

Should Sustainability Have a Seat in the C-Suite?

by Eric J. McNulty and Rupert Davis

Jennifer Brown, CEO of Narinex, an electronic components manufacturer based in Michigan, re-read the news alert on her screen. The company had lost another major contract to Glistrom, a UK-based competitor it had regularly beaten. She called out to her secretary. "Sally, I need Herb Tyler and Laura Dyson right away."

Losses like these were not just the normal ebb and flow of deal making, and Brown wanted input from her COO, Tyler, and her CFO, Dyson. She was determined to keep Narinex on top.

With \$3.2 billion dollars in revenue and operations in North America, Europe, and Asia, Narinex had performed consistently well with Brown at the helm. A favorite of Wall Street analysts, it had kept costs low even as it expanded into new lines and markets, and Brown was now regarded as both innovative and hard-nosed. At her direction, Narinex had outsourced some of its R&D to bring new offerings to market more quickly, and she had negotiated performance-based contracts that kept the supply chain lean and mean. She had also sold the corporate jet and refused a company car, to show her commitment to limiting overhead.

Within 20 minutes Dyson and Tyler were waiting for Brown in her office. These senior managers were accustomed to her urgent summons and the subsequent grilling. Tyler had also seen the Glistrom announcement and knew Brown would be anxious. It was a multiyear deal potentially worth \$50 million or more.

"I've already asked Ian to get competitive intelligence from his team," Tyler said, referring to Ian Jones, the VP of sales. "He did mention that Glistrom is generating buzz in the field."

"'Buzz' doesn't tell me much. How quickly can you two turn whatever he has into something we can act on?" Brown demanded.

Tyler and Dyson exchanged a glance. "Can we have 24 hours?" Dyson asked.

With a nod, Brown sent them off to solve the Glistrom puzzle.

From the Mouths of Babes

At 9:00 the next evening, Brown was sitting at her kitchen counter with a bowl of tomato soup and a two-page memo from Tyler and Dyson. Their analysis of previous-versus-current RFPs highlighted one clear area of concern: sustainability.

"Our initial research shows that we're on target with pricing and terms. Anecdotal information suggests that competitors are offering codevelopment of custom components, but we are confident we can match that. Previous initiatives to outsource some R&D have connected Narinex to a great network of global designers. The biggest change in the market is greater emphasis on sustainability: Some customers are looking beyond compliance issues to how we're handling waste, whether our suppliers pay fair wages, and even if we've eliminated printed documentation and moved everything online. The U.S. federal government and Wal-Mart have incorporated sustainability disclosures into their purchasing RFPs, and we believe the prevalence of such disclosures will continue to grow. Glistrom recently hired its first chief sustainability officer (CSO), possibly in response to these market pressures."

"And what are we doing about it?" Brown wondered aloud. She examined the summary of sustainability initiatives the company had already pursued: installing a green roof on its German plant to cut energy costs, reducing packaging by a third, shifting the bulk of its international shipping to a vendor with the most fuel-

efficient air fleet, and, yes, moving all documentation online. She noted that some efforts had yielded remarkably fast and solid paybacks; others would take years to confirm a certain ROI. "We are in compliance with our manufacturing, but that target moves depending on the country of manufacture and receipt," the memo stated. "Where regulations are looser and customer specifications permit, we produce goods with lower-cost substances that would not be acceptable in all regions."

Putting down the memo, Brown turned to a report on Narinex's environmental practices. It had been prepared by none other than her 17-year-old granddaughter as a school assignment. Zoe had e-mailed it to her a few days earlier with a short note: *"Thanks for your help getting information for this, Nana. You should read it. You weren't the worst company we talked about, but you weren't the best either! XOXO."*

The teenager's analysis was refreshingly direct — free of corporate politics and personal ambition. Zoe's top recommendation: Hire a CSO.

"From the mouths of babes," Brown mused. She knew several other companies had appointed CSOs. She'd generally resisted hiring a chief whatever officer to address the latest competitive challenge. But could sustainability be different? She had to admit she was no expert. She texted Tyler and Dyson to ask for their opinion.

From the Mouths of Experience

Brown crossed the catwalk that spanned the atrium of Narinex's headquarters and glanced out at the gathering clouds. Spits of rain began to dot the three-story glass windows. In a few minutes, she would meet with her executive team to discuss the Glistrom situation. Scrawled at the top of the Dyson/Tyler memo tucked under her arm was an excerpt from Zoe's report: "The emerging best practice is to make sustainability a C-suite responsibility."

Outside the Delphi conference room, she breathed deeply and heaved open the doors. On one side of the table were Dyson; Stanley Samson, the head of communications; and Hans Stevenson, the global head of R&D, who had recently taken that post after a successful stint at Narinex's European headquarters in Hamburg. On the other side sat Ian Jones and Herb Tyler. Brown turned first to her sales chief. "Alright, Ian, let's have it. What the hell is going on out there?"

