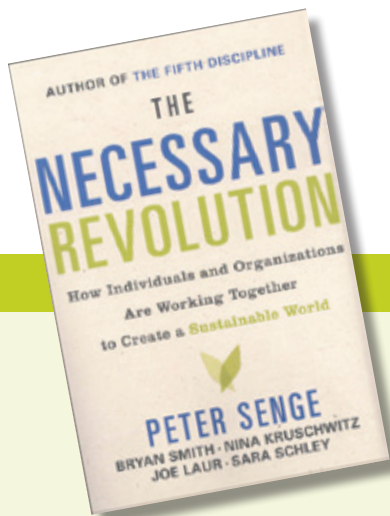


Sustainable Value Creation

Peter Senge, Bryan Smith, Nina Kruschwitz, Joe Laur, and Sara Schley



Excerpt from—*The Necessary Revolution: How Individuals and Organizations are Working Together to Create a Sustainable World*

Peter Senge is best known for the groundbreaking *The Fifth Discipline: The Art & Practice of The Learning Organization* (2006), which Harvard Business Review dubbed “one of the seminal management books of the past seventy-five years.” In the wake of *The Fifth Discipline’s* enthusiastic acclaim, he and coauthors Bryan Smith, Nina Kruschwitz, Joe Laur, and Sara Schley, wrote *The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World* (Doubleday, 2008), which describes the transformative strategies essential for creating a flourishing, sustainable world. This excerpt looks at the sustainability forces that are compelling business toward a regenerative economy and the need for balanced investments to maximize value creation.

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Sustainability, like shareholder value creation, is also a multidimensional challenge. Yet most managers ... frame sustainability “not as a multidimensional opportunity, but as a one-dimensional nuisance,” as Hart and Milstein note. The Sustainable Value Framework [see figure] they originated addresses this in a simple and elegant way.

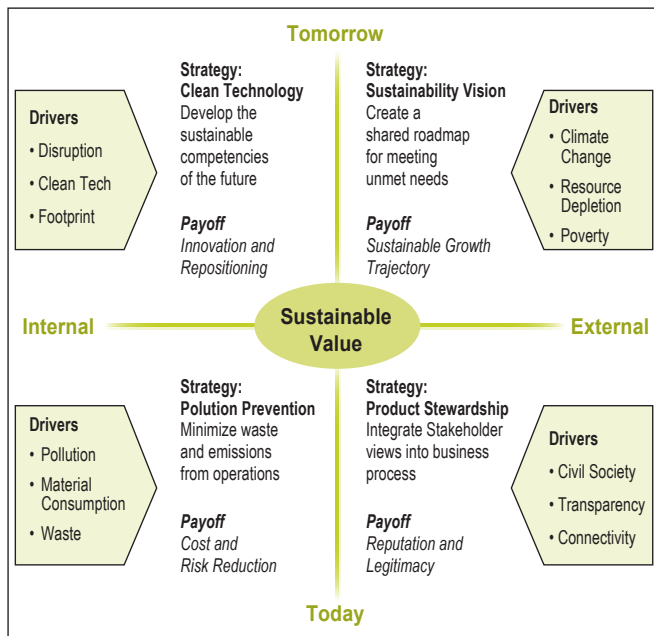
It is built around ... two dimensions—time and space ... and includes the social and environmental challenges businesses now face. It’s been used by companies of all sizes in many industries, and by broader coalitions of business and non-business leaders. The city of Sarnia, Ontario, for example, in the heart of Canada’s “Chemical Valley,” brought together leaders from government, business, and civil society to look at both the current state of each of their sectors and possible opportunities for the future. During a period of intensive work, they used the matrix to create a plan for achieving their vision of evolving to a cleaner “bio-hybrid” economy, in which bio-based inputs or feedstocks replace conventional oil and gas feedstocks.

