Partnerships from *Cannibals with Forks*: *The Triple Bottom Line of 21st-Century Business*

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Editor's Note: John Elkington's new book, Cannibals with Forks: The Triple Bottom Line of 21st-Century Business, *has been hailed as "practical, compassionate and deeply informed, a brilliant synthesis of his genius for cutting through the thicket of tough issues—in the world of business and sustainability—and producing elegant solutions that can be applied today" (Paul Hawken). We are pleased to have the opportunity to publish a selection from this award-winning book. In this discussion of partnerships, Elkington explores how effective, long-term partnerships will be crucial for companies making the transition to sustainability and offers approaches and examples of keen interest. Special thanks to Capstone Publishers, U.K., for their gracious cooperation.*

Sustainability can be a 2 + 2 = 5 (or even 50) game. To achieve outstanding triple bottom line performance, new types of economic, social, and environmental partnership are needed. Long-standing enemies must shift from mutual subversion to new forms of symbiosis. The resulting partnerships will help each partner perform traditional tasks more efficiently, while providing a platform from which to reach towards goals that none of the partners could hope to achieve on their own.

Effective, long-term partnerships will be crucial during the sustain ability transition. Some will be between the public and private sectors, some between companies, and some between companies and groups campaigning for a broad range of triple bottom line objectives. The focus in this article will largely be on environmental partnerships, but we are also seeing the evolution of similar partnership approaches in such areas as Third World development and human rights.

The idea of trying to develop partnerships, both inside and outside the company, may seem common sense, but old perceptions and prejudices die hard. Potential partners continue to feel profoundly misunderstood by those they should be seeking to influence and engage. "I just wish I could give people a pill so that they could see the world the way we see it," the chief environmental officer of a major corporation once confided. "Forget it!" I replied. But the comment was an interesting window into at least one corporate soul.

Many business people—and many campaigners—still see the clash between companies and campaigners in terms of an unending battle between the forces of good and evil, of light and darkness. Right and wrong, however, depend on where you are standing and which way you are facing. Consider the views of Jim-Bob Moffett, the larger-than-life American chairman of Freeport McMoRan—the company which runs one of the world's largest copper and gold mines in the mountains of Irian Jaya.[1]

Freeport McMoRan and RTZ, which owns a stake in the mine, found themselves plunged into the X-ray environment

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when a group of hostages were seized by members of the Free Papua Movement (OPM), as part of its independence struggle. The OPM see the mine, operated virtually as an extra-territorial part of America with the protection of the Indonesian military, as a symbol of the problems they face. Worse, the local tribespeople—in addition to having been driven off their lands—complain that run-off from the mine is polluting rivers and that the removal of forest cover is affecting the local climate. Paradoxically, the hostages included students from Cambridge University who had been working with local tribes to learn how they exploited nature without destroying it.

The Freeport McMoRan response to environmental challenges can only be described as robust. The scale of the pollution, Jim-Bob Moffett retorted, "is equivalent to me pissing in the Arafura Sea." He told *The Times* that he was involved in "a new Cold War" with local and interna tional campaigners. "This," he said, "is not a job for us, it's a religion." All of which tends to make negotiation with the enemy, let alone the development of longer term partnerships, inconceivable.

MONKEY TRAPS

Such reactions bring to mind the old "Monkey Trap" tale (**Exhibit 1**). Companies like Freeport McMoRan would do well to learn and understand it. The history of the environmental revolution is full of examples of companies locking themselves into various forms of monkey trap. In the case of Freeport McMoRan and RTZ, their corporate fists are locked in the earth by the thought of the billion tonnes of copper and gold ore to be won as giant mechanical shovels chew away at the mountain tops. And the nature of human beings and of corporations being what it is, the 21st century will also produce abundant examples of the corporate monkey trap in action. Some companies will escape empty-handed, some will work out ways of breaking the jar out of the earth, but more than a few will also be hammered senseless by their opponents.

WHY WORRY?: TOMORROW'S CEOS ARE GREEN

Another reason for business to worry is that the environmental agenda is way up the list of priorities of the emerging generations of university graduates. "Europe's graduates put care for the environment top of their agendas," according to *The European Graduate Survey*, which covered 16,000 final-year students in 56 universities, business, and engineering schools across 14 countries.[3] But, while 68 percent said they were prepared to pay the price of a better environment, only 38 percent thought that the global picture would improve. These young people are also switching on to the Internet in a big way: 61 percent used it in this latest survey, compared with just 37 percent a year earlier.

For these, and many other, reasons, it is clear that we now stand on the threshold of a new era in the relationships between business and its many stakeholders, including potential new recruits. We also see, in the words of a recent book on green activism in America, environmentalism at the crossroads.[4] Faced with growing media skepticism and a degree of political backlash, environmentalists have been rethinking what they do and how they do it.

