Climate change and other pressing environmental and social issues urgently require transformational change. But, ask Kai Peters and Matthew Gitsham, are business schools and HR departments up to the challenge?
We heard a lot about climate change in 2006 and 2007. The financial crisis and recession have pushed it down the agenda for the moment – people can only focus on so many things simultaneously. But the current financial crisis has been over 20 years in the making and illustrates a valuable and extremely important lesson – the longer risk is ignored, the bigger will be the consequences.

The Stern Review on the Economics of Climate Change, published in Britain in 2006, suggests that the expected increase in extreme weather, with the associated and expensive problems of agricultural failure, water scarcity, disease and mass migration, means that global warming is likely to precipitate crises on a scale we have never witnessed. Stern extrapolates the costs and suggests that climate change could swallow up to 20% of the world’s GDP. Current recession concerns, the most serious for nearly a century, dwarf by comparison. The shift to a low-carbon economy is just one of a wide range of issues and trends that business leaders increasingly agree will impact on their companies, both in terms of risks and opportunities. There are wider concerns relating to the natural environment – finite and increasingly scarce resources, biodiversity and species loss; and also around globalisation – doing business in markets marked by poor public infrastructure, widespread poverty and inequality, corruption, violent conflict, and labour standards and human rights violations.

What is increasingly clear is that the scale of these risks and opportunities means it is not simply a case of business as usual with a few tweaks here and there but that the time has come for really transformational change – addressing these issues is no longer just the responsible thing to do but an urgent business imperative.

Transformational change requires more than changing a few light bulbs. To make the necessary step-change means putting these issues at the heart of strategic decision making and integrating them into all the key business systems and processes that underpin this. It means influencing policy makers to create new market structures and rules of competition. And it also means reaching the hearts and minds of individuals working right across organisations, changing the nature of the conversations within organisations and equipping people with the knowledge and skills they need to enable them to respond.

Management education and leadership development have an important role to play in meeting this challenge. It is this role that lies behind the new United Nations Principles for Responsible Management Education (PRME) initiative, developed by a global taskforce of 60 business schools and launched in 2007. Recently, Ashridge Business School worked with the European Academy of Business in Society and a number of other leading business schools across the world to understand just how important this agenda is to companies.

The research, based on extensive interviews and a global survey of CEOs and senior executives conducted during the height of the financial crisis, presents a stark message: 76% of senior executives polled say it is important that leaders in their organisations have the knowledge and skills to respond but less than 8% believe these knowledge and skills are being developed very effectively by either their own organisation or business schools.

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Research findings indicate that there are a whole host of discrete knowledge and skill sets required that underpin management ability to respond effectively. These can be grouped into three clusters.

The global leader of tomorrow needs to understand the changing business context – 82% of those polled say senior executives need to understand the business risks and opportunities of environmental and social trends. And they need to know how their sector and other actors (regulators, customers, suppliers, investors, NGOs) are responding.

Senior executives also need the skills to respond to this information – 70% say the global leader of tomorrow needs to be able to factor social and environmental trends into strategic decision making. In different contexts and industry sectors this can mean knowing how to factor these issues into processes such as capital expenditure and brand development. It can mean knowing how to use tools for horizon scanning, scenario building and risk management.

The second cluster of knowledge and skills are around the ability to lead in the face of complexity and ambiguity. The challenges and opportunities these issues and trends present tend, by definition, to be complex – there is often little certainty and little agreement both about their precise nature and the response that is required.

Leadership in these circumstances requires a range of discrete skills: 88% of those polled say senior executives need the ability to be flexible and responsive to change; 91% the ability to find creative, innovative and original ways of solving problems; 90% the ability to learn from mistakes; and 77% the ability to balance shorter- and longer-term considerations.

The global leader of tomorrow also needs to be able to understand the interdependency of actions and the range of global implications that local-level decisions can have and to understand the ethical basis on which business decisions are being made.

The final cluster of knowledge and skills are around connectedness – the ability to understand the actors in the wider political landscape and to engage and build effective relationships with new kinds of external partners.

