Part I

New Times – New Needs

Chapter 1

OUTER GLOBALIZATION

Globalization has made the world smaller and business opportunities bigger. But nations and corporations alike must adapt their growth strategies to the current megacrises and disruptions that are creating a new world of disorder. Pioneering entrepreneurs and companies are developing innovative solutions and applying sustainable growth principles to address issues like climate change, resource scarcity, poverty, labour rights and health threats. New rules for future economic growth are paving the way for business unusual.

A business world of disorder
– the new business paradigm

> 'Future generations are likely to view the current times as a pivot point, when old frameworks were discarded and new ones began to emerge. They might describe that pivot point as a "reset", when business as usual was no longer possible, and new ways of thinking and acting were needed.'[1]
>
> *Business for Social Responsibility (BSR)*

'Values have shrunken to fantastic levels; taxes have risen; our ability to pay has fallen; ... the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; ... the savings of many years in thousands of families are gone ... Practices of the unscrupulous money changers stand indicted

> in the court of public opinion, rejected by the hearts and minds of men … Faced by failure of credit they have proposed only the lending of more money … They know only the rules of a generation of self-seekers … The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit … Restoration calls, however, not for changes in ethics alone. This Nation asks for action, and action now.'[2]

This quote could well have been a present-day description of the current state of the world in the wake of the recent financial crisis. But these are the words of Franklin D. Roosevelt, when he assumed the office of President of the United States in the midst of a deep financial and economic crisis in 1933.

Unlike previous financial crises, this one has, however, not only showed us that the market is a good servant but a terrible master when it comes to sustainable outcomes. It has also showed us how vulnerable and interconnected the world is today.

What started as an American financial crisis – triggered by easy credit conditions, sub-prime lending and a short-term focus on profiting from a booming property market which led to a massive housing bubble that burst in the US, bringing down major financial institutions like Lehman Brothers, Merrill Lynch and Fannie Mae – within a year turned into an economic tsunami that flooded the rest of the world.

The rippling effect on global stock markets led to a global credit crisis that has resulted in the failure of key businesses, declines in consumer wealth, an increase in unemployment rates and a significant decline in economic activities.

For the small island republic of Iceland, which only a few years earlier was ranked as one of the wealthiest and most developed nations in the world, the economic crisis has resulted in the collapse of all three of the country's major banks, and led to – relative to the size of its economy – the largest suffering by any country in economic history with a national currency in free fall and the bankruptcy of its people, for many of whom the previous eight years had been one long party on the crest of the worldwide credit boom.[3]

For those where the party was only getting started – the developing countries – it has put foreign direct investments (FDI), commercial lending and aid budgets under pressure, with the risk of weaker export revenues, lower investment and growth rates, lost employment and negative social effects like higher poverty, more crime and weaker health systems.[4]

Roosevelt's call for ethics and application of social values as a part of successful market systems is the same call that politicians, economists, the general public and even CEOs are voicing today. It is also the basis of the key messages which will be discussed in this chapter:

1. The economic crisis has shown us that the current version of capitalism is based on a fundamentally flawed design and that it must be revised and renewed – that there is a need for responsible and sustainable financial systems and business models.
2. But it is not a mere economic but rather a systemic crisis that is forming a new social contract between business and society – because when the context of business is changing, business must also change.
3. This is why 21st century business builds on an alliance between economic and humanistic values – not necessarily driven by morals or ethics but just as much by necessity. Enter: the new business paradigm.

Goodbye to an era of greed?

'*Shame*' and '*Cap Greed*' were some of the slogans on home-made signs of an angry crowd that met Richard S. Fuld Jr., the former chief executive of the bankrupted Lehman Brothers, when he appeared before the American Congress to account for the remunerations of $350 million that he had received during his time as CEO, even while he was pleading for a federal rescue of his company.

The immoral aspects of greed, selfishness and short-term profit thinking are just some of the causes that have been proposed as the root core of the crisis. A systems failure of governments to regulate is another.

As a result, tougher rules that force the financial services industry to take a responsible and long-term approach to remuneration were agreed in 2009 at the G20 summit in Pittsburgh where the world's 20 most powerful national leaders met to coordinate their positions to ensure a Framework for Strong, Sustainable and Balanced Growth.

But, as German Chancellor Angela Merkel pointed out at the World Economic Forum in Davos that same year, if governments 'are not in a position to show that we can create a social order for the world in which such crises do not take place, then we'll face stronger questions as to whether this is really the right economic system.'[5]

Merkel's concern is shared by many others, who propose the root cause of the economic crisis to be the insufficiency of the fundamental financial and economic systems because of their in-built goals for continuous growth to which there are natural limits.

For even though it would be tempting to put the blame on our dark sides of desire, greed and selfishness, the economic system itself also engenders problems. Businesses operating on the classic formula are simply doing what they have been designed to do: maximize short-term profits and create economic growth.

As Frank Dixon, managing director of financial services firm Innovest Strategic Value Investors, which helps financial sector clients develop socially responsible investment products, argues: 'There is no shortage of good intentions among business leaders. No CEO wants to hurt children or leave a legacy of environmental destruction. The problem is not bad intentions. In nearly all cases, the situation is good business leaders wanting to do the right thing in a system that often forces them to do the wrong thing. We have a system problem, not a people problem.'[6]

This is the reason why economists like Belgian professor of international finance and former banker at the Belgian Central Bank, Bernard Lietaer, who was involved in the establishment of the 'ECU' or European Currency Unit, argue that the current design of our monetary system as well as our understanding of and agreements around money are at the root of most problems in our society. According to Lietaer it has a limited functionality and architecture, because it is programmed to meet industrial values and goals of economic growth at the expense of environmental and social sustainability by undervaluing care, education and other tasks crucial to maintaining a society.

Another economist who is rethinking economics along similar lines is microcredit pioneer and social innovator Muhammad Yunus. Like Lietaer, Yunus believes that capitalism as a system is only half developed, and that it is based on the assumption that people are one-dimensional beings concerned only with the pursuit of maximizing profit.

The limitations of relying entirely on the market economy and the profit motive, if the race for wealth is at the expense of justice and compassion, was something that the father of capitalism, Adam Smith, already warned about in the 18th century. He was, in fact, both a defender and critic of capitalism, who on the one hand advocated a self-interest-based economic exchange, but on the other hand also talked about the importance of broader values that go beyond profits like humanity, generosity and public spirit.[7]

This is also what French President Nicolas Sarkozy called for in a speech in 2007, in the light of outsized corporate pay packages and golden handshakes for fired executives: 'I believe in the creative force of capitalism, but I am convinced that capitalism cannot survive without an ethic, without respect for a number of spiritual values, without humanism, without respect for people,' he said and emphasized a greater sense of social and personal responsibility on the part of businesses as well as a renewed emphasis on entrepreneurship and work as the keys to the 'moralization of capitalism'.[5]

From a spiritual point of view, the crisis has not only shed new light on the greed culture made broadly acceptable by the housing boom. It is also an expression of a stage in the evolution of humanity where the present financial and economic systems are outdated because humanity is moving to the next level of evolution with new needs and demands as a result.[8] Capitalism in its classic form is now even threatened because people are losing interest in working hard and making money.[9]

Supporters of this perspective therefore believe that the goal of economic growth must be replaced by an even higher goal, which serves human needs in a broader way by including the immaterial values that are starting to predominate, particularly in the Western part of the world, now that all reasonable material needs have been covered.

Whichever view you take, however, the bottom line remains the same: the global effect of the economic tsunami is a tough after-party wakeup call. Markets have failed and have destroyed conventional wisdom about how to run an efficient economy in a sustainable way. It is time for a new version of capitalism which matches 21st century needs and demands.

The 21st century social contract

The Social Contract was the title of a book by 18th century French philosopher Jean-Jacques Rousseau, who theorized about the best way to set up a political community in the face of the problems of commercial society.

Three centuries later these problems have intensified to a degree that is challenging fundamental, classic business logics about how and why to run a business. Today, companies operate in a business world of disorder with an increasingly complex web of systems that are all under stress. And it is difficult to have a balanced business in an unbalanced world – or, as the World Business Council for Sustainable Development puts it: business cannot succeed in societies that fail.

Global megacrises ranging from security threats, global warming and the depletion of natural resources to food shortage and the growing gap between the rich and the poor as well as higher personal levels of stress and other serious health threats are already making their mark in all sections of society, including business. And the crises are all closely interlinked, which is why they cannot be understood in isolation.

Hundreds of reports, analyses and books from the past decade all point in the direction of a new global risk pattern that constitutes a complex systemic crisis where the lack of solutions to one imbalance leads to the acceleration of another. A collapse in any one of the systems triggers critical issues in another.

Economic imbalances, natural disasters or energy and food crises, for example, are triggers of social inequality, extreme poverty or regional disputes over resources, which again may accelerate security threats like political or religious radicalism, terrorism and war.

Or take the economic crisis, which can lead to postponing the development of solutions to the global climate crisis, which in turn will worsen, for example, health issues, food and resource availability and the number of climate refugees that are forced to relocate because of global warming-related environmental disasters.

Many businesses are affected directly or indirectly by these societal trends. For they are not only making it more difficult for companies to sustain their operations in locations where resource scarcity, natural disasters or social instability either raise costs or endanger their operations. They are also changing stakeholder demands and public policies.

Companies are expected to share responsibility with governments for tackling issues which, in the old world economy, they would have ignored in their pursuit of profit. As a result, old world companies who were traditionally agents of wealth creation now see their role being expanded to also include the role of problem-solving contributors to society. Rationale: having moved unsustainably through the natural world system for decades, businesses constitute a significant part of the current problems – and must therefore naturally be a part of the solutions. The pursuit of economic growth can, in other words, no longer be at any price.

On this point, it is worth noting that, although government and civil society still play a crucial role, business has indeed emerged as this century's most powerful institution on the planet.

When it comes to the count of multinationals, for example, it has risen ten-fold, from a modest 7258 in 1970 to 63 000 in 2000 and nearly 79 000 by 2006.[10] Along with their 821 000 subsidiaries spread all over the world, these multinational corporations directly employ 90 million people (of whom some 20 million in the developing countries) and produce 25% of the world's gross product. The top 1000 of them account for 80% of the world's industrial output.[11] Of the 100 largest economies in the world today, 51 are therefore corporations and 49 are countries, and the combined annual turnover of the world's ten largest multinational corporations surpasses the gross domestic product for 100 of the world's poorest nations.[12]

In some countries, legislative measures are already having an impact on responsible business practices.[13] In France, for example, the 'new economic regulations' law, *nouvelles regulations économiques* (NRE), requires publicly quoted companies to disclose social and environmental, in addition to financial indicators. In Denmark, the Danish Financial Statements Act has recently upped the ante with a 'comply or explain' amendment with statutory requirements of corporate social responsibility reporting for all large businesses. In the UK the general duties of directors in the Companies Act 2006 include promoting the success of the company by regarding, among other things, the interests of its employees and the impact of the company's operations on the community and the environment. The UK Government even has a Minister for Corporate Social Responsibility (CSR).

But voluntary actions around the world also illustrate the fact that this is a new business parameter that is gaining ground. For example, the number of the world's largest companies in countries as diverse as South Africa, Brazil and Norway that include non-financial reporting in their annual reports has almost tripled in just a decade.[13]

Many voluntary guidelines, principles and standards have also been designed to help companies operate responsibly, e.g. the Global Reporting Initiative (GRI), the OECD Guidelines for Multinational Enterprises, AccountAbility's AA1000 guidelines, Goldman Sachs's ESG framework, Social Accountability International's (SAI) SA8000 certification and the International Organization for Standardization's ISO26000 Guidance Standard on Social Responsibility and ISO14001 Environmental Management Standard. Even within industries the companies themselves are launching collaborative, self-regulating initiatives like The Global Social Compliance Programme (GSCP), The Marine Stewardship Council and The Electronic Industry Code of Conduct.[14]

On top of this, recent governmental responses to the economic crisis in the USA and Europe have been likened to the US's 1930s New Deal, a package of economic programmes to give relief to the unemployed, reform business and financial practices and promote recovery of the economy. This time, however, its reach is on a global scale, and business leaders can expect more scrutiny and more intrusive regulation, and will therefore need to understand and respond to political developments of this kind.[15]

There has also been a general decline of trust in business overall in the wake of the economic crisis. The gap between the needs and expectations of society on the one hand and the objectives and practices of many businesses on the other has, in fact, widened dramatically.

