

# The business of business is .... ?

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Farewell lecture at the University of St.Gallen, November 13, 2018

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In clarifying the concept of corporate sustainability, the key question concerns our view of business. Depending on this view we interpret the role and purpose of business differently. Equally its tasks in business and in society. In the following I am going to examine how this view of business regarding sustainability has changed over time and what an appropriate perspective for the future looks like.

My remarks are divided into 4 chapters:

1. **Megatrend and characteristics of sustainability**
2. **Historical development of the business sustainability concept**
3. **Challenges for a contemporary understanding of business sustainability**
4. **TOPICS for the future**

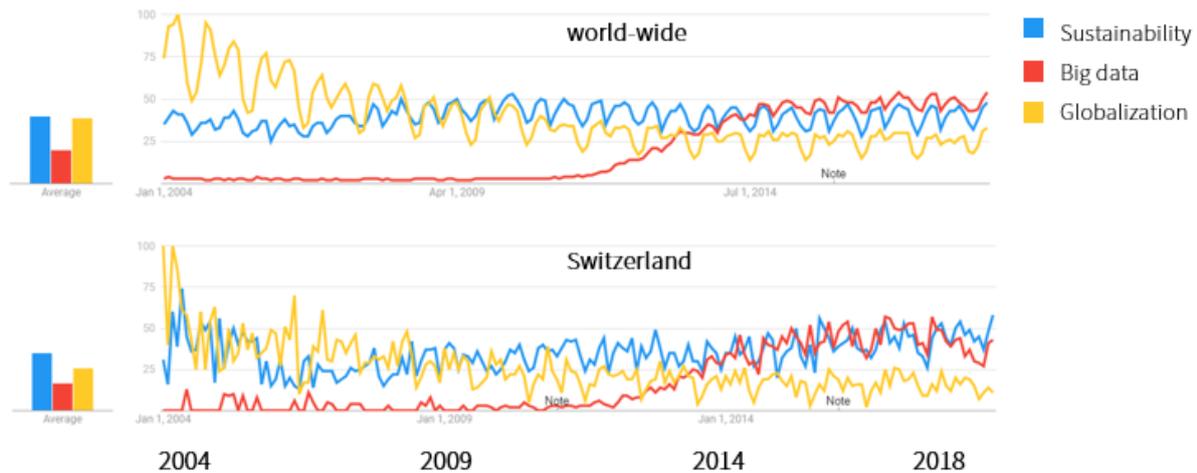


## 1. Megatrend and characteristics of sustainability

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For Nobel prize winner Milton Friedman there is precisely one social responsibility of business, to use the available resources in such a way that the resulting profit is as high as possible, as long as the corporation remains within the limits of the law. Management is neither authorized to use the funds entrusted to it for other purposes, nor is it qualified to do so, since it is selected according to very different criteria. Therefore, he concludes: "**The business of business is business**".<sup>1</sup> This is also the core of the shareholder value approach, according to which management must leave it to the owners to use their money for purposes other than purely commercial ones.<sup>2</sup>

Many other commentators have adopted a completely different position, that can be formulated very openly as: "**The business of business is more than business**". According to this view, which is particularly widespread in Europe, companies cannot escape from dealing with societal problems. Also, it has become widely accepted that without the resources and skills of large companies, we will not be able to solve the problems facing society in areas such as decarbonizing the economy, closing material cycles or fighting poverty. What exactly this "more" consists of is viewed very differently by different authors and it also changes over time.



Sustainability has long been a **societal megatrend**. This can be illustrated by Google searches for three major megatrends, namely globalization, sustainability and big data. (Fig.) While globalization has shown a downward trend both globally and in Switzerland over the last 15 years, the sustainability issue remains at a very constant high level and big data has gained in importance only in the last 5-6 years.

Sustainability and big data both have the highest level of interest currently, with the sustainability issue attracting somewhat more interest in Switzerland, while big data ends up a bit higher on the global level.

When looking at the relationship between these two megatrends, an interpretation by Peter Bakker seems to be very appropriate.

