

LEADING SUSTAINABILITY TRANSITIONS

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We are living in an age of disruption—a seemingly permanent state of transformation and transition in which business leaders are facing disruptive forces from several different directions. On the one side are the rapid technological innovations that have enabled the likes of Netflix, Uber, Amazon, Airbnb, Spotify, and WhatsApp to disrupt business models and challenge incumbents. On the other side is the disruptive impact the war in Ukraine is having on the price and security of energy and food supplies, inflation, and the cost of living. And all this is occurring just as we have begun to catch our collective breath and pick up the pieces after the once-in-a-century disruption caused by the COVID-19 pandemic.¹

In this context, it is increasingly difficult for business leaders to deal with the climate and biodiversity crises, as well as the wider environmental, social, and governance (ESG) issues around sustainability. Leaders also are facing significant human rights challenges, which are yet another source of disruption. One recent study by KPMG found that 86 percent of CEOs fear that a recession will occur within the next 12 months. As a result, half said they were planning on “pausing or reconsidering their existing or planned ESG efforts in the next six months”; 34 percent had already done so.²

Keeping ESG issues high on the agenda may have become more difficult, but the imperative to do so remains as pressing as ever. Across the globe we con-

tinue to see more and more temperature records being broken and to experience the devastating effects of extreme heatwaves, wildfires, crop failures, storms, and floods. Consumer goods company Unilever, for example, claims that disruption of agricultural supply chains due to the climate crisis already costs the company €300m (about US\$320m) a year.³ As the authors of the February 2022 Intergovernmental Panel on Climate Change report concluded, “The cumulative scientific evidence is unequivocal: Climate change is a threat to human well-being and planetary health. Any further delay in concerted anticipatory global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all.”⁴ Clearly, the

threat of climate change is urgent and existential.

However, it's not just climate change we have to be concerned about. The October 2022 *Living Planet Report* shows that animal populations have experienced an average decline of nearly 70 percent since 1970. We've all grown up hearing about endangered species and that certain animals are on the brink of extinction, but the scale of this problem has reached epic proportions. Scientists now speak of living through the sixth mass extinction, a period of geological time in which a high percentage of biodiversity or distinct species die out; the fourth and fifth mass extinctions, for example, saw the death of the dinosaurs. This mass ecosystem collapse is being driven by the clearing of wild spaces for agriculture, habitat loss due to climate change, and pollution from industrial chemicals, plastics, etc. It is an existential threat as significant to our way of life as the climate crisis.⁵

The world is also dealing with multiple human rights tragedies. One area of concern is the number of people trapped in modern slavery, which has increased significantly in the last five years.⁶ In 2021, an estimated 10 million more people were trapped in modern slavery worldwide than in 2016. According to the most recent study by the International La-

bour Organisation (ILO) and Walk Free Foundation, a total of 50 million people were being held in modern slavery in 2021, 28 million in forced labor, and 22 million in forced marriages.⁷ One flashpoint of modern slavery for business leaders is the unfolding of a potential genocide in Xinjiang, Western China, which is linked, among other things, to forced labor in the cotton supply chain. As the Me Too and Black Lives Matter protests continue to reverberate, the ongoing systematic discrimination against women and Black people and other people of color remains a significant human rights concern around the world.

A BUSINESS IMPERATIVE

Business leaders need to keep their focus on these disruptive ESG challenges and work collaboratively toward achieving the 17 UN Sustainable Development Goals—the global framework for response to these ESG challenges. This is critically important not only for their organizations but for society as a whole.

Many areas are already in the midst of sustainability transitions, the “fundamental transformational processes through which established socio-technical systems shift to more sustainable modes of production and consumption.”⁸ This disruptive change is occurring in a wide range of sec-

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tors, including energy, agriculture and food, chemicals, shipping, water and sanitation, finance, health, telecommunications—the list goes on.

Around the world, the cost of renewable technologies is tumbling. For example, the cost of offshore wind energy has fallen 61 percent over the past ten years, the cost of solar has fallen 89 percent, and the cost of batteries 83 percent.⁹ This is disrupting incumbents in the energy sector and supplanting the generation of electricity by fossil fuels. In the area of transportation, electric vehicles are disrupting incumbents in the internal combustion engine automotive sector; electric vehicle sales are up at a compound annual growth rate of 68 percent in the same ten-year period, and change is also coming to trucks, shipping, and aviation.¹⁰

Also under way is a transition from gas boilers to electric heat pumps in residential and commercial buildings, and similar changes are occurring in the chemicals, cement, and steel sectors. We are also seeing patterns of disruption in food production, where substantial growth in plant-based foods and protein alternatives is disrupting meat-based food producers.¹¹

LEADING DISRUPTION

Business leaders need to understand and navigate these disruptions and help their companies adapt; no one wants to be the next Kodak, which saw disruptive change coming but failed to act. Business leaders also need to accelerate these transitions before it's too late to make a difference for the sake of humankind. But how can business leaders anticipate the disruptions that are coming to their sectors and their businesses? How can they take the lead in these disruptions for the good of their businesses and for the good of us all?