According to the 2009 Edelman Trust Barometer, nearly two-thirds of the public reported less trust in businesses than the year before. And since an economy can only operate effectively on the basis of trust among the parties involved, the task for business leaders now is to rebuild trust by re-establishing connections with society and consumers, by making business meet sustainability challenges and act in the broader interest of society.

This is at least the recommendation of Business for Social Responsibility (BSR), an international organization which works with a global network of more than 250 member companies to develop sustainable business strategies and solutions. In their 2008 report, *Meeting the Challenge of a Reset World*, they sum up the sustainable business way forward as to:

1. Develop business strategies based on long-term trends;
2. Innovate for sustainability and value;
3. Think big – develop systemic answers;
4. Refocus on partnerships with governments;
5. Rebuild trust.

In short, the social contract between business and society is in the course of being reformulated, making it more extensive and complex than ever.

Business as unusual

While businesses throughout time have contributed positively to society by creating jobs, raising living standards and increasing wealth, many have also directly or indirectly had a negative impact on – or even accelerated – the current imbalances through their practices.

Pollution, unsustainable manufacturing, unsafe products, destruction of natural habitat, disruption of indigenous cultures and degradation of cultural values by overemphasising materialism are just a few examples of the by-products of activities that affect the wellbeing of people or the environment – the so-called negative externalities.

In fact, one of the great flaws in the classic version of capitalism is the failure to incorporate externalities into the market price of goods and services, e.g. the costs of restoring the environment or treating people who have become ill because of pollution caused by industries. Result: the cheap, unsustainable product may actually end up being the most expensive choice. But to remedy the environmental and social problems caused by companies, the price is often paid by taxpayers.

The reason why? Throughout time companies have profited from the historic privilege of *limited liability*, where a firm's liability is no more than the sum of its investment. Consequently, the responsibility for possible negative impacts on society is limited. It is only the company – not its owners or investors – that can be sued.

This is why corporate critics like Joel Bakan, Canadian professor of law and creator of book and documentary *The Corporation*, argue that companies are legally bound to act like psychopaths who are charming but egocentric, narcissistic and willing to eliminate all obstacles to their pursuit of profit and power.

Today there are still economists and businesspeople who argue that companies are only amoral instruments of commerce and extensions of their shareholders' property rights, and consequently that it makes no sense to talk about corporate responsibility because – as the liberal the-business-of-business-is-business economist Milton Friedman argued in the 1970s – only people can have responsibilities, and the social responsibility of business is to increase its profits. So there are still private equity funds and companies that operate with one bottom line and have their sole focus on creating shareholder value.

This one-legged business logic originates from what one of the world's leading authorities on sustainable development in business, US professor of management Stuart L. Hart, has dubbed *The Great Trade-Off Illusion*, where an entire generation of business leaders has been reared to believe that corporations wishing to incorporate corporate responsibility must sacrifice financial performance in order to do so.[12]

Arguments against Corporate Social Responsibility

Mallen Baker, writer, speaker and strategic advisor on corporate social responsibility, goes about it tongue-in-cheek when listing some of the common arguments against including social responsibility in business practices:

continued on next page...

- Businesses are owned by their shareholders – money spent on CSR by managers is theft of the rightful property of the owners.
- The leading companies who report on their social responsibility are basket cases – the most effective business leaders don't waste time with this stuff.
- Our company is too busy surviving hard times to do this. We can't afford to take our eye off the ball – we have to focus on core business.
- It's the responsibility of the politicians to deal with all this stuff. It's not our role to get involved.
- I have no time for this. I've got to get out and sell more to make our profit line.

Source: www.mallenbaker.net [16]

But today, companies that 20 years ago were held accountable only for direct or regulated consequences of their actions find themselves held accountable for the consequences of their actions in areas that go way beyond their immediate field of business.

Today's business 'licence to operate' is dependent on how well companies meet expectations of a broad range of stakeholders, including regulators, investors, employees, local communities and society at large. And in a globalized world, these expectations are growing, so conduct that would have been ethically acceptable in the industrial era is becoming unacceptable now.

This was reflected in a 2007 GlobeScan poll on corporate citizenship, where the pollsters found that large majorities of citizens in 25 countries hold companies completely responsible for the safety of their products, fair treatment of employees, responsible management of their supply chain and for not harming the environment.

This may not come as a big surprise, but more surprising was that, in addition to these operational aspects of business, a significant number of citizens also held companies completely responsible for improving education and skills in communities, responding to public concerns, increasing global economic stability, reducing human rights abuses and reducing the rich–poor gap.[17]

Lawsuits have already been filed against car companies for the costs of their alleged diminution of ecosystems, against tobacco companies for their alleged misleading of smokers about the dangers and addictiveness of cigarettes and against fast food companies for the alleged responsibility for their customers' obesity.

In 2006, for example, California's Governor Schwarzenegger filed a lawsuit against car companies Toyota, General Motors, Ford, Chrysler, Honda and Nissan for their vehicles' alleged diminution of its beaches, ozone layer and endangered animals, and has now signed a bill to put a cap on California's greenhouse gas emissions.

And in Japan the government is beginning to recognize the extent of responsibility that companies bear in overworking employees. Here courts have already awarded damages to relatives in cases of work overload. In one case a company was ordered to pay 200 million yen (the equivalent of $2.5 million) to a man overworked into a coma.[18]

All this has implications for companies' freedom to operate, their reputation and brand value, the cost of capital and perceived investor risk. To meet these kinds of anticipated changes, externalities need to be internalized.

Carbon trading, payment for ecosystem services like water and cap-and-trade systems for pollutant reduction are just some of the economic instruments and market-based approaches where externalities are already being incorporated into business practices.

As Tony Manwaring, CEO of the influential UK-based think-and-do-tank, Tomorrow's Company, explains: 'In the past, companies conducted "PEST" analyses (political, economic, social, technological issues) to monitor their externalities and to develop alternative scenarios for planning purposes. But today these externalities have become business-critical, and so companies have to be proactive in managing them in order to be effective. The question of whether they are doing it to look good or to be good becomes secondary because they simply *have* to work that way.'

In other words, business as usual is no longer an option.

Social investors

Investors of capital are starting to steer away from sectors and companies within sectors whose risks and potential liabilities are not well understood. Their calculus is increasingly reflecting the uncertainties of potential costs and liabilities associated with externalities, future regulatory constraints or restricted access to natural resources.[19] The rationale: there is no point in having investments in a system that is failing.

According to the Washington DC-based Social Investment Forum, so-called *socially responsible investing* (*SRI*) has soared 5000% in less than two decades (in 1984 SRI was a $40 billion market, by 2003 it had morphed into a $2.16 trillion industry).[20] In 2005 almost one dollar in ten under management in the US – $2.3 trillion – was invested in SRI funds. And global investment banking firm Goldman Sachs anticipates that additional professional managers, although not necessarily adopting a pure SRI mandate, will increasingly incorporate environmental issues into their analyses.[21]

Large pension funds around the world are already using screening agencies like Ethical Investment Service (EIRIS) to assess how companies tackle so-called ESG (environmental, social, governance) issues like eco-friendly practices, human rights and corruption. 475 large institutional investors around the world representing more than $55 trillion of funds (2009 figures) investigate the emissions strategy of companies through The Carbon Disclosure Project (CDP). And stock market indexes like the FTSE4Good Index Series and the Dow Jones Sustainability Index are tracking the financial performance of companies that focus on creating long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments.

Several SRI-related initiatives have already been launched to help finance providers screen projects for risks, e.g. the Equator Principles, a benchmark for the financial industry to manage social and environmental issues in project financing; the CERES network of investors, environmental organizations and other public interest groups who initiated the Global Reporting Initiative (GRI), a de facto international standard for corporate reporting on environmental, social and economic performance; and the Principles for Responsible Investment (PRI), an investor-led and UN-backed initiative.

The Principles for Responsible Investment (PRI)

1. We will incorporate ESG (environmental, social and corporate governance) issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entitites in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Source: www.unpri.org

Interestingly, corporate scandals and the recent economic crisis have only proven beneficial to this trend: during 2008, when the crisis seriously started making its mark, the number of signatories to the PRI more than doubled to 381 as a response to the crisis, and has since then increased to 560 investors managing a total of $18 trillion in assets, including private equity firms.[22] And when investment firm Good Capital launched its conference Social Capital Markets in 2008, two-thirds of the participants signed up after the collapse of Lehman Brothers, constituting what the conference organizer called 'a new asset class'.[23]

All these trends point in the direction of companies that are starting to address business risks in a proactive manner in order to preserve future freedoms and to seek first-mover advantages over their competitors. They have realized that turning a profit is no longer enough. Instead, they need new strategic and operational business practices which also take society's interests into account.

A survey from McKinsey & Co captured this shift very clearly back in 2006. Of more than 4000 executives in 116 countries, only 16% adopted the view that business should 'focus solely on providing highest possible returns to investors while obeying all laws and regulations', whereas the other 84% agreed that business should 'generate high returns to investors but balance that with contributing to the broader public good'.[17] And apparently action is following words: more than nine out of ten of 400 surveyed CEOs told McKinsey that their companies were addressing more environmental, social and governance issues than in the previous five years. Not for moral reasons but to improve competitiveness.[24]

So while the 20th century business paradigm is based on the conviction that profit is both a means and an end, visionary corporate leaders and social business entrepreneurs are proving that corporate success and social welfare is not a zero-sum game – a hierarchical either/or way of prioritising the relationship between business and society. They are paving the way for a new business logic founded on the belief that social responsibility can go hand in hand with economic growth.

Today, industrial society's traditional one-legged business logic is being challenged by strategic businessmen and businesswomen that are using corporate responsibility as a means of making money and by activists in suits that are using market mechanisms as a means of serving society.

This does not mean that results, profit and business acumen are less relevant today. It just means that the way to make business is changing. Today, the commercial drive for finding new business opportunities can be a vehicle for positive change that benefits both business and society. And the idealistic drive to find new ways to address social and environmental needs can result in new products and services – even new business models and industries.

In other words, we are in the midst of a shift to a new business paradigm that rests on principles of responsibility, reciprocity, sustainability and long-term thinking. As CEO of Tomorrow's Company, Tony Manwaring, reasons, 'companies need to move beyond the narrow view that this is business and this is community. It is in the company's self-interest to strategically and proactively take a role in managing these issues by operating in the intersection points of the triple context of economic, social and environmental issues.

It would be a fundamental mistake to believe that business as usual will work in tomorrow's markets.'

In conclusion, the choice is no longer between *either* the capitalist *or* the socialist model. Instead a new version of capitalism – social capitalism if you will – which integrates *both* humanistic *and* economic values will form corporate agendas and sow the seeds of future business models that create both commercial competitiveness and sustainable social change.

With the increasing number of companies that are following this new path of value creation the future is already here.

The great globalization race
– how nations compete

> 'Global competitiveness in the era of globality – where the new rules are no rules – requires new ways, new thinking. This is a battle that any nation dares not lose.'[25]
>
> *Harold Sirkin*

What unique strengths and competences should we focus on and advance to ensure our global competitiveness? How do we ensure continuous growth and welfare? These and similar key questions occupy policy-makers and business leaders today, because the world has grown smaller and our global challenges have grown bigger and more complex than ever.

'Growth, growth, growth' is still the mantra of most nations and companies. With the damaging effects of the recent financial crisis, reviving economic growth has, in fact, become *the* most important priority for policy-makers and business leaders, who share the basic assumption that the continued liberalization of trade and finance will generate employment and raise living standards across the globe. International competition is the way forward. The great globalization race is on.

The purpose of this and the remaining sections of Chapter 1 is to take a closer look at why the new 'both/and' business paradigm, where commercial interests are integrated with society's, must be linked to a new way of perceiving growth. Why?

- Globalization is creating a new economic world order with new players and new rules – and this is opening up a world of new business opportunities.
- For nations and companies alike this means a change in their competitive strategies – although the end goal is still the same: to create quantitative economic growth.
- The relentless pursuit of limitless, one-dimensional growth is, however, the root cause of the current megacrises. The corporate world will therefore be playing a significant role as a problem-solving contributor to society.
- Future wealth and welfare creation will be based on social innovations as well as new sustainable growth principles.

