



Sustainability 2.0

A Guide to Competing
in a Changing World



Summary

Although it has gained traction in recent years, sustainability is far from meeting its potential – and its obligations.

Achieving a sustainable society will require business to redesign countless products and processes, establish partnerships they never dreamt of, and innovate like never before.

Yet for the most part, sustainability approaches remain trapped in a fuzzy mix of compliance, cost cutting and social investment contributions.

Aligning with global moves towards integrated reporting and a sense of urgency around the role of business in driving change, this handbook introduces Sustainability 2.0.

Aimed at sustainability executives, practitioners and enthusiasts, it presents a step-by-step guide to developing sustainability strategy based on creating value in a more informed way.

Turning limiting assumptions on their heads, it introduces the transition zone – the contested space between our present unsustainable and future sustainable society. We have just entered the zone, and it is redefining the competitive playing field at every scale.

To compete in the transition zone and beyond will require a special kind of fitness.

To help companies attain this fitness, Sustainability 2.0:

- Optimises value creation for a wide range of stakeholders,
- Ensures resilience by linking sustainability initiatives clearly to the profit formula, and
- Develops competencies for operating effectively in a changing world.

Sustainability 2.0 will enhance your business strategy; but it will also interrogate your business strategy. By managing this creative tension skillfully, you can focus sustainability as an innovation-driver towards long run competitiveness in a more sustainable world.





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1. From Sustainability 1.0 to Sustainability 2.0

If sustainability is so popular,
why is it not happening?
Perhaps it has something to
do with sustainability itself.



Sustainability 1.0 – Why sustainability isn't happening

Sustainability has gained a foothold on the business agenda in the last five years, but it is still not driving the innovation needed to make our society sustainable. As management guru Michael Porter argues:

*"A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades."*¹

Porter points to business' obsession with short-term financial performance while ignoring broader influences that determine long-term success. But there is more to the problem, and this part lies with sustainability practitioners themselves: most are using an outdated approach to sustainability.

Despite increasing recognition, sustainability is not driving innovation because it is:

- Marginalised into Corporate Social Investment (CSI),
- Popularised as Corporate Social Responsibility (CSR), and
- Standardised into compliance checklists.

These approaches – which we call **Sustainability 1.0** – have diluted the concept into a list of sensible cost savings and a marketing message on how 'good and green' the company is. While they may result in a company "going south more slowly" (in the words of designer William McDonough), this is not the same as "turning around and driving north".

Sustainability 1.0 is important and clearly has its place, but it will not make business – or society – sustainable.

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– sustainable.

A few definitions upfront

This is a quick-reference list; most of the terms below are explained and discussed in more detail further on.

Capital: An accumulation of resources that can be used to generate further resources

Sustainability: An approach to creating value that sustains or enhances the systems (resources and processes) upon which that value depends

Sustainability 1.0: An approach to sustainability that focuses on social responsibility by reducing negative impacts and increasing social investment

Sustainability 2.0: An approach to sustainability that focuses on value creation to drive innovation for a sustainable society

Sustainable society: A society that meets the needs of present generations without compromising the ability of future generations to meet their own needs²

Transition zone: The period between our past unsustainable society and our future sustainable society

Value: The amount of money or goods or services that is considered to be a fair equivalent for something else

Values: The enduring beliefs of an individual or culture

Value creation: The act of building wealth through a system of exchange

Value drivers: Those controllable factors that most influence value creation



Sustainability 2.0 – From values to value creation

Fortunately, Sustainability 2.0 has been developing quietly in the wings. The approach entails a shift in sustainability analysis from values to value creation in order to kickstart innovation for a sustainable society.

Long the domain of sustainability leaders (such as Unilever, General Electric, Interface and Marks & Spencer), Sustainability 2.0 is tentatively entering the mainstream. This follows a global move towards integrated reporting and a pervasive re-think in the wake of the 2008 financial crisis. In their 2020 Vision for a transparent economy, Volans and the Global Reporting Initiative suggest:

"Terms like triple bottom line (TBL) and environment, social and governance (ESG) have played their roles as booster rockets and will fall away as new forms of integrated accounting and reporting take over."³

Without losing the important contribution of checklists and social responsibility, Sustainability 2.0 will increasingly help companies to compete intelligently in a changing world. Sustainability analysis should be based on creating value – not on promoting values. Companies will increasingly be pressured to provide better evidence of how their activities contribute to net value creation. This will include a more robust assessment of how social and natural systems are impacted in the process of achieving profitability.

The shift to value creation should not imply that values are irrelevant to sustainability. They are clearly pivotal, as they are to most things we do. Values simply exist; all human beings have them. They are personal and contestable – which is why they are not a good starting point for sustainability analysis. The issue is not how business leaders feel about climate change, but rather whether they can create a profitable business by turning it around. We are not advocating the cynical promotion of commerce in the face of human suffering (although clearly this is happening); we are simply seeking the most effective way to engage business resources and intelligence in finding solutions for a more sustainable world.

This shift from values to value creation will be particularly important as the chips go down. And there is no doubt that the chips will increasingly be down in the coming decades. That is why we are sharing Incite's approach to 'sustainability without the fluff'.

By infusing this approach with their own blend of ethics and values, we believe companies can create the basis for winning business strategies.

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Overview of the handbook

This handbook was written primarily for sustainability executives, practitioners and enthusiasts. It seeks to make Sustainability 2.0 as simple as possible, without being simplistic.

Section 2: Why Sustainability 2.0? explains the concept and how it links to value creation.

Section 3: Entering Transition introduces the idea of the transition zone: the space between our past unsustainable society and our future sustainable society. Within this zone, sustainability strategy plays a particularly important role in guiding companies towards competitiveness in a changing world.

Section 4: Applying Sustainability 2.0 outlines Incite's value creation approach to sustainability strategy development. It shares a detailed framework for integrating sustainability into the value creation cycle.

Section 5: Call to Action is a request for you to share your experience of Sustainability 2.0. We believe this is the only way change will happen at scale.

We have tried to use familiar South African companies and brands as examples. A number of these companies are our clients and we sincerely thank them for the opportunity to learn together and share some of their journey.





2. Why Sustainability 2.0?

How can we harness innovation to create a sustainable world? To answer this question, we must understand something about value.



The challenges we face unequivocally require us to change direction. A remarkable number of scientists, politicians, religious leaders, schoolchildren, farmers, activists and business leaders agree on this point. The jury is still deliberating on how to do it.

From business case to business model

Sustainability 1.0 usually starts with the business case, in other words, how companies can manage risks, reduce costs, enhance reputation, increase efficiencies and inspire employees. These are important: there is no point saving the world if our well-intentioned actions put us out of business.

But enthusiasm for the business case leads sustainability practitioners to overlook an obvious point: the business case tends to support a business strategy that is operating within an unsustainable society. Sustainability 1.0 rarely seeks to change the business. And change is what we are looking for.

Getting traction for change requires us to look at something more fundamental. We must take a step back from the business case and ask what makes the company work in the first place. This means we have to look at the **business model**.⁴

The question is not “How can sustainability support the business strategy?”. Rather it is “How does the business work?” and “How can it work better as society becomes more sustainable?”. Unless you understand your company’s business model, your sustainability interventions will not be about change. And they will increasingly come under threat from the culture of cutbacks that will accompany the shift to a more sustainable society.

From integration to interrogation

While Sustainability 1.0 is either incidental to or blandly supportive of the business strategy, Sustainability 2.0 should prove to be a slightly uncomfortable bedfellow. Unless the company’s present vision is entirely compatible with a sustainable society – a rare find in our world of rampant short-termism, perverse incentives and mispriced resources – the strategies are tracking a different star.

It is this different star that will drive your company up the learning curve of transition to sustainability. As more and more companies do this, the tipping point of the sustainable society will draw closer. The learning curve will get more crowded – and more slippery. The difference between your business strategy and sustainability strategy is functional: it generates a creative tension that turns your sustainability intervention into an innovation driver.⁵ The faster the better – assuming you can handle the speed wobble.

Your sustainability strategy should interrogate your business strategy to drive innovation for a changing world.

Without understanding the business model – your customer value proposition, the profit formula, and the key resources and processes required to make it happen – your sustainability initiative will remain incidental to the business.

Unless you interrogate and shift your business model to address a broader stakeholder value proposition, create a long-run, sustainable profit formula and develop the resources and processes necessary to compete in a changing world, your business itself may become extinct.



What is value creation?

If sustainability analysis is to shift from values to value creation, we should explore what value creation means. This requires us to engage with a number of terms that have puzzled economists for centuries. Incite uses the following working definitions that we concede will change as we continue to learn.

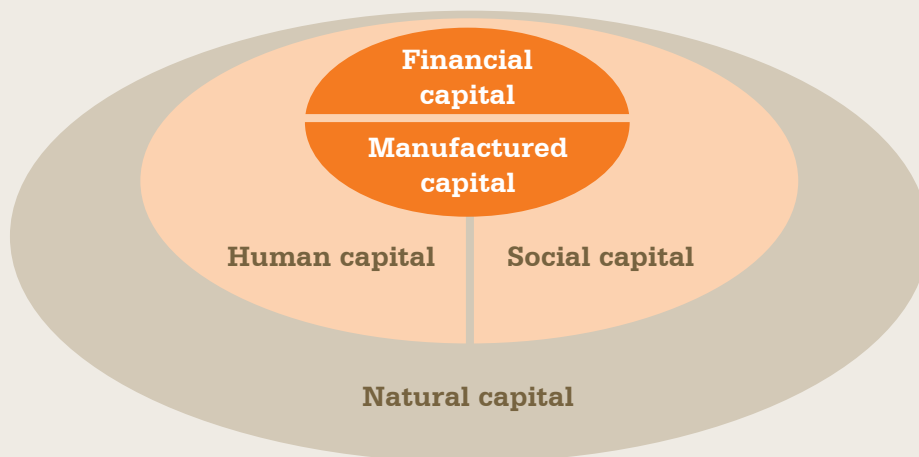
Let's start with capital.

Capital refers to an accumulation of resources that can be used to generate further resources. UK-based Forum for the Future identifies five capital stocks that provide the resources to satisfy human needs and contribute to improving the quality of our lives.