For different businesses this can mean regulators, competitors, NGOs or local communities. The mindset with which our current leaders are groomed does not encourage productive engagement with partners outside the organisation. Leaders receive plenty of training in negotiation skills, for example, but on the whole lack the skills for engaging in effective dialogue and partnership.

To survive and thrive, 73% of senior executives say the global leader of tomorrow needs to be able to identify key stakeholders that have an influence on the organisation and 74% say they need to understand how the organisation impacts on these stakeholders, both positively and negatively; 75% say senior executives need to have the ability to engage in effective dialogue and 80% say they need to have the ability to build partnerships with internal and external stakeholders.

If these are the kinds of knowledge and skills needed, how can they best be developed? Again, the research sends a clear message – traditional approaches are not enough, we need to use a broad range of learning approaches to develop the global leaders of tomorrow.

Because the issues are complex, senior executives believe the most effective learning and skills development comes through practical experience, whether the learning is on-the-job, project based or experiential. Senior executives also value opportunities to develop skills in relatively risk-free environments such as simulations and by considering relevant case studies from real experience.

These learning experiences can be enhanced by structured reflection through coaching or appreciative inquiry. Although learning approaches such as e-learning and lectures are not highly rated by executives, these may still have a role where more straightforward knowledge transfer and basic awareness raising are required.

The research identifies examples where a number of leading companies have already taken steps to develop these kinds of knowledge and skills among their senior executives.

Unilever, the global Anglo-Dutch manufacturer of leading brands in foods, home and personal care, runs a programme for high potentials on its emerging
market strategy. Teams of executives build their engagement skills at the same time as researching current social and environmental trends and the business implications by spending time in emerging markets collaborating with NGOs, microfinance organisations and other grassroots groups. The teams develop business proposals to present to the Unilever board and the most successful are selected for implementation.

InterfaceFLOR, the modular flooring and carpet tiles manufacturer headquartered in America, has introduced in Europe, the Middle East, Africa and India a three tier education programme from induction level to the senior management team. The programme progressively raises awareness of key environmental and social issues and develops the skills individuals need for the organisation to be able to fulfil its vision of being environmentally restorative by 2020.

Individuals must have participated in certain levels of the programme, and where appropriate passed a graded assessment, to be eligible to be considered for promotion to more senior roles in the organisation.

At Ashridge we are taking a number of steps ourselves to address this challenge. We established the Ashridge Centre for Business in Society for research and thought leadership as long ago as 1996. Our MBA programme includes a compulsory two-week module that explores how these issues cut across all the functional silos.

In our executive education work, many of our open-enrolment and customised programmes have been redesigned to include a focus on building these knowledge and skill sets. And in 2005 we launched the world’s first continuing professional development programme for Sustainability and Corporate Responsibility Directors – the Ashridge Integrating Corporate Responsibility programme.

Our latest contribution is a unique partnership, Ashridge InterfaceRAISE, bringing together Ashridge’s expertise in executive education and organisation development consultancy with the vast practical experience of modular flooring manufacturer InterfaceFLOR mentioned above.

We’re also looking to raise awareness more widely and since 1999 have been running an essay award for MBA students on the changing role of business in society. The 2009 Award (first prize €7,000) invites MBA students and others across the Europe/Middle East/Africa region to submit their ideas on how to innovate to create value from the shift to a low-carbon economy.

The award sponsor, HP, has been working with the global conservation organisation WWF to identify the business opportunities for the ICT sector from substituting high-carbon activities with low-carbon alternatives – the business opportunities at stake are substantial.

While these examples can provide some direction, there is still a long way to go. Really achieving the transformational change needed in management education will require reaching the hearts and minds of every single member of faculty engaged in research, teaching and consulting. It also means that the management education world collectively must reassess each and every one of the key principles, models and frameworks that inform our thinking.

The task is daunting, but the need is great and as this research demonstrates, the companies we are developing people for are demanding it. We must rise to the challenge.