Nothing new under the sun – and yet …

While the term 'globalization' was coined in the late 1970s, the concept has been part of human history from the very beginning. From the central Asian caravan linking Europe, the Middle East and China as early as 206 B.C. over the Silk Road of the early 16th century to the era of colonial trade, the history of human civilisation is one of growing interconnectedness.

Now, however, technological development has made the world more interconnected than ever. Changes are happening at a scale and pace that is historically unique. Globalization may be old news, but the visibility and speed of changes brought on by globalization are unlike anything ever seen before.

In 1453 it took 40 days for the pope to learn that Constantinople had fallen to the Turks. In 2001 the World Trade Center twin towers fell in real time on live television with the whole world watching.[26] And in 2008 a crisis that started in a small segment of the US housing market developed into a global credit crisis within the same year, putting most of the advanced economies in a simultaneous recession for the first time since World War II.

Just like the traders of yesterday, today's businesses are both affected by and are active contributors to globalization. For many, today's globalization is therefore associated with corporatization and free trade.

But globalization has changed the rules of competition for everybody in the business of creating value. As Harold Sirkin, co-author of the book *Globality*, concludes: 'In the new world of globality, the new rule is that there are no rules.' [25] Competitive parameters are changing for companies and nations alike, with a new economic world order as a result.

The new economic world order

When the Iron Curtain fell in 1989, markets previously limited by national borders and high customs barriers were replaced with free trade, expanding from one billion workers and consumers in the Western world to three billion in countries like China, India, Russia and Eastern Europe.[27]

Since then, the world's population has increased by almost 34%, consumption has grown even more, trade has almost tripled and the average income per head has gone up by about 40%.[28]

At the same time, technological inventions like satellites, telecommunications and the Internet have opened up a world of new insights – and a world of new business opportunities. New technology has made it possible to share knowledge virtually and to trade across borders. This seemingly borderless world is often referred to as *the global village* – a village where distance and national borders no longer really matter. (The interviews for this book, for instance, have been transcribed by Flatworldsolutions.com, an Indian company I found on the Internet.)

The forces of globalization have, in other words, built economic and societal ties across the world. They have opened up new markets, generated employment and fuelled economic growth.

But there are new twists to the competitive landscape in the globalized economy, which for decades has been dominated by Western countries. As a result, we are witnessing the emergence of new corporate entities, new global leaders and new growth strategies.

The globally integrated company

One of the traits of the new economic world order is the outsourcing of jobs and production processes from industrialized countries to low-wage countries like China and India that have access to a larger pool of both talented and cheaper labour. Another is the relocation of whole company departments.

One 2006 analysis assessed that 3.3 million American service jobs will be relocated within the period 2000–2015.[29] The multinational communications company Cisco Systems, for example, has planned to move 20% of its leaders to India by 2010, and electronics mogul L G Philips is already filling 12 000 jobs in Poland as well as investing $1.1bn there.[15] The global technology company IBM expects to more than double its Indian operations by 2010, adding more than 50 000 employees[15] and recently offered laid-off workers in the USA the chance to keep their jobs if they were willing to move abroad.

Well into the 21st century corporations will continue to add more links to their supply chains, stretching across the globe for cheaper materials and labour. Soon, we will no longer be able unambiguously to define a car as 'American' or a tool as 'Japanese', when their raw materials, production and assembly in an increasing number of cases will be taking place in several different countries.[30] Just like other processes such as research and development are also starting to be outsourced.

IBM's CEO, Samuel Palmisano, refers to this new emerging business model as 'the globally integrated enterprise' – a new corporate entity based on collaborative innovation, integrated production and outsourcing to specialists.[31] It treats its functions and operations as component pieces, and it can pull the pieces apart and put them back in new combinations, depending on which operations the company wants to excel at and which are best suited to its partners.

Contrary to the traditional multinational company which was designed to deal with the 'protection and nationalism' that dominated the 20th century by building plants and establishing local workforce policies in Europe and Asia, but kept research and development and product design principally in the home country, the globally integrated enterprise spreads its strategies, production capacity and management around the world in order to be close to markets and customers.

It is, in other words, a trend that is changing business structurally, operationally and culturally. In the future, companies of all sizes will be less defined by national identity and will think of the world as their home markets.

New global leaders

In the new economic world order Western businesses are not only extending their operations to other parts of the world. They are also being taken over by companies from the large emerging economies led by the so-called BRIC countries (Brazil, Russia, India, China).

Who would have thought that some of the world's top Western brands like Jaguar, Land Rover and Hummer would end up being acquired by emerging market corporate giants like Indian Tata and Chinese Tengzhong? Nevertheless, this is the reality that many established brands and multinationals will be facing over the coming decades.

Among the new global challengers Russian gas company Gazprom already provides 25% of Europe's natural gas while Turkish Vestel is the largest supplier of televisions in Europe. Mexico-based CEMEX has fast become one of the largest cement producers in the world and India's Suzlon Energy ranges among the world's top manufacturers of wind turbines.

These are not one-off examples. So far, 100 companies from 14 countries including Mexico, Turkey and the BRIC countries have already been identified with the near potential to become global leaders. In 2006, these 14 countries accounted for 17.3% of the world's total economic output, or gross domestic product,[25] and according to Boston Consulting Group, the top 100 companies from the rapidly developing economies (RDEs) are together growing ten times faster than the USA's GDP, 24 times faster than Japan's and 34 times faster than Germany's.[32]

Already by now, as *Newsweek*'s senior editor Rana Foroohar illustrated vividly when she gave a talk at the annual Confederation of Danish Industry's Business Summit in September 2009, the world's tallest building is in Taipei (since Foroohar's speech it is now in Dubai!), the world's richest man is Mexican, the world's largest publicly traded corporations are Chinese, the world's largest mall is in China, the biggest plane is built in Russia, the largest refinery is being constructed in India, where Bollywood has overtaken Hollywood, and the biggest investment fund is located in the United Arab Emirates.

No wonder the global investment banking and securities firm Goldman Sachs as far back as 2003 estimated that by 2041, China will be the world's largest economy, outranking the USA, and that together the BRIC countries could economically outgrow the USA, Japan, the UK, Germany, France and Italy.[33] In fact, growth has accelerated at such a rate that Goldman Sachs now predicts that these major emerging markets will overtake the combined

GDP of the G7 nations – Canada, France, Germany, Italy, Japan, the UK and the USA – by 2027, slightly more than a decade sooner than originally forecast.

With emerging powerhouses like that, analysts believe that the world's future economic growth will be taking place in developing nations, that the growth of Europe, Japan and the USA will be largely based on theirs, and that this power shift will most probably be reflected in future versions of the World Economic Forum's Global Competitiveness Index.[34]

World Economic Forum's Global Competitiveness Index

	2009	2008	2007
1	Switzerland	United States	United States
2	United States	Switzerland	Switzerland
3	Singapore	Denmark	Denmark
4	Sweden	Sweden	Sweden
5	Denmark	Singapore	Germany
6	Finland	Finland	Finland
7	Germany	Germany	Singapore
8	Japan	Netherlands	Japan
9	Canada	Japan	United Kingdom
10	Netherlands	Canada	Netherlands

Source: World Economic Forum's *Global Competitiveness Report 2008–2009*.

Together all these factors are contributing to a world of hyper-competition where – quoting words from the book *Globality* – 'everyone from everywhere is competing for everything' right from customers and market shares to raw materials, energy, skilled and unskilled workers and knowledge.

New growth strategies

Just as in most businesses, growth is a cornerstone of the globalization race for nations around the world. And the strategic key to growth is the development and efficient use of resources – human, natural, technological and capital resources – depending on the respective countries' social, economic, political and historical context.

Some of these resources are, however, already scarce and the need to access new resources is therefore necessary in order to drive and sustain continuous growth.

China, for example, which has historically relied heavily on natural resources like domestic coal to power its industry and electric utilities, now faces severe problems with air pollution and public health. On top of this, China has only a limited amount of arable land for a populaton of more than one billion. If this land is deforested, overfertilized or allowed to erode it will constitute a major challenge in the near future.[35]

Already the second largest energy consumer in the world after the USA, China is now facing an unprecedented need for resources, which has led to its *Clean Revolution* with stronger governmental energy policies that are not only driving innovation in low-carbon technologies but also diverting billions of dollars of investment into energy efficiency and renewable energy.[36] Worried by its reliance on coal, China's goal is to have 15% of its total energy needs met by renewables by the year 2020, and it has imposed a requirement on power companies to generate a fifth of their electricity from renewable resources by then.[37]

All this has already resulted in Chinese 'green-collar' jobs and a global leadership position as a renewable energy producer: the energy-consuming giant is one of the world's top three countries manufacturing solar photovoltaics, and China has installed more solar heating systems than the rest of the world put together.[38]

For the USA, abundance in almost every resource has been immensely beneficial to economic growth. Fossil fuels, for example, have been so readily available that they have been underpriced and overused. Consequently, the country's domestic petroleum reserves are now declining sharply, forcing significantly higher prices and greater reliance on imports.[35]

The current Obama administration has responded by putting cleaner energy at the heart of its domestic agenda with the economic stimulus plan, *American Recovery and Reinvestment Act* of 2009, which includes more than $80 billion for clean energy investments that are expected to jump-start the nation's economy and create new jobs on a large scale.[39]

Just like China and the USA, other nations have started to develop strategies which will move them to low-carbon economies that are resilient to the effects of climate change. At the same time most industrialized countries are developing into knowledge economies where growth and value creation are driven by new technologies, know-how, speed, creativity and innovation. Competitive production today is, in other words, not only dependent on natural resources. More than ever it is about producing new knowledge, using it quickly and in new ways.

The European Union (EU) countries, for example, have launched the *Lisbon Strategy* with the objective to make the EU 'the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth'.

In the UK where natural resources are relatively scarce, the nation has already abandoned heavy industries including coal mining and the automobile industry in favour of human and technological resources, and knowledge-based industries (high to medium tech manufacturing, finance, telecommunications, business services, education and health) already generate about 40% of the UK's GDP.[40]

This is also the case for one of the five most competitive nations in the world, Denmark. With a population of five million people and limited natural resources, this small Scandinavian country has, over the past 200 years, transformed from an agrarian and later industrial society to a primarily service society. Today knowledge-intensive service trades like banking, insurance, design and information and communication technologies (ICT) are among the most job and growth-creating trades in the Danish economy.[41]

In a knowledge economy, where the production tools are located in the mind of each member of staff, the individual worker has gained new importance and value. Human competence is the new raw material, and just as precious as financial capital, technology and natural resources. And just as scarce – at least in some parts of the world. By the year 2050, the median age in countries like Italy, Japan and Singapore is expected to exceed 50 years, and the elderly will be supported by a diminishing number of young people.[42] At the same time, the US Census Bureau estimates that by that time about 85% of the world's population will live in the so-called developing countries.[42]

Consequently, in about 50 years' time, the economic map of the world will be very different from what it is today. The developing countries will have almost endless human resources to fuel the global economy. In the West the retirement of the *Baby Boomer* generation (born 1946–1961) and the newly arriving scarce workforce of *Generation Y* (born 1976–1991) and *Millenniums* (born 1991–2006) will have a negative impact on the supply of labour and talent.[43]

This means that skill shortages in one country can be addressed by transferring talent out of another country. But it also means that in the fight for human capital the ability to understand and address the motivators of future generations will be essential for businesses.

The invisible wealth and welfare driver

To combat low productivity and stagnation of economic growth most national globalization strategies tend to include essential cornerstones of investment in education, research and development, innovation, entrepreneurship, science and technology right from biotech and cleantech to ICT (information and communications technologies).

At present, however, the strategies still do not include investment in social innovation and social entrepreneurship at the same level as technological innovation and business entrepreneurship. This is not surprising though, since the 19th and 20th centuries were very much characterized by and known for technological innovations and inventions. Assembly lines, steam engines, the radio, sewing machines, washing machines and the electric light were all elements that contributed to the creation of the industrial society – with financial growth, material comfort and welfare as a result.