These capital stocks are able to generate further resources because they are structured in a particular way:

- **Financial capital** may be structured into portfolios, bonds or accounts, for example;
- **Manufactured capital** may be structured as tools, machines and buildings;
- **Human capital** may be structured as healthy bodies, skills or knowledge;
- **Social capital** may be structured as networks, organisations or relationships;
- **Natural capital** may be structured as organisms, processes or cycles.

The five capitals are also structured in relation to each other. Their structure reflects a hierarchy of dependence, from the top to the bottom of the list. Every capital stock is ultimately dependent on natural capital, as shown below.



The Five Capitals Model⁶

When energy flows through any of the capital stocks, further **resources** may be generated.

When resources are owned or access to them is controlled, they become **wealth**. Wealth can be accumulated in the form of money, food, property, security or even well-being.

To transform wealth into **value** requires the possibility of exchange.

Value is commonly defined as "the amount of money or goods or services that is considered to be a fair equivalent for something else". In business terms, value is about worth and is determined by a market.

We define **value creation** as the act of building wealth through a system of exchange. Our ability to create value will depend on:

- Someone's perceived need,
- Whether we are able to deliver our product or service to them, and
- Our ability to capture the fair exchange that results.

Meeting these criteria gives rise to the **value chain**: typically a mix of sourcing, production, distribution, sales/marketing and support for the consumption of products and services.



Sustainability 2.0 defined

Based on the fundamentals of value creation, Incite coined a definition for this popular term:

Sustainability is an approach to creating value that sustains or enhances the systems (resources and processes) upon which that value depends.

Businesses depend on the five capital systems in a multitude of ways: as a market for their goods, as a sink for wastes and emissions, as a distribution network, for access to capital or to provide a conducive trading context. To the extent that a company impacts any of these systems (and generally they impact positively or negatively on all of them), there is a dependence whether they are conscious of it or not.

Where resources or processes are systematically depleted over time, the approach is unsustainable. This may be through:

- Mining (of minerals, fish stocks or soil fertility), or
- Undermining (of human health, communities, small businesses or social institutions).

Whether this is a problem or not is about social ethics, values and access to adequate information to make our opinions. By undermining social and human capital, apartheid severely disturbed the entire system of value creation in South Africa. Some business leaders were prepared to accept the trade-offs; others actively challenged the ruling party and were instrumental in negotiating its demise.

Most communities concede to gold mining operations because the trade-offs in accumulated financial and social capital are considered to be acceptable. However, this consent does not give mining companies licence to diminish other resources – human or natural – in the process.

There are many definitions of sustainability. We have found this one to be a useful starting point for conversation: it has been stress-tested in many boardroom sessions and come out standing. It provides the theoretical basis for our **value creation approach** and on which this handbook is written.

Sustainability is an approach to creating value that sustains or enhances the systems (resources and processes) upon which that value depends.

What must a Sustainability 2.0 strategy do?

Sustainability 1.0 strategies focus on reducing or offsetting a company's negative impact on society, while seeking some reputational benefit for the effort. They may get off to an impressive start, but they are not aimed at the finish line.

Sustainability 2.0 drives three inter-related elements of competitiveness:

- It optimises **value creation** for a wide range of stakeholders over time.
- It develops **transition competencies**: combinations of skills, systems, processes and relationships required to compete and capture value effectively in a time of transition.
- It ensures **resilience** by linking sustainability initiatives clearly to the profit formula in the short, medium or longer term.

This value creation approach to sustainability is informing a shift towards integrated reporting in South Africa and globally.



Sustainability 2.0 requires analysis, regulation and transparency

Sustainability 2.0 is an analytical process. It requires businesses to analyse where their value comes from. This should lead some companies to consider their responsibility for costs that are currently being externalised (created by the company but paid for by society, either now or in the future).

Companies competing in an unsustainable society have an implicit pressure to externalise costs. It would be naïve to think they will simply start paying them without a good deal of analysis and regulatory change.

Consider an automotive parts manufacturer that is situated near a residential area that has problems with air quality. They could choose to:

- Comply with legislation and lower their volatile organic compound emissions by 5 %, or
- Move to zero emissions at significantly more cost.

This decision is a strategic one: their customers (auto manufacturers), competitors, local government officials, neighbours and employees might care about what they decide. Sustainability does not require the company to adopt a zero emissions policy and compensate their neighbours for their asthma attacks; it simply suggests the issue warrants attention and that they should disclose their consultations, analysis and decisions in this regard.

No-one has the perfect analysis of the trade-offs in value creation, but coupled with clear regulations and transparency, enlightened self-interest can be a surprisingly effective guide to better decision-making.

Sustainability 2.0 generates virtuous cycles

Sustainability 2.0 seeks to optimise value creation at every stage of the value chain. If your business supplies canteen foods, it should make sense to serve nutritious meals, with local ingredients, sustainably harvested by farmers you have made an effort to get to know.

Wholefoods' CEO John Mackey provides a good example:

"Management's job at Wholefoods is to make sure that we hire good people, that they are well-trained, and that they flourish in the workplace, because we found that when people are really happy in their jobs, they provide a much higher degree of service to the customers. Happy team members result in happy customers. Happy customers do more business with you. They become advocates for your enterprise, which results in happy investors."⁷

The idea of virtuous cycles also informed the work of Gottfried Duttweiler, founder of Swiss retail giant Migros, and Raymond Ackerman, founder of Pick n Pay.

Of course, building a few virtuous cycles does not mean the business is sustainable. In fact, applying sustainability thinking in one part of the value chain can create self-satisfied blinkers that divert the company from getting to grips with everything else.





Sustainability 2.0 will build the brands of the future

Nature uses structures to deliver intelligent services – it creates mangroves as flood defences, decomposition processes as recycling systems, it optimises ventricle networks as distribution systems – while continuing to build the functional whole. Of course, as the biomimics like to say, it is drawing on 3.8 billion years of research and development; we don't have that long.

But successful brands are being built on intelligent cycles too:

- **Discovery's** Vitality Health incentivises behavioural change precisely because it enhances the social and human capital their business depends on.
- Health and lifestyle retailer **Clicks** are fast developing their stores as primary health networks for much the same reason.
- **Interface** carpets in the United States make their products 100% recyclable. They recapture that value by exchanging worn products, sustaining a long-term relationship with their customers.
- By “putting the power of the Internet into people's hands”, mobile telecommunications company **Vodacom** builds the base for future business.
- Insurance company **Outsurance** introduced a technology to track their customers' driving style, lowering the premiums for those who drive more carefully.

In each case, these companies developed strategies that enhance the resources or processes on which their business depends. It may not have been to meet their sustainability obligations – in most cases, their Sustainability 1.0 programmes were busy doing something entirely different at the time.

But Sustainability 2.0 will be all about the business, the brand and the bucks. It is smart business; it is sustainable business; it is unquestionably the business of the future.

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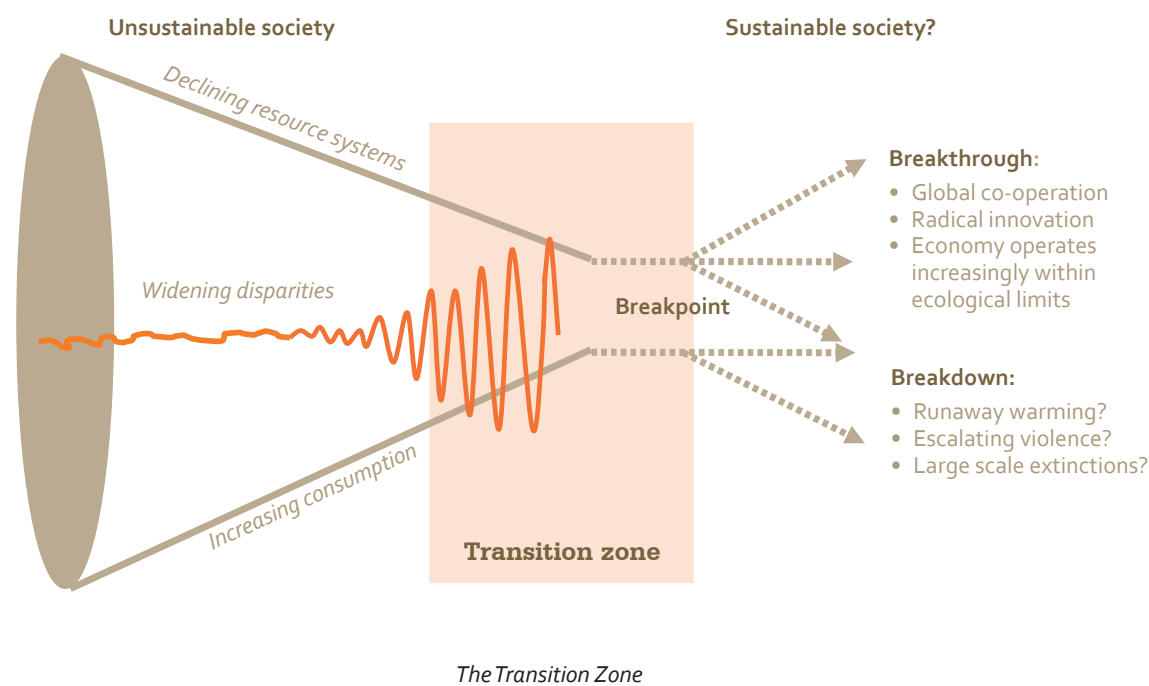


3. Entering Transition

We are entering a transition zone – the space between our past unsustainable society and our future sustainable society. This will restructure the competitive playing field at every scale.

What is the transition zone?

Sustainability 2.0 is about being competitive into the future. And the future is changing. We have entered a **transition zone** – the period between our past unsustainable society and our future sustainable society. Author and business activist Paul Gilding calls it ‘the Great Disruption’.⁸



The transition zone is an inevitable period of accelerated and radical change driven by three interrelated macro-trends, all of which are moving in the wrong direction:⁹

- Declining resource systems,
- Increasing consumption rates, and
- Widening disparities in access to resources.

