

System Change

The Greatest Challenge and Opportunity Facing Business

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Published on CSRwire.com and GlobalSystemChange.com

August 22, 2006

Business leaders spend virtually all their time operating in economic and political systems, playing by the “rules of the game” of these systems. Rarely is time spent considering issues such as: Are these the right rules? What are the underlying assumptions guiding our economic and political systems? What is the ultimate goal and purpose of business? Are we achieving it? If not, why? What needs to change?

This article discusses how business leaders might address these critical questions, and why it’s important to do so. Reductionistic economic and political systems place business in conflict with society in many ways. These conflicts are driving declining environmental and social conditions in many areas. They also drive increasing negative impacts on corporate profitability and competitive position.

Evolving human systems and underlying assumptions into sustainable forms is by far the most complex challenge facing business and society. It also is the greatest opportunity because it will enhance business prosperity in the short- and long-term. More importantly, system change probably is the only way to provide a healthy, stable, sustainable world for our children.

Systemic Challenges

Many experts have analyzed the flaws of modern economic and political systems and suggested sustainable alternatives. However, few of these ideas have been implemented, especially by business. It’s as if systemic considerations are seen as largely irrelevant to the day-to-day functioning of business. However, these issues are by far the most relevant. Essentially all corporate actions are determined by systemic factors, such as the requirement to maximize shareholder returns.

Systemic issues are not addressed in a meaningful way partly because it is difficult to step back and look at the big picture. From the perspective of the individual, the global economic system seems massively complex and overwhelmingly difficult to change. In addition, many people believe their careers, lifestyles and security depend on systems not changing.

When we do step back and look at the big picture, we see that many things that appear to be logical from the individual person, company and country perspective, are not logical from a system perspective. For example, time-value-of-money, a foundational economic concept, makes sense to the individual because it’s better to have resources, such as food, today rather than in the future. But this concept also says that people and resources beyond 50 to 100 years are worthless. Therefore, protecting them would be a foolish economic decision.

Additional system flaws include the following. Limited liability structures provide unlimited upside potential to investors, but cap the downside by transferring risk mostly to low and middle income taxpayers. This is a major factor driving the widening gap between rich and poor. The failure to incorporate externalities into prices causes nearly all prices in our market system to have very large distortions, which drives waste and inefficiency. The demand for ongoing economic growth in the finite Earth system makes it difficult for human society to voluntarily achieve stability and balance. And by

giving priority to only one aspect of society's success (economic growth – GNP), other aspects are not adequately addressed. This causes the overall well-being of society to decline.

In the political area, the ability of regulated entities to influence regulators through campaign finance, lobbying and other processes makes it effectively impossible for government to hold firms fully responsible for negative impacts on society. Failure to hold firms fully responsible in a competitive market means firms must negatively impact society to remain in business. Companies attempting to fully mitigate negative impacts would put themselves out of business because costs would become too high relative to firms that were not fully mitigating.

In the social area, corporate advertising often uses strong emotional appeals that imply purchasing a product will meet non-material needs for self-esteem, love and connection to others. This prompts purchases by making consumers feel inadequate without the product. Seen and heard thousands of times over, these ads contribute to a growing sense of emptiness and dissatisfaction in society, as indicated by increasing anti-depressant drug use, overeating and other compulsive behaviors. The focus on economic growth also causes many firms to use the media to mislead the public about issues that might hurt profitability, such as climate change.

Obviously, economic and political systems are intended to benefit not degrade society. The above problems result from the failure to adapt to a changing world. All business people know that business strategies must adapt to changing markets and other conditions. If strategies don't evolve, companies won't survive. The same is true for economic and political systems. If these systems don't keep pace with our rapidly changing world, they will collapse, as have all other human systems that weren't aligned with reality and nature.

When the scale and impact of human activity was small in relation to the total Earth system, economic and political systems that didn't hold firms fully responsible for negative impacts appeared to make sense. Now, as human activity is degrading every environmental life support system and causing growing social turmoil in many regions, these systems no longer make sense in many ways. As noted above, systemic issues compel firms to negatively impact society. In a closed system, these impacts return to drive increasing problems for firms, including market rejection, lawsuits, siting opposition and activist campaigns.

Systemic Opportunities

Systems thinking will be required to achieve system change. Systems thinking basically means stepping back and looking at the big picture. From this higher perspective, flaws of existing systems become obvious, as does the need for system change. Figuring out how to achieve this change is difficult, but possible if it becomes a high enough priority for business and society. Immense complexity means system change can only be achieved through collaborative efforts. However, business effectively is the most powerful human force on the planet. If business doesn't lead the effort, system change probably will not happen voluntarily.