Nevertheless, social innovation has provided the right conditions for further technology development and economic growth. As business thinker Peter Drucker once put it: 'Social innovations – few of them owing anything to science or technology – may have had even profounder impacts on society and economy, and indeed profound impacts on science and technology themselves.'[44]

Throughout the Victorian period in the UK, for example, it was the creation of social innovations like schools, libraries, building societies and housing that supported and drove industrial growth at that time.[45]

It may also seem paradoxical that a small country like Denmark with few natural resources, high wages, high taxes, a large public sector, a relatively low level of R&D activity and a relatively low proportion of people with a higher education in science or technology has been able to top global rankings of national competitiveness.[46]

Nevertheless, it is a showcase of how social innovations can constitute a resource on a par with coal, oil and other natural materials. Because, parallel to technological innovations that modernized the then agricultural society at the end of the 19th century, social innovations like the co-operative movement, the folk high school movement and the trade union movement have been backbones in the modernization of the now knowledge and service-based welfare society.[47]

In fact, the Chief Economist and Director of the World Economic Forum's Global Competitiveness Programme, Augusto Lopez-Claro, praises the Scandinavian welfare state models that build on social innovations like tax systems, unions, a powerful public sector and a flexible job market because he believes that the Nordic countries can lend important inspiration to developing countries faced with strategic choices, which will impact their societies and economies for years to come.[48] Social innovation, technology and economic growth are tightly bound together.

Today we are again in the midst of a transition which is once more putting social innovation at the forefront of the development of our societies – and as an economic force.

Finland, for example, is engaged in large-scale 'welfare cluster' export of its social sector know-how and equipment to Japan with, among other things, the *Finnish Wellbeing Center* name and trademark of a recent Finnish innovation, which comprises a modern Finnish elderly care concept complemented by advanced Finnish technology.[49] And in Australia education is its no. 1 services export (in 2008 valued at $15.5 billion) and has in recent years become Australia's third largest export overall.[50]

One of the world's progressive centres for social innovation, the Young Foundation, in fact argues that in order to recover from the recent recession, governments need a much greater emphasis on innovation and entrepreneurship and must support the likely areas of future jobs growth (health, care, education, environmental services) rather than bailing out the failing industries (banks, cars); investing in knowledge and services rather than concrete; and mobilising the capacities of local government and voluntary organizations rather than relying solely on national institutions.[51]

The Young Foundation is now conducting a study for the policy unit of the President of the European Commission to recommend how to grow the field of social innovation in Europe. But so far, no one nation has yet made it an explicit central point of its growth or globalization strategy.

New growth paradigm wanted

The globalization race is not just about competitiveness and economic growth. It is also a race against time. Globalization has certainly made the world smaller and opened up a world of new markets and new business opportunities. But the world's almost limitless growth dynamic has also made the world more vulnerable, with adverse side effects such as resource scarcity and natural disasters, polarization and health threats. We are on a collision course with the limits of both nature and ourselves.

As early as 1987 the Brundtland Commission, which published the report *Our Common Future* with the oft-quoted definition of sustainability, warned that the world is not facing separate crises, but that they are interlinked and arise from uneven development and unsustainable economic growth that compromises the basic needs of individuals and communities as well as those of future generations.

Definition of sustainability

'Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'

Brundtland Commission, 1987

Ever since, there have been numerous warnings and wake-up calls to change the current course. Today the call for sustainable actions is more urgent than ever. The alternative – not taking action – may have a dramatic impact on the next generations to come, with financial, environmental and social implications and costs reaching a level not yet seen.

As Executive Director of the United Nations' Environmental Programme (UNEP), Achim Steiner, concludes in UNEP's fourth Global Environmental Outlook Report:

> 'The systematic destruction of the Earth's natural and nature-based resources has reached a point where the economic viability of economies is being challenged – and where the bill we hand on to our children may prove impossible to pay.'

Therefore, reviving or strengthening economic growth is not the only important priority. *Sustainable* growth is becoming the new development mantra.

Despite governmental efforts at climate change conferences, national globalization strategies that build on a low-carbon economy and G20 summits where some of the world's strongest nations coordinate their actions to ensure 'strong, sustainable and balanced growth', there is still one fundamental issue that needs to be addressed: our one-dimensional metric of growth in terms of material and quantitative growth.

The phrase 'sustainable growth' is, in fact, with its current interpretation an oxymoron – a self-contradictory statement – simply because nothing can grow, and therefore be sustained, forever. Everything, eventually, comes to an end either by perishing or turning into something else. Growth is neither linear nor unlimited. We cannot have infinite growth in a finite world.

If, however – as economic iconoclast Hazel Henderson and systems theorist Fridtjof Capra argue – growth is interpreted more broadly to include *qualitative* growth by including also social, ecological and spiritual dimensions, then such a multidimensional systemic process can indeed be sustainable, provided it involves a dynamic balance between growth, decline and recycling as well as learning and maturing. We need to adapt the *biological concept of development* rather than the current narrow economic concept.[52]

Nevertheless, they point out, most companies still measure growth in terms of turnover, a country's wealth is still measured in terms of its gross domestic product (GDP) and the world categorized into 'developed', 'developing' and 'less developed' countries, recognising only monetary value. All non-monetary aspects of growth and development are ignored.

So, not surprisingly, GDP measures the quantity of money-based transactions recorded in a society while omitting 'underground' cash payments like barter (exchange of products and services instead of paying money which already makes up about 15% of world trade and increases by 15% each year[53]) and unpaid work found in voluntary services within communities and families (unpaid productive work was, in 1995, estimated at $16 trillion missing from 1995's global GDP of $24 trillion[52]).

Many people are, however, oblivious to the fact that social costs like those of accidents, wars, litigation, healthcare, pollution and other externalities are actually added as *positive* contributions, i.e. as additions to the GDP, instead of deducting them. Just like a wide range of values that are not 'valued' in the economic system, from social welfare and the environment to justice and security, are absent from the calculation. This is how we measure a 'healthy economy' – GDP measures wealth and social degradation, but not progress. There is no link between economic growth and quality of life.[52,54]

So, just like old world companies throughout time have externalized social and environmental costs to taxpayers, the environment and future generations, so have governments. To measure genuine prosperity and progress there is a need to fully internalize social and environmental costs.

The goal to achieve unlimited growth also means that there is only one way forward: to stimulate consumption. This can only happen by new customers intervening in the market or by the existing ones consuming more.

The former is already being realized with the rising population of billions of people in former Third World countries, who are now starting to move from poverty to consumerism. Goldman Sachs predicts that China alone will contribute 30% of global consumption growth by 2010, more than the G3 – France, Germany and the UK – and almost double that of the USA.[55] This will pose great demands on natural resources that are already being destroyed or overexploited.

The latter is realized by creating artificial needs through, for instance, advertising and boosting disposable incomes through, for example, increased wages, returns of shares and overexpansion of financial services like bonds or loan takings – one of the very triggers of the recent economic collapse.[52]

Recognising the flaws of the current design of capitalism and the conventional concept of economic growth is therefore the first essential step to overcoming the economic crisis – indeed the systemic crisis. We need to adjust our economic systems in support of healthy development rather than maximising one part of an overall system at the expense of the other parts.

Because if the current megacrises are a systemic problem – which, on the one hand, means that the lack of solutions to one imbalance leads to the acceleration of another – this, on the other hand, also means that finding a solution to one of the problems will have a positive, synergetic effect on the other parts of the system.

No wonder the World Economic Forum, which hosts the prestigious annual meeting events between the world's most influential decision-makers in Davos, is arguing for government stimulus programmes for the short term to counter the effects of the financial crisis. And for the long term, the need for innovative technologies and new business models to transform and revitalize the global economy in a sustainable way. For example, by addressing global risks and societal concerns such as climate change, healthcare, water scarcity, ageing and food/energy security in a way that creates economic growth.[56]

Economist Joseph Schumpeter's concept of 'creative destruction', whereby companies, industries and economies are rapidly transformed by innovation, is, in other words, more called for than ever. It is time for nations and businesses alike to challenge their old world views and logics and embrace new rules and principles for future economic growth, which do not compromise the needs of either current or future generations.

Over the following sections of Chapter 1 you will be introduced to some of the mainstream companies and social entrepreneurs that are laying the trails towards a sustainable economy. The purpose is to give you an overview of some of the new business opportunities and new growth principles through the lens of the current megacrises in terms of (1) the environmental system and the principle of industrial ecology; (2) the economic system and the principle of inclusive growth; and (3) the social system and the principle of immaterial growth. In other words, we will explore three global imbalances and three sustainable growth principles in the so-called triple context.

Five planets wanted
– environmental imbalances and growth principle 1

> 'I sincerely believe that business is the force of change. Business is essential to solving the climate crisis, because this is what business is best at: innovating, changing, addressing risks, searching for opportunities.'[57]
>
> *Richard Branson*

Food shortage; freshwater stresses; degradation of forests, land, coasts and marine ecosystems; health hazards of indigenous peoples; pollution of earth, water and air; extinction of mammal, bird and amphibian species; natural disasters, climate change and global warming. The harmful consequences of mankind's growth and consumption over the past five decades are many, and have left a devastating mark on Mother Earth.

When the Earth's population reached 2.5 billion in 1950, it had taken humankind four billion years to get there. In 2000, only 50 years later, 6.7 billion people inhabited the world. Within half a century, the global population had grown more than during the four million years humankind had existed as a species.[58] Humanity's 'ecological footprint' (a measure of the pressure on Earth from human consumption of natural resources) has already increased to 125% of global carrying capacity. And with the prospects of a population peak of nine billion around the middle of the 21st century, it could rise even further to 170% by then.[59]

By 2025, 220 million middle-income consumer households are expected in China alone, and by 2030 the number of middle-class consumers worldwide is expected to triple, bringing almost 80% of the world's population into the middle-income bracket of purchasing power.[59] It is numbers like these which make the World Watch Institute conclude that by that time it will take an extra planet like Earth to supply the 2.5 billion consumers in India and China with the same amount of resources currently available to the inhabitants of Japan.[60] And which make the World Wildlife Fund (WWF) estimate that it will require three planets if everyone adopts the consumption patterns and lifestyles of the average citizen from the United Kingdom – five planets if they live like the average North American.[59]

Sustainable consumption challenges by type of economy

Type of economy	Example countries	Main sustainability challenges
Consumer	USA, Japan, Western Europe	Dramatically lowering resource use while maintaining economic output.
Emerging	China, South-East Asia, some countries in South America	Leapfrogging to sustainable structures of consumption and production without copying Western examples first.
Developing	Many countries in Africa, some countries in South America	Developing dedicated solutions for the 'low-income segment of the population'; providing a basis for sustainable growth.

Source: *Sustainable Consumption Facts and Trends: From a Business Perspective*. World Business Council for Sustainable Development, 2008.

No wonder 1600 of the world's most prominent scientists, and among them several Nobel Prize winners, as early as 1992 issued the following *Warning to Humanity*:

> 'We the undersigned, senior members of the world's scientific community, hereby warn all humanity of what lies ahead. A great change in our stewardship of the earth and the life on it is required, if vast human misery is to be avoided and our global home on this planet is not to be irretrievably mutilated.'[61]

Many of the industrial production impacts are being exported to the developing countries, which are carrying more than 90% of the humanitarian and economic burdens caused by climate change, although the 50 least developed countries together emit less than 1% of global carbon emissions.[62]

Among other things, this means that about 200 million people a year on average during the 1990s were affected by climate-related disasters, whereas only 1 million people in developed countries were affected,[63] and every year about 315 000 humans die because of climate-related causes – a number expected to rise to half a million in 2030 according to a report by the Global

Humanitarian Forum (GHF).[62] It also means that about 1.1 billion people do not have access to clean drinking water. And that about 1.6 million people die every year from diarrhoeal diseases (including cholera) attributable to lack of access to safe drinking water and basic sanitation.[64]

There are still huge amounts of work to be done if we are to turn the current wave of environmental depletion and destruction, and the ominous warnings continue to be manifold. So, although the environmental debate has been raging for years, and environmental sceptics are still disputing whether climate change is manmade or not, the sinister bottom line remains the same: the Earth is reaching its limits.