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*Digitization will be driving the transformation, but sustainability will be shaping it.*

Peter Bakker, President, World Business Council for Sustainable Business

Digitization is thus something like the engine, while sustainability provides the map for the journey. The driving force and the dynamics come from the field of digitization, which in many areas ignites disruptive forces. However, the content challenges to be solved in the future, are more strongly determined by the sustainability issue.

The sustainability issue has a number of **special characteristics** that make it challenging to deal with in an economic context:

1) It is a societal issue that is negotiated simultaneously in different societal arenas and that is subject to different rules of game. Politics is usually dominating because sustainability is about solving collective problems that require politically legitimate and binding decisions.

2) It is a deeply value-based issue that requires normative decisions. These affect very different interest groups and value systems.

3) The connection between sustainability success and economic success is deeply ambivalent. Only sometimes it is a matter of simple win-win situations, where benefits for sustainability coincide with benefits for business or the economy. In most cases they pose real dilemmas, because it is not clear whether the investment in the more sustainable option - e.g. 100% renewable energies or the phasing-out of plastics - is also economically favorable.

4) In addition, there are other ambivalences that need to be managed, such as those

between short- and medium-term success or between actions that favor one's own region over another.

5) If sustainability challenges are taken seriously, they will fundamentally change companies, their self-image, strategies and business models.

6) Finally, sustainability is also an issue at very different levels of action. Sustainability problems can only rarely be solved by one business alone, due to their complexity. They require various forms of cooperation, but also changes in the framework conditions.



## 2. Historical development of the business sustainability concept

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To address the question of how the understanding of business sustainability has developed over time, a brief look at the history of ideas seems very revealing to me.

### Social responsibility of wealth or of business?

Long before the topic of sustainability was discussed, Peter Drucker distinguished the concept of philanthropy from the concept of corporate social responsibility.<sup>4</sup> He made this clear by comparing two great US entrepreneurs of the late 19th century. Steel magnate Andrew Carnegie, America's richest man, donated later in life a large part of his fortune to charity. He was responsible for the establishment of more than 3,000 public libraries in the USA, the construction of more than 7,000 church organs, Carnegie Hall in New York and the foundation of Carnegie Mellon University in Pittsburgh. For Drucker Carnegie's actions are an expression of a "to do well, in order to do

good" philosophy. You must first be able to afford doing good.

The other entrepreneur, Julius Rosenwald, was similarly successful. He made Sears Roebuck the largest department store in America and the world. He was inspired to improve the underdeveloped skills and productivity of the American farmers, which became decisive for the economic success of Sears, however in an indirect way. For Drucker, this is an expression of a very different philosophy "to do good, in order to do well". According to this philosophy you must be able to do good in order to be successful. While for him the Carnegie version is an expression of a social responsibility of wealth, the Rosenwald version is an expression of a true social responsibility of business.

Applied to Switzerland, one could compare the Roche heir André Hoffmann with Stephan Schmidheiny. While André Hoffmann is a

known philanthropist who uses his wealth generously for sustainability concerns, Stephan Schmidheiny's major concern has always been to live up to his social responsibility as a business man. This initially related to the restructuring of his "cancer-stricken" Eternit Group, then to the establishment and support of sustainable companies, especially in Latin America, and finally to the establishment of the World Business Council for Sustainable Business. In doing so, he has sent a strong signal to all other large companies to also turn their attention to the epochal task of sustainability.

The Carnegie version has subsequently established itself in the USA as an expression of social responsibility, as a supplement to, but separate from Milton Friedman's purist understanding of the role of business. Drucker makes it very clear however, that an understanding in the Rosenwald version is needed to effectively solve the pressing societal challenges. The state and society alone are not in a position to do this by themselves. This can only be achieved with the resources and know-how of business. However, we will need framework conditions that support companies in combining such contributions with economic success. With this, we can now turn to the development of sustainability management.<sup>5</sup>

### Implementation of business case thinking

In the first phase of the emerging understanding of sustainability management, business is confronted with societal and ecological concerns to which it must or wants to respond. However, they continue to focus on economic goals. It often begins with companies recognizing that sustainability management can save costs, reduce risks on the financial markets, or increase their reputation on the labor market and their differentiation on the product markets, if sustainability concerns are actively addressed and successfully communicated. Sustainability

management here is seen as an approach that involves the creation of shareholder value by managing the opportunities and risks arising from economic, ecological and societal concerns.<sup>6</sup>

