# THE 21ST CENTURY SUSTAINABLE ENTERPRISE FORCE FIELD

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Sustainability Advantage™

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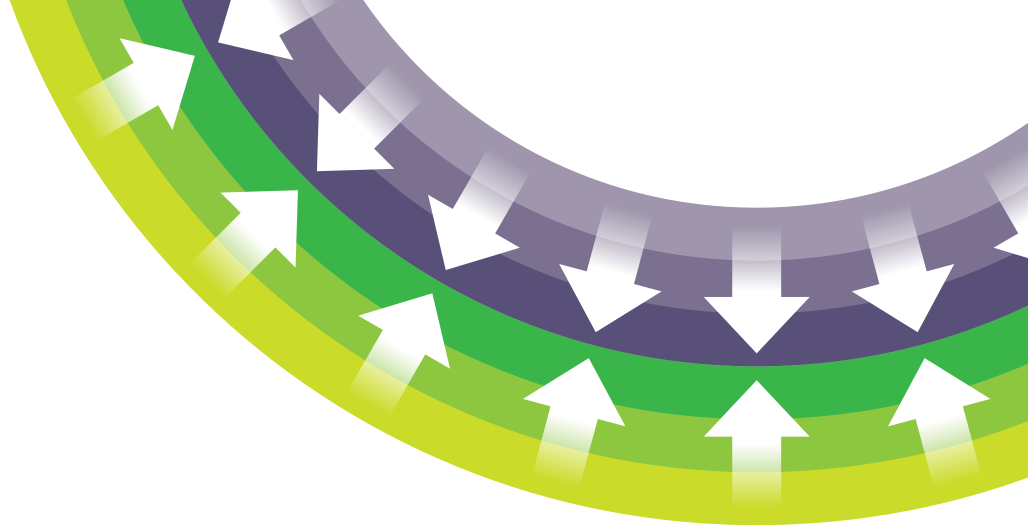
THE 21ST CENTURY
**SUSTAINABLE ENTERPRISE FORCE FIELD**



# Introduction

Human civilization is at a pivot point. Humankind faces concurrent clusters of global crises: global environmental crises (e.g., unchecked climate destabilization, accelerating biodiversity collapse); global social crises (e.g., the devastating COVID-19 pandemic, racial injustices); and global economic crises (e.g., domino business closures, dangerous levels of unemployment). Global socio-economic systems that enabled these crises are not fit for the future.

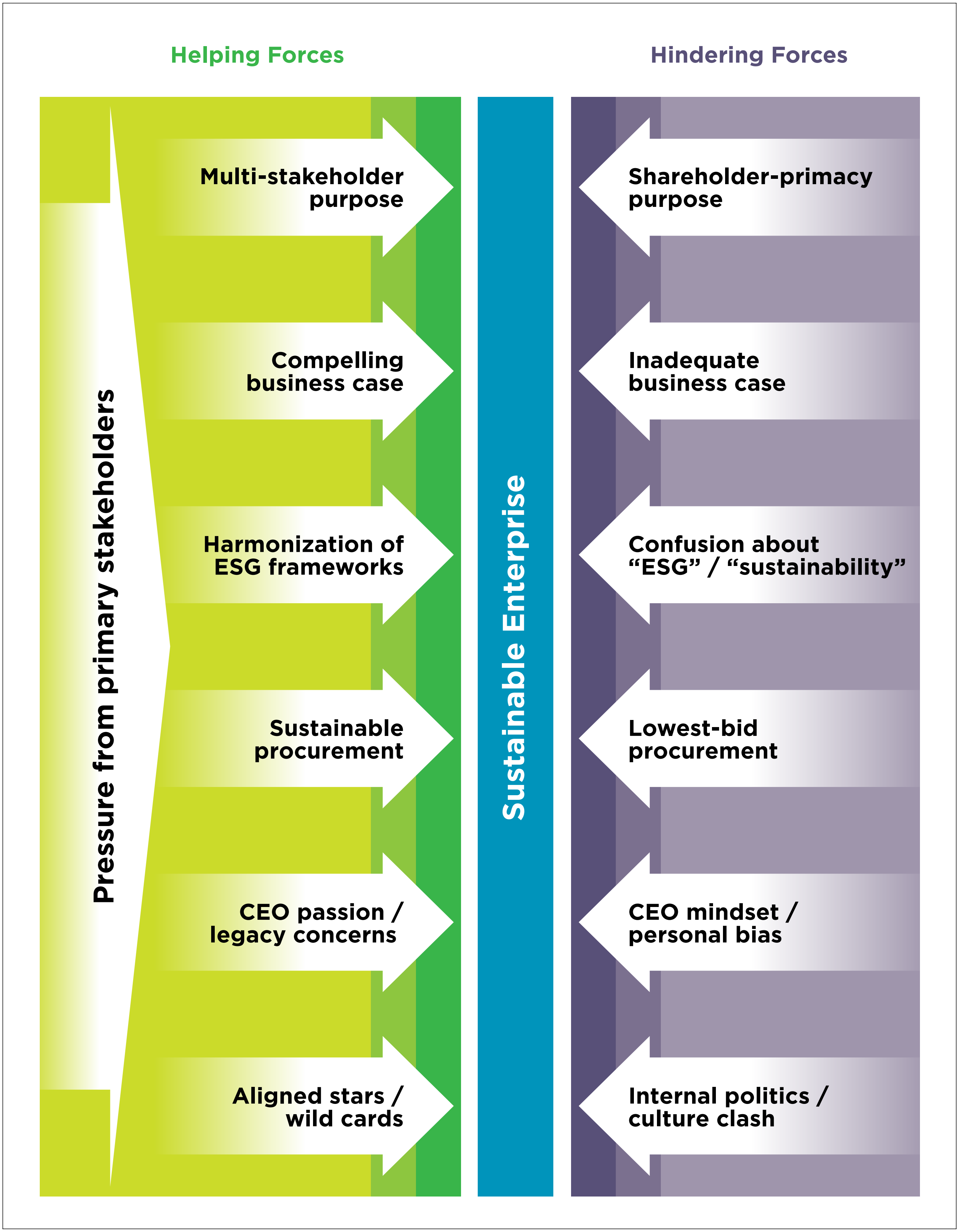
When crises strike, society expects governments to help. The injection of one-time emergency relief is appropriate in the wake of earthquakes, hurricanes and pandemics. However, society's most challenging problems are too systemic to be solved by governments and civil society alone. Actions by the for-profit corporate community are required if systemic changes are to endure. But, corporations have been reluctant to help with the required transformations. They profit from the current system and changing it could jeopardize their continued success.

It is becoming clear that the wake-up call for humanity is a wake-up call for business. As governments help boot-up a post-pandemic economy and pledge to act on the climate crisis, companies require sustainable business models that will enable them to thrive in a more just, inclusive, resilient, low-carbon and circular 21st century economy. Some corporations are leading by example and are being rewarded by their stakeholders for reducing their negative impacts on the environment and society, while undertaking restorative projects. What inhibits other companies from adopting better environmental, social and governance (ESG) practices and business models that embed their stewardship of society and the environment? What drivers might overcome those inhibiters? Are there new, helping forces in play in the 21st century that can be leveraged to build momentum towards sustainable enterprises.

Force Field Analysis is a useful way to inventory forces that drive change toward a desired state, as well as forces that resist such change. The desired state for a company is being a truly sustainable enterprise that partners with other organizations to lead society to a more just, safe, healthy and resilient future. The 21st century sustainable enterprise force field is a dashboard of sustainability-related forces that affect companies. Some drive a business to be more sustainable, while other forces push back and protect the status quo, as illustrated in Figure 1.