For business, the value of the multiple perspectives introduced by stakeholder dialogue processes has been demonstrated time and again for companies. The priorities and strategies emerging from such pro-

Exhibit 1. The Monkey Trap

> A monkey comes into a village at night. He finds a hole in the ground and circles it warily, smelling food. His paw just barely fits into the opening, because the hole is actually a narrow-mouthed jug buried flush with the ground. He manages to scoop up a handful of rice, but can't run off with the food—since his closed fist can't be drawn back through the jar's opening. Not wanting to lose the food, he screeches, but keeps his fist closed. Shortly, a villager comes by with a rock or pole and kills the monkey, either as a pest or for food. [2]

cesses turn out to be better-rooted in emerging realities, more credible with all stakeholders, and, as a result, more robust. Not that this approach has been trouble-free: some of the information released by Novo Nordisk to visiting stakeholders turned up as part of a consumer campaign against the company's enzymes in Germany, Austria, and Switzerland. But that, the company believes, is part of the price you pay to build the relationships which are likely to be indispensable during the sustainability transition.

There is no question that these changes potentially represent a "10x" challenge for environmentalists and the traditional style of relationship they have developed with business. But it is still far from clear how many of today's campaigning organizations will successfully make the transition to the new ways of operating. Equally, the changing conditions will create opportunities for totally new forms of campaigning, pressure politics, and partnerships between campaigners and like-minded corporations. Indeed, these initiatives may well be developed from scratch by some of the students covered in the European's survey.

Meanwhile, earlier generations of green activists are moving into the mainstream. Take German politician Joschka Fischer, who at the time of this writing was leader of the Bundestag Greens. Because Fischer is determined that the Greens will influence national, not just ecological, policy, he gave himself a crash course in economics and began to speak out positively on foreign policy issues like sending troops to Bosnia and European Monetary Union. His aim is to lead the Greens into a left-center coalition "with an independent personality and high economic competence." He may or may not succeed but jokes that, "I stand on my head day and night figuring out how I can become Chancellor."[5] Given enough time and the right breaks, some of these people will play key roles in the sustainability transition. Expect to see growing numbers of them popping up on company boards before long.

As we shift towards the sustainable business paradigm, we will see companies like Freeport McMoRan and RTZ trying to develop strategic partnerships with individual campaigners and with major campaigning groups. Some will succeed in attracting powerful partners, some not. But the terms and conditions of these partnerships will have changed profoundly. In the old order, very few campaigning groups, or nongovernmental organizations (NGOs) as they are better known, were prepared to work directly with industry. Some never will, but longer term they will probably turn out to be in the minority. What is different today, however, is that the NGOs are increasingly in a position of power—and some are preparing to use it in novel ways, working with business and through markets.

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TRAPPING NGO FISTS

In the old order, the NGOs that decided to work with business generally wanted money and were considered to be sellouts by radical activists. Whether the funding was for core costs, campaigns, or other initiatives, the relationship was simple. Crudely stated, it was "Give us money and we will splash your name over some appropriate surface." A few leading NGOs, particularly those dedicated to wildlife conservation, developed huge corporate sponsorship departments dedicated solely to hunting down deep-pocketed corporate donors. And, like the monkey with its fist in the trap, they too then tended to find that they were in no position to run effective campaigns against their newfound funding partners. Some companies even offered funding with the explicit aim of locking up potential enemies, or even of using them as Trojan horses.

In any event, the conditions in which such partnerships were pursued changed dramatically when two things happened in parallel. First, companies, inevitably, became more discriminating. They began to insist on a bigger PR bang for their sponsorship buck. And they wanted their benefits in the form of an enhanced reputation with selected audiences. As "cause-related marketing" evolved, some of those NGO corporate sponsorship departments became almost indistinguishable from mainstream advertising or PR agencies.

The second shift was driven by NGO needs. They found themselves managing increasingly large projects and budgets. Their staffs mushroomed and demanded better employment conditions. They found they needed people, and project and financial management skills which, they noted, business was also rich in. So we saw downsizing companies seconding managers to NGOs, often as a way of easing them into retirement. And we also saw NGOs appointing people from business to their boards and top management posts.

In a parallel trend, we saw leading campaigners being recruited by major companies. Not all of these transfers worked. More than a few secondees, and some of those actively headhunted, proved to be fish out of water. But enough of these grafts "took" to ensure that NGOs remain interested in finding new ways to access the human resources and skills available within their business partners—and that companies find ways to extract new forms of value from campaigning organizations or from ex-campaigners.

Greenfreeze and After

Now we are entering a new phase in the evolution of business—NGO relations, involving early strategic alliances between companies and selected NGOs. In the process, some NGOs are learning to punch with the weight of multinational corporations, in part by learning to work alongside and through corporations. An early example was the string of "strange alliances" that Greenpeace pioneered in its "Greenfreeze" campaign with companies like DKK Scharfenstein and Calor.

The aim was to use Greenpeace's marketing and communication muscle to help launch ozone-friendly technology, which the prevailing refrigeration industry consensus said was unworkable. The result was that the plans of the multibillion-dollar refrigeration and chemical industries were thrown into complete disarray.[6] What happens if and when Greenpeace starts to work with the real heavyweights?

In the world of business, environmental performance is increasingly seen as a competitive and strategic issue for companies. As a result, growing numbers are experimenting with novel forms of NGO relationship. In the world of NGOs, meanwhile, the mid-1990s marked a critical crossroads, with the environmental agenda opening out into a much broader, and more demanding, sustainable development agenda. As a result, more environmental NGOs are experimenting with partnership approaches to environmental and sustainability problems.