Over the past decades, a wealth of empirical studies and metastudies has provided evidence that there is a predominantly positive correlation between corporate sustainability management and economic success. The focus is on what we call "**Business Sustainability 1.0**" or "**refined shareholder value management**". The overwhelming majority of companies that today pursue sustainability management are at this level. They are concerned with eco-efficiency or socio-efficiency, win-win solutions or the realization of the business case in general.

### Ascent of the Triple Bottom Line

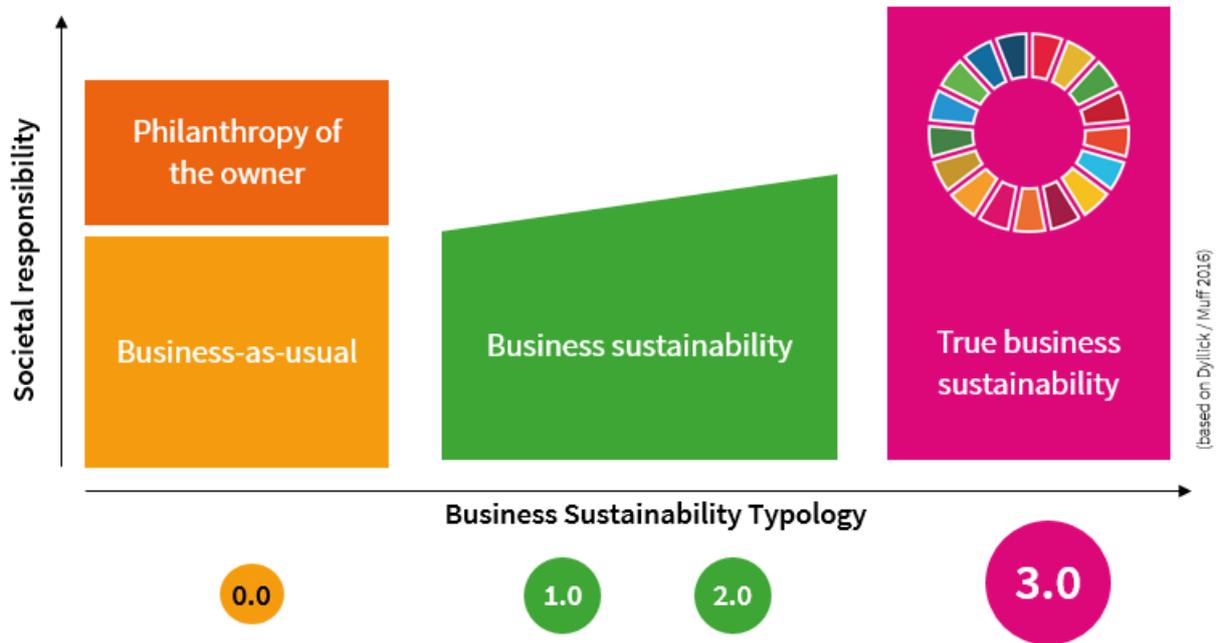
In a second phase, economic, ecological and societal objectives are pursued jointly rather than just purely economic ones. This is referred to as "three-dimensional value creation" or the "triple bottom line". For this purpose, differentiated sustainability strategies and plans are pursued by business, which are increasingly integrated into the core processes of the company. It is then no longer specific positions and units for responsibility or sustainability, but the normal line functions and business units that integrate sustainability into their goals. We refer to this advanced understanding as "**Business Sustainability 2.0**" or "**managing for the triple bottom-line**". But one thing remains unchanged in this second phase. The thinking is still dominated by an inside-out thinking, starting from the company and its activities leading to society with the aim of reducing the negative side effects of its economic activities. In other words, the goal is to reduce the ecological and social "**footprint**" of the company. Only a minority of companies managing sustainability are at this advanced stage.