The consequent squeeze will heighten volatility in every sphere; indeed, it already is. As London Business School’s Donald Sull notes:

“Scholars using a variety of measures including stock price volatility, firm mortality, persistence of superior performance, frequency of economic shocks, and speed of technology dissemination have converged on the finding that volatility at the firm level has increased somewhere between two- and four-fold between the 1970s and 1990s. Turbulence, in other words, was on the rise before the current recession began, and there is little reason to believe it will end when the global economy recovers.”¹⁰



Transition will also open opportunities like never before, driven by disruptive shifts in five crucial areas:

- Geopolitics
- Financial and commodity markets
- Government policy
- Market demand
- Technology innovation.

The transition period starts round about now, and will restructure the economy at every scale, re-defining the competitive playing field. Heightened uncertainty will merge with non-linear feedback loops to amplify small actions into profound and unanticipated consequences.

This will continue until we reach a break-point.

“I don’t think the American public has gripped in its gut what could happen. We’re looking at a scenario where there’s no more agriculture in California. I don’t actually see how they can keep their cities going. I’m hoping the American people will wake up.”

US Secretary of Energy and Nobel Laureate Dr Steven Chu ¹¹

The break-point will either be:

- A **breakthrough**, where global co-operation and radical innovation enable the economy to operate increasingly within ecological limits and with more equitable access to resources, or
- A **breakdown**, during which society will begin decreasing significantly in both complexity and numbers.

Either of these options may ultimately lead to a more sustainable world than we inhabit today, but breakdown will be an infinitely more painful process for both business and humankind.

Despite views to the contrary, many analysts argue convincingly that the break-point will occur in our lifetime; Gilding is equally positive that it will be a breakthrough, driven by the ingenuity that emerges when our backs are truly against the wall. We like to agree.





Sustainability 2.0 strategy, like any business strategy, must allocate resources to enhance competitiveness. The key difference between business-as-usual and sustainability is the extent to which the latter is informed by an analysis of the transition we are entering.

- **Business-as-usual** pins its hopes on the continuation of our unsustainable reality;
- **Sustainable business** turns a radar to the transition zone:
 - » It checks out the trends associated with declining resource stocks, increasing consumption and ongoing disparities,
 - » It analyses these trends and consequent disruptions to determine how the company can become more competitive now and in the future, and
 - » It pursues and seizes opportunities to turn these trends around.

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If we 'integrate' sustainability by adding a few social and environmental indicators to create a so-called triple bottom line, we have entirely missed the point.

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Do we actually need a sustainability strategy?

Most clients who understand sustainability ask this question at some stage. Why not simply ensure the business strategy is informed at a fundamental level by sustainability thinking?

While sustainability must clearly be integrated into the business management system, we believe a single 'sustainable business' strategy will be a reality in a sustainable society. Until such time, it is probably more useful to have a separate sustainability strategy, the task of which is to interrogate the business strategy.

The reason is simple: we are dealing with two different objectives simultaneously.

- The **business strategy** drives competitiveness in our present unsustainable context where societal issues are assumed to be addressed by law.
- The **sustainability strategy** develops competitive ability for an emerging context where societal issues are defined by highly dynamic and inter-related trends.

By acting as an interrogator, the sustainability strategy brings this dichotomy into constant awareness. For example:

- The **business** strategy will seek to drive down costs as much as possible; the **sustainability** strategy will ask whether the costs are being externalised (paid by society, either now or in the future) and what the implications are.
- The **business** strategy will target customers the company knows and who can afford their products; the **sustainability** strategy will ask how its products or services can be made accessible to underserved markets.
- The **business** strategy will innovate relentlessly; the **sustainability** strategy will ask whether the innovations are moving societal trends in the right direction.

Between these two perspectives, a **creative tension** emerges as a change-driver within the company. If we 'integrate' sustainability by adding a few social and environmental indicators to create a so-called triple bottom line, we have entirely missed the point.



4. Applying Sustainability 2.0

Create a sustainability strategy that aligns your organisation with the innovation imperatives of the decade.

The value creation cycle

Strategy is an iterative concept; in times of radical change, awareness of these iterations is central to understanding the strategy process. The value creation cycle consists of four stages, with the last stage feeding back into the first. The full process probably represents a three- to five-year cycle, although things may speed up as the tipping point of a sustainable society approaches. The four stages of the value creation cycle are:

A: Understand the Business Model

In order to develop a sustainability strategy that enhances the business strategy, and eventually interrogates it, we need to understand how the business works.

B: Develop the Sustainability Strategy

The strategy development process must ensure that all sustainability-related initiatives enhance net value creation, are clearly linked to the profit formula (now or in the longer term) and develop competitive ability in the transition zone.

The value creation cycle



C: Integrate with the Business Management System

The sustainability management system – success metrics, policies and procedures, roles and responsibilities, communications and culture – must integrate seamlessly with the business management system.

D: Interrogate the Business Strategy

Once sustainability has traction in the company, we can start to ask what the current products, processes, business strategy or business model look like beyond the transition zone.



This handbook focuses on the first two stages of the value creation cycle; we'll share our thinking and experience on stages C (integration) and D (interrogation) in a subsequent publication.

Stages A and B will guide you to create a sustainability strategy and a three- to five-year sustainability roadmap. At each step of the process, we use two incisive questions to provide a critical entry point for sustainability into the value creation cycle.

Stage C focuses on implementation. The various elements are put in place over six to twelve months with the overarching aim of embedding sustainability thinking within the organisational culture.

Stage D moves beyond implementation to create pressure for innovation within the organisation. This is a blue-sky process; it is not dealing with current reality, but future reality. By seeking to interrogate too radically or too early in the process, sustainability will be marginalised: an enjoyable exercise for some, but forgotten on Monday morning. By prefacing blue-sky initiatives with a steady roll-out of key practices across all areas of the business, the creative tension builds slowly within the organisation, driving the innovation we seek.

A: Understand the business model

Step 1. Specify the stakeholder value proposition

- Who do you create value for?
- What do your stakeholders think about it?

Step 2. Clarify the profit formula

- What is your profit formula?
- What key resources and key processes do you need to drive it?

Let's begin with the business model.

A large number of people simply intuit their business model – they do not necessarily understand or even know what its elements are. So claims Mark Johnson, who presents a deceptively simple framework for successful business model innovation in his book, *Seizing the White Space*.¹²

His model provides an excellent starting point for Sustainability 2.0: many of the opportunities arising in the transition zone are different to those within the current competitive arena and are in a company's 'white space' (in other words, beyond its core business focus). Adapted from Johnson's framework, the first stage of the value creation cycle (A) will ensure that a reasonable overview of your business model prefaces development of your sustainability strategy.



Step 1

Step 1. Specify the stakeholder value proposition

- Who do you create value for?
- What do your stakeholders think about it?

Specify the stakeholder value proposition

Ask your company: Who do we create value for?

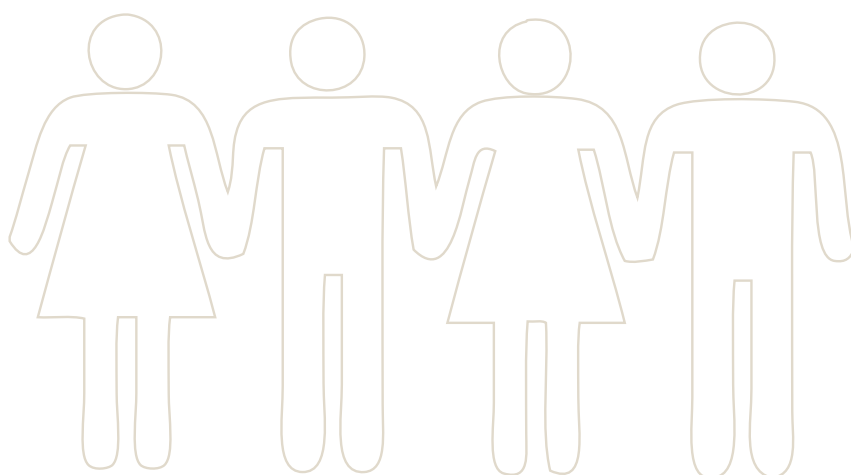
Companies are usually in touch with their customer value proposition: it's the job your product or service does for your customer at a given price.³³ Sustainability prompts us to extend this analysis into a broader stakeholder value proposition. A food retailer might contribute value in different ways for:

- Shareholders (dividends, for example),
- Employees (training, personal development and salaries),
- Local and national government (taxes),
- Suppliers (business opportunities),
- Customers (convenience), and so on.

Identifying the current value proposition concisely for each stakeholder group is the starting point for sustainability analysis.

Ask your company: What do our stakeholders think about this value proposition?

The best way to answer this is to ask them. It's an obvious thing to do, but an astonishing number of companies regard stakeholder engagement as a tiresome chore resulting from King III's over-zealous ethical concerns. In fact, answering this question is probably the most important piece of business intelligence required for competing in a changing world.





Step 2

Clarify the profit formula

Ask your company: What is our profit formula?

Underpinning value creation in every for-profit business is a profit formula. Although clearly not the only way to create value, it differentiates businesses from other value-creating activities and has proved to be a remarkably effective mechanism.

Let's stay with the retail industry. Retail businesses generate profit by a combination of mark-up and inventory turns:

- Large retailers buy at scale, have a relatively small mark-up but high inventory turns.
- Smaller retailers tend to have a larger mark-up, lower inventory turns, but might offer greater convenience in terms of location and opening times.
- High-end retailers might convince their customers that they only stock the best products in a fabulous trading environment and charge a premium for the pleasure.
- Discount retailers with sufficient scale and inventory turns get cash from their customers before they pay their suppliers, enabling them to exploit highly profitable finance models.

The profit formula provides a hint as to where the sustainability initiative will gain greater traction within the core business:

- Small and low-end retailers, for example, might focus primarily on cost reduction through improved efficiencies.
- Large retailers with a broad customer profile will also be interested in enhancing their brand through marketing themselves as good and green.
- At the higher end, they may also explore the possibility of selling ethical, organic or green products at a premium.

By understanding the profit formula, you can assess these options intelligently.



Step 2. Clarify the profit formula

- What is your profit formula?
- What key resources and key processes do you need to drive it?

Ask your company: What key resources and key processes do we need to drive the profit formula?