One pioneer has been the U.S. Environmental Defense Fund (EDF), which has worked with companies as diverse as McDonald's and General Motors. Recently, it formed the Alliance for Environmental Innovation with the Pew Foundation—and set up a joint task force with S.C. Johnson & Son, Inc., to work on the cleaning products company's product formulation and packaging processes. "People have always expected products to be effective, while also being safe to use and dispose [of]," explained Joseph Mallof, an SCJ

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executive vice president:[7]

> We believe that our products can offer higher quality and value to people if we integrate eco-efficiency as a fundamental part of the initial product concept. This will enable us to use more environmentally friendly materials, and fewer of them, which in turn will reduce waste, risk and costs.

In the case of the EDF-S.C. Johnson partnership, each partner has borne its own costs, as did EDF in earlier projects with other companies. But other NGOs will be much less worried about accepting the corporate dollar. Indeed, they will increasingly need to do so to fund the growing scale of their operations. The ethical debate on such issues is already fairly heated and, on present evidence, the temperature is likely to rise further.

Strange Attractor

So just how important are these trends? Not just at the level of a company's public affairs department, but at the level of the board? The board of British Petroleum (BP) wanted to have answers and SustainAbility was asked to investigate the growth of business–NGO alliances worldwide, with a view to helping the company develop an agenda for action.[8] Recently in the news because of alleged misdemeanors in Colombia, BP has a long track record of working productively with NGOs. But the company's board wanted to know whether it should be thinking in terms of developing a strategic alliance with one or more NGOs. And, if so, with whom, how, and to do what?

To this end, we surveyed more than 60 environment and development NGOs and 20 companies worldwide, asking them to assess the sincerity of corporate environmentalism, the most important influences on environmental performance, and the elements which make for successful partnerships. We then analyzed the two groups separately. Although we knew a convergence process was already running, we all found the results surprising.

Rather than illustrating the gulf to be bridged, the survey showed a surprisingly high degree of convergence. Despite what some companies may believe, NGOs are watching environmentally proactive companies with great interest, and most are heartened by the upsurge in corporate environmentalism. Interestingly, though, NGOs are also acutely aware of the gap between leaders and laggards in a given industry. This knowledge is informing their selection of potential partners. We then went on to interview some 20 companies that had already developed strategic alliances with NGOs, among their number, companies as diverse as the Body Shop, General Motors, McDonald's, and Monsanto. Indeed, the project unfolded against a background of increasing collaboration between companies and NGOs, among them WWF's developing link with Unilever on "sustainable fisheries" (**Exhibit 2**).

The inescapable conclusion is that as the environmental agenda broadens to incorporate sustainability's triple bottom line, some NGOs are recognizing the key role that business can, indeed must, play in forging workable solutions. Increasingly, stakeholder capitalism will be the name of the game. Growing numbers of businesses are seeking to move beyond confrontation to forge more productive relationships with NGOs. The convergence of these trends creates an opportunity for new forms of partnership but raises an interesting new issue. Many business people had argued that there were too many NGOs for comfort. If current trends continue, however, we may well see a shortage of credible NGOs willing and able to work alongside, and invest their credibility in, particular companies or industry sectors. Thus, we concluded, companies that lead their competitors in forging strategic alliances with key NGOs could enjoy a strong "first mover" benefit.

Nor is this just a European and North

Exhibit 2. Unilever, U.K./The Netherlands: Sustainable Fish Fingers

As the world's largest fish buyer, the Anglo-Dutch giant Unilever is backing a plan developed by WWF to set up an international labeling scheme for sustainable fish production. Unilever is the company behind such brands as Bird's Eye and John West. When the scheme was announced in 1996, the plan was that the first labeled products would be in the stores by 1998, with all of the company's fish products labelled by 2005.

The new standards, which will be policed by a new Marine Stewardship Council (MSC), will focus on two main issues: where the fish are caught and the methods used to catch them. Participating fisheries will be certified against the MSC criteria and their packs will bear the MSC logo. The project has been modeled on the Forest Stewardship Council (FSC), a similar program WWF set up in 1993 for the timber trade.[9]

But what is perhaps most interesting about the scheme is that it reflects disillusion on the part of both WWF and Unilever with government efforts to set and enforce catch quotas to control over-fishing. This is the first real attempt to offer a market-based approach. It remains to be seen, however, both whether the supermarkets and specialist fish stores will back the scheme, and whether consumers will switch in significant numbers to sustainable kippers and fish fingers.

American phenomenon. Respondents from around the world recognized the trend. From southern Africa, Jon Hobbs (at the time, executive director of the Industrial Environmental Forum of Southern Africa) observed:

> It is interesting that these questions should be raised at this time. A recent series of interviews with our members (mostly corporate executives) revealed that their priority requirement from the [Indus- trial Environmental Forum] is "guidelines" on how to "better engage" NGOs.