### Limits of the existing model

If today more and more companies claim that sustainability has become an important issue for them in management, but at the same time on a global level the gap between what we do and what we should do is widening, e.g. in climate protection, then we have to conclude that something is wrong with this form of sustainability. Of course, this is mainly due to the overwhelming success of the economic growth that has taken place, which has brought prosperity and opened up life perspectives for many people. But it is also very clearly showing the limits of our resource-consuming economic model. In terms of resource consumption, it is still based on a simple linear "take, make, waste" thinking. Raw materials are taken, processed, consumed and disposed of. The

beginnings of a circular economy model play a role only in niches. And although the transition to renewable energies is slowly gaining ground, it must pave its way against strong resistance.

Globally we need more than a planet and a half today to provide the resources in a sustainable way that we consume in one year. If everyone lived as we do in Switzerland, we would even need three planets. We therefore need a new model, a new perspective, not only at the macroeconomic level, but also at the business level. We need a model of "true" business sustainability or "Business Sustainability 3.0". Before I outline such a model, let me cite Braungart and McDonough who have provided a fitting overarching theme: "Becoming less bad will not be good enough".<sup>7</sup>





### 3. Challenges for a contemporary understanding of business sustainability

Sustainability problems refer to the basic challenges societies are facing. Business is increasingly exposed to them as well. We are currently confronted with a multitude of unsolved problems and crises. The financial and debt crisis, the collapse of the multilateral trade regime, strong societal polarization, and the rise of populist and autocratic forces that make a political resolution of these conflicts increasingly difficult. And it is not only the state and society that are challenged by this, but also business and the economy. It is worth remembering the old insight that a healthy business depends on a healthy environment.

#### Signs of poorly functioning markets

The markets are no longer functioning as they should. Today, we spend 30% of our global economic output on unproductive, defensive solutions to problems, above all armed conflicts, compensation on loss of nature and biodiversity, and the preservation of our health. A large part of our investments continues to flow into CO<sub>2</sub>-intensive infrastructures - fossil fuels, internal combustion engines and jet engines - which lead to dangerous and irreversible climate

changes. Inequality and youth unemployment continue to rise, while women still earn less than men - 25% worldwide and 16% in Europe. Average real incomes have stagnated in developed countries since the 1980s, leading to fears of job losses due to globalization and digitization. And despite historically very low interest rates, there is a lack of confidence in business for long-term investments. Many companies hoard their money and prefer to pay dividends or buy back their own shares.<sup>8</sup>

The current figures from Edelman's global confidence barometer can also be cited here, which show what is expected of managers. 7 out of 10 respondents see creating trust in their own company as the most important task for managers, even before providing quality products and services. And nearly two-thirds of the respondents expect leaders to take the lead in political change and not wait for the state to go ahead.<sup>9</sup>

Now we can deplore our fate and wait for a miracle, or we can see the situation as an entrepreneurial challenge to be tackled. Here again Peter Drucker can help us on the leaps and bounds, as he rightly remarked:<sup>10</sup>



*Every single social and global issue of our day is a business opportunity in disguise.*

Peter Drucker

### In-depth system transformations

In connection with the global sustainability goals of the United Nations (SDGs), calculations have been presented which assume annual revenues or savings of USD 12 trillion or 10% of the global product forecast for 2030. This could create 380 million new jobs or 10% of the projected total in 2030, 90% of them in developing countries. The most important business areas are seen in the areas of mobility systems, health solutions, energy efficiency and renewable energies, affordable housing, and circular economy models.<sup>11</sup>

However, in order to tap these new business opportunities, far-reaching system transformations are required. In his new book "The Great Transformation" Uwe Schneidewind speaks of **seven major shifts**.<sup>12</sup>

These include a fundamental shift in energy and resources, with a switch to renewable energy sources and a resource-conserving circular economy. Then there are also shifts in various sectors such as nutrition, mobility and urban life, all of which combine technological change with economic and cultural change. In essence these shifts are about a major transformation in our production and consumption systems. It is about the development of functioning material cycles at the production and consumption levels, but also about developing approaches to dematerialization - e.g. a general subscription for public transportation as a mobility service instead of buying a car - and to a sharing economy - sharing or renting apartments and skis instead of buying them.



