The Fifth Axis of Competition and Sustainable Value Management

—corporate sustainability beyond the triple bottom line—

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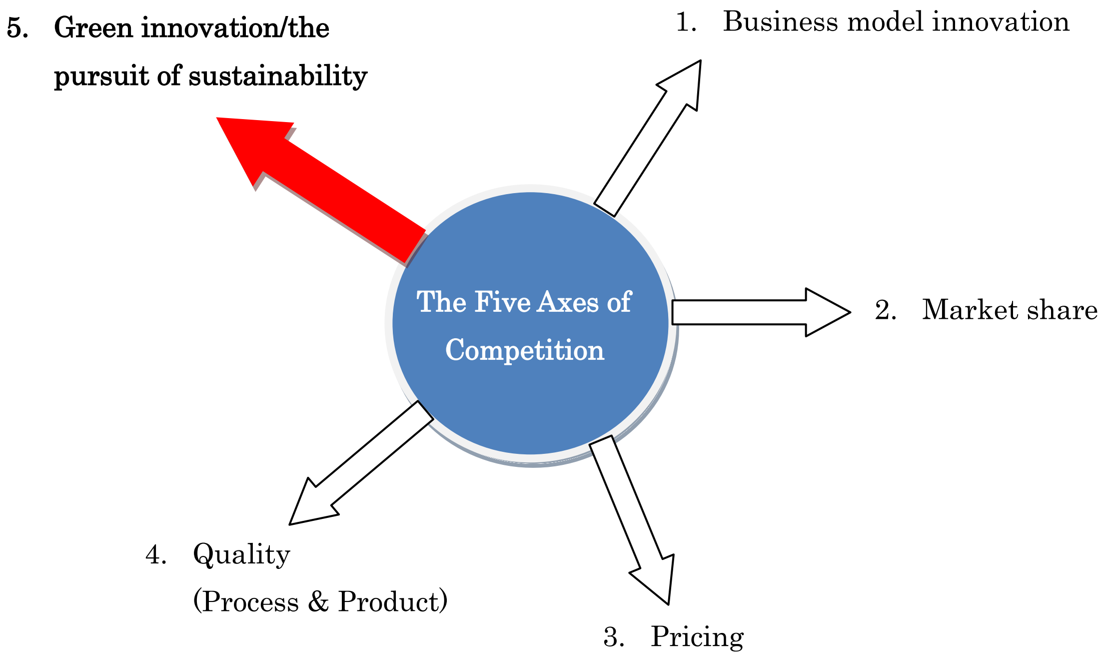
The New Axis of Competition

Why have corporate giants such as General Electric (GE), Wal-Mart and P&G so fervently been pursuing green business and sustainable corporate practices since around 2005? Why have eco-cars, very much pioneered by the Toyota Prius, become the new battlefield for automotive manufacturers? And, why do we see old, first world companies, such as the German chemical conglomerate BASF, or French dairy giant Danone, building alliances with new third world social businesses, such as the Grameen Group, in Bangladesh?

The answer to all three questions is that "green innovation" and "the pursuit of sustainability" have, together, become the "fifth axis of competition" for corporations in today's marketplace. In my view, the four decisive axes of competition, crucial to the survival and "thrival" of large corporations in the latter half of the 20th century, were "business model innovation", "market share", "pricing", and "quality (process & product quality)." This short article does not allow me to describe each of these in detail, but the fourth axis of competition, "quality", clearly became the key frontier of competitive differentiation from the late 1960s and beyond. Japanese manufacturers took the lead in perfecting this axis with "Kaizen Management", while American corporations such as Motorola and GE aimed to catch up through "Six Sigma" quality management initiatives.

Mastering each of these four competitive axes is still a business imperative for the modern corporation. There is, however, a fifth and rapidly emerging axis which can no longer be ignored. Green innovation + the pursuit of sustainability is, increasingly, becoming the fault-line of success and failure in the marketplace today.