Evolution rather than revolution is a key premise of system change. From a limited perspective, it can appear that keeping systems the same is an option. It's not. Human systems always change. Increasingly radical religious, political and economic views in society indicate existing systems are under stress and about to change. Declining environmental and social conditions in many areas indicate it more strongly. No system at odds with the laws of nature can endure.

Believing that systems can remain the same and pursuing the do-nothing approach to system change is actually the path of revolution. This approach means systems will decline with no preparation leading to traumatic system change, revolutionary efforts and disruption of business and society.

The evolutionary approach to system change is based on the idea that committed leaders working together with larger society can find practical, reasonable ways to evolve our systems into sustainable forms. The goal is to do what humans always do – improve – not to go backwards to systems that didn't work, but to combine ideas from the past that did work with new ideas, then develop something new and better. This approach will maximize the well-being of business and society, while minimizing disruptions as the transition to sustainable systems occurs.

Total Corporate Responsibility

In the corporate responsibility (CR) and sustainability movements, nearly all efforts to lower environmental and social impacts have focused on corporate-level issues. This work has produced great benefits for business and society. However, far more impact reduction is needed to achieve sustainability and enable future generations to prosper. As indicated above, most impacts are systemically driven, and therefore cannot be mitigated without system change.

A new sustainability approach, called Total Corporate Responsibility (TCR), integrates leading-edge corporate-level CR efforts with mid-level and high-level system change efforts. Mid-level efforts focus on lowering sector-specific environmental and social impacts. This involves working with suppliers, regulators and other stakeholders as well as raising public awareness. High-level efforts involve addressing broad economic, political and social system flaws such as those outlined above.

Wal-Mart illustrates the successful integration of mid-level system change efforts. The company is implementing one of the most aggressive CR strategies ever. A key element of Wal-Mart's approach is working with suppliers and other partners to improve environmental performance in specific sectors, functional areas and geographic regions.

Gazeley Ltd, a wholly owned but independently operated Wal-Mart subsidiary based in the UK, is going even further by implementing TCR and integrating high-level system change efforts. The company is a global real estate developer of distribution warehouses. Having been a sustainability leader for years, Gazeley provides Wal-Mart and many other clients with environmentally-superior facilities that lower energy use and carbon emissions by as much as seventy percent. To drive mid-level system change, the company is working with suppliers, contractors and other partners to improve environmental and social performance. To address high-level issues, the company is implementing a collaborative system change effort, called the Sustainable Systems Initiative (SSI).

Through SSI, Gazeley will work with business, government, academic, NGO and civil society leaders and experts to articulate a vision of a sustainable world, identify systemic barriers to sustainability and develop practical means of addressing them. Potential activities done in partnership with others include open and closed leader/expert dialogues, publications, conferences, public awareness campaigns and regulatory initiatives. While dialogue is a key aspect of collaborative efforts, the strong focus of SSI is on generating quick wins that build enthusiasm and support for addressing longer-term, more complex issues.

An honest appraisal of our increasingly turbulent and crowded world shows systemic issues are having a growing negative impact on business. It is no longer enough for firms to just do a good job in their own operations. If firms do not reach out and seek to drive practical system changes, systems will reach in, providing increasing pushback from society. The cost of high-level system change efforts is low

compared to conventional CR and mid-level system change efforts since unilateral operating impacts are limited. High-level efforts level the playing field, change the rules of the game, and drive positive changes by all firms.

While the cost of high-level efforts is low, benefits can be much greater, including enhancement of reputation, employee morale and business development. High-level system change is by far the most important sustainability issue (because sustainability is not possible without it). Yet high-level system change receives little attention from business. This presents a major opportunity. Companies aggressively working in this area will be seen as the most visionary and courageous – the true sustainability leaders.

Frank Dixon advises businesses, governments and other organizations on sustainability, system change and enhancing financial performance through increased corporate responsibility. For seven years, he was the Managing Director of Research for Innovest Strategic Value Advisors, the largest corporate sustainability research firm in the world. At Innovest, he developed financially-focused models and methods for assessing corporate environmental and social performance and helped institutional investors develop high-performing socially-responsible investing products. His work overseeing the sustainability analysis of more than 2,000 firms made it clear that systemic issues compel all firms to operate unsustainably by making full impact mitigation impossible. To engage business and investors in driving the system changes needed to achieve sustainability, he developed a new sustainability approach focused on system change, called Total Corporate Responsibility. He is advising Wal-Mart, Gazeley and other firms on sustainability. He has an MBA from the Harvard Business School. Frank Dixon can be contacted at fdixon@GlobalSystemChange.com.

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