Schizophrenia Guaranteed

More than 85 percent of our NGO respondents believed that partnerships will increase over the next five years, and that NGOs should get involved in *more* company partnerships. Even so, confrontation is expected to continue in parallel—and several factors could reverse the trend toward collaboration. In the United States, for example, Speaker Newt Gingrich and his Republicans managed to trigger a major re-think among NGOs already working with companies with their attempts to undermine existing environmental regulations. In the event, NGOs and their allies fought off the challenge, but both they and the companies they work with will need to grapple with the internal "schizophrenia" partnerships can create within their own organizations. Partnerships, even when well managed, can fuel schizophrenia both in companies and NGOs.

Of course, it is difficult to generalize about NGOs, given that they are so diverse. They concentrate on a wide array of environmental (and often social and economic) issues; span local, regional, national, and international "jurisdictions"; represent numerous forms of decision-making structure and management; and are driven by widely different political philosophies. Some NGOs are staffed by a handful of people, relying largely on volunteer efforts, while others are large, international, highly professionalized organizations. These inherent differences in form, agenda, and style also extend to their views on developing relationships with business, whether in true partnerships or in dialogs. So before entering into an alliance with an NGO, a company would want to know where the organization fits into the overall sustainability movement.

To make the diversity easier to grasp, we distinguish between four main types of NGO, based on two separate sets of characteristics. First, consider the extent to which the NGO seeks to integrate the role of businesses and "public interest" groups in achieving environmental goals. At one end of the spectrum, as Max Nicholson put it a couple of decades ago, are the *integrators*, placing a high priority on developing productive relationships with business, and striving to identify non-confrontational, "win-win" strategies. At the other end of this spectrum are the *polarizers.* They have typically made a strategic decision not to develop close working relationships with business, preferring to concentrate instead on a watchdog role.

Second, consider whether the NGO discriminates among companies within an industry with respect to their real or perceived environmental commitment and performance. At one end of this spectrum, we have the *discriminators.* For them, the challenge is to understand the issues facing a particular industry and to track the progress made by individual companies compared to industry benchmarks. At the other end of the spectrum, there are the *nondiscriminators.* For them, a company's relative environmental performance is not of particular interest. Rather, the focus of attention is typically the environmental burden of the industry in general.

With these two dimensions in mind, we use a four-celled matrix of NGO types (**Exhibit 3**) showing "Sharks," "Orcas," "Sea Lions," and "Dolphins." Most sane people and organizations tend to avoid sharks, although there are plenty of them about in most industries. The infosphere, in particular, is full of them: the media thrive on bad news, so the natural selection pressures working in favor of shark-like behavior are often intense. On the other hand, the NGO type likely to be most in demand, both with business and public sector organizations, is also among the rarest to date: those pursuing what Brain Technologies Corp. has dubbed the "Strategy of the Dolphin." [10] Our survey showed growing numbers of NGOs moving—or aspiring to move—towards this top, right hand cell. This is the "Strange Attractor" of our BP report's title.

The drivers pushing us in this direction are summarized in **Exhibit 4**. The resulting "strange alliances" between corporations and NGOs will demand extraordinary vision and new political and management skills from people who in the past have found it much easier to simply lob bricks at one another. They are now being asked to build together. If the approach works, they will need to accept shared responsibility for both the ends and the means. If they fail, as many experiments do, we need to recognize that even some failures should be celebrated if, in the process, we learn from our mistakes.

Exhibit 3. Four Types of NGOs

	Polarizer	Integrator
Discriminator	**Orca (killer whale)** • highly intelligent, strategic • can adapt behavior, strategy to context • fearsome, uses fear to coerce • uncertain in behavior • likes deep water, can cover great distances • associates with own kind • eats sea lions (and, sometimes, dolphins)	**Dolphin** • intelligent, creative, integrators • adapts behavior and strategies to context • can fend off sharks • equally comfortable in deep or shallow waters • can cover great distances • can be a loner - or intensely social • empathy for other species
Non-discriminator	**Shark** • relatively low intelligence • tactical • acutely responsive to distress • poor eyesight, peripheral vision of prey • nondiscriminating in terms of targets • swims, often attacks in packs	**Sea Lion** • moderate intelligence • tactical • popular spectacle • friendly • menu item for sharks and orca • tends to stay in "safe waters" • believes in safety in numbers • uneasy if too far from group

Source: SustainAbility

Exhibit 4. Drivers of "Strange Alliances"

Company Perspective	NGO Perspective
• markets are pushing us this way • NGOs are credible with public on, for example, issues, priorities • need for external challenge • cross-fertilization of thinking • greater efficiency in resource allocation • desire to head off negative public confrontations, protect image and reputation • desire to engage stakeholders	• markets are interesting • disenchanted with government as provider of solution • need for more resources, such as funding and technical and management expertise • business is credible with, for example, government • cross-fertilization of thinking • *access to, for example, supply chains* • greater leverage

Source: SustainAbility

WHAT'S NEW, GURUS?: A QUESTION OF COMMITMENT

Interestingly, some far-sighted management gurus have been flagging up similar trends in other areas. Among the ideas they are advancing are *business ecosystems, co-opetition,* and *stakeholder capitalism.* James Moore's book *The Death of Competition*[11] introduced the notion of business ecosystems. The challenge for companies today is to work out how to integrate a growing range of partners and stakeholders into these ecosystems.