Figure 1: The Emergence of the Fifth Axis of Competition



The fifth axis (green innovation + the pursuit of sustainability), in much the same way as with "quality," must be managed strategically by today's corporation. The problem, however, is that we do not have a framework, or set of operational principles, that are as clearly defined as, for example, the cornerstones of "total quality management"（TQM）. Corporate social responsibility is (CSR) more a philosophy than a set of tools, and while other key concepts, such as the "triple bottom line," have played a great role in redefining how a corporation should act, none are sufficiently operational or practical. There is a need, in my view, to develop a solid methodology for how a corporation can strategically and continuously enhance its ability to build sustainable value, i.e. master the fifth axis of competition. I call this approach "sustainable value management (SVM)." Before I describe this approach in more detail, it is worth reconsidering what the notion of the "triple bottom line" did and *did not* achieve.

The Triple Bottom Line:　A Transformative Concept for Modern Business

My good friend and colleague, John Elkington – founder of UK think tank SustainAbility - around 1994 coined the idea of the "triple bottom line." This concept has had an immense impact on corporate management in the years that have passed since then. In his brilliant book "Cannibals with Forks – the triple bottom line of 21st century business", published first in 1997, Elkington defines the triple bottom line as follows: "Today we think in terms of a "triple bottom line," focusing on economic prosperity, environmental quality and – the element which business had preferred to overlook – social justice." For corporations – that were used to focus primarily on the single bottom line of financial return – there is no way to act responsibly in the 21st century marketplace without an integrated and sincere triple bottom line (TBL) approach to management.

There are, however, some operational difficulties with the triple bottom line (below, TBL). Having worked with more than 100 Japanese corporations over the last ten years trying to integrate sustainability into the value creation process, these difficulties appear over and over again. One is that corporations tend to, simply, put economic, environmental and social issues into three separate boxes and then report on how well (or, in some rare cases, badly) they have managed each of these issues. Another difficulty is that while TBL is a highly meaningful framework for classifying or sorting issues that a responsible corporation must deal with, it does not provide any obvious hints as to how to manage them for higher, integrated overall corporate performance. These are issues that John Elkington, of course, has dealt with at great length through his work, but the very power and simplicity of the TBL concept has, paradoxically, made corporations adopt it in a way that was not necessarily envisioned by its creator.

Towards "Sustainable Value Management"

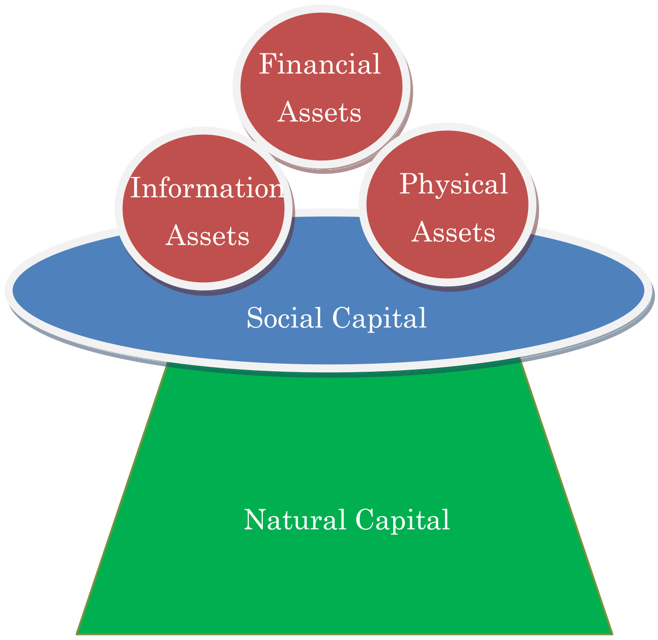
If TBL can be called the booster rocket moving business toward more sustainable practices, we now need a powerful second stage rocket helping put corporate management into a truly "sustainable orbit." A meaningful, and potentially operationally useful, approach to this challenge is the notion of "sustainable value management" (Below, SVM). It is a concept which has, little by little, gained traction over the last couple of years. Pioneers such as Stuart L. Hart, Chair in Sustainable Global Enterprise at Cornell University and Chris Lazlo of Sustainable Value Partners have initiated the process of exploring different dimensions of what I call SVM.