Or, in the words of Lester R. Brown, founder of the World Watch Institute: 'Throughout history, humans have lived on the earth's sustainable yield – the interest from its natural endowment. But now we are consuming the endowment. In ecology, as in economics, we can consume principal along with interest in the short run, but in the long run it leads to bankruptcy.' [58]

In short, if economic growth is to be sustained in the future, it must be within what has been dubbed a 'one planet agenda'.

The call for business action

Concerted efforts of governments, NGOs and leading businesses to prevent further environmental damage have already had positive results like the successful outphasing of ozone-depleting substances by cutting the production of ozone-layer damaging chemicals by 95%, the reduction of acid rain in Europe and North America, falling deforestation rates in the Amazon,[28] and the access to clean drinking water that has been secured for 1.6 billion people, particularly in Eastern Asia.[65]

The United Nations Conference on Environment and Development (UNCED) in 1992 – also known as the Rio Summit – when 192 countries signed the United Nations' Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol which was signed and ratified by 184 countries in 1997 and the recent follow-up at the Copenhagen Climate summit, COP15, are some of the joint actions of the world's governments to combat the issue of climate change.

Whether the outcome of the latter was a success or a failure depends on the expectations and ambitions of the beholder. But it has certainly focused collective attention on the challenges we need to resolve – and it has shown the world that solving the problems cannot be left to governments alone.

As former United Nations Secretary General Kofi Annan concluded some years ago in connection with a World Economic Forum gathering 'increasing numbers [of business leaders] are realising that they do not have to wait for governments to do the right thing – indeed, that they cannot afford to. In many cases, governments only find the courage and resources to do the right thing when business takes the lead.'[66]

The loss and degradation of Nature's ecosystems is already putting pressure on companies with expectations to corporate responsibility ranging from contributions to the development of countries in the emerging economies to maintaining competitiveness in the industrial countries. But with every challenge follows possibility, and around the world, progressive leaders are turning environmental requirements into new business opportunities instead of regarding them as liabilities.

Corporate responsibility expectations

Key areas	Expectations in industrial countries	Expectations in emerging economies
Economic development	Remain competitive and offer development opportunities to emerging economies.	Contribute to the country's development, especially structurally weak regions.
Ethics and management	Promote the adoption of environmental and social standards, throughout the value chain, especially among suppliers.	Act ethically and legally.
		Establish high environmental and social standards, and set an example for suppliers and competitors.
	Create transparency, regarding economic, ecological and social aspects of corporate activities, especially in emerging economies.	Help to build management competencies and institutions.

continued on next page...

Corporate responsibility expectations

Key areas	Expectations in industrial countries	Expectations in emerging economies
Employees and jobs	Promote job security through employee training and development. Proactively address challenges like equal opportunity and population ageing.	Create jobs and train employees. Ensure occupational safety and health protection. Promote and raise employee awareness of environmental protection.
Products and marketing	Ensure product safety. Offer quality products at fair prices. Promote sustainable consumption through ethically and ecologically sound products, and by informing consumers and raising their awareness.	Develop and market quality products for those at the bottom of the affluence pyramid. Ensure that products are safe and environmentally compatible. Consider the cultural and social context.
Resource efficiency and climate protection	Stronger focus on products: dematerialization of the economy by moving from product- to service-oriented business models. Help to reduce greenhouse gas emissions.	Transfer know-how and modern energy- and resource-conserving technologies. Satisfy growing consumer needs with products that use limited resources efficiently.
Social commitment	Work toward meeting the United Nations' Millennium Development Goals. Help to solve social problems, also by encouraging employee volunteering.	Support and promote, in particular, disadvantaged children and young people. Raise public awareness of environmental protection. Promote education and research for sustainable development.

Source: *Sustainable Consumption Facts and Trends: From a Business Perspective*. World Business Council for Sustainable Development, 2008.

Virgin founder, serial entrepreneur, adventurer and CEO Richard Branson is one of the business leaders who has recognized the new commercial logic, where urgent societal needs go hand in hand with new business potential.

Branson has already invested 2.6 billion dollars in a new Boeing plane, the Boeing 787-9 Dreamliner, which burns 30% less fuel than the previous generations of similar planes. He has also called for the creation of a *Carbon War Room* (www.carbonwarroom.com) – a global initiative founded in 2008 to harness the unique influence, resources and spirit of entrepreneurs to fill the gaps in the fight against climate change. The Carbon War Room contributes to solutions within areas such as transport, electricity, built environment, industrial processes, deforestation, agriculture and waste.

In fact, several companies are already marking themselves out as leaders within the field of eco-business. They have recognized the synergies between increasing productivity and revenue and cutting greenhouse gas emissions or other eco-friendly solutions, which open up new revenue streams, new industries and radically different business models.

The total value of the carbon reduction credit market, for example, already topped $300 million in 2003 and has been growing rapidly ever since, creating significant new investment and trading opportunities.[19]

In a number of countries, 'industry clusters' are planned where the waste of one industry becomes the resource of another. In Japan, for example, recycling and take-back requirements have encouraged industrial reuse of waste. The sale of products from waste has, in fact, helped create whole new industries, including those that are developing the technologies needed to support these activities.[19]

Teijin's business model innovation

Japanese chemical company Teijin has shifted the focus of its business model on chemical solutions to global challenges. To address the challenges associated with mounting waste, Teijin has developed closed-loop recycling systems for polyester, so that polyester garments and other products can be turned back into virgin-quality polyester.

continued on next page...

> Compared with the conventional production of polyester from petroleum, these systems save energy and resources and reduce CO_2 emissions and waste. Teijin manages a global network of companies that voluntarily collect and recycle polyester garments, and advocates the development and marketing of products containing these recycled fibres. Teijin is working with other actors in society to advocate this vision of the components of a sustainable product. As of May 2008, more than 80 manufacturers of apparel and sporting gear had joined the effort in Japan and overseas.
>
> Source: *Sustainable Consumption Facts and Trends*, WBCSD, 2008.

Companies are also revitalising their business models by specialising in developing world needs. Like the Swiss-based Danish company Vestergaard Frandsen, a textile business which used to produce work uniforms but now specializes in disease control textiles and other innovative life-saving products and concepts. These include PermaNet, a long-lasting mosquito bed net impregnated with insecticide; ZeroFly, a plastic sheeting that kills mosquitoes and flies; and LifeStraw, a 25 cm long water filtration straw which – at a price of less than 6 dollars for governments or international relief organizations – can be used by a person for up to a whole year to turn most dirty water into safe drinking water.

Already awarded Best Invention of the Year by *TIME* magazine and dubbed 'one of the 10 things that will change the way we live' by *Forbes* magazine, LifeStraw is expected to have a massive effect on the quality of life and health of the millions of people who do not have access to clean drinking water.

Vestergaard Frandsen's strategic shift has not only led to partnerships with governments, NGOs and international humanitarian organizations like the International Federation of the Red Cross, the United Nations' High Commission of Refugees and the World Health Organization. It has also gained them access to new markets, and the company's products are today in use in refugee camps and disaster areas all over the world.

LifeStraw. *Photo courtesy of Vestergaard Frandsen*

China's largest water company, Shenzen Water, which supplies over 7 million tons of drinking water every day, has concentrated its innovation efforts on areas including sewage treatment, decontamination of bedload and water recycling. These initiatives alone contributed over 21% of the group's sales in 2006, and its investment in process innovations for sustainable use of water resources has already led to 19 patent applications.[14]

In another fast-growing country, India, the former textile business Suzlon Energy has transformed its original business model after the purchase of a German wind turbine, which they could not keep running. And so, they decided to build and maintain turbines themselves. When Suzlon Energy was started up in 1995, the company was not even on the list of the world's top ten wind-turbine manufacturers. But with global demand for wind energy taking off, ten years later it was the fifth-largest producer in the world. Its sales and earnings tripled in the quarter ended June 30 2006, as the company earned the equivalent of $41.6 million on sales of $202.4 million, and four-fifths of Suzlon's orders now come from outside India.[37]

With the worldwide market for wind, solar, geothermal and fuel cell energy estimated at $200 billion in 2020 it is no surprise that other dynamic companies are looking to establish themselves in this and other related industries.[67]

The roster of eco-minded companies also includes iconic industrial giant, General Electric (GE) – a maker of jet engines, plastics and lighting and builder of power plants that churn large amounts of carbon dioxide into the atmosphere. In 2005 GE launched its *Ecomagination* business strategy with a pledge to improve its environmental practices by focusing technologies, production capacity and infrastructure on developing solutions such as solar energy, hybrid locomotives, fuel cells, lower-emission aircraft engines, efficient lighting and water purification technology.

GE invests $6 billion each year in research and development, of which $4 billion is allocated to solving the problems of clean energy and affordable healthcare,[68] and GE's energy-efficient technology reaped $17 billion in revenue in 2008, up 21% from the year before.[69]

Brand new players are, however, also entering the scene. Like the upcoming star within sustainable transport solutions, the California-based company Better Place, which aims to reduce global dependency on oil through the creation of a market-based transportation infrastructure for electric vehicles.

Better Place will build an electric recharge grid with mainly renewable energy generated from solar arrays and wind farms, and Renault will provide the electric vehicles by 2011 at competitive prices. The infrastructure also includes 'battery shift stations' that will enable a switch of batteries for the longer drives. The plan is to deploy the infrastructure on a country-by-country basis, and the first electric vehicle networks are already being built in Israel and Denmark as test markets in 2011.

In 2008 Deutsche Bank analysts issued a glowing report stating that Better Place's approach could be a 'paradigm shift' that causes 'massive disruption' to the auto industry and which has 'the potential to eliminate the gasoline engine altogether'.[70] One year later the company's founder, Shai Agassi, was included in *TIME* magazine's list of the world's 100 most influential people.

That it is both cost-beneficial and innovatively rewarding to incorporate sustainability principles into the company's processes is something that the world's largest manufacturer of modular carpets, Interface, quickly realized when, in 1995, it embarked on its *Mission Zero* journey to become a totally sustainable organization by 2020.

Interface is well on its way to reducing its negative environmental impacts. From its 1996 baseline the company's actual greenhouse gas emissions are down 44%, water intake per unit of production is down 80%, 100% of its electricity in Europe is renewable, 36% of the raw materials used are recycled and bio-based, and total waste sent to landfill since has been reduced by 80%, netting the company an impressive $433 million in cumulative, avoided waste costs.[71]

So when people ask Lindsey Parnell, the CEO and President of InterfaceFLOR Europe, Middle East, Africa and India, a division of US-based Interface Inc., what the costs of running a sustainable business are, he usually says: 'I don't know how much it costs, but I know how much we have saved and that more than covers any costs.'

Interface has proved how a business in a chemically-heavy industry that used to externalize its costs onto the environment within a couple of decades can become a solid business case of corporate sustainability. In 2008 the company was voted number one in Globespan's survey of environmentally sustainable businesses, marking itself as one of the front-runners of the new industrial revolution. Today Interface shares its new business model which aligns process, people, products, planet and profit with other companies around the world.

As Parnell puts it: 'Business as a force for good, as a force for nature, and as a force for sustainable growth – that's an idea worth sharing.'

Growth principle 1: industrial ecology

The formula behind the success of Interface and many other like-minded companies is the first of the three sustainable growth principles that we will be exploring: industrial ecology.

Industrial ecology is the shifting of industrial process from linear, open-loop systems in which resource and capital investments move through the system to become waste, to a circular, closed-loop system where wastes become inputs for new processes.[72]

In other words, the new business revolution evolves around designing products that are not only energy efficient but essentially also waste-free by using waste as a nutrient for new purposes.

In the case of Interface, this new growth logic has led to new service concepts like ReEntry, a scheme where the company collects used carpet tiles for reuse or redistribution to, for example, charities, schools, community groups and small businesses. Products that are not reused end up being recycled or down-cycled into other products. Likewise, the Evergreen Lease concept extends product life and recovery of carpets for repurposing by leasing rather than selling them to customers, who can then hand their carpets in when they have served their initial purpose, thereby diverting them from landfill.

In addition to creating closed-loop recycling systems that minimize negative externalization, Interface also bases a fundamental part of its design process on *biomimicry* – inspiration from Nature – the idea being that after 3.8 billion years of evolution Nature knows what works and what does not. So instead of trying to master it, people use Nature as a mentor. For Interface the 'mentoring' has certainly paid off: the result has been better products than ever, and a range of new carpet bestsellers and patents that they would never have thought of before.