The advantages of this approach have also been explored by Fred Reichheld in two recent books: *The Loyalty Effect* and *The Quest for Loyalty.*[12] But as Reichheld himself argues: "Loyalty seems to be dying in our society. Look at the way we treat friendships, community organizations, even marriage. You would think we were renting cars or motel rooms instead of making commitments." And, he points out, "it's not just our social lives that seem to be less permanent. As the *Financial Times* pointed out recently, business too seems to have entered the age of the one-night stand." The average U.S. company, he notes,

> now loses half its customers in five years, half its employees in four, and half its investors in less than one. Layoffs, stock-market churn, fickle customers, executive job surfing—all signs seem to point towards opportunism and disloyalty as the governing principles in commerce as well as in society.

Business leaders do not typically see loyalty, whether with suppliers, customers, or other stakeholders, as fashionable, lucrative, or even particularly relevant. Their view is that "they have more urgent problems to worry about—for example, growth, productivity, and profits." No one disputes that these priorities are indeed urgent, but the interesting thing about Reichheld's work is that he argues that many of the indicators of growth, productivity, and profitability seem to signal that the wrong approach is being used. As Reichheld explains, "ignoring loyalty in order to focus on these 'more pressing' problems may be exactly the wrong fix."

In short, he argues, what is dead is the old form of *unconditional* loyalty. Fifty years ago, he suggests,

> loyalty played a much larger part in everyday life than it does today. People were deeply loyal to their families, of course. But people also displayed unquestioning loyalty to a long list of civic, religious, and professional authorities and even to the companies they bought from and worked for.

As a result, in today's world "very few of us feel unconditional loyalty to anyone or anything." But don't despair. Reichheld concludes that unconditional, hierarchical loyalty has simply been replaced, and not with a vacuum. "Free markets have replaced it with something far superior—mutual, earned loyalty; loyalty that works in two directions."

In the new order, it turns out, stakeholders, whether they are customers, employees, or triple bottom line campaigners, want to be (and to be treated as) partners. In fact, the same "zero defection" targets that Reichheld proposes for companies wanting to be "loyalty leaders" can be cross-applied to broader stakeholder relationships. Companies may not be able to keep their customers, employees, or triple bottom line stakeholders forever, but the greater the mutual, earned respect and loyalty the greater is the chance that the organization will be sustainable.

Co-opetition

When Barry Nalebuff and Adam Brandenburger chose "Business is War" as the first phrase in their book *Co-opetition*, their intent was to skewer this notion.[13] They accept that the traditional language of business certainly makes it sound as though business is war: "outsmarting the competition, capturing market share, making a killing, fighting brands, beating up suppliers, locking up customers. Under business-as-war, there are the victors and the vanquished." But anyone involved in business today knows that often it just isn't like that. "You have to listen to customers, work with suppliers, create teams, establish strategic partnerships—even with competitors. That doesn't sound like war."

As they explain, the real business world often involves cooperation when creating a pie and competition when it comes to dividing it up. It's not Tolstoy, with endless cycles of war followed by peace followed by war. "It's simultaneously war and peace." Or as Novell founder Ray Noorda put it: 'you have to compete and cooperate at the same time." Nalebuff and Brandenburger then use game theory to work out ways of avoiding "lose-lose" and "lose-win" outcomes, where everyone loses or you set up the pie in such a way that only other people win, and instead pursue "win-win" outcomes. There is no reason at all why the same principles cannot be pursued in relation to the "win-win-win" outcomes required by sustainability's triple bottom line.

So if business is viewed as a game, who should we include as key players? The answer is customers, suppliers, competitors, and *complementors*—those who provide complementary products, services, or other inputs. "Thinking complements is a different way of thinking about business," Nalebuff and Brandenburger contend:

> It's about finding ways to make the pie bigger rather than fighting with competitors over a fixed pie. To benefit from this insight, think about how to expand the pie by developing new complements or making existing complements more affordable.

Co-opetition offers a number of rules for companies and stakeholders choosing to travel this path. Simply stated, they are as follows:

- Every player should be aware of the potential added value they bring to the game. How will the game be different if you are in rather than out?
- There needs to be at least a basic set of rules. Often, to build trust, these rules need to be spelled out and agreed early on.
- Perceptions need to be taken into account: different people view the world differently. The way we see the game, and the way we think others see the game, influences the moves we make.
- There need to be boundaries: a game without boundaries gets too complex to analyze or play. Players need to agree on what those boundaries are or should be.

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- Attention needs to be paid to different types of rationality and irrationality. In any game, different players can be perfectly rational but, seeing the value added, rules, and boundaries in different ways, end up playing in very different ways.

In sustainability partnerships, as in all other walks of life, dismissing actual or potential players as "irrational" closes the mind. It makes much more sense to expand the mind by trying to work out how others see the world, the game, and its rules. "To us," say Nalebuff and Brandenburger,

> the issue of whether people are rational or irrational is largely beside the point. More important is remembering to look at a game from multiple perspectives—your own and that of every other player. This simple-sounding idea is possibly the most profound insight of game theory.