The figure shows the superset of forces in the sustainable enterprise force field. Figure 1 provides the topical outline for this paper. Each hindering force will be followed by its offsetting helping force. First, because it amplifies all the other helping forces, the significance of the new "Pressure from primary stakeholders" helping force will be explained.

**Figure 1: The 21st Century Sustainable Enterprise Force Field**

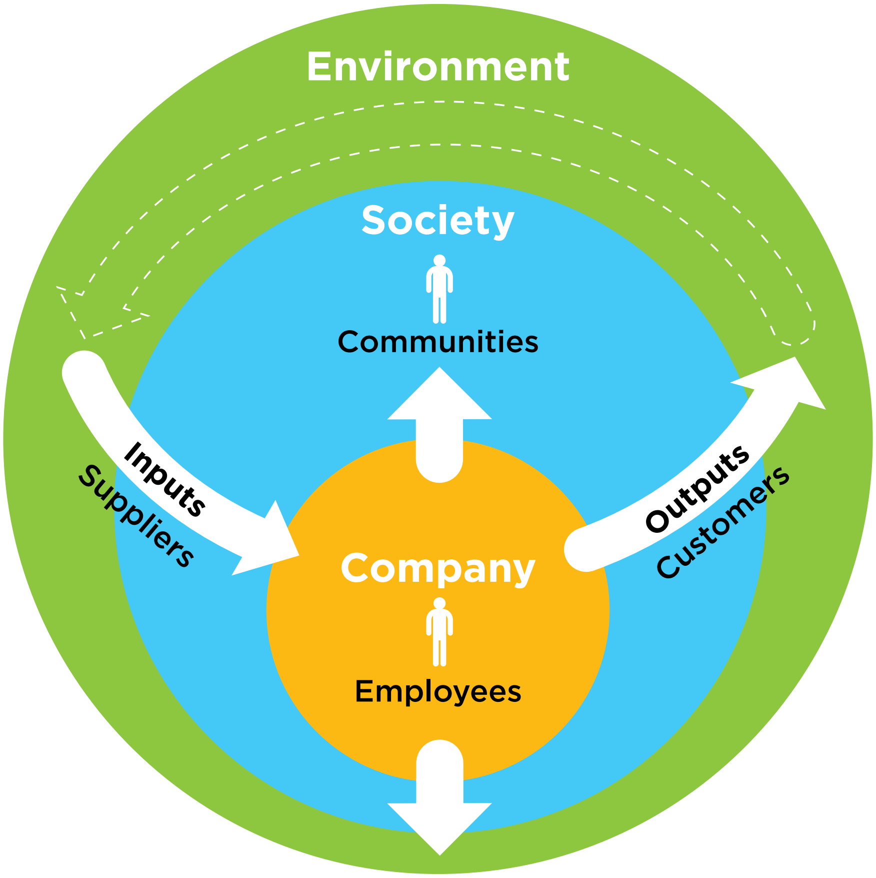


# Helping Force:
# Pressure from primary stakeholders

A stakeholder is any entity or party with an interest or stake in the operations of a company. That is, it is any entity or party that can affect, or be affected by, a company's activities. The distinction between primary and secondary stakeholders acknowledges that some stakeholders are more influential than others. Primary stakeholders are vital to the business's continued existence. They include shareholders / investors, bankers / lenders, customers, suppliers, and employees.

In the 21st century, the environment also qualifies as a primary stakeholder — it can impact, or be impacted by, the company's activities and it's vital to the firm's continued existence. As shown in the nested-interdependencies model in Figure 2, and as represented by the central graphic used in the Future-Fit Business Benchmark, society and business are wholly owned subsidiaries of the environment. If the environment goes out of business, society and companies go out of business.

**Figure 2: Nested Interdependencies**



Secondary stakeholders are those who may affect the company's relationship and reputation with primary stakeholders. Examples are: non-governmental organizations (NGOs), academics, economists, scientists, competitors, government regulators, community groups, consumer groups, mainstream media, and social media. Historically, they have advocated for the helping forces shown in Figure 1. More recently, primary stakeholders have joined and amplified the voices of secondary stakeholders, which is why the "Pressure from primary stakeholders" is shown as the driver of the other six helping forces in the force field. It is a megaforce.

As sources of capital, investors are primary stakeholders in a capitalist system. When investors receive dividends, they benefit from company profits. They also benefit when the value of their shares increases. Understandably, they push back on anything that they perceive as a threat to company profits or share price. Until two decades ago, mainstream investors believed the myth that including environmental and social factors in their investment decisions would prejudice financial returns and could even be in breach of their fiduciary duty as trustees of funds. Both myths have been conclusively dispelled.

Investors now realize that sustainable companies outperform their counterparts. More than 70 percent of 2,000 academic studies find a positive relationship between sustainability scores and financial returns, whether measured by equity returns or profitability or valuation multiples. This realization has led to an explosion of interest in investing in the most sustainable companies. U.S. assets under management using sustainable investing strategies account for 33 percent of the $51.4 trillion in total U.S. assets under professional management.

When investors discover that a company's environmental and social impacts are correlated with bottom-line and market outperformance, shareholders become supporters of sustainable enterprise business models, rather than resistors. When sovereign wealth funds, institutional investors and private equity providers require disclosures of environmental, social and governance (ESG) performance as part of their due diligence process, they pressure companies to improve their environmental and social impacts.

Bankers and other lending institutions are following suit. Evidence is emerging that a better ESG score translates to about a 10 percent lower cost of capital, since the risks to the company's social license to operate and its ability to repay its debt are reduced by strong attention to environmental and social issues.

As will be shown, other primary stakeholders, like big customers, can also amplify helping forces.

# Hindering Force: Shareholder-primacy purpose

A company's purpose answers the question, "Why does the organization exist?" For years, the purpose of a corporation has been to "maximize shareholder wealth." Any 20th century B-school graduate can recite that three-word mantra. It was famously formulated by Milton Friedman in his 1970 essay in the New York Times: "The Social Responsibility of Business Is to Increase its Profits." For a half-century, that headline phrase has been used to support "shareholder primacy" as the bedrock of neoliberal capitalism. It makes clear that the sole purpose of a business is to increase profits so that it can enrich its shareholders / owners / investors. The implicit assumption is that the social responsibility of a business is to grow indefinitely, to produce more and, consequently, use more resources. Corporate success is measured by how quickly it can convert natural resources to money, using the cheapest possible labor.

The profit maximization orthodoxy of the past half-century is deeply entrenched in executive suites and boardrooms. When executive compensation systems include shares and stock options, and when directors' portfolios include company shares, shareholder primacy merges with executives' and directors' self-interests. Maximizing shareholder wealth has become a personal purpose for many CEOs and directors, reinforced by the advent of stock-based incentive compensation schemes for executives in the 1990's.

In the world of business, purpose drives everything. It determines what a company measures, manages, recognizes and rewards. If the purpose of the corporation is to maximize short-term profits on behalf of its shareholders, then its accounts only track contributions to profit and the balance sheet; it manages efficient production systems to ensure maximum contributions to profits; it races to the bottom to find the cheapest labor; and it rewards executives who profitably grow the company. It can rationalize systemic social injustices, slave labor, stolen land, economic exclusion, and treating ecosystems as free for the taking — all in the name of growth and maximizing shareholder returns.

