

Globalization, Sustainability and Innovation

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Summary

Globalization- yesterday, today & tomorrow

Sustainability - Key driver

Innovation and Globalization

Survey of CEO's -McKinsey Quarterly
11/07

Key Takeaway



Globalization - yesterday

Economic globalization

accelerated in latter half of 20th century

1950 - economics in western countries

1970 - economics in Japan

1980 - economics in the Asian tigers

1990 - economics China, India, Eastern Europe & lesser developed countries



Globalization - today & tomorrow

Environmental & social globalization

Communication, technology, relentless growth (pop. & consumption), the media, the UN & Al Gore → need for **balanced** globalization

Sustainability as foundation of economic activity → expanded globalization in

2000 - environment & social justice in developed countries

2010 - environmental & social in developing countries



Globalization in the Boomer Era

1950 - economics in western countries

1970 - economics in Japan

1980 - economics in the Asian tigers

1990 - economics China, India, lesser developed countries

2000 - environmental & social in western countries

2010 - environmental & social in developing countries



↑ geographical range & scope

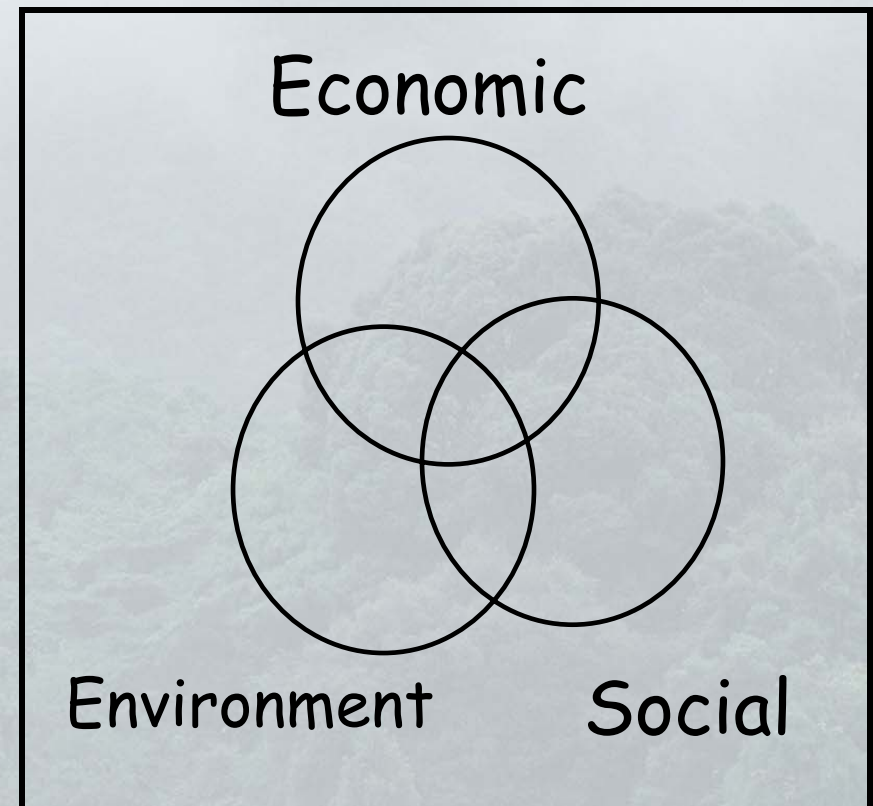


Sustainability

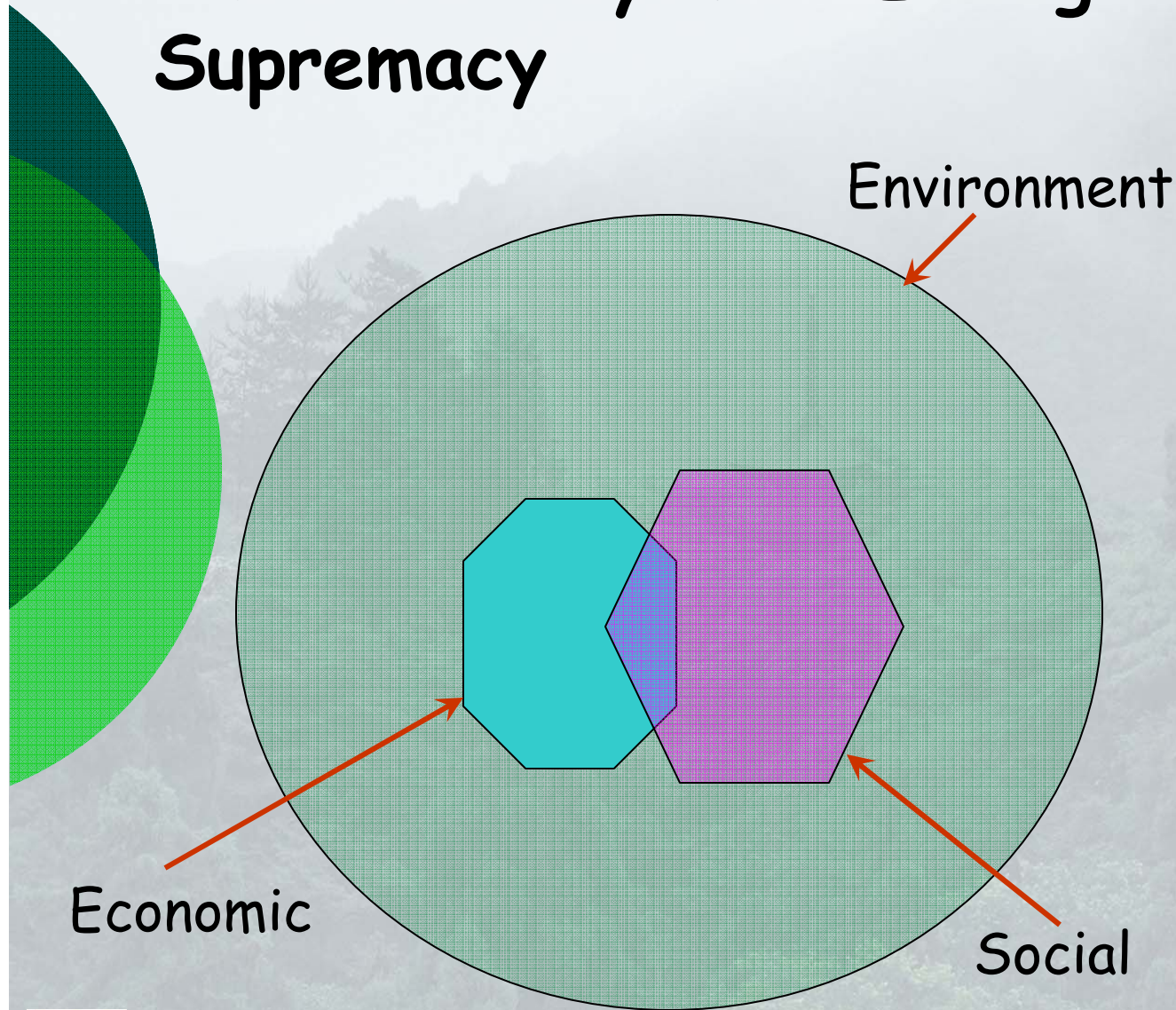
WHAT?

★ Balancing

- ✓ short & long term (intergenerational)
- ✓ economic, environment, & social impacts
- ✓ survivability of earth & human race
- ✓ development & conservation
- ✓ ensuring the dynamic balance