It is also one of the simplest, yet most effective ingredients in the expanded stakeholder approach to capitalism.

Trust

In conventional business terms, trust cuts the costs and delays involved in project development and other processes.

Every now and then you come across a book that you can feel changing your thinking as you turn each and every page. Francis Fukuyama's *Trust*,[14] which I read on a flight to South Africa, had this effect on me. Best known for his 1992 best-seller *The End of History and the Last Man*, Fukuyama (formerly deputy secretary of the U.S. State Department's policy planning staff, then a Rand Corporation analyst) subsequently turned his attention to an area likely to be central to the sustainable development agenda: trust—and what he describes as "social capital."

With capitalism increasingly in the ascendant around the world, *The End of History* argued that different countries were coming to share increasingly similar political and economic institutions. Now that the Cold War is considered to be over, *Trust* concludes that the most important issue facing Europe, the United States and other industrial democracies is economic competitiveness. And here Fukuyama offers a chilling conclusion: the tendency of countries like the United States and Great Britain towards individualism will undermine their economies. By contrast, he argues, the success of the rapidly growing economies of East Asia is rooted in often overlooked forms of social capital, such as trust, sense of community, and social integration.

Fukuyama is hardly alone in making this case: *The Economist* pointed out that "hardly an issue of the *Harvard Business Review* or the *California Management Review* appears without the word 'trust' emblazoned on the cover." One key reason for this is that many current trends in management, among them downsizing, reengineering, and the culling of middle managers, are forcing companies to place more responsibility on, and faith in, their front-line employees. Now, growing numbers of companies are finding that this internal need for trust is mirrored in the external world. Just as they need to work much more closely with smaller numbers of trusted suppliers, so they also feel the need to involve a growing range of external stakeholders, including sustainability campaigners, in setting their business priorities.

In conventional business terms, trust cuts the costs and delays involved in project development and other processes. It can help to secure a licence to operate. But as environmental, and other triple bottom line factors increasingly shape markets, the growth of trust between individual companies and their stakeholders will also help hone competitive edge and provide an important source of new business ideas. But companies investing in trust will still need to cultivate a degree of paranoia (in the sense in which Intel's Andy Grove uses the word) and schizophrenia (as discussed above).

BOARDROOM VIEWS: DAMN IT, THIS IS IMPORTANT

Most company directors are fairly comfortable with the idea of commercial partnerships and many accept the need for social and community partnerships. But environmental and sustainability part-nering is still way down the curve. Environmentalists, in particular, are often seen as a form of virus which should be kept as far away as possible from the vital organs of a company or industry. That view will change.

A small but growing number of CEOs and other business leaders are waking up to the need to involve even some of their fiercest critics in the process of deciding what their companies should do next. Listen to Monsanto CEO Bob Shapiro:

> We have to reduce—and ultimately eliminate —the negative impacts we have on the world. But even if Monsanto reached its goal of zero impact next Tuesday, that wouldn't solve the world's problems. Several years ago, I sensed that there was something more required of us than doing no harm, but I couldn't articulate what it was."[15]

So Shapiro pulled together a group of about 25 critical thinkers, including some of the company's up-and-coming leaders, and sent them off to ponder the issues with a number of nontraditional thinkers, including Paul Hawken, from the outside world. In short, this was a very focused form of partnership. "That off-site meeting in 1994 led to an emerging insight that we couldn't ignore the changing global environmental conditions," recalls Shapiro:

> The focus around sustainable development became obvious. I should have been able to come up with that in about 15 minutes. But it took a group of very good people quite a while to think it through, to determine what was real and what was just puff, and to convince themselves that this wasn't a fluffy issue—and that we ought to be engaged in it.

The Monsanto people came away "emotionally fired up," says Shapiro. "It wasn't just a matter of 'Okay, you threw me an interesting business problem, I have done the analysis, here is the answer, and now can I go back to work.' People came away saying, 'Damn it, we've got to get going on this. This is important.' "

Experience suggests that such outcomes are much more likely when companies bring the outside world in. Indeed, wherever we look, business is learning to listen to and consult with new types of stakeholders. As Cor Herkströter of Shell put it in the wake of the Brent Spar and Nigerian controversies,

Indeed, wherever we look, business is learning to listen to and consult with new types of stakeholders.

> Naturally we have listened very closely to our customers. We have listened very carefully to government and to our staff. They, after all, were the institutions, the bodies, we had always dealt with. Of course, we also dealt with environmentalist groups, consumer groups and so on, but we tended to let the public affairs department deal with them. They were important—but they were not as important as government, industry organizations and so on.[16]

That, at least, was the prevailing wisdom, but these controversies signalled an important shift in triple bottom line politics. "In essence," Herkströter admits, "we were somewhat slow in understanding that these groups were tending to acquire authority. Meanwhile, those institutions we were used to dealing with were tending to lose authority. We underestimated the extent of these changes—we failed to engage in a serious dialogue with these new groups." The key message: "We learnt we had to be much more open to the world around us."[17]

BUBBLING UNDER: GOING DUTCH

Sustainability partnerships can be initiated—and led—by government agencies, companies, NGOs, or other stakeholders.

