



“Building Sustainable Markets to Global Scale”

Keynote Address by:

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I want to thank the organizers of this Symposium for the opportunity to speak to you today. The organization that I lead, the World Environment Center, is both a participant and an observer in the advancement of sustainable economies. We work with approximately 45 very large global companies to assist them in implementing sustainable development in their business strategies and operations. Our members include: Bayer, Boeing, Coca-Cola, Dow Chemical, DuPont, General Motors, IBM, Nestlé, Unilever, Volkswagen and Walmart. The World Environment Center is a non-advocacy organization. We have been working in the People's Republic of China since 2004 and maintain an office in Beijing.

There is both optimism and frustration at the rate of advancement of sustainable products and markets. The optimism is the result of increasing investment in alternative technologies in recent years by China, the European Union and the United States. Private markets are also expanding in such areas as the design of more efficient buildings and vehicles, increasing energy efficiency investments as well as the growing number of projects and commitments being made in urban infrastructure, the application of life cycle analysis and the commercialization of new technologies.

Contrasting this optimism is a large, I would say deepening, level of frustration and concern about the future. Global population, long expected to stabilize at around 9 billion people, is now expected to reach 10.1 billion by the end of this century according to a United Nations report issued last month. In a report on water security published this year, the World Economic Forum has stated that, "unless it is checked, worsening water security will soon tear into various parts of the global economic system. It will start to emerge as a headline geopolitical issue. The increasing volatility of food prices...should be treated as early warning signs of what is to come." In addition, global companies such as Nestlé are giving public voice to their concerns that limits in natural resources are constraining their ability to provide products for the global marketplace.

This combination of optimism and concern is a reflection of the fact that we are at a major inflection point in the global economy. An inflection point is a time of dramatic change in the life of an idea, organization or a situation when its

fundamentals are about to change. This can be positive or negative, but the series of events leading from the inflection point will alter the way we think and behave.

We are at a major inflection point, or point of change, in the evolution of sustainable development. Up to this time in its history, the concept of sustainable development has provided some very constructive philosophical and ethical guideposts about the responsibilities of one generation to the next. It has stimulated many businesses to make their operations more eco-efficient. It has created more common ground for governments, the private sector and non-governmental organizations to work together. And it has created important momentum in communicating a global perspective and agenda on the interconnected challenges we face.

Much of today's thinking about sustainable development, however, is process-related or incremental. Companies applaud themselves for expanding their sustainability report or achieving a 2% improvement in some GRI reporting metric. NGOs celebrate the number of times they have successfully sued or embarrassed some major global corporations that fail to perform better. And government agencies trumpet their national achievements in introducing new regulations to protect environment, health and safety.

These are all good things...but not enough to resolve the more fundamental changes occurring within our societies and the natural resource base of our planet. For that, we need a much a bigger and bolder approach to sustainability, one rooted in the concepts of innovation and transformation of organizations and markets.

Challenging Some Current Assumptions

Let me illustrate some leading current assumptions about sustainable development and how they may limit our progress.

- We often hear examples of new product introductions and how they are x% greener than what the competition offers. Or we hear about the latest certification or labeling scheme designed to solve one specific part of a problem. In fact, making modest, incremental improvements to produce

greener products can also create a parallel universe of products that ultimately confuses consumers when the objective should be to embed sustainable qualities in all products. Similarly, instead of a multitude of new labels and certification systems that leave even global companies confused, our goal should be to create a more focused, consistent and valuable set of global standards for tracing the ingredients and natural resource use of products across their entire value chains and not just one or a few aspects of their footprint or life cycle.

- Second, various public opinion polls report on the willingness of consumers to pay more for enhanced environmental or energy performance of products. Yet, there is a growing belief among professional pollsters that people lie in their responses. They lie because they know what the politically correct answer may be or they don't want to reveal their real behavior. It's true that there are people who will pay more for a product, or whose values motivate them towards certain purchases. In most cases, however, these are highly affluent consumers or people that comprise a relatively small percentage of the marketplace for most products. Perpetuating the belief in the green consumer will inhibit our ability to correctly diagnose that a major structural impediment to global scale sustainable markets is not the moral character of consumers but, rather, the lack of a compelling value proposition for products.
- Finally, governments, NGOs and companies focus much of their attention on improving best practices in many areas where sustainability performance is already improving. According to Jason Clay of WWF, if we really want to make a bigger difference, we should place more priority on the worst performing areas of impact. In all likelihood, redirecting our priority in this manner can be done at much cheaper cost while doing more to advance sustainable development.