Sustainability with Ecological Supremacy



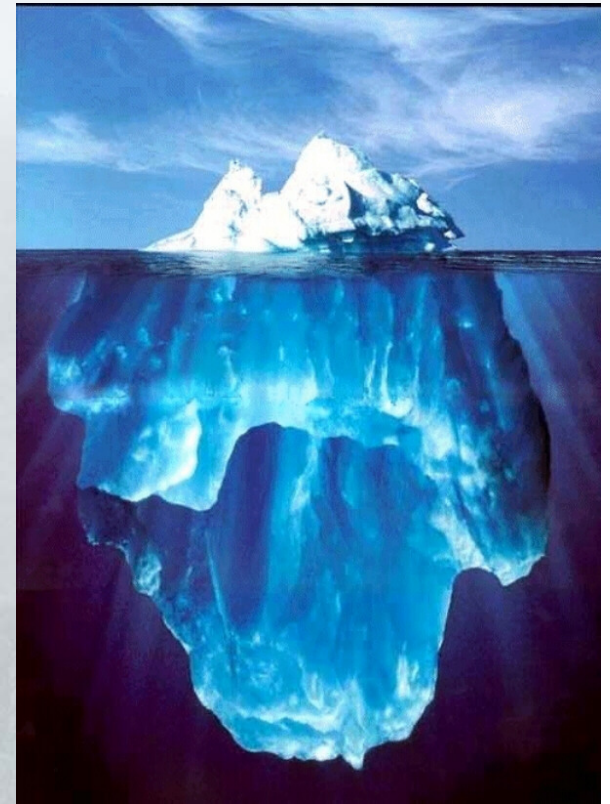
- ✓ ecological health is precursor to social & economic sustainability
- ✓ there is no three legged stool; if we do not restore natural capital the human race is doomed



Sustainability

WHY?

- ★ Intergenerational responsibility
- ★ Acting as iceberg with various exposed tips → tsunami of change such as ↑ in:
 - ✓ ethical investing
 - ✓ corporate sustainability reporting
 - ✓ triple bottom line
 - ✓ concern over global warming & other global environmental issues
 - ✓ need for, & power of, NGO's
- ★ BUT like an iceberg we only see 10%, the rest is not yet visible





**What does this have to do with
INNOVATION?**

**Different globalization focus requires
different innovation.**



Innovation for Globalization

1950 - 1980

- ★ manufacturing & transportation (PROCESS)
- ★ product design & engineering (PRODUCT)
- ★ global expansion (BUSINESS)

1990

- ★ business networks & outsourcing (ORGANIZATIONAL)

2000 - 2020

- ★ sustainability (ETHICAL)

**ALL
innovation
leads to
improved firm
performance
and global
competitiveness**



Innovation needed for economic globalization

Process innovation

- ★ compete with global competitors
- ★ accelerated technological change

Product innovation

- ★ provide suitable products world wide
- ★ sophisticated global customers

Business innovation

- ★ global systems for physical and now virtual clusters and diverse value chains



Innovation needed for social & environmental globalization - 1

Strategy

- ★ Core value development and integrations
 - ✓ Need to **strategically** select core social and environmental values
 - ✓ Not reaction to external pressures

Relationships

- ★ internal relationships including organization, diversity, etc.
- ★ external relationships including networking, **supply chain management**, customer relations



Innovation needed for social & environmental globalization - 2

Risk Management

- ★ Short, med and long term risk management
 - ✓ due to changing natural environment
 - ✓ due to intangible social attributes

Brand Management

- ★ ethically challenged brand a risk
 - ✓ key weapon of some ENGO's
 - ✓ Nike shoes, old growth forests, GAP, etc.