In a company with a shareholder-primacy purpose, the board has a duty of care to ensure that the interests of shareholders are paramount. Winning means making more profit than last year and growing faster than competitors. The company's annual report is designed to reassure shareholders that the company is fulfilling its purpose — in the short term — and being good stewards of its investors' capital. In a shareholder-primacy economy, the game of business is simple and focused. As Steven Prokesch stated, a corporation "eschews loyalty to workers, products, corporate structures, businesses, factories, communities, even the nation. With survival at stake, only market leadership, strong profits and a high stock price can be allowed to matter."

# Helping Force: Multi-stakeholder purpose

The shareholder-primacy purpose has worked well for decades … for the 1 percent that reaped its rewards. It failed for the other 99 percent. The immoral and growing gap between the haves and have-nots has exposed the myth of trickle-down economics. The 2008 financial crisis revealed the perils of short-termism and a myopic focus on shareholders at the expense of other stakeholders. Meanwhile, in the court of public opinion, companies are now being held accountable for environmental, social and economic damage. They have squandered natural, human and social capitals to produce physical and financial capitals.

News reports point to corporate irresponsibility as a root cause of climate change, abetting an insatiable demand for fossil fuel-based energy and materials. In the court of law, some of the biggest oil and gas companies are being sued by cities, states and young people for knowingly abetting climate change and jeopardizing their future wellbeing. The long-term environmental, economic and societal harms caused by shareholder primacy are becoming impossible to ignore.

This has led to calls for a multi-stakeholder corporate purpose. Acceptance of the Milton Friedman doctrine has been widely eroded. A growing consensus of business leaders, economists, academics, NGOs, and policymakers have embraced multi-stakeholder capitalism as the key to sustainable, broad-based prosperity and economic justice. They argue that corporations have lost sight of their original purpose: "to serve the public good." They advocate for stakeholder-centric capitalism in which corporations are required to contribute to the common good, as was originally intended when corporate chartering laws were first enacted in Europe over 400 years ago.

A corporate purpose of "maximize stakeholder wellbeing" is replacing the "maximize shareholder wealth" purpose. A multi-stakeholder purpose changes everything. It redesigns a company's business model. It changes what the company manages, measures, rewards and discloses. It changes its governance practices so that the board's duty of care includes consideration for the interests of all stakeholders. It shifts the focus of corporate strategies toward healing communities and regenerating ecosystems. It changes its definition of "materiality" from considerations that might influence an investor's decision to broader considerations that might affect stakeholder wellbeing. Characteristics of a company with a stakeholder-primacy business model are contrasted with characteristics of a company with a multi-stakeholder business model in Figure 3.

**Figure 3: Shareholder-Primacy vs Multi-Stakeholder Business Models**

| Characteristic | Shareholder-Primacy Business Model | Multi-Stakeholder Business Model | Stakeholders Impacted | | | |
|---|---|---|---|---|---|---|
| | | | Env | Emp | Soc | Shr |
| Purpose of the firm | "Maximize shareholder wealth" | "Maximize stakeholder wellbeing" | | | | |
| Strategic focus | Growth; short-term | Regeneration; long-term | X | X | X | X |
| Bottom lines | Profit | People, planet, profit | X | X | X | X |
| Capitals / Value creation | Financial | Natural, human, social, manufactured, financial | X | X | X | X |
| Executive compensation | Based on financial performance | Based on financial & non-financial performance | X | X | X | X |
| Reporting / Transparency | Mandatory financial reports; Optional non-financial reports | Mandatory financial & non-financial reports | X | X | X | X |
| Environmental & social impacts | Externalized; unmanaged; invisible in business model | Internalized; managed; visible in business model | X | (x) | X | (x) |
| Production flow | Linear: Take-Make-Waste | Circular: Borrow-Use-Return | X | (x) | (x) | (x) |
| Taxes paid | Practice aggressive tax avoidance / use tax havens | Pay all intended taxes, on time | (x) | (x) | X | (x) |

Env: Environment Emp: Employees Soc: Society Shr: Shareholder (x): Indirectly impacted

Launched in 2004, Corporation 20/20 advocates for a multi-stakeholder business model with these six principles for corporate redesign:

1. The purpose of the corporation is to harness private interests to serve the public interest.
2. Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.
3. Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs.

4. Corporations shall distribute their wealth equitably among those who contribute to its creation.
5. Corporations shall be governed in a manner that is participatory, transparent, ethical, and accountable.
6. Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights.

Recently, primary stakeholders with clout, like investors, are amplifying the call for companies to adopt operating systems powered by a multi-stakeholder purpose and Corporation 20/20 principles. At the beginning of each year, Larry Fink, CEO of BlackRock, sends a letter to CEOs of companies in BlackRock's portfolio of $7 trillion of assets under management. In 2018, Larry Fink had an unusual message: it's now time that companies have a social purpose. "Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders." In 2019, his letter went further and stated that social purpose is the "animating force" for profits.

*"I wrote last year that every company needs a framework to navigate this difficult landscape, and that it must begin with a clear embodiment of your company's purpose in your business model and corporate strategy. Purpose is not a mere tagline or marketing campaign; it is a company's fundamental reason for being — what it does every day to create value for its stakeholders. Purpose is not the sole pursuit of profits but the animating force for achieving them ... Profits are in no way inconsistent with purpose — in fact, profits and purpose are inextricably linked. ... Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that go against the best interests of stakeholders. Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company."*

An NGO activist could not have said it any better. Blackrock is not an activist investor. Blackrock is the world's largest mainstream manager of investments. In 2019, like-minded investment managers like Vanguard, State Street and CalSTRS, with combined $15 trillion of assets under management, sent similar year-beginning guidance letters to the CEOs of companies in their portfolios. Now, Blackrock and the others are under scrutiny to ensure that they reconfigure their portfolios accordingly.

Business Roundtable (BRT) members are CEOs of the largest 181 corporations in the U.S.A. They have clout in the business community. In August 2019, the BRT acknowledged that 20th century shareholder-primacy capitalism has failed and declared that the 21st century corporate purpose is to maximize stakeholder wellbeing. The 2019 statement released by the BRT lists the six primary stakeholders to which corporations should deliver value: customers, employees, suppliers, communities, the environment and shareholders.

In December 2019, the World Economic Forum (WEF) issued the Davos Manifesto. It declared that, "the purpose of a company is to engage all its stakeholders in shared and sustained value creation. In creating such value, a company serves not only its shareholders, but all its stakeholders — employees, customers, suppliers, local communities and society at large."

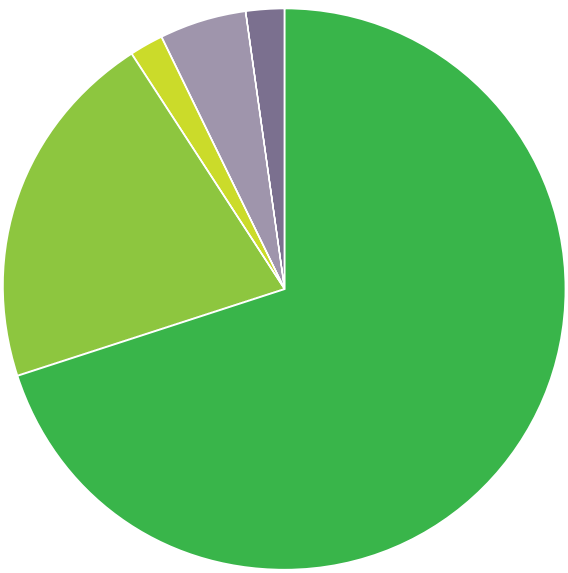
Pressure by primary stakeholders — including institutional investment managers, the BRT and the WEF — amplifies the force of a multi-stakeholder purpose. As shown in Figure 4, this force is convincing a growing majority of corporate directors. A 2020 survey of over 300 directors in a world-wide, cross-sector group of companies showed that 81 percent agree or strongly agree with the Davos Manifesto (see Figure 4).