Getting a handle on the profit engine identifies the value drivers, those controllable factors that most influence value creation. Although any business employs a vast array of both resources and processes, Johnson suggests that just a few spell the difference between success and failure.

Value drivers typically focus on efficiency, cost reduction or growth. Efficiency drivers usually align with sustainability; the others are where interrogation will come in handy later. Value drivers include such diverse elements as a cutting edge technology (like an automated sales system), a brand, supplier network, inventory management or a sales team.

Typical value drivers for a large retail company might include:

- Inventory management,
- Employee turnover,
- Store network and location,
- Private label products,
- Brand, and
- Supplier network and relationships.

By prioritising sustainability initiatives that align with these value drivers – and making the link clear – the sustainability intervention will become more resilient: less likely to be cut away as the company tussles with the radical challenges of the transition zone.





B: Develop the sustainability strategy

Step 3. Analyse net impact

- How are capital stocks built-up or drawn-down by the business?
- Where do you have greatest leverage to optimise your impact?

Step 4. Identify risks and opportunities

- In the transition zone, what major shifts are likely to impact on your profit formula?
- What risks and opportunities may be associated with these shifts?

Step 5. Position the company

- What are your strategic options in the transition zone?
- How should you position to enhance competitiveness?

Step 6. Determine transition competencies

- What competencies do you need to strengthen your positioning?
- What is your appetite for change?

Step 7. Sharpen the focus

- What issues are material?
- How do you focus them?



Step 3

Analyse net impact

Creating value is not just about clocking a profit. Sustainability analysts will typically consider at least five capital stocks to determine whether the value accrued is being whittled away somewhere else, thereby resulting in a net neutral or negative impact.¹⁴

The analysis can be exhaustive and quantitative, or it can literally be informed by high-level conversation. We prefer the latter option. Society has neither the time nor adequate techniques for quantitative analysis in this regard; as with most things at human scale, we don't need numbers to know if there's a problem.

Ask your company: How are capital stocks built-up or drawn-down by the business?

Discussion with our food retail team may yield the following result:

Systems	Build / Restore	Draw down
Financial capital	Revenues Investments Interest Taxes (Nation)	Servicing debt Bad debt Losses Taxes (Company)
Manufactured capital	Store network Some factories Distribution Centres	Damage Depreciation
Human capital	Remuneration Employee share ownership Equity processes Health and wellness Stimulating work Training / development Knowledge generation	Workplace incidents Customer incidents Ethical violations Work-related stress Retrenchments
Social capital	Affordable, quality products Convenience Market for suppliers Enterprise development Policy engagement Social investment Employees' families	Over-consumption Competition / overtrading Congestion Pressure on smaller retailers Pressure on suppliers
Natural capital	Investments in land rehabilitation Sustainable farming practices	Waste generation Electricity consumption Fuel use – transport & logistics Water use (inc supply chain) Effluent / Emissions Soil fertility Biodiversity

Example of high-level impact analysis for a food retail company

Step 3. Analyse net impact

- How are capital stocks built-up or drawn-down by the business?
- Where do you have greatest leverage to optimise your impact?



The analysis should consider:

- **Direct impacts:** those that arise as a result of the operations you own or control, and
- **Indirect impacts:** those that arise from related activities that support or are consequent of your operations.

A bank, for example, will typically have a limited **direct** impact on natural capital; however their decision could have a significant **indirect** impact via the activities of companies in their investment portfolios.

The relative significance of the impacts should be considered, taking account of magnitude, severity and duration. It is not necessary (or in many cases even possible) to quantify the positive or negative impact to develop your strategy.

Be wary of anyone claiming to have a quantitative formula for net impact: they either do not appreciate the complexity or your stakeholders won't understand – or trust – their maths!

Based on this high-level overview, the idea of optimising impact becomes clearer: we want to enhance the significant restorative impacts and reduce the negative impacts.

Ask your company: Where do we have greatest leverage to optimise our impact?

Leverage will typically be achieved through scale, access and influence. A large retailer could achieve leverage through all of them. Think of its networks of employees, suppliers, contractors and customers.

By leveraging networks, we have the opportunity to scale our sustainability impact.

In the transition zone, where scaled solutions are mission critical, leverage tracks opportunity. If the bank mentioned above focused their efforts on reducing their direct carbon footprint and did not consider their investment screening criteria or the huge under-served market at the base of the economic pyramid, they are heading for the booby prize.

In a perfectly predictable world, sustainability would simply emerge as we created more and more value by optimising net impact over time. In reality, things are not that simple. We are entering a time of unprecedented change and turbulence.

We need a few more steps.





Step 4

Identify risks and opportunities

While individual firms do not control sustainability trends or the waves of disruption they bring, they do have a choice on how to engage with them.

Ask your company: In the transition zone, what major shifts are likely to impact on our profit formula?

Let's characterise the transition zone for your company. What major shifts are you seeing as you move into the zone? Using the diagram of the transition zone (page 15), consider key trends in:

- Geopolitics (for example, expansion of emerging markets, indebtedness of Western countries),
- Financial and commodity markets (for example, failure of capital markets, commodity price volatility, increasing cost of capital),
- Government policy (for example, carbon legislation and governance requirements),
- Market demand (for example, demand for fair trade, green credentials and greater accountability), and
- Technology innovation (for example, iPhones, e-Readers, mobile-everything and zero carbon energy).

Shifts in each of these areas have significant potential to change the landscape of business strategy. These should be tailored or clarified for your sector or company.¹⁵

Ask your company: What risks or opportunities may be associated with these trends?

Considering the relevant shifts, specific risks and opportunities should be identified.

For our retailer, risks might include:	Opportunities might include:
Increased operating costs	Cost savings from improved logistics and efficiency efforts
Business disruption	Better internal management systems
Supply interruptions	Branding opportunities for green or ethical ranges
Additional compliance and disclosure requirements	Corporate reputation benefits
Increased costs of capital	Enhanced shopping experience in a green environment
Liabilities associated with supply chain practices	Improved supply chain relationships

The specific risks and opportunities may be evaluated for significance using appropriate criteria. While usually ranked according to magnitude and probability, we have found it quite possible to inform the strategy using the gut feel of the managers in the room.

Now reflect briefly on the connection with the value drivers identified in Step 2.

Step 4. Identify risks and opportunities

- In the transition zone, what major shifts are likely to impact on your profit formula?
- What risks and opportunities may be associated with these shifts?





Step 5

Position the company

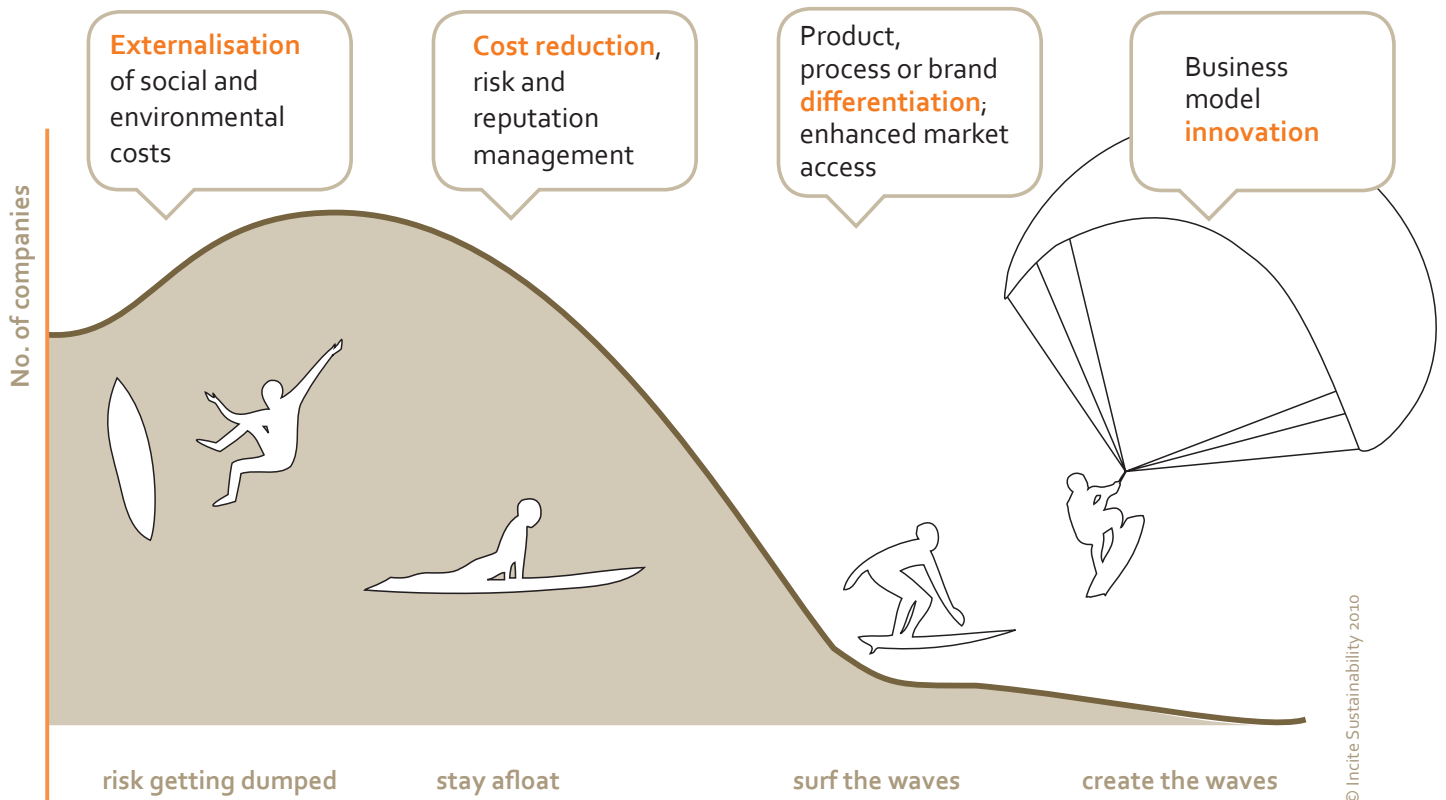
Ask your company: What are our strategic options in the transition zone?