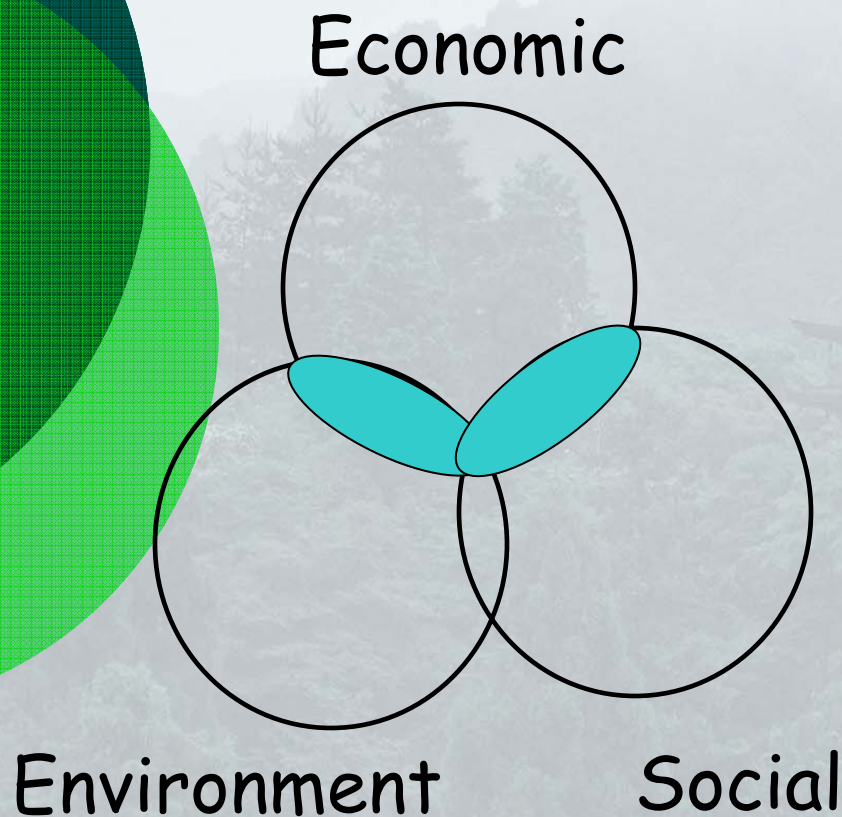


Examples of innovation for ethically driven globalization

- ★ ethical supply chain management
 - ✓ a system to ensure your suppliers will not ethically alienate your customers
 - "the Nike effect", recent GAP stories
- ★ eco-efficiency
 - ✓ Wal-Mart green transportation policies
 - ✓ Vancouver Coastal Health GreenCare
- ★ ethical funds
 - ✓ environmental and social lens prior to investment decision



Initiating New Innovation



Imbedding ESG (environment, social and governance) in strategy & operations requires triple bottom line gains (PROFIT essential)

- ✓ GE Ecomagination- sales ↑
- ✓ Wal-Mart Embrace the Earth
- ✓ Ethical investing now >\$10 trillion

Innovative Shift to Sustainability

Is shift industry based?

- ★ Canadian forest industry to become 1st carbon neutral industry **without purchasing credits** by 2015
- ★ Clean coal initiative
- ★ Plastics initiative

BUT does not provide firm based competitive advantages



Survey of CEO's -McKinsey Quarterly 11/07

Surveyed CEO's of firms participating in UN Global Compact Network:

- ★ a framework for businesses committed to aligning operations and strategies with 10 principles in the areas of human rights, labour, environment & anti-corruption
- ★ includes 2,900 business in >100 countries
- ★ represents MNE's committed to ethical operations



Survey Results

- ★ > 90% doing putting more in core strategy of
 - ✓ environment, social & governance (ESG) issues
- ★ Two pressures include
 - ✓ stakeholder (employees, consumers, etc.)
 - ✓ competitive advantage in market place due to increasing societal expectations
- ★ Consumers are ↑ important stakeholders
- ★ CEO's expected continuing ↑ expectations



Survey Results

Most important societal trends (pick 3)

environmental concern	61%
demand for natural resources	38%
emergence of China & India	37%
↑ technological connectivity	33%
↓ trust in business	18%
↑ pressure from NGO's	14%

Most critical ESG issues (pick 3)

- ★ talent constraints (50%), public governance (44%), climate change (38%), extreme poverty alleviation (36%), security of energy supplies (35%)



Survey Results

Barriers to implementing ESG policies

- ✦ Competing strategic priorities (43%), implementation complexity (39%), differing definitions across regions and cultures (25%), missing link to value drivers (18%), engagement of external groups (14%)

72% wanted firms to incorporate ESG in strategies & operations BUT only 50% said firms were doing so

59% wanted firms to incorporate ESG issues in management of supply chains but only 27% doing so

INNOVATION in profitably incorporating ESG in operations ALL along the value chain



The state of responsible business: Global corporate response to ESG challenges *EIRIS Sept 2007*

- ★ CSR more mainstream & integrated into core business activities
- ★ increasingly being adopted by companies worldwide
 - ✓ EC firms have well developed practices across all issues
 - ✓ Japanese firms have strong environmental performance but lack socially
 - ✓ NA firms lag behind Europeans
- ★ Large companies first to adopt
- ★ Continued ↑ in ethical investment by 'mainstream' investors due to perceived link with financial performance



Innovation in the 21st Century

All that was before

- ★ process, product and business

New ethical realms due to sustainability
globalization

- ★ strategic
- ★ relationships
- ★ risk management
- ★ brand management

All contributing to better firm performance

