PERSPECTIVE: FREQUENTLY ASKED QUESTIONS (FAQ)

Several pertinent questions often come up in discussions on the related subjects of Sustainable Business Transformation and Sustainable Business Technology. What follows below is an attempt to consolidate them into sets of related questions, answered in an interview format so as to capture the spirit of the live (and lively) discussions that we have had with clients and interested parties. While we recognize that the tone may be somewhat informal and conversational, we hope that this does not take away from the importance of the points being made. A narrative style tends to be a bit informal but can sometimes be more effective in communicating ideas than a formal, theoretical exposition.

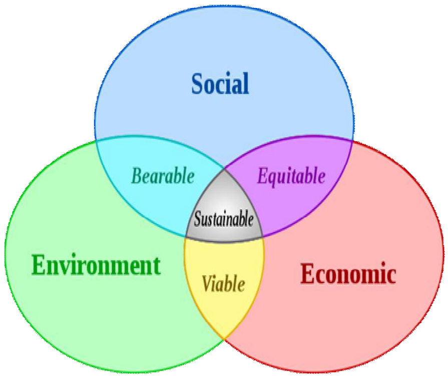
Q: The concept of sustainability has been around for many decades, so why are you talking about it now as though it is something new? What's new in what you're talking about? What's different about what you're calling Sustainable Business Transformation through Sustainable Business Technology? Is this something you've invented?

'Sustainability' has been around for a long time, agreed. Neither have we coined the word nor have we been the first to talk about it in terms of business management (and won't be the last either). Michael Porter introduced the concept of sustainable competitive advantage in the 1980s along with several other ideas that have dominated management thinking over the last couple of decades. We are not suggesting that those ideas are obsolete and need to be replaced with the apparently new ideas that we are putting forward — on the contrary, we are building on the theme and adapting traditional management thinking around sustainability to reflect current priorities. In a way, we are 'marking-to-market' the legacy of ideas around sustainable business and infusing into them some current thinking from other streams, which we shall talk about in a moment. So, in a sense we are saying that those concepts need to be updated and refreshed, but not replaced. Refreshment keeps good ideas alive, relevant and vibrant!

The current thinking mentioned a moment ago is, again, not all that new either and nor is it all our own work, but has its roots in studies on sustainability carried out by socio-economists way back in the 1970s. Environmentalists and economists have been talking about sustainable development for almost as long as management thinkers have been talking about sustainable business, perhaps even longer. As an aside, I would encourage you to look up the Wikipedia portal on sustainable development and the page at http://en.wikipedia.org/wiki/Sustainable_development which traces the history of sustainable development and outlines its scope and approach. The Venn Diagram below, taken from the same source, captures the gist of sustainable development in a visual form.

So, as you have correctly pointed out, sustainability is not a new thing in either business management or socio-economic or environmental conservation circles. But for a long time these have been like parallel tracks running in parallel universes. In more recent times, pressure from environmentalists and others, exerted on countries and businesses to get smart about the other definitions of 'sustainability', has compelled contemporary management thinkers — academicians, consultants and practitioners alike, to see things from a different perspective. So much so that some harsh critics unfairly accuse these pressure groups of having hijacked the meaning of sustainability to serve their own ideological pursuits. It is almost as though the word means different things to different people, which is ironic because it is not at all difficult to synthesize these apparently diverse notions into a single set of concepts and principles.

Ideas like the 'people-planet-profit' approach and the 'triple bottom line' try to bring all those seemingly disparate views of sustainability together into an integrated and, if you like, holistic definition, which we believe will gain traction with businesses as those ideas crystallize on one hand and businesses become more aware on the other.



The 'Three Pillars' of Sustainable Development
(source: Wikipedia)

The three great crises the world is dealing with as we speak: the great economic crisis (manifesting in the slowdown / recession over the last year or two), the great environmental crisis (manifesting in significant climatic change and unprecedented natural calamities in recent years) and the great socio-political crisis (manifesting in the 'conflict of civilizations' and the threat of terror strikes), have underscored the need to meld economic, environmental and social / political perspectives into a new definition of sustainable business. Each of these three crises reflects a 'fault line' in each of the 'three pillars' respectively i.e., economic, environmental and social. On the plus side, there are tremendously important lessons to be learned from these crises and we aspire to distil some of them and pass the benefit of our learning to our clients.