This step is critical to strategy development based on value creation; if it is omitted, you risk ending up with a Sustainability 1.0 strategy.

The Incite model identifies four options for positioning a company's sustainability strategy, any one of which may be valid depending on the value drivers, risks and opportunities identified.

The waves of change in the transition zone will be glorious and devastating, large and small. Each of the following strategic options is informed by a different business case: cost externalisation, cost reduction, differentiation and business model innovation respectively.

Before you decide where you would like to position, consider where your company is positioned now.



Four options for positioning your sustainability strategy within the transition zone



Risk getting dumped: Ensure basic legal compliance while providing a cash reserve (or war chest) for unanticipated consequences

Stay afloat: Reduce costs and lower the risk to protect the present value proposition

Surf the waves: Seek competitive advantage by differentiating products or services on their ability to address societal challenges

Create the waves: Actively shift the industry or sector by introducing new business models that address societal challenges



Ask your company: How should we position to enhance competitiveness?

Where you decide to position will depend on the specific risks and opportunities facing your business.

Let's take **clothing retail** for example:

- Risks associated with raw material access and supply chain ethics exist, but many clothing retailers in South Africa choose to deal with these issues reactively.
- Fuel hikes and governance requirements present a more immediate concern, with cost increases generally being passed on to consumers.
- Unless the company is convinced that its customers will pay a premium for green or ethical clothing (a stretch for most South African shoppers), there is little to differentiate sustainability performance in their customers' eyes.
- Consequently, most companies within the sector position to **stay afloat** focusing on efficiencies and governance requirements.





The **information and communications technology (ICT) sector** is very different.

- Risks focus on energy, infrastructure and access to spectrum and are critical to the business strategy.
- Opportunities for smart technology and mobile platforms (which reduce carbon emissions and can extend markets into untapped rural areas) are even more significant and directly aligned with the value drivers.
- In this case, sustainability trends are integral to the business strategy.
- Companies in this sector will be predisposed to **surf the waves** or even **create the waves**, and will find themselves competing on sustainability-related issues.
- Positioning to stay afloat would be inadvisable.

Oil and gas is different again.

- Sustainability-related risks and resource limitations are deal-breakers and associated with significant cost increases (emissions technology and potential taxes) and location constraints.
- Opportunities are also significant in the form of cost savings and technology innovation, however they may not be aligned with the present business strategy.
- Here, leading companies would seek to **surf the waves** as long as they have an appetite for change.

Putting number of companies on the vertical axis, we might expect a normal bell curve distribution across these positions; in reality the curve is strongly skewed to the left. It should be clear from this model why sustainability is not driving the innovation needed for societal change.

Stay afloat is where Sustainability 1.0 begins and ends.

Step 5. Position the company

- What are your strategic options in the transition zone?
- How should you position to enhance competitiveness?





Step 6

Determine transition competencies

This is unconventional thinking, but it warrants some attention because it has been very useful in achieving the breakthrough to Sustainability 2.0 amongst our clients.

Ask your company: What competencies do we need to strengthen our positioning?

The transition zone will require a special kind of fitness. The more volatile the context, the more agile we must be to navigate it. For business theorist Donald Sull:

*"Agility is defined as a company's ability to consistently identify and capture game-changing business opportunities more quickly than its rivals do."*¹⁶

From our perspective, agility will be defined and redefined by watching how companies create and capture value in the transition zone.

Our work suggests that transition-fit companies have two primary characteristics: they are highly adaptive and highly transactive.

.....
Ultimately, agility will be defined and redefined by watching how companies create and capture value in the transition zone.
.....

Adaptive capacity is the ability to change what you do and how you do it.

Transactive capacity is the ability to exchange value – goods, money, ideas, services – with others.

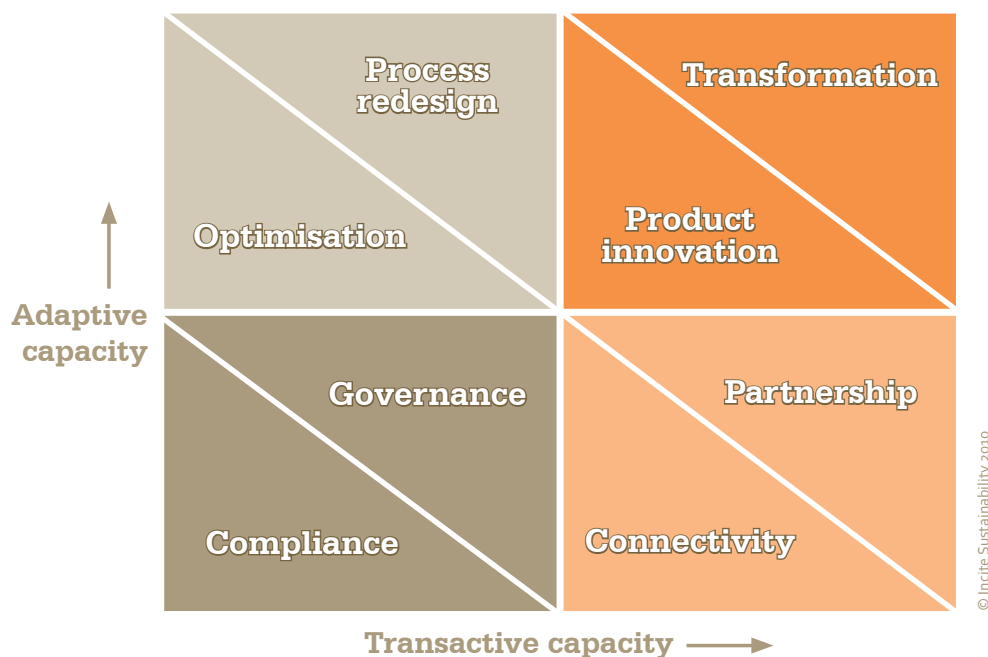
In plainer terms, change and exchange are the currencies of transition. The reason is simple: these characteristics provide greater choice in the face of disruption. If we can respond to challenging scenarios (eg poverty), unexpected events (eg a social uprising) or new policies (eg a carbon tax) by changing skilfully or by working with others, we have more chance of coming up with a winning formula.

But how do we track these characteristics in a company?

To assist our clients, we developed a model that identifies various capabilities to which these characteristics give rise – and that could perhaps be measured. We call this the **Transition Matrix**: it indicates eight areas of competence that enhance a company's potential to create value, particularly in a time of rapid change.

These areas define a mix of skills, processes, systems, activities and ways of working that address sustainability challenges in a value-oriented way.

The Transition Matrix



Eight areas of competence that enhance competitive ability in the transition zone

Approaching the Matrix as a standard 2x2 business strategy quadrant, the competencies within each of the shaded areas draw on progressively greater capacities to adapt and / or transact.

But the Transition Matrix is not a standard 2x2 business strategy quadrant. It is not about locating your company in an optional box and disregarding the others; rather it describes a cumulative process of systems development, self-reflection and learning (in other words, organisational competence) from lower left to upper right.

The Transition Matrix is a change process.

This becomes clear when synced with positioning, as indicated in the Matrix on the following page.

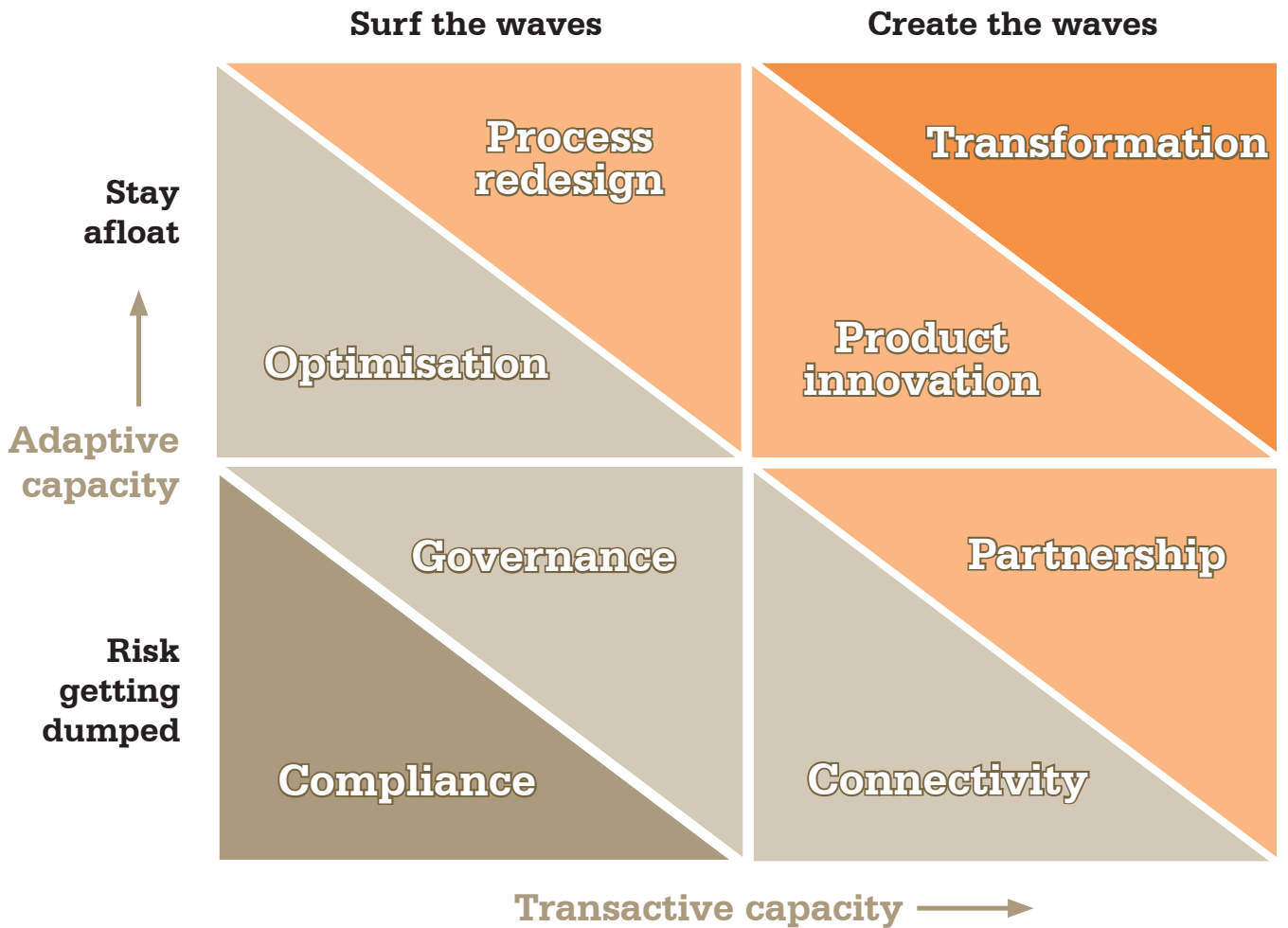
As long as your positioning is correct, it is fairly easy to identify which competencies your company should be focusing on. Each position assumes that the competencies at the preceding level have already been developed and are being maintained.

