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Translate, Tell the Story and Take the Risks

*How the successful leaders of tomorrow will address the
challenge of sustainability*

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Translate, Tell the Story and Take the Risks

Should free-market capitalism be moral? Milton Friedman provides us with a straightforward answer: 'The social responsibility of business is to increase its profits' (Friedman, 1970). However, corporate governance scandals (e.g., Enron, Maxwell), environmental disasters such as Exxon Valdez and Chernobyl and human rights abuses associated with global brands like Nike or Wal-Mart have brought about great challenges to Friedman's conception of the social responsibility of business. These violations of the public's trust are more than just the shareholders' concern. We have learned that in a globalised world varied stakeholders have become more visible. We have come to understand that the role of business in society needs redefining so as to compel consumers, governments and companies to design 'a new social contract' (Boston College Center for Corporate Citizenship, 2007).

Sustainability, though often flagged as more of an abstract principle, rather than a strategy ready to be implemented, requires a fundamental change in the way we think: it is not about short-term gains¹ but about long-term value creation. It is not only about global warming, terrorism, sustainable consumption and resource efficiency; it is also about the erosion of local communities, AIDS relief and access to microfinance and basic resources. Sustainability encompasses the economic, social and environmental accountability from the mutual perspective of the rich and the poor (Elkington 1999). Therefore, tomorrow's leaders will have to think of sustainability in a holistic way and, at the same time, endeavour to implement it with patience and sagacity.

Conversion to sustainability is not an overnight process. Nevertheless, vigorous signs of change are becoming visible in the political, business and civil society arena. For example, climate change has moved into the mainstream of UK politics and media with the October issue of Stern Review and the recent publication of the Government's draft Climate Change Bill.² In the business realm, eco-pledges made

¹ In the behavioural finance literature, short-termism is mostly defined as a myopic behaviour that results from the human tendency to over-emphasise near-term gains at the expense of longer time horizons (Frederick et al., 2002)

² The full report of the Stern Review is available at: http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm

by Kingfisher, Marks and Spencer, BSKyB Group and BT Group show that corporations are ready to shoulder their share of responsibility for critical issues such as climate change or energy security. Furthermore, in the last decades we have witnessed an elevation of environmental consciousness and activism among consumers (Lewis, 2002; McCann et al., 2003).

The tenacity of the green champions has been, to a certain extent, the driving force behind the crystallisation of public green consciousness. For example, Al Gore decided to champion sustainability in the City by co-founding the first investment management house which aims at delivering superior investment performance by taking a long-term investment view. Carbon watchdogs such as Paul Dickinson and Tessa Tennant who co-founded the Carbon Disclosure Project, the world's largest registry of greenhouse gas emissions, are also examples of visionary leaders who, since the late 80s, decided to be ahead of the game. Lessons can be drawn from those corporations which try to remake themselves into more responsible actors and from the champions behind the organizational changes. While my focus in this paper will be on the business leaders of tomorrow, I believe that the three principles of sustainability leadership enunciated in this paper are applicable beyond the business world; I believe they have great bearing in the political and civil society arenas too. Therefore, my thoughts are inspired by the vast literature on leadership (Kotter, 2001) and championship (e.g., Andersson & Bateman, 2000), but also by the stories told by sustainability champions (e.g., Anita Roddick, Paul King, Tessa Tennant, Wangari Maathai)³ and my self-reflective experience as a researcher on sustainable investment.⁴ Furthermore, this paper reflects a continuing effort to remain vigilant and maintain a sense of green consciousness in my everyday life.

³ Kenyan environmental activist Wangari Maathai received Nobel Peace in 2004 for her contributions to sustainable development and democracy. Her amazing story can be read in the Sunday Times, 4 March 2007. Paul King won the Sustainability Leadership Award of the Year in 2006. He is best known for driving the WWF's 'One Million Sustainable Homes' campaign and his pressure on the government to improve its 'poor draft Code for Sustainable Homes'. For more information, visit <http://www.wwf.org.uk/sustainablehomes/team.asp>.

Some of the other sustainability champions' stories can be found online at:

http://www.timesonline.co.uk/tol/life_and_style/career_and_jobs/specials/leaders_lessons/.

⁴ Ever since I graduated from Oxford in 2006, I have been working as a researcher in a project funded by Mistra, the Swedish Foundation for Strategic Environmental Research. I would like to gratefully acknowledge the supervision of Professor Alan Lewis of the University of Bath.