Sustainability partnerships can be initiated—and led—by government agencies, companies, NGOs, or other stakeholders. One government-led partnership approach which certainly ought to spread is based on "covenants," or voluntary environmental agreements between business and government. Indeed, although the idea may be difficult to export in its entirety, it has attracted interest from a number of other countries including Germany and Italy in Europe and, in the Americas, Argentina and the United States.[18] Rooted in the Dutch political and business tradition of consensus and consultation, the approach also benefits from the fact that Dutch companies tend to belong to one or more sectoral organizations—making it easier to negotiate sector-wide agreements with government.

Since the first experiments of the 1980s, more than 75 environmental covenants have been signed. These have committed a wide range of sectors to meeting targets in such areas as energy efficiency, greenhouse gas reduction, and the control of volatile organic compounds. So, for example, some 150 companies operating in the surface treatment sector signed up to an energy efficiency covenant with the economic affairs ministry which aimed for a 20 percent improvement between 1989 and 2000. And the approach, despite some NGO criticisms, appears to be making headway. When the chemicals covenant was reviewed, it turned out that 107 out of 125 companies committed to the agreement had already installed the management systems needed to monitor progress.

The main criticisms have been that the covenants do not go far enough and, because they tend to be based on intimate discussions between government and a particular sector, they are not as democratic as the traditional legislative processes. But there are also real advantages. As KPMG partner George Molenkamp put it,

> From the government's point of view, the covenant creates a wider base of support from within industry. If the government tried to reach the same goals through legislation, it would be time-consuming and not necessarily very effective. Through voluntary agreement it is possible to do difficult things that could not easily be laid down in law.

This approach, it hardly needs saying, is not applicable to all problems and all circumstances. To work, it not only requires sectoral bodies with the ability to negotiate agreements with governments, but also governments where the fundamental policies and targets are not changed with every new administration. Above all, voluntary agreements will always require the pre-existence of a reasonably comprehensive and sophisticated framework of legislation, to ensure that any "free-riders" are identified and dealt with.

Eco-Infrastructure

One emerging recognition is that, however much a single company may be able to do on the eco-efficiency front, in the end sustainability will depend on the progress of entire concentrations of industry, complete value chains, and whole economies. As a result, we see growing interest in the provision of eco-infrastructure, as for example in the concept of the eco-industrial park (EIP). The central idea here is that by sharing resources, whether in the form of efficient energy production or of state of-the-art waste management, companies can significantly boost the overall eco-efficiency of a local or regional economy.

"We see eco-parks as a community of companies working together to improve individual and group performance in all environmental areas," explained the U.S. Environmental Protection Agency (EPA):

> There is a large menu of options for doing this, including energy efficiency in building and process design, inno-

vations in park infrastructure, created wetlands to process stormwater, and shared environmental management services. Most of these options translate into bottom line benefits to the companies.

Of course, as *Tomorrow*'s U.S. editor, Carl Frankel, put it,

> There are many unknowns to contend with. Example: sooner or later a critical player in a multi-company waste recycling system will re-locate or go bankrupt. When that occurs, how do you keep the entire system from collapsing? More immediately, how do you reassure potential EIP participants that there isn't a fatal design flaw? Another problem involves the difficulty of quantifying the economic and environmental benefits of EIPs for candidate companies. The bottom line is that full-scale EIPs are still essentially untested.

For participating companies, it also potentially adds one more level of uncertainty, particularly if they come to depend on the outputs of others nearby.

In The Netherlands, meanwhile, there are plans for developing an "Environmental Technology Valley," based on the Silicon Valley model and including at least one business park catering to up-and-coming eco-companies. And a series of proposed schemes have been surfacing across the United States. The President's Council on Sustainable Development strongly backed EIPs and anyone wanting to keep a finger on the EIP pulse should keep an eye on Chattanooga, Tennessee. Since the late 1980s, according to councillor David Crockett (a descendant of the legendary pioneer), the city has aimed to be a "living laboratory" for sustainability policies, technologies, and design. Four EIPS are in the works, a couple on old "brownfield" industrial sites, one on a "green field" site in a pristine valley on the edge of town, and one—which is planned to have zero emission manufacturing facilities—in the south central business district. Such schemes will depend for their success on long-sighted regulators, communities, and companies, but they certainly look like an idea whose time is coming.

Industrial Ecology

Nor are these eco-industrial parks developing in a vacuum. Behind them stands a rapidly-evolving field of research and practice known as "industrial ecology." Whether the focus is on designing and operating cities, EIPs, or individual companies, the idea is "based upon a straightforward analogy with natural ecological systems," as Robert Frosch put it, "where nothing that contains available energy or useful materials is lost."[19]

Nor are these eco-industrial parks developing in a vacuum.

But evidence that the approach does work can be seen every day of the working week around the "industrial symbiosis" in Kalundborg, Denmark. The scale of the environmental benefits has been considerable. By 1995, $60 million had been invested by the participating companies and organizations to launch 16 materials and energy exchange schemes, which were already producing $10 million a year in surplus.[20] Although none of the cooperative initiatives had been required by legislation, annual oil consumption had been cut by 45,000 tonnes, coal consumption by 15,000 tonnes, and water consumption by 600,000 cubic meters. In addition, carbon dioxide and sulfur dioxide emissions had been cut, respectively, by 175,000 tonnes and 10,200 tonnes a year.