Step 6. Determine transition competencies

- What competencies do you need to strengthen your positioning?
- What is your appetite for change?



The Transition Matrix

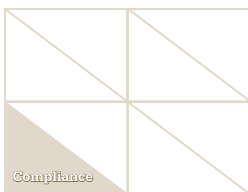


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Linking positioning to competence areas indicates how a company should activate their strategy

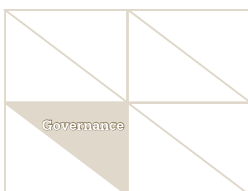
The following definitions and practices have been developed specifically for sustainability strategy development. Beyond stay afloat, where the competencies are less common, we have provided a few examples.

Stay afloat: Strengthening business-as-usual



Compliance is the capacity to track and comply with legal requirements. The key practice for competence is **compliance management**.

Most companies do this already otherwise they wouldn't be in business. If this is the only transition competence your company intends to develop, you 'risk getting dumped' and a cash reserve may be in order to cover the cost of unanticipated consequences in the transition zone. (Note that sustainability requires the *capacity* to track and comply with legislation – it doesn't assume that there will be no insider trading, collusion or other nefarious activities occurring in a sustainable society.¹⁷)



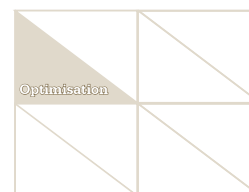
Governance refers to the systematic management of the organisation's purpose, processes, risks and responsibilities. The key practice for competence is **risk management**.

The King Code of Governance (King III) has significantly advanced thinking in this arena, which is one of the reasons South African approaches are receiving attention in global sustainability circles.



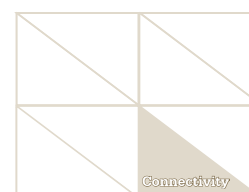
Optimisation seeks to develop human potential and reduce resource use per unit of value added. Most companies do this by training and rewarding staff, improving logistics, reducing waste and energy consumption, and generally saving costs wherever they can. The key practice for competence is **data management**. Without it, optimisation efforts will not be sustained because they will not be noticed.

Following rolling black-outs and steep price increases, energy optimisation has received significant attention in South Africa. Optimisation is usually a win-win proposition, and should encounter little resistance. There is, however, the reality of diminishing returns. Once beyond the proverbial 'low hanging fruit', the improvements get smaller and more costly. Happily, this provides the impetus we need to look beyond optimisation (and beyond Sustainability 1.0).

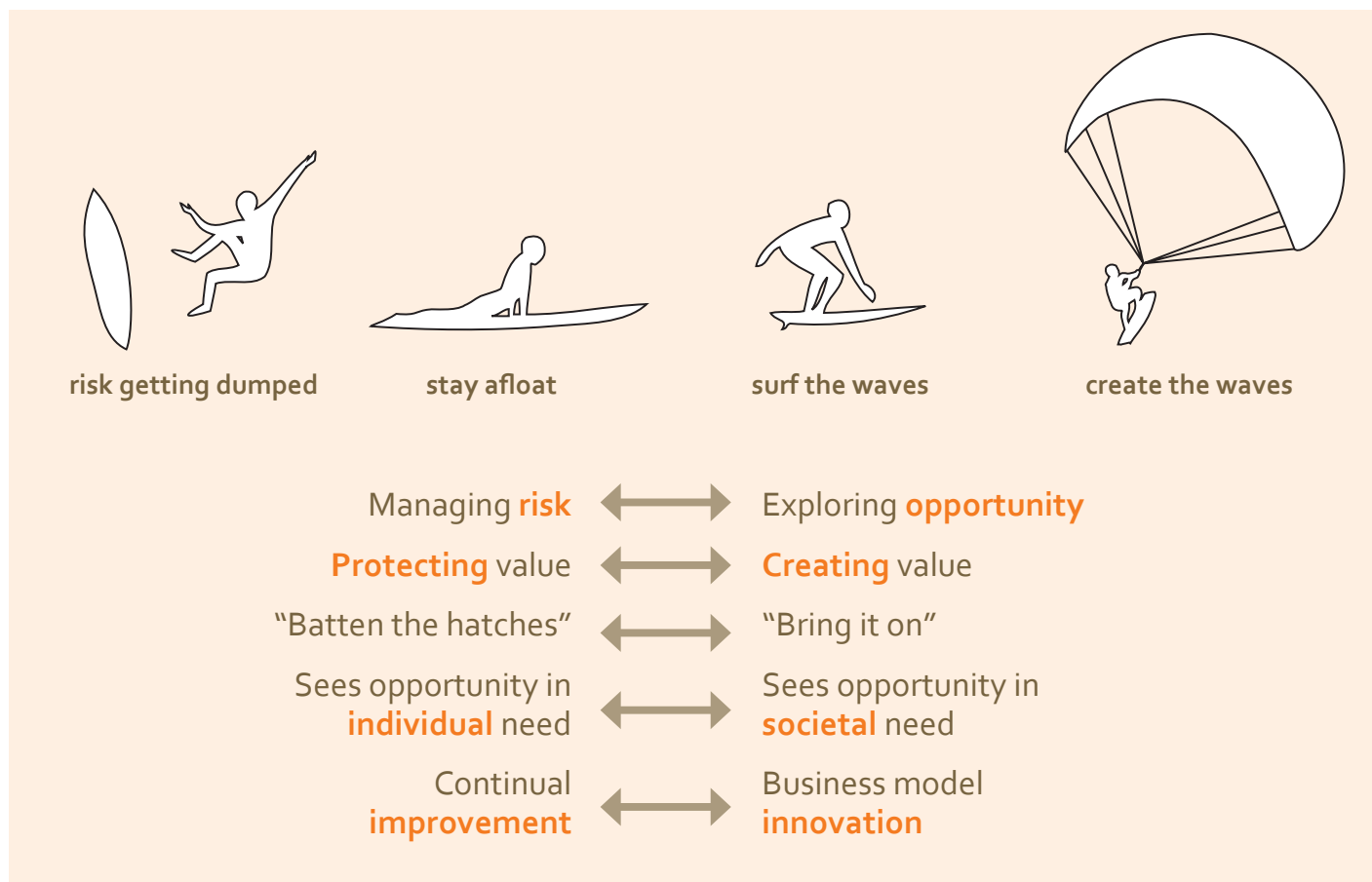


Connectivity is the ability to listen to, interact and transact with a range of stakeholders. The key practice for competence is **stakeholder management**.

Connectivity can be tracked through a number of platforms and gains traction through scale. It may include personal or social connectivity, IT platforms, financial platforms and logistics.



The above four competencies are all about business-as-usual. It should be easy to identify a number of existing projects or initiatives that have enabled your company to develop them. Consider to what extent these initiatives contribute to your sustainability effort by reflecting on how they have helped you to manage the sustainability risks and opportunities identified in Step 4.



The shift from stay afloat to surf the waves is significant

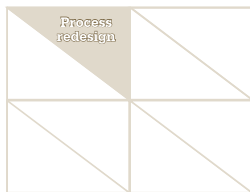


Surf the waves: Taking the leap

The difference between staying afloat and surfing the waves is significant. While staying afloat supports business-as-usual, perhaps buying us a little more time in the unsustainable society (driving south more slowly), surf the waves turns its attention to the societal challenges that compromised sustainability in the first place (turning around and driving north). It moves beyond individual need to a far greater source of opportunity.

This is not necessarily an easy shift. Germany as a nation appears set to take the leap in response to Japan's nuclear crisis. While achieving carbon neutrality without nuclear power will be difficult, the dividends will come as Germany seizes comparative advantage within and beyond the transition zone. Of course, there are no guarantees. The reason most companies – or countries – will decide to develop these competencies anyway is that they will be useful whatever happens. This leap has implications for the level of responsibility we take, whether as individuals, companies, or as nations.

What competencies will enable your company to surf the waves (differentiate and expand market access) in the transition zone? Partnership, process redesign and product innovation seldom work in isolation. Companies that cross into surf the waves will liberate a mindset that fosters all three of them.



Process redesign requires the capacity to significantly change products or processes to address sustainability challenges at any stage of the value chain. The key practice for competence is **systems thinking**.

- Beer manufacturer **SABMiller** is redesigning their sourcing processes in Africa. Ingredients have shifted from malt and maize to locally-produced sorghum and cassava. Their sourcing strategy draws on over 700 smallholders converted from subsistence farming.¹⁸
- **Txteagle** in Kenya redesigned the employee proposition by creating a network of human capital quickly mobilised via text messaging. With over 10,000 micro-employees on their books, they are the largest local employer in the country.
- **Walmart's** Sustainability Index uses a 15-point, open-source supplier survey and lifecycle database to identify redesign opportunities within its supply chain.¹⁹



Enterprise development and preferential procurement – part of South Africa's **Broad-based Black Economic Empowerment (B-BBEE)** initiative – encourage companies to redesign their supply chain processes. Unfortunately, encouraged by the Scorecard, many companies remain locked in a compliance mindset and overlook opportunities to develop competence in process redesign.



Partnership is the ability to co-operate with a person or group to advance mutual interests in relation to sustainability challenges. The key practice for partnership is **meaningful dialogue**, but the competence develops only as the relationship is sustained and deepened through collaborative action over time.