These system transformations require far-reaching changes for companies and consumers, but also in the framework conditions. Companies will be faced with

questions regarding innovations, business models and cooperation based on completely different "OPTICS". These are the questions I will address in the last chapter.



## 4. TOPICS for the future

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The OPTICS I am going to develop here are based on six different TOPICS, which show the directions for the future. I am going to develop them now. And the suggested language game from TOPICS to OPTICS will also be clarified soon.

### **Societal Challenges as Opportunities (Societal problems)**

Today, sustainability management is mainly oriented towards reducing the negative side effects of business activities, e.g. by making cars cleaner and more efficient or reducing the sugar, salt or fat content of food. This reduces the "corporate footprint", which clearly is a positive development. However, true business sustainability is not only oriented towards reducing the negative effects of one's own activities, but also towards making positive contributions to societal challenges. This increases the "corporate handprint".<sup>13</sup> Only when the sustainability goals and strategies of business are linked to the sustainability challenges of society can we hope that business makes an effective contribution to solving them. As long as this is not the case, we will continue to be confronted with the absurd situation that more and more companies claim that they are sustainable, while we face challenges on a societal and global level that are almost impossible to solve.

Approaches for positive contributions from companies can be found in all areas of the economy. And they offer great opportunities. In the food sector, they can be found in the development of healthy diets and lifestyles in highly developed countries and the creation of affordable food and access to clean water in

developing countries. They can be found in areas like developing a sustainable energy supply without having to accept irresponsible climate risks, incalculable societal risks or long-term economic burdens. They can be found in intelligent, networked and shared mobility systems for urban centers. And in the financial sector they can be found in redirecting financial flows towards energy efficiency and renewable energies, public infrastructure, sustainable agriculture, resource conservation and public health.

### **Alignment to a societal purpose (Purpose orientation)**

Why are so many companies today committed to a wider societal purpose that goes beyond a purely economic purpose? Unilever's Sustainable Living Plan, which has been in place since 2010, is committed to achieving positive change and sustainable growth through its business activities. The goal is to double sales by 2020, but to source all agricultural raw materials sustainably and reduce the ecological footprint significantly, while at the same time improving the health and quality of life of millions of people. Danone has committed to the vision "One Planet. One Health" in order to express the fact that for them the health of man and the planet are inseparably linked. In addition, they are in the process of being certified as a "B Corporation", in order to place social goals on the same level as economic goals. Interestingly, business schools can also be included here. Erasmus Rotterdam, for example, define their mission as a "force for positive change in the world". And they find

that this mission serves as a signal to attract the people they want to reach.

Such purposes are aimed at a positive societal goal. It is about a benefit for society. **Why do progressive companies do this?** On the one hand, because customers identify with organizations that have a strong identity. And the values for which the company stands play an important role here. These are values such as fairness, social commitment or ecological awareness, which create an emotional relationship and thus a stronger identification with the company. On the other hand, the social commitment of their employer is of great concern to the employees, often even a matter close to their hearts. This also applies to employees who, such as accountants or secretaries, are far away from the actual place of positive engagement. A stronger identification with the company leads to a stronger solidarity and loyalty of both employees and customers.

### **Integrating into regular business activities (Integration into the core)**

Sustainability efforts of companies are mostly handled by specialized units for sustainability, social responsibility or communication. Their task is to shield the core from disruptive influences. The core should be able to perform its productive work as undisturbed as possible. This reflects the image of a productive core and various "lifebelts", or "bodyguards", which themselves contribute nothing essential to the result.

Now it should be easy to see that the necessary "clout" for mastering the sustainability challenges can only be achieved if sustainability is integrated into the core of the company, so that all the strength and competencies of the company are brought to bear. Only then we can succeed in creating an offensive dynamic that points the way forward instead of a defensive dynamic that neither gives pleasure nor corresponds to entrepreneurial thinking. In

view of the growing number of sustainability challenges that extend into existing markets and industries - just think of areas such as healthy nutrition, renewable energies, water efficiency or mobility as a service - this also better prepares smart companies for the approaching changes in their markets and environment.