On one level, leading disruption involves deploying a range of tried and tested

strategic foresight tools and leadership skills. This means deploying strategic foresight tools to gather data to anticipate how disruption could influence both the sector and one business, choosing how to respond, and involving people from across the business and the ecosystem in decision-making. However, it's not enough to recognize the need to adapt and take a different path; it also means employing the leadership skills needed to bring along a critical mass of people from across an organization or ecosystem and enable them to understand what is needed, and then to move ahead together. The leadership skills needed in these circumstances include creating a space that encourages learning, trust-building, and taking action among stakeholders who share a common goal. This is what some have characterized as systems leadership.¹²

However, on another level, the principles business leaders need to guide their decision-making while navigating these disruptive sustainability transitions have shifted. In order to lead the navigation of disruptive changes that protect both the interests of one organization and the interests of humankind in general, business leaders will need a shift in mindset.

In the model that has dominated recent generations of business leaders, their job was to maximize shareholders' financial return on investment to within the confines of the law. Bigger social issues were someone else's job.¹³ That model worked in a context where companies could be regulated effectively, and where the government could change a law if necessary to address a social issue.

Since the initial surge of globalization in the 1990s, when businesses began operating across multiple jurisdictions and were growing in size and influence, that old model has broken down. With today's complex global challenges, governments can't be relied on to provide the appropriate regulatory frameworks to deal with

complex challenges on their own. This has led to increased expectations from multiple stakeholders—end consumers, direct customers, investors, employees—that business leaders will play an important role in tackling today’s global challenges.

Business leaders no longer have a simple fiduciary duty to maximize shareholders’ return on investment; theirs is now a multi-fiduciary obligation to create value for several stakeholders simultaneously.¹⁴ The goal is not simply to maximize return on investment but to maximize their contribution to the Sustainable Development Goals. They must take the lead in acting not only within the confines of the law but within those of the global norms put forth in UN treaties and agreements, including the Universal Declaration of Human Rights, the Paris Climate Agreement, and the ILO Core Labour Standards. This applies whether or not these agreements have been enacted into law in individual countries where the company is operating.

A NEW SET OF PRINCIPLES REQUIRES A NEW SET OF SKILLS

This new set of principles requires well-developed skills for leading cultural change within an organization and across industry ecosystems, as well as skills in advocating for this kind of leadership approach when facing opposition from those operating with the previous mindset.

In our research with business leaders at the forefront of these transitions, various themes stand out. For example, on leading cultural change within an organization, senior executives have increasingly found themselves needing the skills to bring about a transition in thinking in order to embed this new set of principles across their organizations as the cultural norm. This has involved the skills to construct new narratives about how they talk about

the purpose of the work their employees are involved in. This includes how the purpose links to the goals a company sets, what people are held accountable for, and how they are rewarded. It also involves paying close attention to language and symbols. People pay attention to what their leaders ask questions about, whom they champion in the stories they tell, and what they prioritize in terms of their own time, all of which influence the extent to which others believe what their leaders say and even how much confidence the employees themselves feel in leading from a different set of principles.

In addition to leading change within their organization, senior executives have found themselves facing the expectation that they will take a leadership role in their industry sector ecosystem, which has brought to the fore the importance of certain skills, such as how to partner effectively with unconventional stakeholders—competitors, trade unions, and NGOs, for example; how to lead change in the behaviors of suppliers, customers, and end consumers; how to engage with policymakers to advocate for more ambitious government regulatory interventions that help to accelerate sustainability transitions in different sectors; how to engage meaningfully with multiple constituencies and relate well with different actors across society; and how to bring a constructive point of view to public and political debate.

Finally, there are hopeful signs that at least some senior executives have taken the lead in navigating disruption and in guiding by a new set of principles. They clearly have recognized the business, environmental, and societal imperatives for change and have started to shift their mindsets and practices accordingly. However, too many leaders are still stuck in their old perspectives. Business schools, management educators, and executive coaches have a key role to play in helping

leaders think more broadly about how to create a better future, but ultimately the buck stops with the leaders themselves. They need to realize that leading the way through sustainability transitions is about both seizing commercial opportunities and doing the right thing.

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