**Figure 4: Director Views on the Davos Manifesto**

**Do you agree with the following statement from the World Economic Forum's "2020 Davos Manifesto"?**

*"A company is more than an economic unit generating wealth. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social, and good governance objectives."*

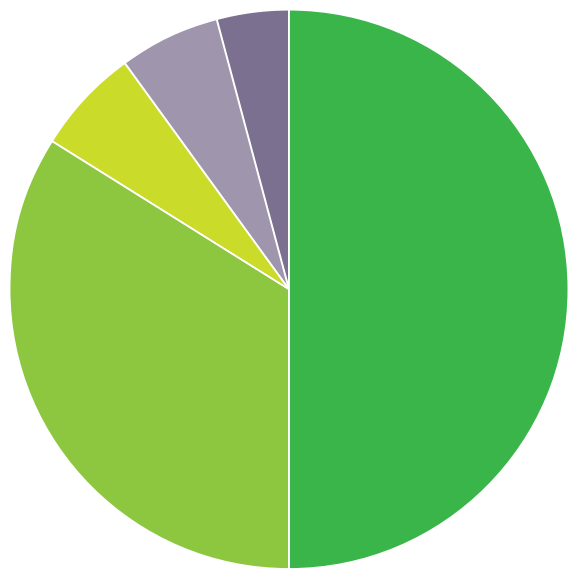
| | |
|---|---|
| Strongly agree | **70%** |
| Somewhat agree | **21%** |
| Neither agree nor disagree | **2%** |
| Somewhat disagree | **5%** |
| Strongly disagree | **2%** |



**Do you agree with the following statement?**

*"We are in the midst of a fundamental change in capitalism from a primary focus on shareholder return towards a system in which corporations must have a societal purpose and serve all stakeholders (sometimes referred to as 'stakeholder capitalism,' 'conscious capitalism,' or 'accountable capitalism')."*

| | |
|---|---|
| Strongly agree | **50%** |
| Somewhat agree | **34%** |
| Neither agree nor disagree | **6%** |
| Somewhat disagree | **6%** |
| Strongly disagree | **4%** |



Pressure from primary stakeholders is also convincing executives. A 2020 survey of 150 American business executives found that 91 percent of executives believe that business must benefit all stakeholders, not just shareholders alone. They affirmed that a multi-stakeholder purpose is not a sacrifice: 85 percent of those surveyed acknowledged that being a purpose-driven company drives profit. Over 90 percent of those surveyed believe that purpose-driven companies have positive business outcomes: improved reputation, stronger employee recruitment and retention, increased consumer trust and increased customer loyalty. The "multi-stakeholder purpose" helping force is a win-win force.

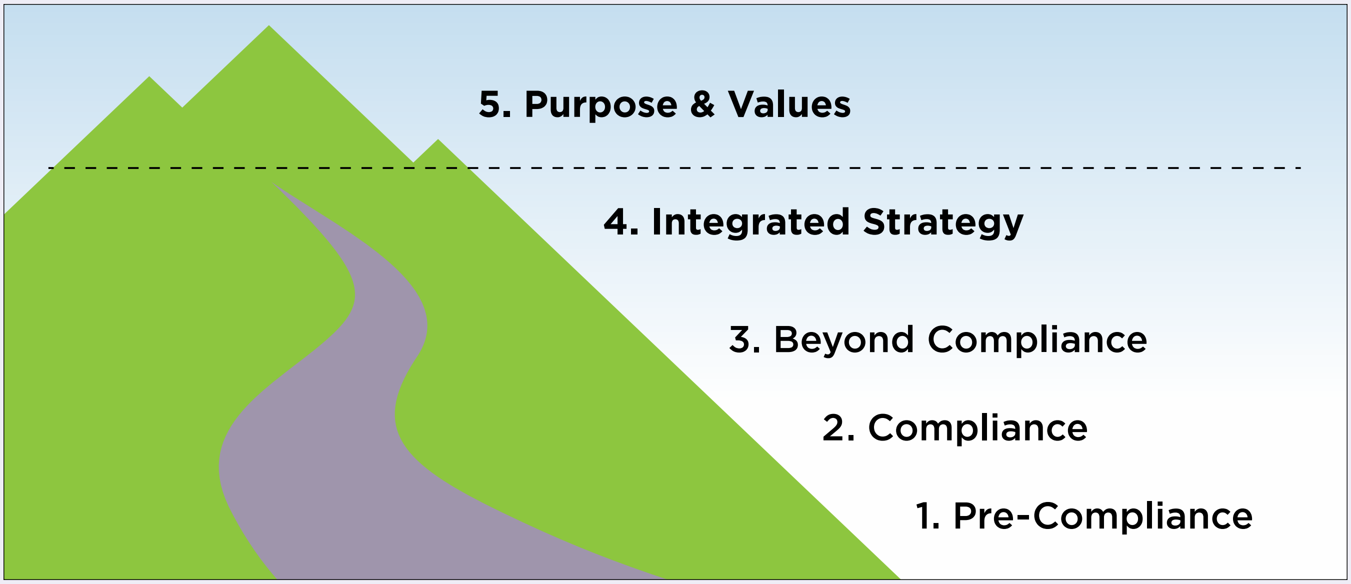
# Hindering Force: Inadequate business case

One of the biggest obstacles to companies doing more to improve their sustainability performance is an insufficient business case. In one global survey, 52 percent of executives said that immediate financial goals were more urgent than sustainability goals — implying that the payback period for sustainability-related projects exceeded company norms — and 44 percent said the business case for sustainability was missing in their companies. In another survey, 52 percent of U.S. financial executives highlighted the difficulty of identifying sustainability-led business opportunities as the biggest barrier to greater investment in sustainability initiatives. In a third survey of executives in multi-national companies, 46 percent said that a big obstacle to investing in socially and environmentally beneficial initiatives was an unattractive ROI for sustainability-related projects.

So, business-based reasons for sustainability initiatives are often unknown, incomplete or unconvincing. Traditional CFO cost-benefit analysis frameworks may not adequately account for 21st century risk factors and scenarios. In a profit-above-all-else company, an inadequate business case is a significant hindering force. If executives perceive that contributing to stakeholder wellbeing will slow company growth, erode hard-earned profits and diminish shareholder returns, then the proposition of a stakeholder-wellbeing purpose could be a non-starter.

There is some debate about whether we should require a profit-enhancing business case at all. After all, shouldn't companies do the right thing for people and planet just because it's the ethical / moral / right thing to do? Yes, and companies at Stage 5 on their five-stage sustainability journey behave that way (see Figure 5). Their profit is a means to their end; their end is doing good. They want to make a good profit *so that* they can do more good.

**Figure 5: The Five-Stage Sustainability Journey**



Stage 3 companies are doing more to manage their impacts than is required by regulations because they want to reap the low-hanging fruit in the business case: savings on their energy, water, materials and waste costs. It is unlikely that they will leap from those eco-efficiencies to Stage 5 without going through Stage 4. Companies in Stage 4 are still very driven by the profit motive. They do good *so that* they can make more profit. Doing good is a means to their end; their end is making a good profit. Perhaps, after they reassure themselves and their stakeholders that profit does not need to be sacrificed on the altar of doing good, they are ready to transition to Stage 5.