Now, if you were to leave this aside for a moment and look at the history of Business Technology, you will observe that it has always quickly adapted itself to serve emerging business imperatives. When management thinkers talked about BPR, for instance, Business Technology moved quickly to support that trend. Some may even argue that packaged ERP software is what drove the genesis of BPR, but that's a moot point. So this is nothing new either — the fact that technology trends support and drive business trends. That's technology's job!

To summarize, what we're saying is: (a) businesses will start thinking about sustainability in terms of a more holistic and multi-dimensional definition as compared to traditional management thinking, and (b) technology will do its job, as it always does, which is to support business in envisioning and planning its future: in this case, a sustainable future. This is somewhat new stuff … in the sense that we don't know of too many management professionals out there today addressing the issue of Sustainable Business Technology as an enabler to, if not the driver of, the Sustainable Business Transformation journey. It is new but not all invented by us, as you can see from the number of references we make, to other sources on this topic. We are only bringing our unique perspective on this, through our own ideation.

Long answer, but hopefully it clarifies the issue regarding what's new and what's not and why what we're talking about here is a bit different.

Q: You talk about 'being socially relevant, environmentally responsive and economically viable'. What do these terms mean? How is this any different from Corporate Social Responsible (CSR) plus Green IT plus traditional profitability, all rolled into one? Isn't it simpler to talk about concepts that are already known, using words that people already understand?

We'd love to use words that people already understand. After all, making ourselves understood is the first thing we need to do, if we are to be successful in our business goals as Trusted Advisers to our clients. Trouble is, the ideas we are talking about have not established their own vocabulary yet, and in many cases, are just slightly different from similar sounding concepts, and so we made up our own terminology as we thought-through issues around sustainability. We hope our terminology sticks! Let's take these three terms one by one and then get to the other related questions.

First let's set the context by mapping all stakeholder communities that make up the ecosystem of a business enterprise. We use the term stakeholder here in the same sense as the 'Stakeholder Theory' propounded by R. Edward Freeman in the 1980s and it is useful to clarify this because sometimes people confuse stakeholders to mean (only) shareholders. In our context, a stakeholder is any entity – could be a legal entity such as a business, a not-for-profit organization, an institution, a cooperative, or just a community or group of people, touched or impacted by the business. Increasing globalization of the creation and delivery of goods and services is adding to the diversity and complexity of the stakeholder ecosystem. As you can see from the diagram (below), the stakeholder ecosystem of a business enterprise has a core and a periphery, surrounded by the society in which the enterprise functions and the world at large.

Enterprise Stakeholder Ecosystem
(source: HPA)

Being socially relevant means constantly striving to anticipate and fulfil specific needs of all stakeholder communities in the ecosystem — including first, the customer community, followed by other stakeholders in the core ecosystem of the business: its stockholders, its alliance partners and suppliers and its employees. Being socially relevant also means constantly striving to meaningfully engage, partner with and contribute to participants in the peripheral ecosystem within which the business functions — comprising industry associations, market institutions, the media, special interest groups or collectives formed by communities that its operations involve or impact, and the various institutions that form part of the legal and regulatory framework within which the business conducts its affairs. For a large globalized business, this could represent a much wider scope in terms of size, scale, diversity and complexity.

Being environmentally responsive means constantly striving to increase the level of awareness within the business ecosystem concerning environmental issues such as climate change, energy conservation, waste management, etc., so as to lead to a commitment of resources by the business towards improving conditions in the locations where it operates (or has other interests), or at the very least, controlling, mitigating and reversing the damage caused by the business on the environmental conditions at those locations, wherever they may be, world-wide.

Being economically viable means constantly striving to remain profitable in the short as well as the long run. It is obvious that economic viability is vital for success, since a business cannot effectively achieve its goals while its survival is constantly threatened by financial problems. However, businesses that narrowly focus only on their own profitability in purely ‘single bottom line’ terms, to the exclusion of the other goals, or, worse still, to the actual detriment of their host society (or societies, as in the case of globalized businesses), are unlikely to prosper in the long run.

