paid serious attention to energy costs or greenhouse gas emissions, since energy was almost free (for the average firm, energy makes up only about 3 percent of their operating costs) and emitting greenhouse gases was not only entirely legal but also completely ubiquitous. It turned out that when firms started paying attention, there were all kinds of ways to reduce emissions and to make money while doing so. Walmart, for example, reengineered its trucking fleet to be more efficient and saved more than a billion dollars a year. Unilever's efforts to become more sustainable led it to become one of the most desirable employers in the world, and its "purpose driven" or socially orientated brands – such as Dove, Life Buoy, and Vaseline – started to grow much faster than its more conventionally managed brands.

The second was that the firms pursuing this kind of strategy almost never claimed that they were doing so because climate change posed a catastrophic risk to the future of civilization and reducing emissions was simply the right thing to do. Instead, they stressed – and stressed again – that their investments were all about growing the bottom line. They talked about the need to respond to risk and to shifts in consumer preferences, and about the potential for technological breakthroughs. They showed financial projections and reassured their investors that they were simply looking to make money. Every successful manager had learned the lesson that I learned to get tenure: don't "do" enthusiasm – or ethics or emotion – at work. Do expertize.

But after hours and out of sight, nearly everyone I spoke to was at least as passionate about solving climate change as I was. In the corridor after the meeting, or over a beer at the end of the day, they talked about their responsibility to their children and the strength and courage it would require to remake the economy. In private, they used terms like "existential risk" and "moral imperative" and harangued their colleagues about their firm's responsibility to the world. But they hardly ever spoke this way in public. One CEO I knew had turned around his entire firm by building a common sense of shared mission to the community and the need to contribute to the public good. There wasn't a single word about it in his annual report.

To be a businessperson is, by definition, to climb into a box whose walls are defined by the bottom line. Only those who can reliably deliver profits are likely to survive in today's ruthlessly competitive world. In the words of an Italian divisional manager whom I pressed on this point some years ago: "You don't understand. I wake up with my number. I go to sleep with my number. I take my number on vacation." Every successful manager learns to make their number – whether it's the quarterly revenue goal or the product-level profit target – lest they face a career-ending reckoning. Yet we must tackle climate change if the economy – not to mention our planet and our society – are to thrive. We must think about the long term and the collective good. We must talk about what is right.

For the last ten years, I have devoted my career to trying to reconcile these perspectives: to acknowledging the very real pressures that businesspeople are under while simultaneously attempting to persuade them to bring their profoundly moral convictions about the need to act against climate change into the mainstream of their professional lives.

I tell them that it is not a question of focusing on either profits or the common good. I try to persuade them that the purpose of business is not only to build thriving and prosperous enterprises, but also to help build a successful, inclusive society on a healthy planet. I argue – often, and in public – that in addition to the strong economic case for tackling climate change, there is a strong moral case: that the commitments to prosperity and freedom that are the deepest normative commitments of free-market capitalism require that business leaders bring their passionate concern for the future of the world into the heart of their work. Talking about the bottom line should not preclude having a conversation about ethics. Rather, it should require it.

It is easy to assume that running a business is a mechanical affair: that firms simply weigh up the costs and benefits of any particular course of action and decide to pursue the most profitable option. But in reality, any important decision is fraught with uncertainty, and managers make choices all the time as to where to focus their attention, how strongly to weigh different pieces of information, and what to expect from the future. This is particularly the case when firms are considering tackling climate change.

Take, for example, the current turmoil in the automotive industry. Sales of electric vehicles are currently only a small fraction of total automobile sales, but they are growing very fast. Every major automobile company believes that eventually the entire automobile fleet will be electric. The question is only (!) how and when. No one yet knows quite what consumers will want from electric vehicles. Will they demand fully autonomous vehicles owned and controlled by others, so they can simply summon a car to their door when they need it? Will car users welcome "cars" that are actually moving gyms or offices? Or will they want exactly what they have now, just with an electric powertrain? No one knows when the technologies necessary to realize any of these visions will fully mature, how long it will take to decarbonize the power grid, or when storage and charging technology will be sufficiently far advanced that using an electric vehicle will be merely cleaner and quieter than using a conventional car. It is one thing to agree that there is a long-term opportunity in electric vehicles, but in the face of this kind of uncertainty, it's quite a different proposition to decide to invest billions of dollars today in order to take advantage of it.

It is in these moments of uncertainty that I have found the opportunity for witnessing. I have spent much of the last ten years alerting managers (and MBA students) to the opportunities that are out there, to supporting them in thinking carefully about how the future might be different, and to trying to persuade them that when there is real uncertainty, it is not only appropriate but absolutely necessary that they bring their sense of what is "right" to bear.

A few years ago, for example, I was invited by the CEO of a major power company – I'll call him Jim – to lead a day-long retreat for his senior team. He had made no secret of his beliefs, writing and talking so passionately about the need to address climate change that his team had begun to suspect that he was more interested in his legacy than in the health of the business. He asked me to help him persuade the group that it made sense to invest in renewable energy. So, I became an interpreter. I doubled down on the business case for the investment – which was strong but implied taking on a fair degree of organizational and strategic risk – and I stressed the number of other firms that were finding profitable ways to embrace renewables. But I also encouraged Jim to talk about the moral case for making the investments, and the way that doing so was in line with the deepest values of the organization. Once it was clear that Jim's vision was compatible with the language of business, the team became quite enthusiastic about the idea and they became something of a leader in the space.