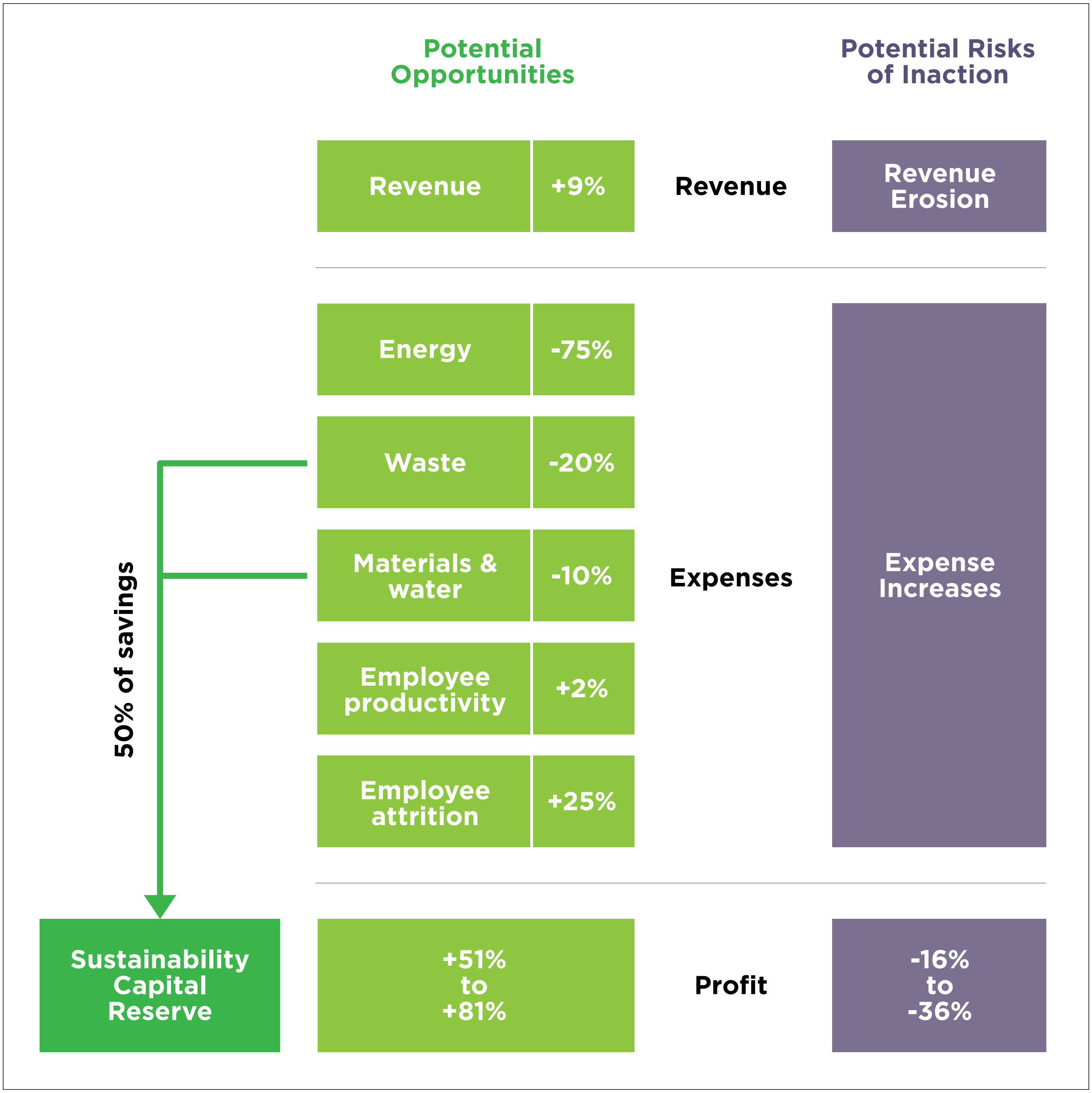
So, the difference between Stage 4 and Stage 5 companies is in their motivations, not their actions. As Thomas Friedman famously said, "The way you get big change is by getting the big players to do the right things for the wrong reasons. If you wait for everyone to do the right thing for the right reason, you're going to be waiting a long, long time." The situation is urgent. We need companies' help to address global social and environmental crises. The business case helps influential companies do the right things for the "wrong reasons" in Stage 4. Later, executives may flip their means and ends. It's a two-phase transformation.

## Helping Force: Compelling business case

On the other hand, some companies attribute their focus on sustainability, and conversion to a multi-stakeholder purpose, to a strong business case. In 2014, interviews were conducted with 2,500 CEOs, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses in 34 economies. In the study, 67 percent of respondents said the biggest driver of their sustainability efforts was cost management. The business case force was strong enough to provoke adoption of more proactive sustainability initiatives in their companies.

Sustainable enterprises capitalize on sustainability-related opportunities and they mitigate ESG risks. On the opportunity side, research has shown that organizations pursuing sustainability-related initiatives can improve economic performance, operational efficiency, innovation and competitiveness. *The New Sustainability Advantage* projected a compelling business case for sustainability strategies and practices. It showed that if a typical company were to implement best-practice sustainability approaches that have already been proven by other businesses, it could improve its profit by at least 51 percent to 81 percent within three to five years. Further, the company would incur a potential 16 percent to 36 percent erosion of profits if it did nothing to improve its environmental and social impacts.

**Figure 6: Best-Practices Company-Level Business Case**




The 51 percent to 81 percent profit improvement estimate is very conservative. To protect the credibility of the business case, the potential opportunities were factored down significantly. Also, half of the savings on waste and materials were diverted to a Sustainability Capital Reserve which was to be used to fund additional sustainability-related projects.

Building on these findings, there are three reasons why the business case is even more compelling now than it was a few years ago. First, the potential cost savings are greater today than they were when the research for *The New Sustainability Advantage* was written and researched in 2010. For example, between 2009 and 2020, the cost of wind and solar energy plummeted by 71 percent and 90 percent, respectively. Wind and solar energy are now less expensive than energy from nuclear, coal, and natural gas. The premium for renewables has morphed into a discount.

Second, the potential revenue increase is greater. The reputation of a company with business-to-business (B2B) and business-to-consumer (B2C) primary stakeholders is more important now. The majority (73 percent) of world consumers say they would definitely or probably change their consumption habits to reduce their impact on the environment. Global consumers are willing to open their wallets for products that are organic (41 percent), made with sustainable materials (38 percent) or deliver on socially responsible claims (30 percent). Additionally, big buyers are adopting sustainable procurement processes that favor sustainable suppliers — more on that later.

Third, and most importantly, inaction on sustainability issues is simply riskier now. In the literature about change, the "burning platform" metaphor is frequently used to emphasize the need to exploit the risk factor when convincing others to change. The metaphor is based on a real-life incident. Around 10 PM on the evening of July 6, 1988, there was an explosion and fire on the Piper Alfa oil and gas platform in the North Sea. The few survivors jumped from the inferno, plunging from the 15-storey high platform into the icy, debris-laden, flaming sea below. The jumpers knew that they could survive only 20 minutes in the freezing water, if they weren't killed by the fall. They still jumped. When one rescued survivor was later interviewed in the hospital and asked why he had jumped, he replied that he chose uncertain death over certain death. He didn't jump because he woke up and had a sudden urge for a personal growth experience. He jumped because he had to. The risk of not acting was too great.

The burning-platform theory of change says that things need to get very hot before people decide to leap from the status quo into new waters. The downside of not changing is more motivating than the upside of doing things differently. In the corporate world, many business decisions are risk-based. Upside-opportunities — like increased profits — are then used to retroactively rationalize and positively re-frame the decision. It is the fear of staying on a "burning platform" of risks that provides the initial motivation.