First principle: Sustainability leaders are good translators

Every innovative idea, by definition, is ahead of its time. In that sense, people are rarely ready to understand and incorporate innovations in their way of thinking and acting. Now, we know that sustainability is an idea that has been aired for decades. The fact that the species extinction rates and the degradation of fundamental ecosystem services such as fresh water, soil and biodiversity have dramatically increased (some of them irreversibly) is widely known (Millennium Ecosystem Assessment, 2005). But somehow business, governments and consumers are conspicuous by their absence in the sustainability front line. Why? I believe there are two reasons.

First, decades of research on behavioural decision-making tell us that at their core, people are short-termist, risk averse and overconfident about themselves and the future (Hoffman and Bazerman, 2007). The benefits of sustainability, which may stretch over many years, may be less conspicuous, especially when the implementation of sustainability initiatives within organizations could potentially trigger short-term costs. Second, sustainability itself is still, to some individuals, a vague and contentious concept, often leading people to avoid the problem rather than address it.

This is where the role of sustainability leaders comes into play. The leaders of tomorrow know that what is crucial about the sustainability vision is not its morality or originality, but how promptly that vision can be translated into a business case.⁵ They also know that turning this concept into corporate practice requires them to strike a magic balance between innovation and conventionality. As part of the persuasion strategy, leaders need to acquire professional legitimacy before the audience they want to address (the audience can consist of shareholders, investment analysts, customers, employees etc.). They also need to be perceived as being similar to their audience (O’Keefe, 1990). Indeed, theories of practice diffusion acknowledge the importance of perceived similarity between prior and potential adopters of a new

⁵ The concept of ‘translation’ was originally introduced by Scandinavian institutionalists (e.g., Czarniawska & Joerges, 1996; Sahlin-Andersson, 1996) and actor-network theorists (Callon, 1986). Translation describes the process through which ‘individuals may imitate some elements of foreign business practices and not others, forming and transforming ideas and experiences as they are transferred’ (Sahlin-Andersson, 1996: 48).

practice (Strang & Meyer, 1993). During interviews with some of the champions of sustainable investment in the City, I often encountered the situation in which champions of sustainability – who usually have different skills and educational backgrounds - first had to get the right investment credentials (e.g., CFAs)⁶ before they could be taken seriously by any mainstream investor (Juravle & Lewis, under review).⁷

On an optimistic note, the business case for sustainability can be built more easily nowadays because of new government policy and regulation. The leaders of tomorrow will be able to build a business case by invoking a palette of arguments: risk management, brand building, organisational survival and cohesion, new clients and investors' concerns. Supporting examples are abundant. In the UK, the insured losses due to the flooding in autumn 2000 reached £1 billion.⁸ In the mid-90s, the Royal Dutch/Shell Group suffered severe reputation losses because of its disastrous environmental plans in the North Atlantic and its connection to minority rights abuses in Nigeria (Holliday, Schmidheiny and Watts, 2002). But Tom Delfgauw, former vice president for sustainable development at Shell, recognized the business case for sustainable development and responsible corporate reporting. In 2001, the more transparent Shell Report which revealed both their strengths and weaknesses was part of a long-term strategy to regain employees' confidence and public trust. On the shareholder side, Henderson Global Investors and Insight Investment also acknowledged the business (and moral) case for engaging Shell in a dialogue on sustainability (Lake, 2006).

In 2002, senior management at Anglo American was ready to admit that there was a strong business case for community investing in South Africa (Toyne, 2006). As a major employer in the mining industry, the company anticipated the negative impact of AIDS on its South African human capital.⁹ Consequently, by 2003, 1,048 Anglo American employees were receiving antiretroviral therapy.

⁶ CFA stands for Chartered Financial Analyst.

⁷ Paper under review. Please do not quote without permission from authors.

⁸ Lord May's lecture on Climate Change on Wednesday 17 October 2007 at the University of Oxford.

⁹ There are 25 million HIV-infected people currently living in sub-Saharan Africa (Toyne, 2006).

In September 2007, Schroder, a global asset manager, decided to launch a ‘climate change fund’ because there was money to be made by investing in the industries of the future (e.g., cleaner energy, water management or sustainable transport).