The two industrial pioneers, German eco-chemist Michael Braungart and American architect William McDonough are some of the proponents of Nature's cyclical growth logic which replaces the minimising approach of eco-efficiency with an optimising approach of eco-effectiveness. They call it *Cradle-to-Cradle Design* (if you enter 'Food = Waste' on Google, you will find a link to an inspiring 15-minute documentary on their new production paradigm).

Ford Motors – an industrial ecologist

Despite tough competition from Japanese car manufacturers, massive cutbacks and advice to focus only on the financial bottom line, Ford Motors in Michigan, USA, has decided to implement Braungart and McDonough's Cradle-to-Cradle principles. So far, Ford has:

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- Invested $2 billion in restoration of Ford's 1100-acre Rouge River manufacturing complex in Dearborn, Michigan, turning it into a productive, life-supporting place.
- Used native plants to neutralize toxins and purify contaminated soil around the complex.
- Improved indoor work conditions for employees by installing skylight and interior arrangements that promote worker safety.
- Planted innovative vegetation roofs on its factory buildings. Among other things, it benefits birds, plants and micro organisms, filters storm water and insulates the building, reducing heating and cooling costs by up to 5%.
- Developed hybrid car model, Ford U, which is produced from materials that are later recycled or reused as biological or technological nutrients.

The Cradle-to-Cradle Design has already been adopted by companies like clothing producers Nike and Gap, chemical company BASF, energy company BP, electronics company Philips and car manufacturer Ford. But governments are also starting to embrace the concept.

In China, for example, where the plan is to move 400 million people from rural areas into urban centres by 2030, Braungart and McDonough's Cradle-to-Cradle team is working with the government to build experimental eco-village districts in six major Chinese cities with solar panels on the rooftops and local materials, all of which are either biodegradable or completely recyclable.

In summary, the common denominator for all of these different eco-based solutions is the acceptance of the need to invest in the future instead of waiting for sustainability-related issues to be embedded in legislation, or – even worse – for a time when the costs and damage of conventional practices and lifestyles will be irreversible.

The sustainability principle of industrial ecology builds on not necessarily *minimising* consumption but rather using the *right resources* in a way where waste is no longer a pollutant but a *nutrient* for a biological or technical cycle.

This is one of the innovative ways to avoid ecological bankruptcy – and to build the new sustainable business future.

More wealth and more inequality
– economic imbalances and growth principle 2

> 'Globalization is not just about opening up another Pizza Hut. It means distributing opportunity and the good life to all the world's population.' [73]
>
> *Iqbal Quadir*

Good news. The world is winning the fight against poverty penny by penny.

The globalization process has made us richer, tripling the global average income between 1950 and 2000,[58] and rapid economic growth has caused a historic decline in poverty: when the World Bank first published its global poverty estimates in 1990, the figure was 42%. In 2005 the figure was just over a quarter.[74]

The main reason for the decline in poverty figures is the dramatic economic boom in China, where half a billion of the Chinese population have been lifted out of poverty throughout the past three decades. In only 15 years – between 1990 and 2005 – the share of Chinese people living below the threshold of $1.25 a day fell from 60.2% to 15.9%. In India and in sub-Saharan Africa the poverty rate has also fallen, although much less.[74]

Nevertheless, the gap between the richest and the poorest on a global scale is ever-widening. In 1960 the richest 20% accounted for 70.2% of global GDP, while the poorest 20% controlled 2.3%, a ratio of 30:1. 40 years later the ratio was 80:1 with the richest quintile controlling 85% of global GDP and the poorest accounting for only 1.1%.[12]

Consequently, 1.3 billion, or roughly 20% of the world's population – predominantly in many regions of Asia and Africa – live on less than one dollar per day, the World Bank's measure for extreme poverty (based on purchasing power parity). In total, 2.7 billion people struggle to survive on less than two dollars per day.[75]

Capitalism in its current form is, in other words, still not able to cater to basic human needs in the world. And with the recent economic crisis, poverty is skyrocketing.

According to The World Bank, it has already pushed over 100 million people back into poverty, and for every percentage of decline in the global economy, 20 million people will follow.[76] The risk of a decrease in foreign direct investment and scale backs on development assistance due to lack of funds does not make future scenarios much brighter.

The global downturn has also led to a sharp increase in food shortages. In the West this has meant higher prices for food. But for billions of people who live for less than a couple of dollars a day it has led to a catastrophic halving of their buying power. In just two years, from 2006–2008, average food prices increased by 24%, thereby raising the number of chronically hungry people to one in six people worldwide.[77]

Hunger, malnutrition and infant mortality are just some of the faces of poverty. TB and HIV/AIDS-related deaths, lack of access to basic sanitation and unsafe sources of drinking water as well as women's lack of access to basic education are other manifestations of poverty. Just like lack of jobs due to lack of businesses, limited labour supplies due to poor health or malnutrition and insufficient infrastructure are factors contributing to its perpetuation.[78]

In short, poverty is about more than empty pockets. And because it, in turn, may spawn corruption, conflict, crime, security threats, undermine global public health, accelerate habitat destruction or create large-scale migration, the problems of the bottom billion are problems for us all.

In the business of poverty eradication

The closest international consensus on how to eradicate poverty so far is the United Nations' eight *Millennium Development Goals* (MDGs) with underlying specific targets to be achieved by 2015.

The Millennium Development Goals (MDGs)

Goal 1: Eradicate extreme poverty and hunger.
Goal 2: Achieve universal primary education.

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Goal 3: Promote gender equality and empower women.
Goal 4: Reduce child mortality.
Goal 5: Improve maternal health.
Goal 6: Combat HIV/AIDS, malaria and other diseases.
Goal 7: Ensure environmental sustainability.
Goal 8: Develop a global partnership for development.

More details at www.un.org/millenniumgoals

The World Bank, which provides loans to poorer countries for capital programmes with the goal of reducing poverty, believes that the best way for poor countries to adapt to poverty-related issues is to develop by diversifying their economies, developing health systems and strengthening their infrastructure.

To achieve the MDGs it has therefore proposed an agenda for inclusive and sustainable growth which, among other things, includes an increase in aid for trade.[63]

Fundamental shifts in food policies towards the developing world were thus recently marked at the G8 Summit in 2009, when the world's eight most powerful statesmen from the UK, the USA, Germany, France, Italy, Canada, Japan and Russia agreed to set up a $20 billion fund to support the world's poorest countries in growing and selling more of their own food, instead of providing food to aid the hungry.[79]

The notion of business-based solutions as an important factor to kick-start and sustain economic growth in low-income countries is being shared by an increasing number of people, including development experts and NGOs, who no longer believe in the effectiveness of conventional development aid programmes.

An example from The World Bank illustrates why: an internal review of just one quarter of its Africa projects launched during the 1990s showed that between 65% and 70% of these projects had failed. This included the $40 million Morogoro Shoe Factory in Tanzania, which never produced more than 4% of its planned output.[80]

It is examples like these which have made Kurt Hoffmann, director of Shell Foundation and former councillor to the United Nations, the European Union and The World Bank, join the choir of people who strongly believe that the aid industry should be reformed by applying fundamental business principles to enhance its performance and accountability in support of local job creation and entrepreneurship. Because, as Hoffman argues, poverty is about cash, and cash comes from having a job.

But this is nowhere near the centre of the aid community's strategic approach, which is why Hoffmann is calling for the private sector to contribute crucial knowledge about growth, job creation, investment and innovation. Not by engaging the external affairs representatives or Corporate Social Responsibility (CSR) specialists of mainstream businesses, but rather by engaging those inside the business who develop new commercial projects or products, manage supply chains and distribution networks or implement a regional market entry strategy.[80]

This is also the reason why the Shell Foundation – which was established as an independent registered UK charity by Shell Group in 2000 – takes an explicit 'enterprise-based' approach to developing, up-scaling and promoting solutions to the current energy, environmental and poverty challenges.

This involves applying market principles and injecting 'Business-DNA' in terms of business thinking, models and disciplines into the organization, engaging in strategic partnerships with businesses, committing funds as 'social investments' in solutions that deliver financial and social returns rather than grants and, where appropriate, leveraging the value-creating resources – the knowledge, brand and infrastructure – of the Shell Group.

Results of this approach so far include a new design of stove that emits up to 70% less CO_2, uses 60% less wood and thereby reduces the health-damaging effects of indoor smoke pollution, which is the cause of premature death for around 1.5 million people a year.[81]

The call for taking a more business-centred approach to development is not a call for privatization of the aid industry. Rather, it speaks in favour of combining the best from two worlds – although this provokes conventional ideologies about altruism and business.

So when former aid workers Martin Fisher and Nick Moon founded the non-profit organization Kickstart to develop and sell technologies like their

MoneyMaker irrigation pumps to poor African farmers, who use them to establish and run profitable small-scale enterprises, they were both branded as heretics. But experience had shown Fisher and Moon that business dynamics work. People invest more in the success of a tool they buy than in one they are given.[82]

Kickstart's impact figures speak for themselves. Since the company started in 1991 it has kickstarted the launch of more than 89 000 new businesses that have created more than 60 000 new jobs, moving almost half a million people out of poverty in Kenya, Tanzania and Mali. And with the sale of every product, Kickstart reinvests its profit to develop more new technologies.

Today The World Bank publishes regular *Doing Business* reports, which track how well nations and regions are doing in terms of creating the sorts of policy environment that let enterprise be a force for development. The global association The World Business Council for Sustainable Development (WBCSD) engages its members through the *Sustainable Livelihoods Programme*, which aims to identify business models that serve business operations in the developing world while creating opportunities for the poorest communities to prosper. And the United Nations has established the UN Global Compact, to date the world's largest voluntary network for more than 5000 companies from more than 130 countries that are committed to sustainability and responsible business practices in alignment with ten universally accepted principles that also support the Millennium Development Goals.

The UN Global Compact

Human rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.
	Principle 2: Businesses should make sure that they are not complicit in human rights abuses.
Labour standards	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
	Principle 4: The elimination of all forms of forced and compulsory labour.
	Principle 5: The effective abolition of child labour.
	Principle 6: The elimination of discrimination in respect of employment and occupation.

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The UN Global Compact

Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges.
	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.
	Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: www.unglobalcompact.org

Like the UN's Global Compact, the business organization World Business Council for Sustainable Development (WBCSD) is encouraging its members to search for more inclusive business solutions to address issues like poverty, health, labour rights and community development by working in partnerships that combine private, public and civil sector resources, skills and expertise. Not necessarily because they should feel morally obliged to do so, but simply because it makes good business sense.

But there is another good reason for these kinds of initiatives. 300 multinational corporations control 25% of the world's assets.[83] But they employ less than 1% of the world's labour force.[12]

That addressing the needs of the poorest people in the world holds huge business potential is something that has been captured in concepts like *bottom of the pyramid* – also referred to as the *Base of the Pyramid* or just BOP – coined by professor of management Stuart L. Hart and professor of corporate strategy C.K. Prahalad in 1998.

In the beginning their concept was so controversial that it took them years to find a publisher for their initial white paper, *The Fortune at the Bottom of the Pyramid*, which was eventually published in 2002.[84] Today their concept has inspired both development agencies and major corporations that have realized that although one poor citizen per definition has an increasingly low purchasing power, the sheer size of this specific socio-economic group gains access to a unique source of income, which at the same time can improve the lives of millions of people.

Economists like Peruvian Hernando de Soto, who helped inspire the World Bank's *Doing Business* initiative, Indian Amartya Sen and Bangladeshi

Muhammad Yunus have proposed similar pioneering approaches to bottom-up development based on private enterprise.

Parallel to this, multinational companies based in Europe, North America, Japan and other developed regions of the world are starting to recognize the need to move into regions with growing populations and developing economies. Thereby they can access new markets and new consumer segments, instead of relying on their traditional markets which are stagnating, shrinking or becoming intensely competitive.[42]

But many of them have not yet found the key that unlocks the gates to the huge market of the emerging 'global middle class' of low-income consumers – the four billion people who earn less than $3000 per year, the equivalent of $3.35 per day, that account for almost two-thirds of the world's population and have a combined spending power of approximately $5 trillion.[59] Which leads us to the second growth principle for a more sustainable and inclusive global economy.

