

Leadership beyond the bottom-line

AkzoNobel's head of decorative paints challenges businesses to solve world's biggest social and environmental issues

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Capitalism's success during the last century has transformed the lives of millions around the world with better education, healthcare, food, quality recreation and travel. However capitalism has also acquired the regrettable image of a beast that needs taming because of the social inequality and the damage to the environment it's been responsible for.

The Friedmanian notion of businesses focusing on profit maximization creating value for the whole world ignores both social and environmental values according to Tex Gunning who heads the paints business of Dutch multinational AkzoNobel.

Gunning is a passionate lecturer, writer and speaker about the role of business in society and about the need for collective leadership to tackle the world's biggest challenges. In this interview with LBR he stresses that businesses need to have a wider definition of value creation than the unsustainable one that looks at only economic value.

Excerpts of the interview...

LBR: You are a passionate advocate for a greater involvement of business in society. What's the thinking that drives this?

A: The logic starts for me with business cannot see itself as a separate institute from society; business is part of society and is the society. The old logic was that it was kind of a LAT relationship, (Living Apart Together). You had business, government and NGOs' and they did their own thing and an invisible hand had to bring it all together for the common good of everybody.

But the facts that we face at the moment are, at least a billion people are living in poverty, we are seeing that there is massive environmental damage and we have made ourselves entirely dependent on fossil fuels. We see there is economic disparity, we see urbanization that is out of control. So I can see a world that is unsustainable.

I therefore don't believe in an invisible hand that will bring all these institutions together. I believe institutions should work together to see what the challenges are and how we, through a process of collective leadership, can meet these challenges.

Isn't that collective leadership process you talk about a fundamentally challenging thing? Often businesses look at shareholder value and that's become the widely accepted measure.

That has been the paradigm of which Milton Freedman was the founder.' As long as businesses focus on profit maximizing that value will be created for the whole world' so it goes. But then we are only talking about economic value; we are not talking about whether we create the right social or environmental values. So, one of the things that I have been quite vocal about is that we have to have a proper definition of value creation.

If we create a world that only focuses on economic value, the kind of world that we are living in, then it's entirely unsustainable. We have to come at a better value definition, where we say, what economic, social, intellectual and environmental value can we create as a company. What is our engagement with society? What is our contribution? Do we play a role in a broader sense? I think the world would then be a different place.

LBR: Do you think business in general is making any headway towards a common understanding of objectives and goals that you are talking about?

A: I think so. There is a whole generation of people at the top of organizations at my age, around 55 to 60, who obviously have started to look back at the last 40 years, what we have created, our legacy to the world. This industrial stage has pulled a lot of people out of poverty so that's the good news.

But the bad news is, there are still too many people in poverty and we have created a model that is environmentally unsustainable. So I think the generation that sits at the top of organizations is very conscious that something has to happen and they need to solve the problems rather than leave it to the next generation, to create a world that is sustainable.

LBR: Can this consciousness or the commitment to it be measured?

What we see in the western world is that people are starting to commit themselves to indexes like the Dow Jones Sustainability Index. We can argue if that's a good or a bad measure but at least that's a step in the right direction to, create a model where we are measuring what are we doing to the people and the planet and how sustainable all that is.

At AkzoNobel we have committed 50 percent of our long term incentives dependent on how we perform against the Dow Jones Sustainability Index (DJSI). The good news is that more and more people are joining this logic and are making their salaries dependent on it.

The more competition in that index the more the absolute level of sustainability goes up. Most companies are starting to make this explicit and are starting to make the income of the top people at least dependant on this achievement. On top of that you have top people like Bill Gates and Warren Buffet who go around the world and tell people who have made their fortune in the last 50 years to use it to solve global problems. They are major role models too.

LBR: Do you think AkzoNobel's consciousness of this is somewhat derived from the type of industry you are in, a paint business, you deal with a lot of chemicals and other hazardous stuff?

A: I personally come from Unilever, where I worked for 25 years. I don't feel any sort of accountability here for what might have happened in the chemical industry in the past. However I do feel responsible for what's going to happen in the future.

In our business, AkzoNobel, we have a very clear publicly stated policy that we want to be a sustainable company. We spend 60 percent of our research & development budget on finding renewable raw materials, on reducing the CO2 footprint of our products, to getting out of solvent and getting in to water based products. All these things will massively reduce our environmental footprint.

What we should now focus on is the responsibility we have as a company to role model it for the industry. We as individuals should role model it for other leaders, that we can make a change in this world. Whilst I'm negative about what we have created in the last 50 years, I'm also positive, backed up by good scientific evidence, that's it's not too late.

We can in the next 30 years solve the energy problem; there are enough renewable energy options to solve that. The water problem is an important problem we have to solve or else people will massively migrate. In Europe we are already experiencing this; we have massive migration issues leading to massive social problems. People from Africa come to Western Europe and rightly so, I would do the same if I had to protect my family.

One of the biggest challenges we will face in Asia is urbanization. There are two billion people living in urban areas and they expect this to go to five billion in the next 20 years. If there is no housing, sanitary infrastructure, water and energy there is going to be a disaster.

LBR: The sustainability thinking at AkzoNobel came from the senior team, and then you had to convince the entire organization that 50% of their performance linked pay is linked to performance measured against the Dow Jones Sustainability Index, how do you sell such a concept?

A: Well to young people you don't have to sell this concept. They look at us and ask 'Hey! When are you going to start this?' In Europe all children receive environmental education, so they are very conscious about what has to happen. Young professionals we have in the organization are very conscious and for them this is a no brainer.

In AkzoNobel we are very conscious. We said we are going to reduce our CO2 emissions by 20% in a growing business, so that means you have to reduce even faster.