- South African IT infrastructure distributor **Axiz** pioneered partnership in human capital management through an employee share ownership scheme launched in 2003. CEO Anthony Fitz-Henry embodied this approach personally when he requested a shop-floor employee-owner to coach him on story-telling.
- **Woolworths'** Farming for the Future and **Pick n Pay's** Small Business Incubator engage a partnership approach to make the most of opportunities within their supply chain.
- **Hindustan Unilever's** Project Shakti partners with over 45,000 women who operate as direct-to-consumer retailers in rural India. Started in 2000, the programme is expanding into Sri Lanka, Vietnam and Bangladesh, and possibly Latin American and African markets.²⁰

The partners may be different and address different aspects of the business (employment, supply and sales respectively), but in each case, value creation is enhanced through developing competence in partnership.

Product innovation means the creation of viable new products and services that address sustainability challenges. The key practice for competence is creating a **learning culture**.



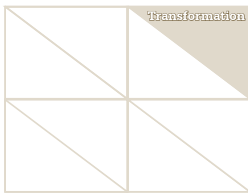
- General Electric's **ecomagination** focuses on energy efficiency, carbon reduction and water reuse as the basis for product innovation. With annual sales tracking \$20 billion, the company is learning fast.²¹
- **Thomson Reuters** (India) created a new service to provide farmers with updated weather and crop pricing information. Using mobile platforms, they help an estimated two million farmers to optimise the movement of their products to market for a fee of \$5 per quarter. The service has enabled farmers to increase their incomes, in some cases by up to 300 %.²²
- **Tesla Motors'** Model S Sedan aims to be the world's first highway-capable, mass-produced electric vehicle.

While many companies innovate, the transition competence is developed only when new products and services directly or indirectly decrease consumption, radically reduce waste carbon emissions, enhance diversity, reduce disparity and/or eradicate poverty.

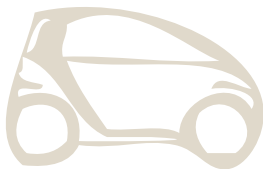
As innovation, redesign and partnership reinforce each other, your company will find new ways to differentiate and expand access to underserved markets.



Create the waves: Going for leadership



Transformation is the ability to catalyse change in the broader sector or industry by introducing a new business model that addresses sustainability challenges. The key practice for competence is **visionary leadership**.



- **Grameen Bank** (Bangladesh) reversed conventional banking practice by removing the need for collateral and creating a banking system for the rural poor based on mutual trust, accountability and participation.
- Premium toolmaker **Hilti** faced a commoditising tool market where differentiation was increasingly difficult. They also saw an opportunity: poor maintenance and neglect of 'cheap tools' were leading to increased repair costs and productivity losses. By introducing a tool leasing model, they enrolled thousands of construction companies for tool fleet management services, securing their revenue stream, reducing waste and avoiding costly delays.²³
- **Daimler AG's** Car2Go is a carsharing service. Launched in Hamburg, Germany in 2011, the 'on demand' fleet includes over 900 Smart Fortwo microcars with fully-integrated solar roofs. Members may use the vehicle for as long as they like, without committing to a specific return time or return location. Charges are based on minutes used and include fuel, insurance, parking and maintenance.²⁴

In addition to business model innovation, transformation competence tracks the extent to which the new business model is emulated in the industry. Noteworthy in this respect is Grameen Bank. Within a few years of its launch, virtually every mainstream financial institution had set up or was exploring a micro-finance model.

The eight competence areas and associated key practices are not intended to be a rigid checklist. The matrix is simply a prototype that helps to deepen the dialogue on what sustainability means for business. They provide an indication of how you will activate your strategy.

While clearly not the final set of competencies, we believe they are a good starting point for enhancing competitive ability in the transition zone.

Ask your company: What is our appetite for change?

Once you have positioned your strategy and you know what learning awaits you, a moment of reflection on your appetite for change is appropriate. If your strategy involves a move beyond stay afloat you may be in change territory. This requires a deeper understanding and level of commitment to sustainability.

From this point onwards, Sustainability 2.0 thinking will begin to infiltrate your company and may disturb a few comfort zones. Your appetite for change is directly proportional to your ability to stay with this discomfort and allow the creative tension to build.

Successful change will be about your ability to direct that creative energy intelligently.



Step 7

Sharpen the focus

Depending on your facilitation method, all the ingredients for your sustainability strategy should now be visible: the business model, the positive and negative impacts, the risks and opportunities, your desired positioning and the competencies you need to achieve it. There is one final step in the strategy development process.

Ask your company: What issues are material?

If you have followed steps 1 to 6, you will know what is material for your company. Technically, an item is material if knowing this piece of information could substantively influence the assessments and decisions of the organisation or its stakeholders.²⁵

Although this may sound simple, it is not – which is why you have taken six steps to get here. Simply speaking, material issues are those things an informed manager would do something about.

At this point, you should literally be able to brainstorm the key material issues in five minutes.

Then test your list against your:

- Significant impacts (Step 3), and
- Risks and opportunities (Step 4).

Your material issues should touch on all of them.

Certain issues will be material to some stakeholders and not to others. While stakeholder views are important, ultimately the company itself makes the decision on whether a particular issue requires active management or not because they will be held responsible for this decision.

Ask your company: How do we focus the material issues?

Unless your material issues are focused into a manageable framework, tracking sustainability performance will be exceedingly difficult. We recommend clustering the material issues into about five categories. These focus areas provide a cross-functional lens on your entire business and a framework for managing sustainability.

Constantly reviewing the material issues and focus areas against the expectations of stakeholders (both internal and external), your media profile, industry benchmarks and industry guidelines will improve the integrity of your materiality process.

Innovative financial services and assurance provider **Discovery** takes account of their experience and networks to drive:

- An innovative, performance-based culture,
- Partnerships for universal healthcare coverage,
- Enhanced wellness, healthcare and financial security for under-served communities,
- Incentives for positive behavioural change in society,

Step 7. Sharpen the focus

- What issues are material?
- How do you focus them?



- Transparency and ethical practices through all their networks, and
- Greater understanding and responsiveness to environmental challenges.

Mobile telecommunications company **Vodacom** recognises the strong linkages between sustainability and their business strategy by prioritising:

- Customer experience,
- An environment where their people can excel and grow,
- Expanded access to the Internet,
- Operational excellence, and
- Stakeholder partnerships.

Health and lifestyle retailer **Clicks** focuses on:

- Providing access to primary healthcare through their trusted store network,
- Empowering motivated, passionate employees,
- Sourcing products that uphold the integrity of their brand, and
- Reducing the environmental footprint of their operations.

Each focus area should be linked to a clear value proposition (possibly revised from Step 1) and one or more of the value drivers (Step 2).

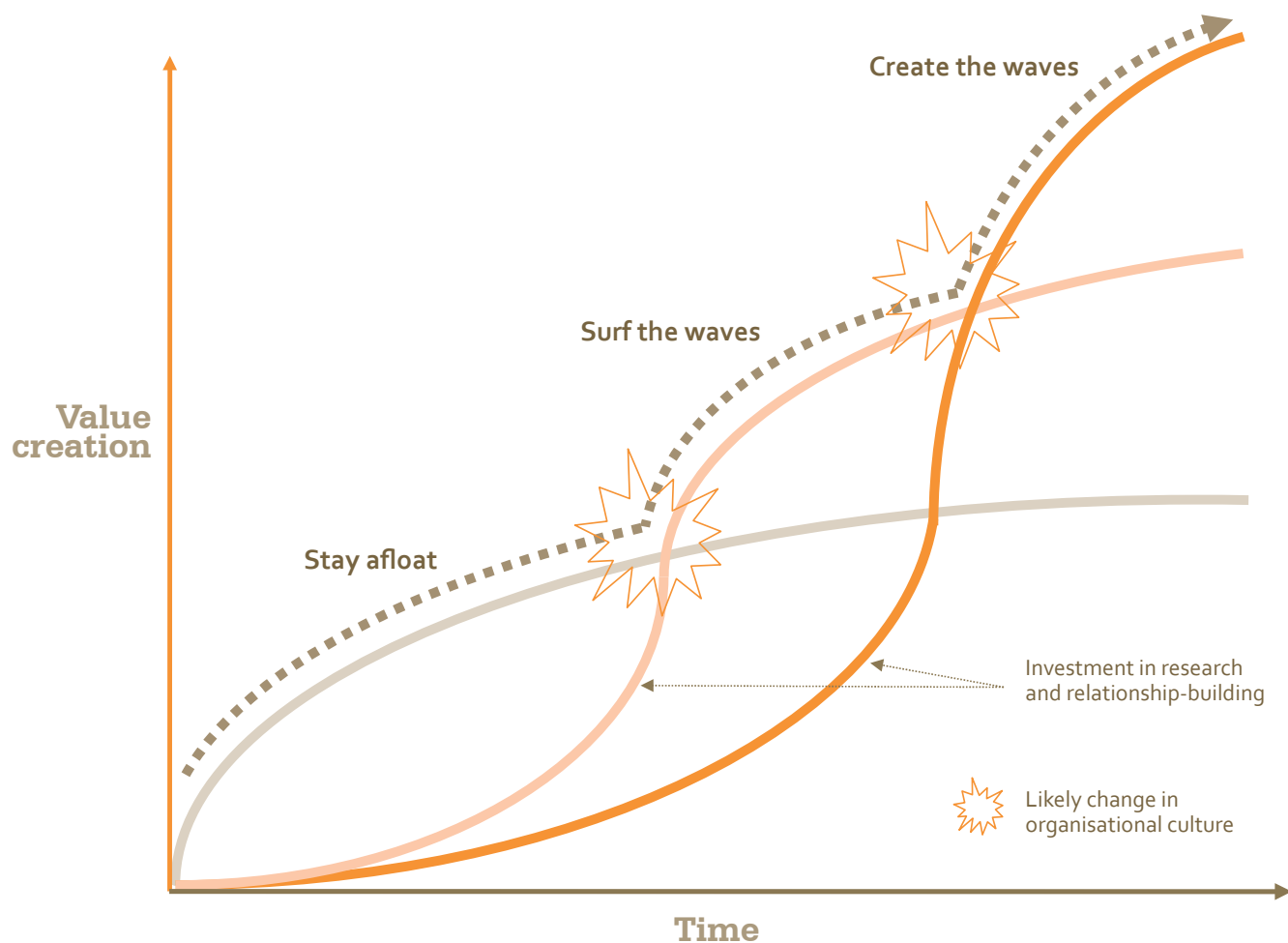
Explicitly linking each focus area to your value proposition and value drivers is the best (and perhaps last) chance you will get at convincing the inevitable crew of sceptics that sustainability is, in fact, a business issue rather than a PR exercise.