Social relevance and CSR do appear to be similar, and to a large extent the activities of a business that strives to stay socially relevant may not appear to be very different from what they might have been doing by way of CSR. The important thing is the attitude of the business: while CSR is essentially based on some kind of altruistic or charitable notion, social relevance is based on the belief that pursuing the common good of the stakeholder ecosystem will drive sustainable profitability. The roots of CSR type of thinking go back to the feudal concept of *noblesse oblige*. In the post-Industrialization era this has translated to the notion that prosperous businesses – the ‘new nobility’ of free market economics, are morally obliged to help underprivileged communities. We are not saying this is wrong, or even that it is not sustainable: we are only saying that it is a comparatively less sustainable approach than one where businesses see themselves as partners of, and not as patrons of / donors to, communities in their ecosystem for mutual benefit.

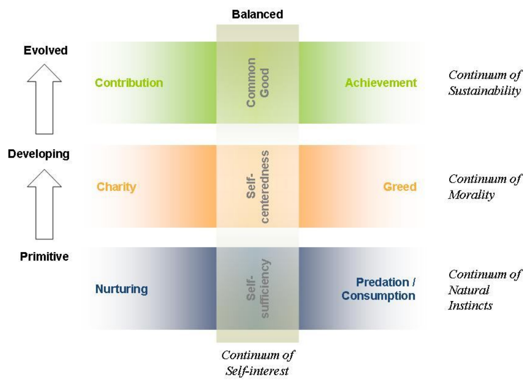
Green initiatives have typically put environmental issues ahead of everything else, and Green IT, as the name implies, tends to focus on how to make the IT function as a whole more eco-friendly. While this is not a bad thing as such we believe that the emphasis should be on a holistic, three-dimensional approach to sustainability rather than a one-dimensional one. There is a lot of learning that could be borrowed from Green IT and we are not suggesting that Green IT initiatives must be abandoned, just that they be re-aligned to Sustainable Business Technology.

As to why X is not the sum of A+B+C, I would say that the new definition of profitability (and please do look up the Wikipedia entry for ‘triple bottom line’ at http://en.wikipedia.org/wiki/Triple_bottom_line for more on this) is a function of the lasting impact of the business on its ecosystem and the economic benefits accrued to the societies that host the business. There continue to be discussions and debates on quantification and measurement of economic impact of social and environmental efforts even today and a large part of the body of knowledge in this area is still evolving as we speak, but there is little doubt that it is an idea whose time has come and is here to stay. A silo-ed approach does not produce the same results.

Q: Why should anyone want to focus on the so-called ‘Common Good’? What is wrong with plain old ‘Self-interest’? Is one approach sustainable and not the other?

Interesting question, because it helps get to the very root of the matter. Self-interest is a very interesting principle. It is the most natural, the most Darwinian if you like, principle that you see in nature. Seen in the context of humans, it has the potential to evolve from its more primitive and instinctive version i.e., seeking to derive benefit to self by directly accessing value, to a more mature and rational version i.e., seeking to derive benefit to self through value returned by contribution to the ecosystem around self. Animals are not sapient beings and cannot possibly behave in a manner that reflects the latter version, but humans have an opportunity to transcend instinct, act rationally and move towards a better world. In its more evolved form, the principle of Self-interest becomes synonymous with the principle of Common Good – so it is no different, in essence. Do bear in mind that nowhere have we touched upon the concept of charity or philanthropy. Self-interest alone is good enough and will support sustainability, provided it sublimates into its more evolved form. This line of thinking is consistent with age-old homilies such as: ‘You reap what you sow’ or ‘As you give, so you get’ or ‘What goes around comes around’, which are simplified versions of similar thoughts.

In order to test whether a strategy or policy or an approach or a principle, let’s call it X, is sustainable, one may simply ask the question: ‘If everyone were to follow or practise X would it lead to a more prosperous, harmonious and better world?’ and if the answer is in the affirmative, then we may conclude that X is a sustainable idea. While on old aphorisms here’s another adage that resonates with this test: ‘Do unto others as you would have others do unto you’. If everyone were to act in the interest of common good it is likely to result in abundance in the long run, whereas if everyone acted out of primitive self-interest it is likely to result in scarcity, given the same wealth.



Evolution Towards Sustainability
(source: HPA)

Apply the sustainability test to other impulses such as Greed or Cheating, and verify the results for yourself. Greed is not a sustainable strategy, and neither is Cheating – the global economic crisis bears testimony to that. It is possible that a few have benefited from it in the short run, and we are not passing moral judgement on them here. All we’re saying is that it is not sustainable. Again, let’s be clear that this is about the plain and simple economics of longevity, not about morality or religion!