Transitioning to a Future Where Positive Impacts Can Occur

How can we speed up and expand the scale progress towards sustainable development? I believe we must change our ways of thinking in at least four ways. They include:

- ***Engineer the benefits into the products so they become self evident.*** Rather than expect consumers to have a conversion experience so they will purchase higher priced greener products, a more effective approach is for companies to design energy efficiency, recyclability, fewer use of natural resources and other sustainability criteria directly into the product at the same time as they improve quality, performance and price. As Procter & Gamble has noted, there is ultimately “a moment of truth in front of the shelf” where the consumer integrates both information and his/her personal experience and values to make a purchasing decision. If we want consumers around the world to behave more sustainably, the benefits of the products on sale need to become more self-evident to them—in front of the shelf.
- ***Global companies must take responsibility for their value chains.*** There are so many participants in today’s economic system that the level of complexity is bewildering. Few institutions are as well positioned as the global corporation to bring more order and structure to economic relationships that can simultaneously advance global sustainability standards while providing affordable goods and services. Why should companies be interested in taking on this role? I believe there are at least three powerful reasons: 1) there are tremendous cost savings to be achieved in standardizing requirements among suppliers that lead to less energy and raw materials consumption; 2) risks to the business can be better managed or even removed; and 3) value chain alignment can build global scale for selling products to future consumers whose needs are currently not met.
- ***New forms of co-creation and collaboration must be developed if we are to achieve global scale in sustainability initiatives.*** The late C.K. Prahalad wrote that, “traditionally, we have assumed that the firm creates value and

exchanges it with its consumers. This...view of value is being rapidly replaced by a personalized experience and a cocreation view of value.” Who are the co-creators of value? They are business partners, non-governmental organizations, universities and individual families who are sources of new ideas for new products that can expand the infrastructure for renewable energy technologies, create closed looped systems so that zero waste goes to landfills and foster greater competition with non-sustainable products in the marketplace. By engaging in such co-creation processes, global companies expand not only their access to knowledge and competencies they do not currently possess, they also build more capacity to act on a wider scale.

- **“*Get the whole system in the room.*”** MIT Professor Peter Senge, in his 2008 book The Necessary Revolution, has told the story of the creation and global expansion of the U.S. Green Building Council and subsequent development of the LEED standard. As many of you know, the building industry is very fragmented and competitive, with often many adversarial relationships among owners/developers, architects, engineers, contractors and materials suppliers. These characteristics are found in other business sectors such as agriculture. The genius of those that created the U.S. Green Building Council was not in assembling all of the technical knowledge of the building industry but, rather, in recognizing that all of the major players needed to be part of the same system-wide conversation in the same room with a bias for converting their agreements into action over time.

We in the sustainability community continue to look at issues primarily through a single lens—water, energy, climate, transportation, or food. Our overriding sustainable development goal for the future should be to answer the following questions: how can companies, governments, NGOs and consumers achieve sufficient system level integration across a multitude of individual problems? How do we get the whole system in the room and, by doing so, achieve the level of global scale needed to resolve our expanding global problems?

Doing so will require new kinds of skills to create new forms of collaboration where traditional boundaries across the private sector, government and NGO

communities become less relevant. Competitors will need to work together, companies and NGOs will need to transform entire industries, and governments will have to work beyond national policy frameworks.

Expect Disruption of Our Best Efforts

As Björn Stigson, President of the World Business Council on Sustainable Development has perceptively observed, we presently live in a world where no one is in charge. Despite our best efforts to improve living standards, ensure political stability and limit the diffusion of harmful technologies, disruptive factors will continue to intervene and periodically undermine our best efforts to create a more sustainable and just world.

The major challenges we face will include population growth and urbanization; climate change and its impact on natural systems and human communities; mass involuntary movements of population due to ecological changes; the emergence of disruptive technologies; the accelerating rate of global change; the need to protect the integrity of network security systems and making information systems more resilient; the integration of social media with sustainability planning; risks from global supply chains; food security challenges and the growing probability of civil unrest; and planetary limits to growth.

Some of these developments create opportunities for innovative people and organizations; others will result in the death of companies or will further reduce people's confidence in government. These disruptive forces directly challenge our current approach to sustainable development, one that is incremental and focused on one problem at a time rather than the development of new systems of thought leadership, innovation and collaboration to address some of the major challenges of today—and tomorrow. The real risk is not that these disruptive developments will occur, it is that our responses to them will be inadequate. It's time to co-create the future.