In the 21st century, a smoldering platform of global ESG-related risks can blind-side unprepared companies. Every year, the World Economic Forum (WEF) "Global Risks" report sounds the alarm about them. It identifies 30 global risks that could do major damage to economies and corporations if they are unprepared for them. The annual WEF report uses five categories of risks: economic, environmental, social, geopolitical, and technological. Along with infectious diseases, several environmental risks (e.g., extreme weather, climate action failure, biodiversity loss) are in the quadrant of risks that have the highest likelihood of happening within the next ten years and the highest impact on businesses when they do arise. The perfect storm of global ecological risks on the horizon is the "burning platform" of business-relevant risks. It is noteworthy that the WEF did not publish Global Risks reports in the 20th century. Their first report was in 2005. These global risks are 21st century drivers.

More specifically, the climate crisis presents a significant 21st century risk for companies. There are the obvious risks of physical disruptions throughout their value chains, caused by damage from severe weather events to the company's facilities, its suppliers, its customers and transportation routes connecting them. There is also a swarm of other direct and indirect climate change-related business risks.

Access to capital is essential in a capitalist system. If providers of capital think a company may be at risk from climate change, then the cost of capital may be higher. That is, the company may need to pay a higher rate of interest on loans and/or pay a higher dividend in order to attract investors. This indirect risk of climate change was highlighted by the Task Force on Climate-related Financial Disclosures (TCFD). It declared that bankers, investors and insurers need to know the threat of climate change to companies and what they are doing about it. The TCFD asks companies to voluntarily disclose their climate-related risks, opportunities and potential financial impacts so that providers of capital can make better-informed decisions about whether companies are acceptable credit risks. Specifically, the TCFD asks companies to disclose how climate-related risks and opportunities are embedded into their governance, strategic planning, risk management processes, and metrics.

Climate change is a proxy for all sustainability issues. Secondary stakeholders like climate scientists in the Intergovernmental Panel on Climate Change have been sounding the alarm since 1990. When primary stakeholders like bankers and investors demand "voluntary" disclosure of company action on climate change mitigation and adaptation, companies are inclined to report their efforts. What gets disclosed gets managed; what gets managed gets improved. Bankers and investors amplify the risk side of the compelling-business-case helping force — they contribute to the risk-adjusted case against inaction. Together with improved opportunities for cost savings and increased revenue, heightened risks of inaction make the case for sustainable business models more compelling.

# Hindering Force: Confusion about "ESG" / "sustainability"

For investors, "ESG" is a risk assessment framework. The "G" — governance — has always been a consideration for investors, to ensure their interests are being properly represented and overseen by the board. Adding environmental (E) and social (S) categories of risk broadens the scope of risk assessment. It ensures that E&S risks are included as material risks in estimates of long-term risk-adjusted returns for investments in a company.

However, market participants often lack the tools they need — consistent data, comparable metrics, and transparent methodologies — to properly inform value-based decision-making through an ESG-risks lens. The proliferation of ratings, methodologies and metrics on ESG / sustainability performance is causing confusion. This fragmentation and incomparability do not serve investor assessments of performance against general ESG goals, or targeted objectives such as enhanced management of climate risks. The lack of standard ESG metrics increases investors' due diligence burden and weakens sustainability reporting effectiveness in the sustainable enterprise force field.

It should be noted that some "confusion" is deliberate. Willful ignorance accompanies malicious misrepresentation of sustainability-related propositions. Feigning misunderstanding, some defenders of the status quo resort to the "7D" tactics. As an example, their opposition to action on the climate change emergency might look like this:

- *Disparage* the messenger: Discredit the proponents as lefty, anti-business tree-huggers. Accuse them of being backed by special interests, like scientists and NGOs that are just looking for more funding. Label them as socialists, communists or even terrorists intent on destroying freedom, threatening our orderly way of life and sabotaging national interests.
- *Deny / Deflect* the blame: Agree that climate change is a problem, but claim that it is being caused by sun spots, flatulent cattle, volcanos or China, not primarily by the 167 companies that account for over 80 percent of corporate industrial greenhouse gas emissions.
- Sow seeds of *Doubt*: Stress that scientists are not 100 percent certain about climate change; declare that their climate models are inconclusive. Allege that the IPCC is trying to silence contrarian views or is faking the data. State that the climate is always changing, so climate change is normal. Assert that there is no causal link between rising CO2 concentrations, rising global temperatures and human-caused emissions. Declare that climate change is a hoax, fake news and a conspiracy to destroy the economy and our way of life.
- *Denounce* the press: Deplore the lack of fair, balanced coverage. Accuse the mainstream press of suppressing the truth. Play the oppressed victim and use social media to misinform the public.
- Predict a *Disaster* if the change happens: Rant that reducing carbon footprints will take away our freedom to drive, fly and Bar-B-Q. Predict lost jobs, stock market collapse, economic hardships, slower GDP growth, job-killing carbon taxes, and big government ripping away our rights and freedoms.
- *Delay* the change: Set up a multi-year commission to study the issue to ensure a "balanced / informed decision." Lie that you care and want to avoid unintended consequences.
- Be *Duplicitous* after the change: Never apologize. Say you always wanted the best for everyone. Take credit for any positive results. Blame proponents for any negative results — which were caused by the proposition being weakened before it was enacted and under-resourced after it was.

Fueled by individual and corporate greed, this kind of malevolent confusion and misrepresentation has always been a background force. The recent proliferation of 7D tactics in some jurisdictions suggests that "Dangerous deceit" may be a more appropriate label for this hindering force.

# Helping Force:
# Harmonization of ESG frameworks

Businesses themselves have also expressed frustration over the lack of harmonized standards for non-financial (natural, human and social capitals) reporting. Companies and primary stakeholders seek agreement on how to assess and report on company performance on non-financial issues. Fortunately, momentum has recently grown toward the coalescence of major non-financial / ESG / sustainability reporting standards, sometimes in conjunction with financial reporting standards. Promising initiatives include:

- The five major non-financial reporting organizations — Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC), Climate Disclosure Standards Board (CDSB) and CDP (formerly the Carbon Disclosure Project; now just "CDP") — have published a Statement of Intent, committing to work together towards comprehensive corporate reporting. They pledge to work together and engage with other key actors, including the International Organization of Securities Commissions (IOSCO), the International Financial Reporting Standards (IFRS) Foundation, the European Commission (EU), and the World Economic Forum's International Business Council (IBC).
- The merger of SASB and IIRC into the Value Reporting Foundation in 2021, a unified organization intended to provide investors and corporations with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards.
- The World Economic Forum (WEF) and its IBC — a community of over 120 global CEOs — has developed a common set of 21 baseline sustainability metrics that enable IBC members to demonstrate their contribution towards creating more prosperous, fulfilled societies and a more sustainable relationship with our planet.
- The European Union (EU) is updating its Non-Financial Reporting Directive (NFRD). It requires large companies to publish regular reports on the social and environmental impacts of their activities. The directive applies to 6,000 public companies, each with 500 or more employees, in EU countries.
- The IFRS Foundation, whose International Accounting Standards Board (IASB) issues International Financial Reporting Standards (IFRS), has proposed to create a new Sustainability Standards Board (SSB) that would issue investor-useful global sustainability reporting standards.

Agreement is now within reach on how to do sustainability / ESG reporting that serves investors' needs for clear, concise, credible and comparable ESG metrics. Plus, emerging frameworks like the Future-Fit Business Benchmark provide science-based, forward-looking goals for core sustainability issues and guidance on how to reach and exceed them. ESG consensus, clarity and coaching are converging.