Q: Are you suggesting that in a poker game winning players should start losing on purpose so that they can win eventually? How does sustainability work in a competitive situation? Why should a business yield any ground to competition? What is the common good when it comes to competitors?

For any given player in a poker game, the game represents a group of competitors, not an ecosystem of stakeholders acting in partnership with that specific player. A poker game, like all competitive games, is about winning and losing i.e., a zero-sum game. Such games are designed to result in winners and losers – everybody cannot win! Otherwise, where's the fun? Zero-sum games hone the spirit of competitiveness and the 'killer instinct'. Real life is neither a closed system nor is it close-ended in time, whereas games have a definite beginning and a definite end, a fixed set of players, clearly laid out rules and a finite, pre-defined number of possible outcomes. Zero-sum need not apply in all real-life situations. Unfortunately though, not everyone sees that, and people tend to default to zero-sum thinking. Through our work, we hope to bring about an attitudinal shift that makes people look for win-win first. By default, every situation can result in a potential win-win outcome for all, unless there is evidence that is has got to be win-lose. This is one of our key messages.

Win-Win Partnerships Are Sustainable
(source: HPA)

Partnerships are based on interdependence. It's not about one side winning and the other losing – that simply won't work. In a partnership everybody must have a win, by and large, or else the partnership is not tenable. You may have micro-situations where someone wins (or wins more) and someone else loses (or wins less) and that's OK. But if one partner wins almost all the time while the other loses almost all the time, the partnership is just not sustainable – it defies the very interdependence it is based on. This is empirically self-evident and does not need to be proved as a theorem using deductive logic. The business stakeholder ecosystem is a value network of interdependent partners, not competitors. Mature and responsible players will look to negotiate a win-win outcome in situations where partners have different needs and bring different agendas to the table.

That said, let's go back to the poker game analogy. Let's envisage a very real situation, in which a few friends meet on weekends and play poker. This can continue *ad infinitum* as long as it doesn't happen that a single player consistently wins and eventually leaves the others broke. In a card game there are two factors that determine the outcome, broadly speaking – the cards one is dealt and the skill with which one plays them. A player cannot control what cards are dealt to them and you could call this the luck factor. If a player starts to do that, it is called cheating and we've already talked about why that's not sustainable. What a player can control is their own card play, but not the cards that arrive in their hand in a given deal. Hence it is a statistical near-impossibility that one player wins all the time, assuming fair play and assuming a more or less even distribution of skills around the table. This is also how it works in competitive scenarios.

Sustainability does not mean that a better player should allow others to win. Players should follow rules. If one player's skills are outstanding and they end up winning most of the time through fair means, notwithstanding the luck factor, then they should look to play in their own league if they want to keep enjoying the game. If they play with significantly lower-skilled players, they will take away all the wealth and others will go bust. Game over.

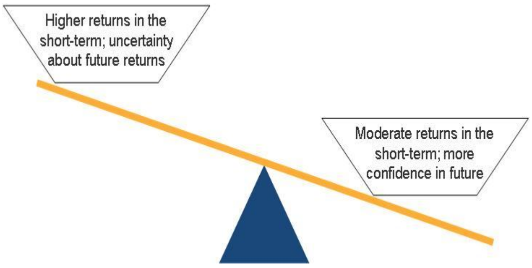
In business this is the equivalent of one player dominating the market by leveraging their 'sustainable competitive advantage' and edging out competitors. They don't yield any ground consciously, but over time, but they could become complacent and the other players could overcome barriers, make a comeback and give them a run for their money. Life is open-ended and keeps going on indefinitely and today's loser may become tomorrow's winner. Games, like novels and movies, are close-ended and finite.

The common good in a competitive situation will be evident in issues that impact the long-term growth of the industry and market as a whole. That's where competitors may collaborate on initiatives to consolidate and stabilize the economics of that industry and to improve and grow the market. Or they may simply share best practices to improve efficiency in non-competitive areas. Note how automobile manufacturers in the US came together to approach the Government for help recently. Also note how Toyota's performance is different from, say GM's, thanks in part to their green initiatives, while other automakers simply went on a downward spiral, thanks in part to their alignment with the vested interests of oil companies.

To summarize, we are saying that when it comes to partnership, it is most sustainable to ask the question "What's in it for me?" after answering the question "What's in it for my partner?" as compared to either not asking "What's in it for me?" at all (i.e., charity), or only asking "What's in it for me?" (i.e., primitive self-interest).