LBR: Why did you pick the Dow Jones Sustainability Index as the measure you will be evaluated against?

A: It is one of the first, and people in different industries started committing themselves. To commit yourselves to public scrutiny and a public measuring system obviously drives behavior. For instance AkzoNobel has become number two in the DJSI and I can guarantee you, we went through all the results as a board, with the suitable people and advisors and asked where are we failing? Because we are publicly exposed.

If we end up this year as number three or four that would be an incredible loss of face and a loss of reputation. So to commit yourselves to a public measurement system I think is the way to hold yourself accountable and to put yourself in public scrutiny. The more people who do this, also the more competitive it gets, because it's a relative ranking ultimately and people start to behave and do the right things.

If you on top of that you link income to performance against the DJSI, then even the cynics become opportunists. Some people come from a deep moral conviction, others have a deep scientific conviction and others come from an opportunistic argument that this is good for my reputation. I don't care what their motives are so long as they serve the sustainability agenda.

LBR: Is it important to have relative comparable measures?

A: I think so. For one it creates competitiveness and that's well understood in the business world. Against the DJSI I can compare, our eco efficiency agenda or water usage, or is our CO2 footprint reduction growing fast enough? Is our measurement robust enough? If they are not robust enough you get minus points. But what's important is that you put yourself to public scrutiny and your reputation to test and that leads to continuous improvements.

There are also groups of shareholders that say 'I'm only going to invest in companies committed to the environmental challenge'. We are not talking about small funds but ones with billions of dollars that ultimately say you can only invest, often pension fund dollars, in the sustainability trajectory.

LBR: While that may be the case, generally investment funds and hedge funds have a short horizon, isn't that at odds with sustainability because these fund managers only care about the next one or two years?

A: You could say the moment people single mindedly don't focus on economic value, they would produce less economic value. But the paradox is the more you engage in society and understand your role in society and understand that the reduction of your environmental impact is a strict necessity to survive in the medium to long term you will see that the quality of thinking and quality of leadership goes up.

AkzoNobel has many big hedge funds as shareholders, and they have all approved that we would make 50 percent of our salary dependent on the sustainability index, because they know ultimately it's a protection in the long term to shareholder value and it drives a certain quality leadership, rather than opportunistic leadership and that translates in to better decision making and ultimately better shareholder value. I have not met shareholders who have said 'just give me money'.

You have to find the balance here. If a company only becomes environmentally focused its again unsustainable. One of the misunderstandings we often have with NGOs' is that 'but you still make profit'.

We are living in a capitalistic model, we have shareholders who take a risk with their money and for that we pay them interest and a risk fee and that we have to earn, if we don't earn that they will dump us and there is no business at all. Sustainability means integrating your economic agenda with your social and environmental agendas.

LBR: You outlined the scope of the conflict. Can you think of any instances in the last few years when you had to make a choice?

A: We recently had to consider a new laboratory in Belgium and we had told ourselves that there is a line in the sand, that we would not build any facility that has not implemented the latest technology that is environmentally up to date. The proposal came to the meeting which I then had to approve, and I asked the people, 'is this the best environmental footprint that we can do'. And they said 'no Tex we didn't do that because it's going to cost us 30 percent more', and I threw the proposal out.

It's these kinds of vital moments in the organization that are important because people say, 'they are serious about this stuff'. So the proposal came back and I asked 'is this the best environmental thing we can do?' They said 'yes', and I signed it.

I have children and this is not about me or shareholders anymore, this is about what am I as a leader of a large business leaving a world behind where my children can enjoy the same quality of life I have enjoyed and if this is not so, we are not on the right sustainable trajectory. We have massive challenges with poverty, with the environment and in the future, with migration.

Either the people who have been privileged to come in to positions of leadership and privileged to have a big instrument, like a business, in their hands with which to make changes, try to help now and correct this, or we will be seen as opportunist, living our own life; that is not leadership.

LBR: How has AkzoNobel been performing in South Asia, what's the outlook like?

A: Very positive! In the last 10 years we had a China boom, and that's starting to taper off a bit as the eastern seaboard housing boom tapers off. I'm absolutely convinced that the next 10 years is going to be entirely for South Asia. So that's where we are focused. That's where we invest our time and money, and that's going to be a long ride. That's what I advice anybody, take a mutual fund and go South Asia, and people say 'but this and that'. But I say 'that was the same language we used when China started, that there was no infrastructure, there was corruption'.

As AkzoNobel we are highly committed to India and to Sri Lanka. I have been travelling here and speaking to customers and there is no end to opportunity. You have stunning locations, the beaches, the mountains, nature reserves. Foreigners will flock here, the tourist industry will explode and people will start to build and build. The Maldives is entirely overpriced because the lack of tourist destinations in the Winter of Europe and people will flock in to Sri Lanka.

LBR: How significant a business is the South Asian one for AkzoNobel?

A: Its huge, the region has 1.3 billion people and growing as a population and you can see how young this population is, so it will expand. I think the government will play an active role in creating an urban environment for people including Colombo, because where Colombo is going is unsustainable at the moment. You have no high-rise. People have to travel one and half hours to two hours sometimes to work and that's unsustainable. You have to have high-rise so that people can live in the city and it has to be affordable.

If the government is able to stimulate the housing market through social housing, which we have all done in Europe, that would be excellent. In the Netherlands 60 percent of housing is social housing. Then the tourist industry comes on top of that; then foreign direct investment has to come in and that can get the swing going in the economy.

If inflation can be curtailed then I think Sri Lanka is going to do very well. That's why I'm here. Obviously this is not our largest market, China was and Indonesia still is but we will have to focus here too because a lot is going to happen here.