It is no surprise that ecosystems thinking is now coming into management consulting: as any ecologist knows, the output of one organism becomes input for others, and organisms may both compete and cooperate. Among the names of interesting thinkers that have popped up in the area of industrial ecology and metabolism are Brad Allenby, Bob Ayres, and Hardin

Tibbs, but the field is now wide open for its own version of such entrepreneurs as Steve Jobs or Richard Branson to get it on the road commercially.

WINNERS, LOSERS: ARE YOU IN OR OUT?

Winners, whether they are companies or national or regional economies, will learn how to earn the loyalty of their key stakeholders (**Exhibit 5**). Success in these areas will help considerably with such challenges as building employee morale and generating new business ideas. Companies with active, extended webs of partners will be much better prepared for emerging trends, their antennae scanning horizons well beyond the reach of many of their competitors.

Note that the rules of partnership will change as the partnerships evolve. The Management Institute for Environment and Business (MEB) has reviewed the evolution of environmental partnerships in the United States, and defines four different types of partnership. These are: *preemptive* or *resolution* partnerships, which are designed to defuse an already or potentially hostile situation; *coalescing* partnerships, in which rivals join forces to accomplish their goals; *exploration* partnerships, based on opportunistic attempts to research or investigate issues of joint concern; and *leverage* partnerships, whose aim is to find win-win (or win-win-win) opportunities that will allow each party to make modest investments in return for relatively high gains.[21] The rules of the game will clearly vary depending on the style of partnership adopted.

Most companies developing advanced eco-efficiency and sustainability management tools recognize that they need a multiplicity of inputs to the relevant processes if they are to provide robust sugges tions for future product development and marketing. But they also need to recognize that adopting the right tools and developing the relevant management systems are only part of the challenge. If they need to build public credibility and stakeholder engagement, and most companies do, they need to build wider partnerships—so that their stakeholders share a sense of ownership in the approaches adopted. Given that different partners will bring different rationalities to the table, however, learning how to sustain these partnerships will be a tough challenge. One outside possibility is that the unions—increasingly marginalized during much of the 1980s and 1990s—could find a new role as far-sighted brokers in relation to triple bottom line resources and performance.

The losers, often, will be those left out of the really significant sustainability part-

Exhibit 5. Nortel, Canada: Shared Savings

Suppliers usually do best when they maximize their sales to customers. Often, however, the result is that both the customer and the environment turn out to be losers. Now the telecommunications company Nortel is testing the "shared savings" approach to chemicals use reduction in Canada and waste minimization in Britain.[22] The company, which is active in some 90 countries, employs more than 60,000 people, and had a turnover of $10.7 billion in 1995, launched a Product Life Cycle Management program in 1992 designed to root out inefficiencies.

Partnerships with suppliers are seen to be fundamental to both commercial and environmental success. Nortel's shared savings approach focuses on the relationship between supplier and customer. This is structured so as to provide both with financial incentives to improve their environmental performance, for example by curbing resource consumption and waste generation. The new approach is badly needed: recent trends in Nortel's resource efficiency had been moving in the wrong direction.

In 1993, the company disposed of 8,851 tons of solid waste to landfill in the British Isles. Its target has been to cut this figure by 50 percent by 2000, but by 1996 landfill disposals had jumped by 80 percent to 15,892 tonnes. Part of the problem had been better reporting, but the pressure is now on to cut waste arisings dramatically. Interestingly, however, the company found it hard to find suppliers able to meet its new needs. The waste industry proved to have little experience of shared savings contracts, but as growing numbers of customer companies move in this direction, suppliers and contractors will have no option but to work out new ways of partnering with customers to boost efficiency—both in cost and environmental terms.

nerships. Sometimes this will be a result of the company's perceived failures in the past, sometimes it may itself be a cause of subsequent business failure. But one thing can be guaranteed: no company, industrial sector, or national economy will succeed in defining and meeting its triple bottom line responsibilities and targets without developing much more extensive stakeholder relationships and partnerships than would have been the case even in the recent past.

THREE KEYS TO THE 21ST CENTURY

The fifth sustainability revolution focuses on partnerships, requiring that we understand and use the following keys to sustainable enterprise:

- The role of complementors and of partnerships will be crucially important both in the development of the global sustainability agenda and of the triple bottom line strategies of particular companies and entire industry sectors. More and more, companies and NGOs will be drawn towards government-industry-NGO symbioses.
- *Earned* loyalty is the wave of the future. Companies must be prepared to be challenged in depth by potential and current complementors and partners. These challenges will be a key part of the value of such relationships. And the choice of partners, as in every other area of human life, will be critical.
- Building trust represents one of the most vital investments we can make in social capital creation. Remember, however, that poorly constructed relationships may well turn into "monkey traps," constraining the ability of one or more partners to do the things they are in business to do—and undermining trust.

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