Q: Shareholders are interested in two things, generally speaking: earnings or dividend per share, and appreciation of the share price in the stock market. How can corporations meet shareholder demands if they pursue Sustainable Business Transformation the way you define it? Why would shareholders invest in or care about social relevance or environmental responsiveness?

Let me ask you this – as a shareholder, which of these two alternative scenarios would you prefer: (a) get higher returns in the short-term but remain uncertain about future returns, or (b) get moderate returns in the short-term but be confident that such returns will continue to accrue over a longer duration? Which scenario represents more value to you? Clearly, a majority of the population would prefer the latter. (Note that this excludes short-term speculators, who are an exception to the rule since they have different financial goals and risk appetites.)



Sustainability Tilts the Scales
(source: HPA)

The mandate to business therefore is to focus more on the promise of sustainability of profit in the long run, rather than on maximizing gains in the short run at the risk of uncertainty about the future. (Unfortunately, the practice of quarterly reporting of results tends to encourage focus on the short-term in terms of the company's approach to performance as well as investor outlook.) The challenge to businesses on a Sustainable Business Transformation journey is to move their investors from scenario (a) to scenario (b). It is imperative that businesses educate their shareholders and inspire confidence in them, to believe that they will sustain a certain level of returns in the long run. A lot depends on the quantum of shareholder trust earned and enjoyed by the business. Businesses that haven't worked on generating the kind of credibility which is a pre-requisite for that kind of trust may not be successful in building investor confidence along these lines.

The problem today is that the number of players with short-term interests is rapidly increasing, to become a considerable force in the financial markets. This is happening because of the combination of perceptions of scarcity and uncertainty about the future on the one hand and temptations to make a quick buck in markets that have become too complex to regulate effectively on the other, which in turn is leading to the devolution of the principle of common good, back into its primitive version of instinctive self-interest. This trend erodes (as opposed to supports) sustainability and must be arrested and reversed. It's like traffic rules: what might happen if more people break rules just because a few guys broke them and got ahead.

This is one of the biggest challenges faced by the Sustainable Business Transformation journey and can only be addressed by increasing awareness and educating investors relentlessly. We are not saying it is easy — on the contrary, it is an uphill task, but we have to start somewhere, otherwise the logical extension and spread of such trends will result in anarchy. Hopefully some of the regulatory reform in the wake of the global financial crisis will plug gaps that could be exploited to make a quick buck and discourage reckless opportunism, at least to an extent.

There are already several organizations that focus on Socially Responsible Investing (SRI). Their purpose is to educate, encourage and enable investors to develop investment strategies aimed at the more holistic view of sustainability. Similarly there are other trends that are gaining momentum of late: social enterprise and social entrepreneurship, which essentially deal with the application of the principles and disciplines of enterprise and entrepreneurship to socially and/or environmentally focused work. Historically, this has usually been the domain of non-profit charities funded out of philanthropic or ethical considerations. The new social entrepreneurship movement is changing that paradigm, by proving that social / environmental projects can run just like any other business, except that its customers (and possibly also its core stakeholders) belong to different types of communities compared to traditional businesses.

This brings us to a very interesting observation: as traditional profit-oriented businesses become more socially and environmentally focused (either due to SRI or other pressures or arising out of their own realization), social development organizations will become more like regular businesses, with a sharp focus on efficiency and returns. These worlds will soon start resembling each other so much that they will finally merge into a single approach to all business, focused on the triple bottom line.

Q: When would be a good time for an enterprise to initiate what you're calling the Sustainable Business Transformation journey? For how long can one put it off?

There is, always, only one answer to that question: Now! Let me elaborate: what I mean is that the best time to start thinking about sustainability, as we've defined it, is always 'Now'. The best time to actually start making sizeable investments, in terms of time / effort / money, in the transformation journey may or may not be 'Now', and that is something that organizations must think about. One of the things we help our clients with is the thinking and planning piece, and typically that exercise determines the overall timing of initiatives and investments.

The point I would like you to take away, though, is that it is never too early to start thinking about what sustainability means to your business — just make sure it is not too late! The future will not be kind to those who don't know or don't care. Those who don't know must educate themselves and those who don't care must start caring. 'Do Nothing' is not a meaningful option and 'Do as-little-as-possible as-late-as-possible' is not a constructive attitude. This is one of those things that must be embraced and lived.

Interested? Please contact us: hpa@hemantputhli.com