Growth principle 2: inclusive growth

In 1960 the Danish businessman Erik Emborg got an idea. Why not sell milk products from dairy-rich Denmark to some of the millions of Africans who do not have access to or cannot afford to buy dairy products? And so, the Fan Milk business was born.

With recombination plants in Nigeria, Ghana, Togo and the Ivory Coast the company processes imported milk powder into milk-based products like yoghurt, chocolate milk and ice cream. The products are distributed via small depots to street merchants and bicycle vendors, who are independent entrepreneurs who, with Fan Milk funding, have access to the sales equipment like the blue distribution bikes that are found everywhere in the streets. In addition, Fan Milk provides credit to the individual entrepreneurs on a daily basis.

The market potential is huge, and in cooperation with the Danish Industrialization Fund for Developing Countries Fan Milk has now developed additional sales and distribution companies in Benin, Burkina Faso and Liberia. In total Fan Milk covers a customer base of 210 million people, employs more than 1300 staff and more than 20 000 independent sales entrepreneurs and has an annual revenue of more than $115 million. Fan Milk is, in short, both a successful business and a value-creating development effort with widespread local effect.

Since Fan Milk, the list of large corporations transforming their business models by changing price, volume or distribution of locally tailored products with the goal of giving the world's poor access to consumer goods has grown. And single-serve sachet packages, low-cost production, extended distribution and NGO partnerships are becoming new standards in these markets.[85]

Much-quoted Indian company Hindustan Lever Limited (HLL), a subdivision of the multinational corporation Unilever, is one of them. As India's largest consumer products company, HLL employs more than 15 000 employees, reaching over 700 million consumers and generating an annual turnover of more than 14 000 crores, the rough equivalent of $3 billion, as a result. To pioneer new markets among the rural poor, HLL requires all employees to spend six weeks in an Indian village to gain insight into local consumer needs and preferences. The knowledge is turned into the development of new consumer goods produced almost exclusively from local raw materials. HLL also has a rural research and development centre dedicated to developing products and technology to serve the needs of low-income villagers.

For distribution HLL uses a wide variety of local partners and supports them in developing local capabilities. And HLL has experimented with new forms of distribution such as sales via local product demonstrations, village street theatres and Project Shakti, which in 2006 enlisted around 30 000 poor and mostly illiterate women to provide them with training in selling, commercial knowledge and bookkeeping, teaching them to become fully fledged micro-entrepreneurs.The HLL strategy has not only created new jobs. It has also brought the women self-esteem, a sense of empowerment and a place in society, and has secured HLL a position as an accepted development partner among the poor.[12,86,87]

The new logic of regarding poor people as potential entrepreneurs, workers or customers who are able to improve their own situation rather than as victims or passive aid receivers is, however, no better illustrated than with the case of Muhammad Yunus's microcredit business, Grameen Bank.

With more than 23 000 employees and a recovery rate of 97%, as of January 2010, Grameen Bank has loaned more than $8.86 billion to 8.1 million borrowers, 97% of whom are women, has helped build 640 000 homes, sponsored more than 50 000 scholarships and student loans and changed the lives of 80% of Bangladeshi families.[88] These convincing results led to the United Nations designating 2005 *The International Year of Microcredit*. And commercial banks like Deutsche Bank, ABN Amro and Citigroup are now also following the microcredit path. They have realized that a billion in spare change is still a billion – and can make a huge difference.

Telecommunication companies France Telecom, Safaricom and Vodafone are also contributing to the innovations in monetary transactions with their M-PESA banking system which enables customers that do not have a bank account – typically because they do not have access to a bank or because they do not have sufficient income to justify a bank account – to complete simple payment transactions by SMS over a mobile phone. This not only provides safety from crime and helps 'un-banked' micro-entrepreneurs avoid the sky-high interest rates of loan sharks, it also gains access to a rapidly growing BOP market for information and communications technologies (ICT) in Africa that is already estimated at $2 billion (258 million people).[89]

The world's third largest cement manufacturer CEMEX, on the other hand, has developed a specific business model to address Mexican low-income needs in the do-it-yourself home-building market. Here it uses its financial strength to lend raw construction materials which are paid back with regular loan payments and applies its know-how to give technical advice and ensure efficient use of materials. As a result, home-building costs are 30% less while the construction period averages 1.5 years instead of four to six. Thereby homes are built in communities that could otherwise not afford it, and CEMEX is generating revenue from a market that did not previously exist.[14]

The Mexican giant has also invented a concrete mix with added anti-bacterial agent for flooring in low-cost housing projects in poorer communities. The treated concrete not only helps kill germs but also means that less expensive (and potentially polluting) cleaning agents need to be used.

There is, however, no 'one-size-fits-all-approach' to BOP markets, because issues such as skill levels, culture, the regulatory environment, NGO involvement and infrastructure challenges all differ from country to country. As a result, inclusive business growth often requires companies to go *beyond value chains*, i.e. to engage in broad-based education, health, enterprise development efforts, etc.[90]

The Swedish-based packaging company Tetra Pak, for example, has developed two different business models for its activities in premium and low-income markets. In both cases Tetra Pak works closely with its customers. But in low-income markets it has developed an integrated 'Cow to Consumer' value chain model from food production and food processing to food distribution and feeding programmes. Among other reasons because local food production and processing is still in its infancy, often with detrimental health effects as a result, which calls for improved food security and nutrition, promotion of education for children and fostering sustainable farming but also commercial financing of plant and equipment, market development activities and consumer information. The needs of each actor in the value chain are, in other words, addressed and integrated, creating a base for sustainable social and economic development.[14,91]

The innovation opportunities in addressing broader community needs and wants are also what lie behind Grundfos LIFELINK, an inclusive business model for sustainable supply of safe drinking water at affordable prices created by Grundfos, one of the world's leading pump manufacturers.

The Grundfos LIFELINK business model addresses the breakdown causes of many water projects: limitations of inadequate physical infrastructure for water and maintenance as well as restricted access to financial services. The model – a total solution water system with a solar-powered water pump, a water tank, a remote monitoring unit and an automatic tapping unit – also incorporates a payment facility, where the users pay for the water using smart cards and mobile banking. The payments also cover Grundfos LIFELINK's service and maintenance of the pump stations. Any surplus from the water revenue is paid back into the community's own account so it can invest in new development projects. Since 2008 Grundfos LIFELINK has been piloted in Kenya, and is expected to reach a commercial breakthrough during 2010.

Viewing BOP customers as business development partners and innovators rather than as mere buyers, suppliers or distributors who need to be developed is also an approach that is in the process of being developed and tested by Stuart Hart and his fellows at *The BOP Protocol Initiative*. By combining the engagement of local knowledge, resources, skills and needs with the resources and technologies of multinationals, the result is the co-creation of unique business models. These, in turn, create both economic value and enduring community value while establishing a foundation for long-term corporate growth and innovation.

Operating in emerging markets can, in fact, provide fertile ground for new ideas and products that may eventually also sell to consumers all over the world by serving as beta sites for what has been dubbed 'trickle-up innovation'.

The world's largest technology company, Hewlett Packard, for instance, has a 'developing country computer', an inexpensive, robust laptop designed to work in extreme climates, which is now being sold around the world. General Electric is now selling small-size, low-price handheld electrocardiogram devices and portable PC-based ultrasound machines in the USA, although these machines were originally developed for rural India and rural China.[92] And for Unilever, some 40% of the company's sales and most of its growth are now taking place in developing countries with activities ranging wider than traditional research and development.

In Ghana, for example, Unilever teaches palm oil producers to reuse plant waste while providing potable water to deprived communities. And in Brazil it provides financing to help tomato growers convert to eco-friendly drip irrigation.

For Unilever's CEO, Patrick Cescau, getting involved in issues like poverty, water scarcity and the effects of climate change is vital to staying competitive in the coming decades: 'CEOs used to frame thoughts like these in the context of moral responsibility. But now, it's also about growth and innovation. In the future, it will be the only way to do business.'[93] Unilever simply regards the (developing) world as its laboratory.

So to sum up, the principle of inclusive growth is not only blurring the borders between commercial activity and social value creation by bringing the world's poorest people into the global economy. It is also conveying new logics where public aid is transformed into private enterprise and small is turned into big. The poor are rich in resources and knowledge, and consumers, suppliers and distributors are turned into business partners. And corporate social responsibility is turned into corporate social innovation.

It is a new way out of poverty, a new way to make business and it is giving the term *developing countries* a whole new meaning.

The silent killers
– social imbalances and growth principle 3

> 'For the first time ever, our enemies are no longer outside us. We're quite well suited to battles with foreign powers, evil corporations or heartless states. But now we face many challenges where the enemy is us – our desires and our myopias may be what stand in the way of survival.'[45]
>
> *Geoff Mulgan*

Snapshot 1: Angelina Jolie with 5-year-old starving child at a refugee camp in Darfur. Snapshot 2: Nurse Smith with 45-year-old man from Manchester with too high blood pressure. Snapshot 3: Cathy Jones calls in sick because the workload is just too much.

While credit crunch, climate change, pandemics, regional conflicts and natural disasters have dominated media headlines and attracted celebrity activism, less attention is given to the world's most lethal silent killers: lifestyle-related chronic disease and stress. And no wonder. Snapshots 2 and 3 are not as easy to sell to the population as pictures of starving refugee children in Africa or the devastating effects of tsunamis and earthquakes.

Nevertheless, these silent killers are two faces of the same coin; in fact they are, in many cases, interlinked. They are the price we are paying for valuing wealth and doing well higher than health and wellbeing.

Chronic diseases like heart disease, stroke, cancer, chronic respiratory disease and diabetes are already the cause of 60% of all annual deaths worldwide.[94] And even though 80% of these annual deaths occur in low- and middle-income countries,[94] chronic diseases are still a health threat that have not gained the same attention as other health issues like HIV/AIDS.

Nevertheless, the increasing material wealth and free trade of globalization have made stimulants like tobacco and alcohol as well as unhealthy fast food accessible and attractive to more people, spreading obesity, high blood pressure and lifestyle-related diseases from the developed countries to the rest of the world.

Tobacco production, for example, has fallen by 50% since 1960 in wealthy countries, but has increased by 300% in the low to medium-income countries.[95] In China and India alone there are more than half a billion smokers, all living with a potential risk of developing chronic diseases.

So unless we start taking fundamental precautionary measures, the World Health Organization (WHO) estimates that these kinds of lifestyle-related chronic diseases will lead to the death of an estimated 388 million people by 2015 – a number close to the entire population of Europe.[96]

The implication of this silent health threat is also an increasing financial burden. Countries like China, India and the UK, for instance, will, within the next ten years, be losing respectively 558, 237 and 33 billion US dollars in lost productivity caused by chronic diseases.[97] And in the USA the costs of employee health are already close to topping the list of company costs, exceeded only by production costs and wages.[98] Stress-related injuries alone cost American companies more than 300 billion dollars per year.[99]

Across the continent, one in four of the European Union's 41 million workers experience stress-related health problems,[100] which account for 3–4% of the annual GDP in 15 EU countries – the equivalent of about 265 billion Euros per year.[101] After-effects: low productivity, high staff turnover, loss of knowledge and competences and reduced innovation capacity.

The rise of the silent killers is no coincidence. Industrial development in the Western world has caused physical, mental and spiritual imbalances, and the dark side of material growth is evident everywhere in the shapes of workaholism, overconsumption, a sense of meaninglessness as well as symptoms like stress, exhaustion, depression and other negative mental conditions.

In ultra-efficient Japan, for example, constant pressure to perform professionally has resulted in dysfunctional families with absent fathers, juvenile delinquents and rising depression. It has also resulted in a shocking wave of murders. School children have been murdered by their friends, parents by their children and children by their parents, and strangers have been murdered in some cases only because of a feeling of frustration.[102] The Japanese even have their own word for work-related deaths, *Karoshi*, 'death from overwork', which is reported as a separate category in public statistics.