## Hindering Force:
## Lowest-bid procurement

Customers are primary stakeholders. Big customers have clout as buyers. Their procurement officers are charged with ensuring the best value for their company and too often that equates to awarding contracts to lowest-price bidders. If lowest-price is their most important purchasing criteria, they will source products from whichever supplier has an acceptably functional product for the lowest price. At most, the sustainability attributes of the products and of the supplying companies are given token weight. Products with the best sustainability attributes (e.g., most energy efficient, lowest embedded carbon and water, least packaging, highest recycled content), and suppliers with the best environmental and social performance, get little or no credit for their efforts, in this system.

# Helping Force: Sustainable procurement

Companies are becoming mutually accountable for the impacts in their value chains, especially their upstream supply chains. Corporate sustainability leaders want to support suppliers who share their values and sustainability goals. The best way to foster sustainable suppliers is to give them preferential treatment. Sustainable procurement does that. Sustainable procurement ensures that the buyer obtains the best value for money, while purchasing the most sustainable products from the most sustainable suppliers. The most sustainable suppliers perform the best on the core sustainability issues, contribute the most to Sustainable Development Goals (SDGs), and/or contribute the most value to the three non-financial capitals — namely natural, human, and social capitals.

In organizations using sustainable procurement, the purchasing department gives weight (e.g., 10 percent) to the sustainability attributes of products in the proposals, and assigns additional weight (e.g., another 10 percent) to the supplier's sustainability performance. Another 10+ percent is allocated to a Total Cost of Ownership (TCO) calculation for big purchases, to estimate all direct and indirect costs and benefits associated with the product over its term of use. A TCO helps determine whether initially paying more for a better, more sustainable product from a more sustainable supplier is a smart business decision.

Public sector sustainable procurement is an enormous market force. Public procurement spending is equivalent to about 12 percent of GDP and 29% of government expenditure in Organization for Economic Co-operation and Development (OECD) member countries. All 193 UN member states signed onto the SDGs in 2015. They require help from the business community in order to achieve the 17 SDGs by 2030. Rather than use the dreaded hammer of regulations to drive companies to help, governments can incent that behavior by giving preference to suppliers / vendors who are contributing to the SDGs. Federal, state / provincial and municipal governments can use sustainable public procurement to partner with vendors / suppliers who help them attain the SDGs. As a minimum, governments could require any supplier, large or small, to disclose its sustainability / SDG scores in order to qualify as a supplier.

Sustainable procurement in other sectors is also a significant helping force in the sustainable enterprise force field. As corporations are held mutually accountable for supply chain impacts, sustainable procurement momentum builds in the business-to-business (B2B) sector. Sustainable procurement has already been implemented in some large corporations. Years ago, Wal-Mart and P&G pioneered a supplier sustainability / citizenship qualification for their suppliers. It enabled them to give preferential treatment to their most sustainable suppliers.

Sustainable procurement can be implemented by any-size buyers in any sector, anywhere. Big buyers amplify the sustainable procurement helping force in the force field. Sustainable procurement uses the power of the purse / market to encourage suppliers to pay attention to, and improve, their sustainability performance. Suppliers in B2B relationships with big buyers will continuously measure, manage and improve their sustainability performance because it matters to their customers. It is in their self-interest to have higher sustainability scores than their competitors. For small- and medium-sized enterprise (SME) suppliers, sustainable procurement may be the most effective helping force.

# Hindering Force:
## CEO mindset / personal bias

Mindsets are assumptions about how the world works. They are remarkably impervious master programs stored in our brains about how to behave in the world in order to best achieve our objectives. They may be based on factual ignorance and/or inherited wisdom, but are independent of an individual's intelligence and motivation. In fact, smart people are especially defensive about their worldviews and avoid the potential embarrassment of having to admit that perhaps their reasoning, premises, and inferences were incorrect.

Our belief system is shielded by its ability to persist in the face of contradictory evidence. Once a belief is entrenched, it is a given. We don't need supporting evidence. We rebuke even the smallest suggestion that might be the thin edge of a large wedge invading the fortress of our beliefs. To survive in a complex world, our brains need to maintain a sense of wholeness, consistency, and control in life. We unconsciously filter and dismiss ideas that jeopardize our intertwined fundamental philosophies and premises. Worldviews are brittle. Pick at one peripheral belief and the whole structure might start to crumble.

Embracing a sustainability mindset is resisted by executives for the same reasons that anyone would resist having their worldview changed: the traditional executive mindset has worked well so far and changing it would imply that one was / is wrong. That is an admission many of us are not prepared to make, especially if we are executives. Sustainability champions should not be surprised if skeptical executives do not welcome their offer to help them see the sustainability light.

Some executives may still think of corporate social responsibility / sustainability as costly, regulation-driven and mainly philanthropic gestures on the periphery of real business. This belief is consistent with a mental model that asserts the sole purpose of business is to maximize shareholder value. If sustainability is presented as a worthy additional end for business to pursue in partnership with all stakeholders, it may be perceived as a weakening of purpose and, at worst, a heretical socialist attack on a sacred capitalist economic model.

# Helping Force: CEO passion / legacy concerns

Some business leaders, for whatever reason, have ethical values that drive a personal passion for making a positive contribution to their stakeholders: especially the environment, their community and their family's future. Their personal purpose thus aligns with their company's multi-stakeholder purpose. Their company is their force for good. They are in Stage 5 of the Five-Stage Sustainability Journey, as shown in Figure 5.

Company values mirror founder / CEO values. Some founder-owned and founder-led companies — such as Seventh Generation founded by Jeffrey Hollander, and Patagonia founded by Yvon Chouinard — start and end in Stage 5 without ever entering the other four stages. They are B Corps. Certified B Corps use profits as a means to a greater end: having positive impacts on their employees, communities, and the environment. B Corps are a 21st century phenomenon — B Lab was launched in 2006. As of December 2020, there were over 3,700 Certified B Corps in 74 countries. Further, the Future-Fit Business Benchmark provides a comprehensive, science-based blueprint to help businesses transform into purposeful market forces, aligned with founders' personal values.

Many executives are at the age and stage when they are contemplating their legacies after they move on. When Alfred Nobel's brother Ludwig died in 1888, a French newspaper mistakenly published Alfred's obituary. Reading his own obituary, the Swedish Nobel was shocked to learn his public image. The obituary condemned Nobel for inventing dynamite, giving him the infamous nickname, "The merchant of death." It went on to say, "Dr. Alfred Nobel, who became rich by finding ways to kill more people faster than ever before, died yesterday." To Alfred, his obituary was an alarming warning. He had spent his lifetime alone, inventing things. He now became deeply concerned with how he would be remembered. This unfortunate event inspired him to make alterations in his will, to improve his public image and to be remembered as a positive contributor to humanity. In 1895, one year before his death, Nobel composed his last will. It specified that his fortune be used to create a series of prizes for those who confer the "greatest benefit on mankind" in physics, chemistry, physiology or medicine, literature, and peace. To widespread astonishment, Dr. Alfred Nobel bequeathed 94 percent of his total assets, $218 million in 2020 USD, to establish the five Nobel Prizes.

No executive wants to be remembered — by their business colleagues or their family — as a leader who could have done more to help address the global crises, but opted not to. Their silence and inaction would be their legacy. By embedding a multi-stakeholder purpose-driven culture into their company, and using their company as a leader in addressing global environmental and social crises, they can ensure their obituary tagline is not "Merchant of Death."

# Hindering Force: Internal politics / culture clash

"Culture eats strategy for breakfast." This observation by Peter Drucker, founding father of modern business management, was intended to encourage strong and empowering cultures as a surer route to success than short-term, clever strategies. It also serves as a warning that propositions which are foreign to corporate culture will be rejected like a virus. Many worthy reengineering efforts have failed because they were rejected by organizational cultures and status quo systems.