Ian Jones smiled ruefully. He'd been in sales at Narinex for 20 years, rising gradually during the tenure of three CEOs before Jennifer Brown. He liked her no-nonsense manner and willingness to engage with customers. "Glistrom's on a roll," he said. "They aren't beating us on price, and their service has always been good. Laura filled me in on this green angle, and I think she's on to something. Their chief sustainability officer has been everywhere recently — at conferences, on cable news shows, even blogging. Customers are more and more concerned with this stuff, and Glistrom has a better story to tell than we do. My folks in the field get asked about it a lot."

Stanley Samson piped up. "Maria Capelli is her name. I've been tracking her clips." Brown remembered hearing about Capelli's appointment. "She was quiet for about six months, probably learning the ropes. But this fall, she's had something every day or two. I don't know if Glistrom's actually doing more than we are on green issues, but they are certainly raising their profile. I'd love to be able to make that happen for us."

"Well, shouldn't we be getting some clips of our own?" asked Dyson. "We have our own story, and Jennifer can tell it. Isn't it even more powerful to have this message coming from the very top? In fact, the one criticism I've heard about Glistrom is that speaking through a surrogate weakens their message." Herb Tyler nodded in agreement.

"We're pretty good in some areas — but mostly those where we 'went green' because it lowered costs," Samson replied. "I don't want us to be accused of 'greenwashing'; it could undo all our good work." He looked across at Tyler. "Truthfully, our progress has been largely inadvertent. Right, Herb?"

Tyler agreed. "In terms of manufacturing and operations, this has primarily been a cost and compliance issue. We're not at the head of the class. And getting there means complex, costly tracking and reporting of not only our direct impact, but also that of our suppliers and their suppliers. Frankly, some parts of our

supply chain I'd rather not see on the evening news. Remember when Global Green Action came after us in Taiwan?"

Brown and the others well remembered the protestors who had thrown empty barrels marked with a skull and crossbones into the decorative fountain outside Narinex's main Asian facility the previous year. Fortunately, only the local chapter of GGA had been involved, and media coverage was thin. Brown had dispatched Tyler to pacify the group with a commitment to review the company's practices. After they tightened up a few things that had no impact on cost, the problem went away. But video footage of the protest was still easily accessible online.

"Let's pull back for a moment," Brown said. She encouraged spirited discussion among her executive team, but at times it led to chaos. "You've already persuaded me that the sustainability issues are real. The challenge is what to do about them. We can't afford to lose business to Glistrom or anyone else on a regular basis. On the other hand, being, in Herb's words, 'head of the class' is often code for 'expensive'."

Laura Dyson inserted herself. "And these are mostly things we've never done before; calculating return is dicey. Much of the cost savings is based on projections whose underlying assumptions may not hold true over time. In some cases, we might need to absorb short-term cost increases to get the long-term benefit."

"What concerns me," said Brown, "is that I see and hear tactics but no strategy. Could a CSO pull it all together? Hans, you're just back from Europe. What are your thoughts?"

"I think we've been asking the wrong questions," Stevenson replied. "It doesn't matter whether we go tit-for-tat with Glistrom on executive hires. Maria Capelli's luster will dull soon enough. With all due respect, it isn't even about RFPs. It's whether being greener than Glistrom and the rest of our competitors helps us seize competitive advantage. If merely being in compliance gets us all the possible benefit, let's stop there. But I think we have a bigger strategic opportunity, and a CSO can be a catalyst." Brown had always liked Stevenson and guessed that he might want to be CSO. He cared about the issues and knew the business cold. It would be a challenging career move for him.

Stevenson went on to explain how his division's biggest cost-saver over the past three years — a change in sourcing that made the Emerald line of components 20% less expensive to produce — was attributable to the European Union's RoHS regulations governing hazardous substances. "If a CSO, an internal champion, can take a compliance issue and use it to catalyze real innovation across our company, we'll leave Glistrom in the dust. And then we'll have a great story to tell," he concluded.

"Hans, I certainly was impressed with what your team did with Emerald, but let's not forget that you got great results with existing resources," said Dyson. "We didn't need a new C-level position and the overhead that would have come with it. And it takes up to a year to get a new function up and running." She shot a glance at Brown. "Hans, you and Herb and the rest of this team can tackle these issues." Ian Jones turned the discussion back to Brown. "Jennifer, what are your thoughts?"

Brown paused for a moment. "I don't want the executive team to be any larger than necessary — particularly not for show. And I have seen surrogates dilute a message. However, these issues may challenge some deeply cherished parts of our culture. We can't wait for this to blow over, and the sales team needs a story to share now. Sometimes you need someone to advocate a fresh viewpoint."

"Isn't that what consultants are for?" asked Dyson. "They can quickly bring in specialized knowledge, and we can charge them specifically with targeting sacred cows. We have a track record of hiring consultants who get the job done."

"Only an insider can make this part of our DNA," Stevenson shot back. "Consultants won't be invested for the long term."

"Or if they are, it will cost us a fortune," Dyson quipped. "Insider or outsider, I just want to make sure that the priorities of some customers don't distract us from meeting the needs of the rest. We still have a lot of customers who care more about cost than biodegradable materials."

"Not as many as we used to," Brown mused. "Not as many as we used to . . ."