Similarly, France has recently experienced a series of work-related deaths. In only 20 months one of the world's leading telecommunications operators, France Telecom, suffered 24 deaths and 13 suicide attempts amongst its employees. Horrifying examples of a 32-year-old woman jumping from her office window, a male employee hanging himself in his office cubicle, and a 51-year-old father of two who jumped to his death from a motorway overpass have all allegedly been caused by unusually high work-related stress levels. 'I am committing suicide because of my work at France Telecom. That's the only reason' and other similar motivations were quoted in the farewell notes the telecom workers left behind.[103]

High or unreasonable work demands, low control over one's own work, low support from management or colleagues as well as psychological distress and job dissatisfaction are oft-quoted negative stress-drivers. And, as we will see in Chapter 2, intrinsic needs like purpose, meaning and self-realization are starting to influence job satisfaction and consequently business practices. Affirmation and manifestation of personal values are therefore essential to turning the tide.

Healthy people – healthy business

Utopian Change. In a nearly universal commitment to social responsibility, companies are developing products and solutions that help make life better for all. Thanks to advances in science it is now possible to stop the progression of disease in its tracks, in good part through prevention. Empowered consumers take action to form coalitions strong enough to deal with the huge healthcare and social challenges across sectors and geography. Companies and authorities collaborate to create an environment in which nutrition and physical exercise can flourish, from the design of public transportation to preferential prices on health insurance for people who maintain good weight and fitness.[104]

It may indeed sound like utopia, but *Utopian Change* is a working scenario of the world's leading diabetes care company, Novo Nordisk, who use it to help chart a path to a more equitable and healthy future. Not only is it the company's belief that this scenario is within reach, it also matches Novo Nordisk's paradoxical aspiration to defeat diabetes, the very source of its current core business.

The Triple Bottom Line principle is how Novo Nordisk has chosen to interpret its commitment to sustainable development, which implies that any decision should always seek to balance three considerations: Is it economically viable? Is it socially responsible? And is it environmentally sound? The principle is grounded in the fundamental belief that a healthy economy, environment and society are fundamental to long-term business success.

So far, this principle has led, among other things, to more than 29 600 employees, activities in 76 countries worldwide, annual billion dollar turnovers (in 2009 $9.6 billion), the development of annual sustainability reports that integrate financial and non-financial aspects of its business, top rankings on the Dow Jones Sustainability World Index, an agreement with the World Wildlife Foundation to make a substantial reduction in its CO_2 emissions as well as stakeholder involvement to stay attuned to their concerns and to explore opportunities for innovative collaboration.

Within recent years the pharmaceutical multinational has taken a major strategic shift by moving away from 'sick care' and taking a more progressive view on 'healthcare'. As Novo Nordisk's CEO, Lars Rebien Sørensen, explains: 'If you want to be a partner with society you have to engage in solving the underlying problems. As a company we have to point out – even though we don't make money on this with our current products – that prevention, naturally, is the ideal solution to diabetes, indeed that society's solution to chronic diseases overall is to change our lifestyles.'

In addition to its $255 million-funded World Diabetes Foundation, which together with the International Diabetes Federation (IDF) and the World Health Organization (WHO) has already initiated more than 230 projects to limit the diabetes epidemic in developing countries through education and capacity building, Novo Nordisk has also founded the Oxford Health Alliance (OxHA) in partnership with Oxford University in the UK.

Financed by, among others, Novo Nordisk, PepsiCo, the American Cancer Society, the Australian Department of Health and the British Medical Research Council, OxHA is working on initiatives to prevent and reduce the global impact of chronic disease, including diabetes, by raising awareness among influencers, educating critical decision-makers and rallying as many as possible to the pressing need for preventative measures.

Health authorities from six of the world's largest nations including China, Brazil, Britain and the USA have already joined OxHA along with leading academics, corporate executives, activists, doctors, nurses and many others who share a sense of urgency concerning the worldwide epidemic of chronic disease. And as a counterpart to the Bill & Melinda Gates Foundation's publication on the *Grand Challenges in Human Health,* which mainly focuses on infectious diseases in developing countries, OxHA has published the *20 Grand Challenges* with six goals to prevent and fight chronic disease with a following launch of initiatives to target, among other things, industry's role in prevention.

The Grand Challenges' six goals

1. Reorient health systems.
2. Mitigate health impacts of poverty and urbanization.
3. Engage businesses and community.
4. Modify risk factors.
5. Enhance economic, legal and environmental policies.
6. Raise public and political awareness.

Source: www.oxha.org

The Smart Choice Program is another example of how health-influential industries and their stakeholders are taking their first proactive steps towards preventative measures. It is a private–public coalition of global manufacturers, retailers, health experts and NGOs, who have created a simple label that allows consumers to make nutrition-based choices in their food purchases. The initiative is part of a global commitment to proactively fight obesity and promote healthier lifestyles in both developed and developing countries, signed by eight of the world's leading food and beverage multinationals including Coca-Cola, Unilever, Kellogg's and Nestlé.

The commitment includes developing innovations that offer healthier consumer options, promotion of physical activity and healthier lifestyles and support of public–private partnerships to accomplish the objectives of the World Health Organization (WHO) Global Strategy on Diet, Physical Activity and Health.[105]

Health insurers in the USA are going even further by experimenting with point systems, where customers are rewarded for healthy behaviour, for example, spending an hour in the gym, for which they earn points which can be used as payment to buy bicycles, organic food and preventive acupuncture treatments.[53] And insurance companies in the Netherlands and France are starting to refund their customers' expenses for cholesterol-reducing foods.[106]

At the same time, completely new, socially innovative business concepts are starting to emerge. Like the Icelandic TV series, *Lazy Town*, developed by Magnús Scheving, a well-known Icelandic athlete and public speaker on fitness, who identified the need to promote exercise and healthy food to children in a positive, motivating manner through characters like superhero Sportacus, who exposes children to a variety of entertaining situations and choices that impact their health. The series has received numerous awards and has become a huge commercial success with airtime in more than 100 countries.

Likewise, British star chef Jamie Oliver's commercial success, the TV campaign *Jamie's School Dinners*, which shed light on the disturbing effects that processed school dinners have on the pupils, is another example of how social and commercial values go hand in hand. The campaign led to newspaper headlines, a 300 000-signature petition that pressured the British Government to set new standards for school meals and to commit £280 million for proper school dinner ingredients, equipment and training.

Meanwhile, corporate responses to counter stress and burnout include an increasing emphasis on corporate purpose and awareness of the importance of work–life balance.

Japanese car manufacturer Toyota, for example, now generally limits overtime to 360 hours a year (an average of 30 hours monthly), and at some offices issues public address announcements every hour after 7 p.m. pointing out the importance of rest and urging workers to go home. At competitor Nissan, office workers are offered telecommuting to make it easier to care for children or elderly parents, and along with them dozens of large Japanese corporations have also implemented 'no overtime days', which require employees to leave the office promptly at 5:30 p.m.[107]

In Denmark, the international engineering company NNE Pharmaplan has adopted a new strategy for productivity which sets out to do more by doing less. It all started in 2003 when NNE Pharmaplan was planning the construction of a new pharmaceutical factory in Denmark, a task that usually took 36 stress-generating months. But this time, the management decided that the factory was to be built at double speed – without doubling the amount of work hours spent.

Based on knowledge about the body's reactions to strain, insufficient rest and continuous high work tempo, NNE developed a programme based on principles of interdisciplinary knowledge sharing, rest, play and insight into the best ways to optimize the body for efficient work. Among other things, this meant that employees and project managers were not allowed to work later than 3 p.m. until the last month before the opening of the factory.

Result: NNE Pharmaplan finished the factory in 18 months – half the normally prescribed time. Following the pilot project NNE continued experimenting. Today they are down to 12 months!

Growth principle 3: immaterial growth

The notion that economic growth leads to wealth, health and happiness has become an unspoken premise as the world looks today, and most companies and nations still measure progress in monetary terms. But the high costs that we are paying as employees, citizens and society call for a more sophisticated economic system, which assesses not only the wealth but also the wellbeing of society and recognizes that companies can grow in other ways than size and turnover.

In Japan, what could be called a *slowing-down-to-advance-wellbeing* counter movement is already starting to make its mark in society as well as in corporations as a way of shifting attention from economic growth to social progress. Because slowing down allows us to step back, see the whole and contemplate what is really important. Sustainable stability rather than sustainable growth could well be its mantra.

Some local governments, for example, are campaigning for a more relaxed and comfortable lifestyle by adopting *Slow Life* as their slogan and by assigning a *Slow Life Month* for special events to raise citizen awareness of slower lifestyles. Others have adopted *Take-It-Easy* or *Creating a Slow Life Community* declarations for designing communities where citizens can enjoy life to the fullest instead of nurturing the prevailing hard-work paradigm.[102]

Similar changes are also taking place in the corporate world – for example, in the Japanese paint supply company Mukouyama Painting, which strives to accomplish growth in employee happiness and customer satisfaction while maintaining a financial zero growth policy. As a result, the company no longer measures its success by sales figures or increases in profit, but by its *Gross Company Happiness* (GCH), and an increasing number of Japanese enterprises are now following suit with their own zero growth policies.[102]

Mukouyama Painting – happiness on the bottom line

Until a personal wake-up call in 1996, Mr Mukouyama was a typical Japanese executive, driving his employees hard to reach the company goals of annual growth with slogans like 'Boost sales by 20%!' The hardliner policy made his company, Mukouyama Painting, an unpopular place to work, many employees left and the available positions were difficult to fill.

Struggling with depression in 1996, Mr Mukouyama asked himself: Who am I? What is the company for? What should I do? His conclusion: 'We live in a capitalist society where people are self-centred, but I really want to live in a world full of love, peace, harmony, cooperation and self-sufficiency.'

The result was a series of reforms designed to fulfil the company's renewed purpose, and success is measured by its Gross Company Happiness (GCH) – the total happiness of all employees. In fact, the company's goal is now to decrease sales by a certain annual percentage, because Mr Mukouyama believes that focusing on customer satisfaction rather than sales will add to the happiness of his employees.

Today, the staff turnover is zero, Mr Mukouyama is happy, so are his employees, and Mukouyama Painting is famous for its dedication to corporate responsibility and its popularity in the local community.[102]

The need for metrics that measure and redefine the concept of prosperity and wellbeing is also reflected in other corporate concepts like the previously mentioned *Triple Bottom Line* – also known as *People, Planet, Profit* or the *Three Pillars of Sustainability* – which captures an expanded spectrum of economic, ecological and social values and criteria for measuring organizational (and societal) success.[108]

Novo Nordisk, for example, reports on its water and energy consumption, recycling percentages, waste volumes, CO_2 emissions, diversity in its senior management teams, frequency of work-related injuries, employee turnover rates and employee engagement levels in addition to its economic performance.

To make up for the current defect in the GDP measures of development and growth, new indicators of a country's progress have also emerged to measure the many aspects of quality of life.

The Calvert–Henderson Quality of Life Indicator, for example, measures 12 aspects and uses monetary coefficients only where appropriate. Similarly, the United Nations operates with a Human Development Index (HDI) to complement GDP by bringing in qualitative measures of poverty, gender equity, education, social inclusion, environment and health which cannot be reduced to money coefficients or aggregated into a simple number.[52]

The small nation of Bhutan has also designed the pioneering concept of gross national happiness (GNH) to supplement the more widely accepted gross domestic product (GDP) to promote sustainable development, preservation and promotion of cultural values, conservation of the natural environment and establishment of good governance. Contrary to most Western countries, Bhutan has recognized that true development in society takes place when material and immaterial development occur side by side to complement and reinforce each other.

Who would have believed that this would be recognized as more than a quaint Buddhist exercise in a small far-away country? Nevertheless, the European Commission has launched the *Beyond GDP* initiative which now works on improving our measures of progress, wealth and wellbeing of nations. Just like France's President Sarkozy has initiated a Commission on the *Measurement of Economic Performance and Social Progress*.

So to summarize, in order to counter current social imbalances we need to supplement – and ultimately fully integrate – financial growth measures with qualitative measures of health, wellbeing and other immaterial values.

The starting point is to determine what are ends and what are means. In the new paradigm economic growth – or economic stability – is the means to the ultimate end of the wellbeing of people and sustainable progress in society. In short, we need to build our future economy on real needs rather than on our desires. We need to put sustainable development in its broadest sense at the heart of our economy and our business models.