Culture is imbedded in company measurement, management, recognition, and reward systems. It is about formal and informal power relationships. It's about formal processes and informal rituals and routines. It is "how we do things around here" and is celebrated in corporate lore. Corporate culture and executives' worldviews are closely linked. If sustainability strategies are perceived as counter-cultural, they are dead on arrival. If a CEO joins a successful company with a mindset that conflicts with its culture, his or her tenure may be brief.

Corporations are fraught with internal politics. Sometimes, a good idea is simply rejected because the wrong person suggested it, or suggested it the wrong way, or suggested it to the wrong person. Internal politics can lead to dysfunctional organizations. A company's culture can also mute messages by outsiders deemed to be irrelevant or naïve about the business of business.

Further, an executive who is handling a crisis or desperately trying to make the company's year-end numbers is unlikely to be receptive to suggestions that the company pay more attention to environmental and social impacts. Time and place are crucial criteria for these conversations.

# Helping Force: Aligned stars / wild cards

Sometimes, the stars align and suddenly a CEO "gets it." A personal experience can trigger someone to rethink their mindset. Ray Anderson, Interface founder and CEO, was a good example of this. A combination of factors contributed to his epiphany. Customers had been inquiring about Interface's environmental impacts. In August 1994, he committed to delivering a visionary keynote speech to kick off the global task force that was to create the company's response to the customer questions, but he realized that he didn't have an inspiring environmental vision for the company. While he was wrestling with this dilemma, someone serendipitously left a copy of Paul Hawken's book, *The Ecology of Commerce*, on his desk. He read it. It changed his life. It was a "spear in the chest" for the way he had been running his company and gave him the vision he needed, not only for the speech but for the company. He redefined the ultimate purpose for Interface and went on to make Interface a leading model of a sustainable enterprise. No one could have orchestrated the serendipitous factors that brought about his transformation. It was happenstance. The stars aligned.

There are also wildcards that trigger sudden "Aha!" moments. A wild card for a director might be a legal opinion that boards have an obligation to take the interests of the corporation's stakeholders — customers, suppliers, employees and investors — into account, especially regarding climate change. For example, in 2020, Hansell McLaughlin issued a legal opinion that directors of Canadian corporations are obliged to address climate change risk, based on the duties each director owes to the corporation he or she serves.

Or, a wild card could be a question from a CEO's granddaughter at a family gathering about what his / her company is doing to address climate change. Or, it's a casual question about the circular economy from a customer on the golf course. Or, it's a request from a potential new hire about the company's position on science-based targets. Or, it's the nth viewing of "A Christmas Carol" that finally hits home.

Greta Thunberg lit a match with her courageous series of solo Friday school strikes for real action by the Swedish government on climate change. As her courage became known, she was invited to deliver direct, forceful messages to gatherings of the rich and powerful. That kindled a global brush fire of youth-led Fridays for Future, Youth Strikes for Climate, the Extinction Rebellion and other climate justice movements. The platform got hot for companies and governments in the cross hairs of this global uprising.

The "butterfly effect" says that small things can have non-linear impacts in a complex system. Global society is a complex system. Greta is such a butterfly. Her small, wild-card action caused a perfect storm of youth uprisings committed to protecting their future wellbeing. These youth groups cleverly coined the slogan, "System change, not climate change." They get it. The underlying cause of the climate crisis is the permissiveness of the current system that forgives pollution, ecosystem destruction and social injustice in the name of "progress," while obscenely enriching a few at the expense of the many. The global protests for social justice sparked by George Floyd's murder in 2020 build on growing global discontent with the status quo. It's what Paul Hawken calls "blessed unrest," and it's unstoppable.

# Conclusion

Throughout the 1970s, 1980s, 1990s and even in the early 21st century, MBA graduates were trained to manage Porter's five market forces: competitors stealing customers; new entrants leapfrogging into market dominance; suppliers driving up costs; customers driving down prices; and substitutes rendering company products obsolete. They are business-as-usual external threats which are within the company's sphere of influence to respond to, if not anticipate. They are forces in a simpler 20th century competitive field of play.

The 21st century is a different world. It is a more volatile, unpredictable, complex and chaotic business arena. Adoption of a multi-stakeholder purpose adds to the complexity. Understandably, the hindering forces can be difficult to overcome in the sustainable enterprise force field. The big difference in the 21st century is that primary-stakeholders with clout in the business community are now amplifying helping forces led by secondary-stakeholders. If bankers, investors and large customers think that a company should track and improve its ESG scores, that company will undoubtedly track and improve its ESG scores.

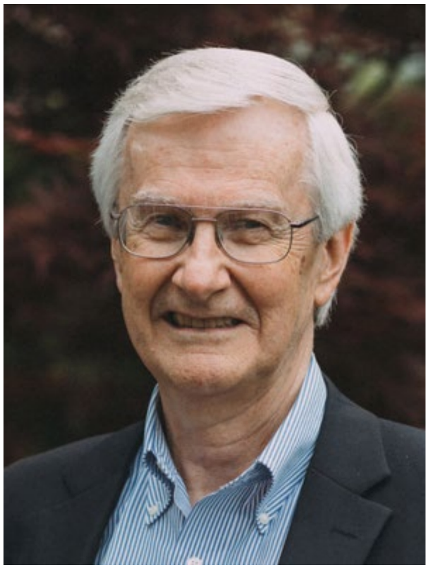
Primary stakeholders are the new voices in the chorus of sustainability champions and they tailor the lyrics and tone to the audience.

- Instead of chiding executives for damage caused by a shareholder-primacy business model, they herald a multi-stakeholder business model as the animating force for profits.
- Instead of focusing just on the opportunities side of the business case, they make it more compelling by focusing on the risks of not mitigating company contributions to global crises and of not transforming to resilient, sustainable business models.
- Instead of insisting that their pet ESG framework is the best one, they help executives understand that frameworks use different labels and terminology for the same core sustainability issues.
- Instead of relying on consumers to drive the demand for sustainable products, they help big buyers — governments and large corporations — use sustainable procurement as a market force driving suppliers' attention to their environmental and social impacts.
- As well as using their own passion as the catalyst for action, sustainability champions help CEOs see that they can fulfill their passion and purpose through their companies.
- Instead of being surprised when corporate leaders suddenly "get it" about sustainability, they celebrate the diversity of happenstances that triggered executives' conversion on the road to corporate success.

The 21st century sustainable enterprise force field is an eyes-wide-open strategizing tool. In any given circumstance, a different combination of helping and inhibiting forces, with different strengths, are in play. Sustainability champions can then decide which subset of helping forces to prioritize and which subset of hindering forces need to be weakened, according to their unique situation.

The stars are aligning. Helping forces are becoming stronger. The transformation to sustainable enterprises is gaining momentum. Companies need to decide whether they will lead, follow, or get out of the way.

# Author



Bob Willard is a leading expert on quantifying the business value of sustainability strategies. He has given over 1,300 presentations, has authored six books, and provides extensive free, open-source resources for sustainability champions. He currently serves on the board of the Future-Fit Foundation and the B Corp Standards Advisory Council. He was one of the first five inductees into the International Society of Sustainability Professionals (ISSP) Hall of Fame in 2011 and received Clean50 awards in 2015 and 2017. He is an award-winning certified B Corp, an ISSP Certified Sustainability Professional, a Future-Fit Business Benchmark Certified Professional and Accredited Partner, and has a PhD in sustainability from the University of Toronto.

This white paper is based on a chapter Bob wrote for the *Routledge Companion to Corporate Sustainability*, forthcoming in 2022.

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