The framework demonstrates the connection between sustainability and the core functions of any business. As Hart and Milstein point out, many executives look at this model and realize that *this connection simply has not been made before*. If managers and employees are apathetic about their organization’s sustainability efforts, it is most likely because they don’t see how it ties in to business goals. As a result, efforts are generally piecemeal, reactive, and poorly integrated into the company’s core mission and business plans.

The framework helps people place their organization’s activities in perspective, and shows how they can work together to create and maintain value and simplify strategic decision making.¹

Sustainability drivers

There are many distinct forces compelling businesses toward the regenerative economy, but the Sustainable Value Framework helps us categorize them into four broad groupings—and allows



Sustainable Value Framework²

us to better understand how sustainable practices are directly related to a company's core strategies.

The first, and perhaps most obvious, relates to the increasing industrialization of the last two centuries and its side effects, material consumption, pollution, and waste generation among them. Firms can create immediate value by reducing the level of material consumption and pollution associated with their activities.

A second set of forces concerns the proliferation of "civil society stakeholders." As the power of national governments has eroded in the wake of global trade regimes, non-governmental organizations (NGOs) and other civil society groups have stepped into the breach, assuming the role of monitor (and, in some cases, enforcer) of social and environmental standards. At the same time, the spread of the Internet and information technology has enabled these groups to communicate with members and with each other in ways that were unimaginable even a decade ago. Internet-connected coalitions of NGOs—such as Banktrack, Rainforest Action Network, and others—are making it increasingly difficult for governments, corporations, or any other large institution to operate in secrecy. Moreover, companies that operate at greater levels of transparency and responsiveness to the public's desire for sustainable practices will see the direct impact of improved brand image on their bottom line.

Another set of trends includes emerging "disruptive" technologies that challenge the status quo and could render many of today's energy- and material-intensive industries obsolete. Genomics, biomimicry, nanotechnology, information technology, and renewable energy all hold the potential to drastically change

both the way we do business and our effect on the planet. There are few more effective ways for companies to invest in the future than by developing new, potentially game-changing technologies.

Finally, a fourth set of drivers relates to global [sic] problems like resource depletion, deteriorating ecosystems, and climate change; poverty and inequity in the developing world; and an equally broad set of sustainability drivers in the developed world, including global security issues and their close links to climate, resource consumption, and energy supply and security. Social development and wealth creation on a massive scale, especially among the world's poorest 4 billion, are essential to sustainable development. However, development everywhere must follow a fundamentally new course if it is not to result in ecological meltdown. But not only is responding to this final set of drivers essential for the health of the planet; firms can also create value by pursuing sustainability-related opportunities that are rapidly emerging in all industries. One example is meeting the basic needs, including food, sanitation, and health, of those at the bottom of the world income pyramid in a way that facilitates wealth creation and distribution.

Global sustainability is so complex that it cannot be addressed by any single corporate action. Therefore, companies that hope to thrive in the years to come must address each of the four broad sets of drivers. Deciding how much to invest in each quadrant and over what period of time will differ for every organization; insight into this process is one of the real values of using this framework. Ultimately, a balanced portfolio of investments in all four quadrants is necessary to maximize value creation. ■

References

1. In 1999, Brian Kelly founded the Sustainable Enterprise Academy (SEA) at York University's Schulich School of Business, with the mission of supporting business leaders in the transformation to corporate sustainability. He brought together a small group of leading thinkers to develop and offer a four-day executive leadership program, focused on the business opportunities inherent in sustainability. He also included, as guest presenters, senior business leaders of companies already moving to integrate sustainability into the core of their business. Stuart Hart contributed the sustainable value matrix to the SEA program, which became an important tool for the business leaders attending to create sustainable value within their organizations.
2. Adapted with permission from S. Hart and M. Milstein, "Creating Sustainable Value," *Academy of Management Executive* 17, 2 (2003). Also see Stuart Hart, *Capitalism at the Crossroads* (Philadelphia: Wharton School Publishing, 2007).