Collaborative policy frameworks such as the EU trading scheme, the Carbon Disclosure Project and the UN Principles for Responsible Investment are part of a new business landscape in which leaders decide that the best way to manage risk is by sharing it. Faced with the business risks as well as the opportunities stemming from these initiatives, the leaders of tomorrow will need to use rational persuasion, contextual understanding of sustainability issues and professional legitimacy to support the argument that companies can do well by doing good. They will need to address sustainability by translating an abstract concept into a competitive strategy using the familiar language of business.

Second principle: Sustainability leaders are good story tellers

The business case for sustainability has its limits. There are many cases where companies could mismanage common goods without suffering tangible penalties from government or society (Sullivan and Mackenzie, 2006). Environmental and social abuses could be negatively externalized to consumers and nature and may not affect corporate financial performance. Also, there are cases when financial markets do not reward sustainable companies with higher share prices. Matthew Kiernan from Innovest Strategic Value Advisors claims that sustainability-driven risks and opportunities may take 24 to 36 months to materialize in the traditional financial metrics of a company (Kiernan, 2006). And the City is not a patient judge.

I believe that through the narrow lens of risk management and business case, companies are often encouraged to act more responsibly only when the sustainability profile is raised¹⁰ or when new regulation is anticipated. But in this way, the formal CSR¹¹ agenda will never coincide with the sustainability agenda. There will always be sustainability issues such as geopolitical risks, public health and human capital that

¹⁰ The fact that the world reserves of oil and natural gas resources are shrinking whilst the demand for fossil fuels from developing countries is increasing has considerably contributed to the debate on eco-efficiency (International Energy Agency, 2006).

¹¹ CSR stands for Corporate Social Responsibility.

are societally fundamental, but do not always have a readily ascertainable market value. And this lack of materiality is often caused by a lack of regulatory sanctions, insufficient corporate reporting or just a simple lack of knowledge about how those issues might impact markets in the long-run. For example, long-term sustainability is a complex problem because of the existence of non-linear dynamic processes in our natural system.¹² Therefore, we have to admit that we still do not have enough information to predict the full impact of our unsustainable capitalist system. The Earth's climate is fundamentally changing and yet we are still unable to predict how much the world will warm in the future (Stern Report 2006). Furthermore, as there is no quick technological fix for the climate problem (Pacala and Socolow, 2004), changing societal norms and individual beliefs should be part of the green agenda.

Rational persuasion as a way to address sustainability is useful when the information is publicly available and the people are ready to digest it. However, sustainability leaders also need to employ the power of emotional persuasion and the power of story telling when faced with uncertainty about future, human ignorance or peer incredulity. Anita Roddick emphasized the power of visuals and storytelling in making customers and employees believe in a fledgling business.¹³ The same principle can be used by the leaders of tomorrow in an effort to spur a 'sense of urgency' within the business, government and civil community.

The stories are powerful and need to be voiced. There is the story of the daily death of 37,000 children under the age of 5 whose diseases could be cured easily and relatively inexpensively (Elkington, 1999). There is the story of more than 2.5 million people in Asia and the Pacific who die each year because of air pollution, unsafe water and poor sanitation (Worldwatch Institute Report 2006). There is the story of Deutsche Bank which helped, through its Microcredit Development Fund, female entrepreneurs and unskilled people in India to earn their way out of poverty and often subsequently open their own small businesses (Holliday, Schmidheiny and Watts, 2002). Al Gore's 'Inconvenient Truth' and the 26-award-winning documentary 'The Corporation' are powerful examples of stories which blend scientific data with emotional arguments.

¹² Lord May's lecture on Climate Change at the University of Oxford, October 2007.

¹³ The interview is part of a series of leaders' lessons published online by Timesonline. Available at: http://www.timesonline.co.uk/tol/life_and_style/career_and_jobs/specials/leaders_lessons/.

The leaders of tomorrow can use these stories not only to energize people to take the green route, but also to build or change an entire organisational culture around the values of long-term profitability and sustainability. Every organization builds its own culture around its history, critical events and heroes (Schein, 1992). When these three bedrocks are 'green' we might end up with a company that chooses to do more than greenwashing.

When does a story have the greatest potential to initiate organizational greening?

I believe there are three fundamental conditions:

- 1) The more senior the storyteller is, the more persuasive his story will be.
- 2) The more vivid and personally relevant the story content is, the stronger (behavioural) impact it will make on the listener.
- 3) Walk the talk! The leaders of tomorrow – whether board members, CEOs, executives or managers – need to become 'living symbols' of the new culture in the first place. A champion of change might think to buy an environmentally friendly hydrogen-powered car before trying to persuade others to become carbon-neutral.