It is also a key concept in the services of my own company, E-Square Inc., working with leading Japanese manufacturers and service industry companies. There is, however, not yet any generally accepted and widely applicable definition of what SVM is, or how it could, effectively, be implemented in corporations.

The Hierarchy of Sustainable Value Creation

Corporations manage a number of important resources in order to create value. Up until around 1980, the classical idea was that it was the clever management of people, financial capital and resources (land) which generated economic returns. With the rapid emergence of the information economy, and the pioneering and popularizing work of Daniel Bell, Alvin Toffler and John Naisbitt (three "social inventors" whom I have all had the privilege to work with), "information" came to be widely accepted as an additional key factor in the value creation process. Then, in the 1990s, with the emergence of the notion of sustainable development – and the realization that, maybe, in a crowded world, natural capital might become a key constraint – the idea of value creation evolved further. In my view, value creation, as we move from the information age to the age of sustainability, can meaningfully be described as below.

Figure 2 The Hierarchy of Sustainable Value Creation



The crucial recognition - and a first, small step towards sustainable value management - is the fact that there is and must be a hierarchy of the assets and capitals which a corporation manages or aims to build up. Natural and social capital are preconditions for the creation of the other three assets, information, physical and financial assets. There can be no sustained, successful value creation which ignores this fact. Nature and people, simply, cannot be substituted. They are the very foundation upon which sustained corporate value creation rests.

Whereas financial, physical and information assets can, to a very large degree, be owned by a corporation, there is no way it can own or even, in the long term, control social and natural capital. Here lie some of the greatest dysfunctionalities of the present economic paradigm and some of the most severe misunderstandings of corporate leaders and managers. Trying to ignore the hierarchical nature of value creation will only erode the very foundations upon which economic success and a healthy socio-economic system are built. What, then, is "sustainable value" all about, and how can a corporation act more strategically to generate or manage it?

Sustainable Value – Aiming for "Trade-On"

Sustainable value, from the corporate point of view, is generated when corporate value is increased while, at the same time, social (including ecological/environmental) value is enhanced. Here it makes sense to consider what, generically, contributes to "increased corporate value" and "enhanced social value."

Increased corporate value

(1) New markets are developed/opened
(2) Products and services sell better/more
(3) Customer loyalty increases
(4) Brand value increases
(5) Employee loyalty and retention improves

Enhanced social value

(1) The alleviation of social and environmental challenges
(2) Meeting unmet needs of the present generation
(3) Improving the chance of survival and "thrival" for future generations
(4) Realising a healthier, safer society
(5) Enabling a peaceful, hopeful and fulfilling every day life

This is not meant to be an exhaustive list, merely a few examples of the two aspects crucial to sustainable value generation and management. Many so-called green or social ventures have built into their corporate mission the desire to generate sustainable value, but even many older, more established giant corporations are now, driven by environmental constraints, government legislation and changing customer and social demands, aiming to move from a trade-off between these two aspects of value, to what I call *trade-on* – that is, a situation where the more a corporation contributes to the enhancement of social value, the stronger becomes its ability to generate and increase business value. A corporation can no longer be called "excellent" if it does not set the strategic aim of achieving "trade-on" between corporate value and social & ecological value.

Looking at corporate history from around 1970, (a time around when numerous global environmental and social issues started appearing strongly on the business radar) it is possible to identify "three generations" of corporations in terms of their approach to sustainable value generation and management.

(1) First generation: "The Born Revolutionaries"

Companies like Seventh Generation (US), The Body Shop (UK), Q-Cells (Germany), Grameen Bank (Bangladesh) and The Fairtrade Company (Japan/UK).

