

SUSTAINABILITY

Bruce Piasecki is president and founder of the AHC Group Inc., a consulting firm located near Saratoga Springs, N.Y., whose clients include Toyota, FedEx, Caterpillar, Flextronics International and a number of other Fortune 500 companies. Piasecki is an authority on sustainability issues and has an upcoming book called *New World Companies*. Piasecki spoke with Bloomberg BNA's Gerald B. Silverman about his new book and sustainability issues. The interview has been edited for brevity and clarity

New World Companies Chart Future of Capitalism

BLOOMBERG BNA: The subtitle of your upcoming book, “*New World Companies*,” is “*The Future of Capitalism*.” Please explain how the issue of sustainability is impacting the future of capitalism?

Bruce Piasecki: Throughout the history of capitalism, there's been a battle between downward spiraling companies and upward spiraling companies. In my book, sustainability becomes the lens by which I try and define the upward moving companies, versus the normal risk evaluation tools that are used by stock analysts. I'm making the claim that we now have better performance tools to measure the behavior of companies. We have better tools to say that a company is scientifically legitimate in its claims, better tools to define if they're obeying their legal requirements, and the most interesting is that we now have better tools to measure the value of their stock relative to how they behave regarding environmental affairs, social expectations and governance. I'm trying to look at the human value of an organization in society.

'New World Companies.'

BLOOMBERG BNA: What are some of these “new world companies” and what are they doing?

Piasecki: Toyota became my first global example of how you can make a better investment, a better product, a better company by paying attention to environmental, social and governance metrics. They were able to scale a [hybrid] car that was 30 percent more effi-

cient than required under the law. Toyota was looking out at broad society and asking what do people need next, not only what to people want now? The second thing is they made the cars with less waste. They have found ways to reduce the amount of volatile organic compounds they use in painting a car, for example. To me, the most interesting is how they explain these new world principles to their suppliers, to their dealerships and to their buyers. They actually use the language of society and indicate how they're being socially responsive.

FedEx has worked with General Electric, polymer manufacturers, as well as Boeing to figure out a way to make a jet that will lessen, and make more efficient, the distance between Asian suppliers and American assemblers. This jet can go the distance between America and the key places in Asia with 18 percent less fuel consumption. Because of the way they designed it, it doesn't need to stop over at an island to refuel before it gets to Japan or China or wherever it's going.

The new world company that is least known is Flextronics International. They employ more than 200,000 people, they're in 33 countries, they're a Fortune 500 company. This firm doesn't spend a lot of money on brand. They're all about the manufacture of electronic parts. They have these innovation labs where an automaker or a defense company will say, “we don't know how to make this, but we think we need something that performs up to these specs.” Their technology will allow us to use about 30 percent less fuel in agribusiness,

about 5 percent less fuel in transportation, and they see other sources of innovation in relationship to climate and carbon threats.

BLOOMBERG BNA: What lessons can be learned from these companies?

Piasecki: First, one has to learn how to do more with less. You have to learn how to manufacture and deliver your product with less waste—less waste of energy, less waste of transportation. The second is that truly competitive companies are working in global teams. Environmental Resources Management (ERM), for example, has a software program called Minerva where it allows this \$1.7 billion environmental service company to link teams of experts to serve around the world. The third lesson is that survivors are adept in the short run, but adaptive in the long run.

ESG, Financial Metrics.

BLOOMBERG BNA: How do environmental, social and governance (ESG) metrics compare in importance to more traditional financial metrics?

Piasecki: The ESG developments and their sister financial metrics are actually now two tributaries coming together into what is the same sensible mainstream of investment. I don't see them as actually antithetical. The best analytic firms are baking this ESG stuff into their standard financial diagnostics.

At least 1,325 companies have signed on to the United Nations' Principles for Responsible Investment Initiative (PRI). They now influence \$45 trillion assets under management. The key thing is that they believe that ESG has material consequence on the value of the stock. That's why they're signing up. They see that these two tributaries have come together.

BLOOMBERG BNA: How are environmental, social and governance (ESG) metrics being used to change the way companies do business?

Piasecki: What we're finding is that the better performing stocks over a 20-year window of sustainable value are actually not just measured by tangible values. What we're beginning to see is that conventional tip-of-the-iceberg measures—return on capital, cost of capital, price/earnings and about 50 variables—are not the safest way to judge a winner.

Proper Measurement of Risk.

BLOOMBERG BNA: Why have sustainability issues become so important to companies?

Piasecki: Beginning in 2008, the latest global financial crisis has shown us that new world companies—like Toyota, Flex, FedEx or Caterpillar—that manage themselves in a context of science, law, markets, do it better when they reduce their risks from the lens of environmental, social and governance. These companies are not going bankrupt at the same rate of bankruptcy, they're not firing thousands of people at the same level, they're not hurting in their attitude towards govern-

ment and regulation, they're more inclusive of diversity of talent.

Up until 2008, most asset managers were speculative because they were trying to identify the winners that would allow growth over the norm. After 2008, the billionaires, the institutional investors and the social progressives shared the same insight, which is that we weren't measuring stock risk properly. What I'm saying in *New World Companies* is that there's a whole generation of companies out there that are defining the future of capitalism who are more sustained in value. They're going to give you longer term yields because of their stability in society.

Social Responsiveness Crucial.

BLOOMBERG BNA: What is the future for sustainability issues over the next five or so years?

Piasecki: I wrote this book to try and define social responsiveness, instead of social responsibility. The phrase social responsibility is about the early "warners" telling the world of 7 billion to wake up, but social responsiveness is the model of capitalism that will allow us to go to 8 billion people and 9 billion people with less distress and turbulence. As population changes, the role of corporate responsiveness has to increase so that they're all going to be competing about supply of water, lessening their impact on land, addressing the carbon threat in a time of less capital. They're all going to have to discover the power of innovation, rather than just replicating the same product forever.

The most concrete example of things to come is Canada's Oil Sands Innovation Alliance (COSIA). When you look at how \$1 billion of intellectual property and more than 250 projects are now being shared between 14 of the largest companies in the world, that is an example of where capitalism has to go because a socially responsive firm that is adept to market conditions will partner better. They'll have the performance metrics, they'll have the investment need to come together for \$500 million water conservation projects, for example, if you're a global mining giant. They'll come together to say let's find some ways to reduce land impact and tailings, for example, if you're an oil giant. It's only happened in a really big way once in COSIA, but I think it's going to happen in other industries.

BLOOMBERG BNA: Will the public sector catch up to the private sector on these issues?

Piasecki: I think it will, because there's a profound change in population trends, so by 2040, 80 percent of humanity will live in a mega-city. In such a setting, you have to have the role of government. There's all this ideological fighting between parties about a given rule or about a given world view, but there is a permanent face to the government that is an enabler of innovation. Government is never going to have the resources of a corporation. Government will always have the power to enable change—to keep the rules clear. The role of gov-

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ernment is that of intelligent guidance and eliminating the bad apples.

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