For thirty years, my scholarly research has explored the strategic and organizational factors that make it possible for some firms to embrace the future while others falter and die. I have learned that, as one might expect, building the economic case for change is critical. So is managing the organizational dynamics of running the old business while building the new. But again and again, it seemed to me, the firms that were able to change found the courage, the mutual trust, and the sheer persistence required to do so in their embrace of a shared purpose that was about more than making money.

I once worked with a pharmaceutical company that was exploring pioneering the use of diagnostic tests in association with their drugs, so that doctors could be sure a particular patient would respond to a particular drug. The head of marketing vigorously objected to the idea, pointing out that it would significantly risk overall sales. "I know," the CEO replied, "but would you rather go on selling drugs that don't work to sick people?" In reframing the decision as one that was about both economics and ethics, he was able to take the entire firm through a difficult and risky transition.

I write papers about this firm and others like them, exploring the role of "relational contracts" – a particular form of trust – in increasing productivity and creativity and suggesting that one of the best ways to maximize profits is to care about more than maximizing profits. I spend more and more time thinking and writing about ethics. There is a deep contradiction at the heart of the injunction to maximize shareholder value. For years, business schools told their students that the social responsibility of management was to maximize profits; that to do anything else was to betray their responsibility to their investors and to interfere with the operation of the free market, jeopardizing the prosperity that the market is designed to produce. If firms have a moral duty to maximize shareholder value, it would seem that they have a duty to do *everything* they can to raise profits, including, for example, supporting active climate denial and lobbying hard to forestall climate regulation.

But free markets only maximize prosperity when "externalities" such as climate change are properly priced. Every coal plant in the world causes much more damage – measured in terms of the effects of their emissions on both health and the climate – than the social value they create. If firms can dump greenhouse gas emissions into the atmosphere for free, there is no guarantee that the operations of the market will maximize social welfare. From this perspective, businesspeople have a duty to ensure that carbon is properly priced, while doing all they can to help decarbonize the world's economy. This implies, for example, that it can't be the case that firms have a moral duty to do all they can to flood the political system with money in the service of delaying carbon regulation.

As I've grappled with this issue, I have increasingly focused my research on the troubled intersection between business and politics, trying to understand those historical moments in which the private sector has played a positive role in building strong, democratic institutions, while simultaneously working with practitioners to explore what such a movement might look like today.

It has been a wild ride. There were only twenty-eight students in the first meeting of "Reinventing Capitalism," the class I developed to support MBA students in thinking about climate change. Last semester, there were nearly three hundred. Together with a group of passionate and inspiring colleagues – many of whom have been at this for far longer than I have – I've seen both business and business school education begin to change in profound and hopeful ways. My professional life is richer and more interesting than it has ever been.

I am still sometimes tempted to downplay the fact that climate change is an existential crisis, requiring both a radical rethinking of the moral purpose of business and the willingness to act on our values in the face of doubt and hostility. Sometimes when I'm standing on a stage in full regalia (stylish black jacket, colorful scarf, the highest heels I can manage) in front of a roomful of powerful people, I'm tempted to tell them that they should try to solve the world's problems simply because it will make them all more money. It has the great virtue of being both true and what they want to hear. I worry that if I start talking about "values" and "purpose," they will write me off as a simpering female who doesn't understand the hard realities of life in the business world.

But I know that simply running the numbers will never get us where we need to go. I know that genuine progress requires a commitment to doing the right thing, and to squishy concepts like purpose and meaning. Sometimes I envy those who can ignore what is happening to our only planet, confidently claiming that it's not their job to think about it. But alongside the waves of profound despair that visit me regularly, there is a fierce joy in insisting that change is possible. There are many worse ways to spend one's time than trying to shift the entire ethical framing of capitalism, particularly if you are one of thousands of people with the same idea. A CEO with whom I worked recently described to me a conversation he'd had with two of his largest investors:

> I gave them the usual spiel about how our operating margins were up and how the investments we'd been making for growth were paying off, and they asked me the usual questions. Then I asked them if they thought climate change was real and, if it was, if the world's governments were going to fix it. Yes, they said – and no, governments weren't going to fix it. There was a pause. I asked them if they had children. They did. So I said, "If government isn't going to fix it, who will?" There was another pause. Then we started a real conversation.

Change is slow – but it is coming.

ABOUT THE AUTHOR

Rebecca Henderson, a Fellow of the American Academy since 2018, is the John and Natty McArthur University Professor at Harvard University. She is also a Research Fellow at the National Bureau of Economic Research. She is the author of *Reimagining Capitalism in a World on Fire* (2020) and editor of the volumes *Leading Sustainable Change: An Organizational Perspective* (with Ranjay Gulati and Michael Tushman, 2015) and *Accelerating Energy Innovation: Insights from Multiple Sectors* (with Richard G. Newell, 2011).