It was from the very beginning part of their *raison d'etre* to create social value or respond to environmental challenges through business. Many of the leading first generation companies were founded in the 1970s, with a very strong second wave starting from the late 1990s and beyond.

(2) Second generation: "The Conviction-driven Converts"

Companies like Interface (US), Novo Nordisk (Denmark), Unilever (Netherlands/UK), Vestas (Denmark) and Ricoh (Japan).

A sense of urgency or some kind of "awakening" in management (often the CEO) caused these second generation companies to move towards sustainable value before there was a strong market demand. Many of these companies "converted" to a more sustainable approach to business in the 1990s.

(3) Third generation: "The Market-driven Innovators"

Companies like GE and Wal Mart (US), Panasonic and Nissan (Japan) and Vattenfall (Sweden).

As market demand for sustainable products and services started to express itself more clearly, third generation companies began innovating product lines to take advantage of the new and expanding opportunities. Most market-driven innovators, naturally, emerged after 2000. This is now a rapidly expanding category of companies.

Each generation has its own approach to the issue of why and how to generate sustainable value, but with the emergence, worldwide, of the fifth axis of competition, aiming for "trade-on", and thus for sustainable value management, is now truly becoming a management imperative. It is not something which can be left to the environment or CSR division. A clever, corporate leader today strategically and continuously pursues sustainable value management while engaging key business divisions, corporate planning, marketing and branding. Below are some ideas on how to do so.

Sustainable Value Management (SVM): A Proposal for a Strategic Approach

To approach sustainable value management strategically at least three things are required:

(1) Principles of sustainable value management which the company can use as a foundation and reference point
(2) An appropriate management structure and/or framework
(3) Effective and widely applicable (and replicable) management tools for implementation.

Looking back at the fourth axis of competition, these three elements were gradually refined and over a couple of decades came to form an overall "quality management framework."

Figure 3: The Quality Management Framework (Fourth Axis of Competition)

Philosophy/principles	Structure/Organization/Framework	Management Tools
TQM/TQC Deming's 14 Points	QC Circles Kaizen Six Sigma	Histogram, Scatter plots, checklists, control charts, flow charts, etc.

There has been no comparable framework of corporate (social) responsibility (CR/CSR) or triple bottom line (TBL) management. This is maybe the biggest reason why corporations are approaching this in numerous and generally haphazard ways, which rarely contribute to the effective and continuous generation of sustainable value. The time is overdue for the establishment of a similar framework for sustainable value management, which would allow corporations to actually manage the issue effectively. Below is an outline of such a framework.

Figure 4: The Sustainable Value Management Framework (Fifth Axis of Competition)

Philosophy/principles	Structure/Organization/Framework	Management Tools
SVM Seven Principles of SVM	Corporate Planning Sustainable Value CFT	Three implement-tation stages SVM Tools

The Seven Principles of Sustainable Value Management

A set of principles is needed so that the pursuit of SVM becomes an organizational endeavour, not the potentially haphazard, emotion-driven result of a few individuals' personal convictions. Here are some ideas for principles that may serve as a point of departure for the pursuit of SVM, taking into consideration the actual nature of and changes in today's globally interconnected marketplace.

Principle 1: Acknowledging the new business fundamentals

Population growth between 1950 and 2050 (from 2.53 to a projected 9.15 billion people globally) combined with a global drive for more prosperous lifestyles have placed new and stronger environmental and social constraints on business. Any organization needs to know how these constraints are changing globally and in the particular market context in which the company finds itself.

Principle 2: Understanding the changing nature of competitiveness

Reflecting the new business fundamentals in both corporate management and in business operations is crucial in order to maintain or sharpen competitiveness today and in the future. Increasing corporate and brand value on a sustained basis is not possible without understanding the changing nature of competitiveness.

Principle 3: Recapturing the importance of stakeholders

Customers and other key stakeholders are the ones who through their voices and choices, ultimately, define which corporations will be competitive and which will have to disappear from the market. Any successful corporation needs to listen, and respond meaningfully, to the voice of stakeholders.