Third principle: Sustainability leaders are risk-taking and tolerant to ambiguity

How one might turn the idea of sustainability into business is not always clear. Even when a leader has a clear vision of the technological and cultural transformation of the company, the outcomes are not always predictable. Basically, if a company decides to take the green route, the value gained (and the timing of the gain) thereof might be uncertain, whilst the failure to do so would most certainly drive profits down over the long term (Boston College Center for Corporate Citizenship, 2007).

In this context of ambiguity and market complexity, the leaders of tomorrow need to take the risk of investing resources in the short-term in order to implement a long-term vision of sustainability. The more a leader moves beyond the compliance objective, the higher the short-term costs to implement the vision are. Acquiring filtering devices and the like and expertise to manage new environmental technologies and production processes are some examples of short-term costs.

On the other hand, when a leader plans to move from compliance towards sustainability innovation, then the entire organisation needs to embrace the reconstruction of the corporate values, norms and mission. The process of organizational change for corporate sustainability is a long journey full of obstacles. Leaders may encounter internal rejection, non-responsiveness or an embedded preference for ‘command and control’ mechanisms (Dunphy et al., 2003). Real cultural transformations take time and the risk for losing the momentum should never be neglected. In the early stages of organizational change, Harvard Business School Professor John Kotter suggests that it is essential to create short-term gains in the first 12 to 24 months and to empower people (1995). There are always positive signs of change warranting praise: higher customer satisfaction, a growing interest for a new carbon-light product, stronger brand, positive publicity in the media and higher work satisfaction among employees. In a system where companies still issue quarterly earnings announcements and asset managers are mainly incentivised on a short-term basis, small but timed gains boost confidence and cut incredulity.

Sustainability leaders also need to create the right conditions for organisational members to generate their own ideas and be at the core of the change. This ‘multiplication’ of leaders is possible only when people are incentivised on a longer-term basis, professionally assessed on multiple criteria and listened to from bottom up. Thematic lunches, informal workshops, leisure activities organised by the company are simple ways of communicating innovative ideas for sustainability.

Furthermore, the leaders of tomorrow will know that ignorance is no longer an excuse; sustainability literacy is a must. Governments and businesses need to step up in creating the schools of tomorrow. Supermarket Tesco has teamed up with The University of Manchester in a £25 million investment dedicated to research low carbon lifestyles and the role of new technologies in delivering them.¹⁴

¹⁴ More information is available online at:
<http://www.yourmanchester.manchester.ac.uk/NetCommunity/Page.aspx?pid=248&srcid=216>

Conclusion: Tomorrow's leadership – Beyond the traditional model of leadership?

Leaders are often described as strategic thinkers who have vision and set a direction for an entire organization. They 'align', 'motivate' and 'inspire' people (Kotter, 2001). It is the model of heroic leadership deeply engrained in our Western society (Ferdig, 2007). I believe that sustainability leadership obliges us to rethink the traditional model of leadership and organizational change.

Indeed, there are points of intersection between the conventional and the emerging model of leadership. A sustainability vision associated with the conventional values of modernity such as rationality, progress and efficiency has better chances of being accepted as opposed to ideas impregnated by other values (Strang & Meyer, 1993). In that sense, the leaders of tomorrow will have to master translating the concept of sustainability into familiar business terms and practices. They will also have to acquire legitimacy before and similarity to the audience they want to address.

The sustainability leader is not only a rational translator. He or she is also a good storyteller. Building a business case for sustainability is not the final goal – it is a preliminary tool required by the conventions of the current capitalist market. If sustainability is replicated in mainstream accounting and reporting practices, little is gained.

If it is to be taken seriously, long-term sustainability will require a radical change in our short-termist and overconfident beliefs about the world, the future and ourselves. Stories which blend images, emotions and reason help people to understand in a vivid manner that the Arctic ice melting, natural disasters and the hundreds of cities which fail to meet minimum air pollution standards are all linked to our everyday lives. Stories can also induce a sense of urgency necessary to act when the long-term risks of our in(action) are not fully known.

The organisational change for corporate sustainability does not smoothly fit the model of pre-defined and rational change we are familiar with. The magnitude of the change required often lays uncertainties in reference to outcomes. It requires sustainability

literacy, rational and emotional persuasion, and ambiguity tolerance to continue the journey. It is a gradual, adaptive process which governments, businesses and civil society pursue in order to create common meaning for sustainability.

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