The framework of focus areas should remain relatively constant. However, as the internal and external context changes, the material issues framed by the focus areas may change.

Once the focus is clear, all initiatives that enhance impact and build transition-fitness will find a place within the framework. You will be able to structure a portfolio of existing and potential initiatives into a three- or five-year plan. This plan will be informed by a thorough analysis of impact, risks, opportunities and the competencies you need to manage them.

Your sustainability roadmap presents this journey over time. It may involve a shift from stay afloat to surf the waves; or it may simply be about consolidating your ability to stay afloat.

Roadmap for a sustainable business



Charting your sustainability journey over time

This journey is represented by the dotted line on the diagram above.

Where it involves a potential culture change, be aware that resources will be required to facilitate this.

Either way, your roadmap will chart a path of learning and greater value creation over time.

You are now ready to move to Stage C, integrating sustainability into the business management system.



Benchmarking your company on value creation

Sustainability 1.0 benchmarks tend to be simplistic. They either assume that all companies have the same sustainability strategy, or they are based on self-administered checklists that ask questions like:

- “Do you have an environmental policy?”
- “Do you recycle your waste?”, and so on.

The latter primarily measure a company’s ability to tick boxes (i.e. compliance), and each year embattled sustainability managers are expected to fill in more of them.

A benchmark based on value creation should assess whether a company has adopted an intelligent positioning relative to its impacts, risks and opportunities and how it is performing to strengthen that position.

The four broad strategic positions have been described in Step 5. For most companies, their positioning (whether conscious or not) can be ascertained from publicly available information.

A company may be assessed as strong, moderate or weak within a given positioning based on the degree to which the relevant competencies have been attained.

GRI-based indicators can be useful for assessing impact; competence development can be inferred from the nature of initiatives a company reports to its stakeholders. Many of these – for example supply chain optimisation or management coaching processes – are not typically reported as sustainability initiatives. However, if they develop the capacity of the organisation to adapt and transact, we consider them to be relevant.



Eyes closed

Limited initiatives beyond legal compliance. Inadequate analysis of links between sustainability and value drivers: company position lacks awareness.

Eyes open

Limited initiatives beyond legal compliance. Implications for value drivers identified: company chooses to handle consequences of sustainability-related risks.

Weak

Efforts characterised by haphazard initiatives, primarily CSI and cost saving. Initiatives lack focus and are not consolidated to develop internal competence.

Moderate

Reasonable spectrum of optimisation, connectivity and governance initiatives shows progress on commitments. Consolidation of competence underway.

Strong

Programme clear and focused. Evidence of competence in compliance, risk, non-financial data and stakeholder management.

Risk getting dumped

Stay afloat

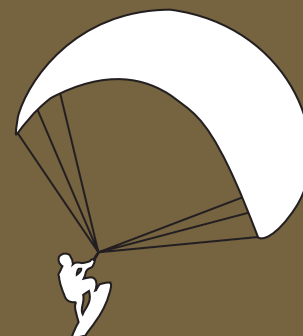
It is also useful to assess whether the initiatives reported align with the positioning. For example, if a retailer publicly commits to zero waste stores (a surf the waves initiative that will require significant redesign of its waste management systems), but is not yet able to report confidently on its waste volumes (which is a basic requirement of staying afloat), we may query the commitment.

From an investment point of view:

- A company that has built strong stay afloat competencies may be just as appealing as a competitor that is trying to surf the waves:
 - » It may not yet have developed the competencies enabling it to capitalise on its chosen strategy,
 - » It may face exposure to the 'tall poppy syndrome',
 - » It may lose focus through being too thinly spread, and
 - » The danger is heightened if the company is marketed as green and good before the substance is there.
- From a longer-term perspective, the company in surf the waves should be moving faster up the learning curve and will be better positioned to seize opportunities in the future.

Finally, it is important to remember the context of change. The company is changing, and the playing field is changing too. The transition zone is pressurising competitors, suppliers, employees and customers to develop their own capacity to adapt and transact. The rapid evolution of social networking, enabling personal communication with individual customers, is a prime example of transactive capacity.

Because the context is changing, what might be an appropriate surf the waves strategy today may become a stay afloat strategy tomorrow.



Weak

Moderate

Strong

Small waves

Big waves

Programme commits to competitive advantage through differentiation on approach to societal challenges, but initiatives do not reflect the commitment.

Reasonable spectrum of redesign, partnership and innovation initiatives shows progress on commitments. Consolidation of competence underway.

Clear indication of competitive advantage based on differentiation. Evidence of competence in systems thinking, meaningful dialogue and learning culture.

Notable impact with respect to sector regarding a particular sustainability challenge e.g. supply chain management, process redesign or a new product.

Company action has compelled a significant fraction of their sector to address a particular sustainability challenge e.g. poverty, equity, carbon, waste, biodiversity.

Surf the waves

Create the waves



5. A Call to Action

Inspiring the business contribution to social change requires learning and collaboration between us all.



Stage C and beyond

The preceding seven steps may require a little more analysis than typically done for a Sustainability 1.0 strategy, but from this point onwards, we can assure you that sustainability will become a lot easier. If you manage the process well, you will have quite a bit of support – much of which will come from people who previously thought sustainability was largely a waste of time. In our experience, these are the most useful supporters you can have at this stage.

As you move forward with Stage C (Integrate with the Business Management System), you will focus on:

- Identifying existing and developing new initiatives that address impacts and develop competence within each focus area,
- Selecting performance indicators and associated data elements for each focus area,
- Defining roles and responsibilities to ensure cross-functional accountability and co-ordination,
- Integrating the relevant competence areas and the key practices that support them into the learning processes of selected teams and individuals, and
- Assembling a sustainability dashboard to track relevant projects, success metrics and the extent to which your organisation is developing its transition-fitness.

Integrated reporting will finally make sense: you will have replaced a list of triple bottom line indicators with a robust analysis of how your value drivers will face up in the transition zone.

If you are positioning to stay afloat, keep an eye on sustainability trends and their implications for your strategy. Do not be lulled into complacency by short-term win-win propositions: change will be necessary at some point.

If you are positioning to surf the waves or beyond, the key practices – meaningful dialogue, systems thinking, a learning culture and visionary leadership – should begin to create the tensions needed for interrogation of your business strategy (Stage D). At the right point, business strategy interrogation will no longer feel like a blue-sky indulgence but a welcome respite from a pervasive sense of organisational unease. This simply means that sustainability thinking is happening and your organisation is ready for change.

But we are now venturing beyond this handbook.

Is sustainability
inspiring the
innovation required
to make our society
sustainable?





Where to from here?

If this approach seems useful, we would love to hear your experience of applying it in your organisation. We have mainly worked with South African corporates, most of which are listed companies and undertake sustainability initiatives in compliance with the King III Code and other governance requirements. But we have also used the transition matrix with small companies (including our own) and have even adapted its elements to work with individuals in personal coaching sessions.

What are your experiences with Sustainability 2.0? We urge you to join our exploration by sharing your thoughts and ideas. We are currently working on:

- Improving our understanding of the value creation cycle and finding better ways for sustainability thinking to strengthen the process,
- Piloting ways to measure transition-fitness within organisations,
- Developing courses and coaching processes that increase the transition-fitness of sustainability practitioners,
- Supporting and contributing to local and international integrated reporting developments,
- Resisting persistent attempts to relegate sustainability to a list of good and green credentials,
- Developing and sharing case studies on sustainability positioning, benchmarks, change processes and sustainable brand-building, and
- Tracking and learning from trends in the transition zone.

Based on the value creation approach, we believe sustainability should become a key contributor to company valuation methodologies. We look forward to the day that transition-fitness is recognised as the intangible asset it is. Although the eight competence areas will not appear on the balance sheet, we anticipate that they will increasingly impact on the share price.

The ultimate question we are seeking to answer is this: Is sustainability inspiring the innovation required to make our society sustainable?

We hope the ensuing dialogue will inspire you and many others to the greatest task of our time.



Endnotes

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About the author

Transition strategist, coach and facilitator, Nicola Robins is a co-founder and director of Incite. She works with individuals and companies who share a passion for creating value more skillfully. Trained at the University of Cape Town and Yale School of Forestry and Environmental Science, her thinking is influenced by complexity theory and the approaches of indigenous Southern African knowledge systems to personal and group transition.

Acknowledgements

Jonathon Hanks and the Incite team – Toni Bold, Georgina Combes, Anthony Dane, Lauren Hermanus, Sonja Niederhumer and Katya Soggot – for their active support and contribution.

William Frater, independent governance analyst and advisor, for inspiring conversations.

Ralph Hamann (University of Cape Town, Graduate School of Business) and Jako Volschenk (University of Stellenbosch Business School) for their ongoing encouragement.

Incite clients for their robust engagement with our challenging approach to sustainability strategy.



Who we are

We are a leading advocacy group and consultancy that is rethinking sustainability to help business do better.

What we do

We work with influential public and private sector clients in sustainability strategy, engagement and reporting.

We believe our experience, networks and skills set are second to none in South Africa.

- Over 50 cumulative years of sustainability experience in most sectors across five continents.
- Actively networked into many of the major national and international sustainability initiatives, including King III, the Carbon Disclosure Project, the South African and International Integrated Reporting Committees, Global Reporting Initiative and the social responsibility standard ISO 26 000.
- Work with some of South Africa's largest and most influential companies, including Sasol, Anglo American, Pick n Pay, The Foschini Group, Vodacom, Discovery, Clicks Group, Engen and Investec.
- Teach on Executive, MBA and practitioner courses at the UCT Graduate School of Business and the Cambridge Programme for Sustainability Leadership.

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