Principle 4: **Setting a sincere, responsive and constructive direction**
In order to be chosen, and chosen again, by key stakeholders, a corporation must have a sincere and responsive approach to environmental and social issues and must be accepted as having laid out a constructive, strategic direction.

Principle 5: **Strategically innovating both corporate and business activities**
In order to be responsive to and constructively engaged in the alleviation of social and environmental issues, a corporation needs to innovate both corporate management and business activities strategically and continuously.

Principle 6: **Integrating activities with the value-chain and aligning communications**
Strategic innovation must be integrated (coordinated) with activities along the corporation's value-chain, both upstream and downstream, and must be fully aligned with internal and external communications.

Principle 7: **Ensuring total participation**
All members of the corporation, from the CEO to part time staff, should be equipped with the appropriate level of literacy (obviously linked to tasks and responsibilities) and given the chance to play a meaningful role, thus ensuring total participation in related corporate and business activities.

I would encourage any corporation to do a simple self-check against these seven principles. In most organizations there are large holes to fill. If there are large, gaping holes, these mean potentially severe damage to future competitiveness.

Organization: Corporate planning + SV CFT

Since SVM is about creating business value, the leadership of corporate planning (or similar corporate functions) is essential. CSR/CR/environmental departments can be one important component in a corporate-wide sustainable value cross-functional team (CFT), but will likely find it difficult to take the required leadership.

Three Stages of Implementation and Key Tools

There may not be one, generally applicable approach to the implementation of SVM, but a successful corporation will need to work in the below three stages. This is a never-ending process, just as the pursuit of quality, or of customer satisfaction, are perennial themes for any company wanting to be successful over the long term.

Figure 5: Three Stages of SVM and Key Tools

Stage 1: Context Analysis	Stage 2: Self-evaluation	Stage 3: Strategic Alignment
Continuous analysis of the social and environmental context, and of how expectations/ demands of stakeholders are changing.	Baseline review of the corporation's present activities and cross-functional initiatives to discover/uncover the potential for sustainable value creation specific/ unique to the corporation.	Strategic alignment with overall corporate strategy and the integration into all, relevant corporate and business activities.
Some Key Tools -Scenario planning -Future Trend Books -Strategic Dialogue with Experts & Stakeholders	**Some Key Tools** -Baseline Review Tools -Sustainability SWOT -Sustainable Value Development Workshops	**Some Key Tools** -Vision Integration Tools -Roadmapping -Total Participation and Skill Development Programs

A company like the world's largest retailer, Wal-Mart, which set a new strategic direction in October 2005 with (then) CEO Lee Scott's speech "21st Century Leadership", has more or less followed these three stages. A year of examining the social and environmental context, and of listening to the often critical voices of stakeholders, combined with the shock of hurricane Katrina, was what moved Wal-Mart to set a new course for the future – toward sustainability. Since then, despite initial skepticism from a lot of people in the environment and sustainability sphere, Wal-Mart has become a transformational force in the business world, continuously pursuing the three stages of "context analysis", "self-evaluation", and "strategic alignment". Lee Scott, in his speech in 2005, explains why:

> "We are a large company. For Wal-Mart to be successful and continue to grow, we must operate in a world that is healthy and successful. Of course, we are acutely aware that we have a business to run, and run it we will.
> At the same time, we believe that these initiatives *(ed.: in environment and sustainability)* and many more to come will make us a more competitive and innovative company, and one that is more relevant to our customers."
>
> http://walmartstores.com/ViewResource.aspx?id=1965

Shaping the Future

The ultimate responsibility of a corporation in its relationship to society is to conduct business in such a way that it enhances social value and protects or restores the natural fabric upon which the survival of humanity and numerous other species depends. If this responsibility is not observed and enacted in strategy and in day-to-day business, no lofty CSR/CR initiatives or colorful sustainability reports will make any difference.

Sustainable value management is about committing to a better future. It happens, also, to be by far the best way to stay competitive in the years ahead.

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