### **Simultaneous orientation on several time horizons (Multiple time horizons)**

Companies today face the challenge of innovating their existing business models in the face of sustainability pressures, without abandoning their existing business models on which their existence is currently based. In times of far-reaching and dynamic structural changes, it will be a question of building the business of tomorrow and the day after tomorrow parallel to today's business. A good example of this is BMW, which is working on optimizing its existing products and value chains in the **short-term** by focusing on the issue of taking back and recycling used cars. At the same time, their strong commitment in the field of electro mobility puts them on a **medium-term** horizon. Here, the existing business model is being expanded through product innovations and cooperation, but not yet transformed. And finally, BMW is positioning itself in the **long-term** as a provider of mobility services, moving towards a completely different business model, a service model based on different foundations and changing customer behavior. Similar examples can also be found in other areas, such as when food manufacturers first make their existing products healthier by reducing the sugar, salt and fat content, then launch new lines with healthy products, before turning to a new generation of purely plant-based products.

## Transforming the organization (Organizational transformation)

As early as 1994, Bartlett and Ghosal made it clear that in times of open and socially strongly networked markets, management has to focus less on designing the hard elements "strategy, structure and systems" than on the soft elements "purposes, processes and people".<sup>14</sup> Thereby, company is not seen primarily as an economic system but as a social system in which other rules of the game are relevant. Such a transformation of the organization requires a replacement of the software, not the hardware.

Instead of defining a strategy, the task is more about clarifying and internally communicating the purpose of the company. "What is our company all about? What role do economic and societal goals play in this?" This purpose must be integrated into the processes, whereby it is less a matter of simply setting targets than of attracting the attention and interest of the employees, but then also of integrating them into the entire organization and mobilizing the organization for the purpose. Sustainability makes it easy for the organization. It is a topic that moves and wins people easily. This purpose must then become a part of lived reality by being firmly written into rules, processes and lived stories. Stories play a special role because they illustrate these values and bring them to life. They express how sustainability is understood and lived in the company, how it is expressed in the behavior towards the employees and in the products of the company. Organizational transformations take place above all in the minds and hearts of the people involved.

## Cooperation and co-designing structural change (Cooperation)

Overcoming the major and pressing societal problems of our time is beyond the reach of even large companies. Challenges such as the phasing out of plastic waste, the transition to low meat or meatless food, the reduction of food waste, the switch to renewable energies and much more prove to be too big and too complex problems for a single company. The challenges are great and require not only different business models, but also collaborative strategies across supply chains and sectors and the integration of private, public and civil society actors. Their practical significance is demonstrated by the large number of platforms that have been created, for example, for sustainable forest management, fisheries, soya, palm oil, cocoa and textiles. These problems require collective solutions that bring all relevant stakeholder groups together at one table and have an effect on a pre-competitive level despite competitive relations between companies.

It will also need new and creative solutions to help shape structural change, involving companies and their know-how. It is about preventing companies from being penalized by the financial or product markets, pursuing strategies of true business sustainability, and defining approaches to rewarding pioneer companies. Such approaches include the development of the rules governing risk reporting or accounting, informing consumers about the risks and side effects of using products, raising resource and traffic taxes, or defining more stringent health requirements.

# OPTICS for organizations

**“**  
The new perspective (OPTICS) enables the implementation of a true business sustainability.  
**”**



**O**rganizational transformation  
**P**urpose orientation  
**T**ime horizons  
**I**ntegration to the core  
**C**ooperation  
**S**ocietal problems

## Conclusion

This brings me to the end of my approach to delivering true business sustainability to 21st century companies. The six thrusts, described in the TOPICS for the future, concern different time horizons (T), organizational transformation (O), orientation towards a societal purpose (P), integration into regular business activities (I), cooperation and co-creation of structural change (C) and societal challenges as an opportunity (S).

And the necessary new OPTICS for business, the new perspective, result from the regrouping of the six TOPICS elements. I believe that with this focus the approach of "true business sustainability" can be – and should be - realized. It is a challenging program and a guide to solving our major sustainability challenges as defined by the UN Sustainable Development Goals.

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