

An interview with Yossi Sheffi

Sustainability: Economy, then Environment

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Yossi Sheffi is professor of engineering systems at MIT, director of MIT's Engineering Systems Division and the director of the MIT Center for Transportation and Logistics.

Yossi Sheffi's most recent book is *The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage* (MIT Press), which argues that a company's survival and prosperity depend more on what it does before such a disruption occurs than on the actions it takes as the event unfolds. Sheffi works on the international playing field, launching in 2003 the MIT-Zaragoza Program, a new logistics university in Spain based on a unique international academia, government and industry partnership, and, in 2008, the Center for Latin-American Logistics Innovation, in Bogota, Colombia, with the participation of dozens of Latin American universities and businesses.

He was interviewed by Michael S. Hopkins, Editor-in-Chief of *MIT Sloan Management Review*.

We started this interview series in late 2008, and I wonder if the people we've already spoken to would say different things today, because economic sustainability is such a dominant concern at the moment—even more than just a month or two ago which is striking.

Well, by late fall we'd already had Lehman Brothers and Bear Stearns.

SHEFFI'S SUSTAINABILITY TAKEAWAYS

DEFINITION

How do you define sustainability?

- The sustainability of humankind while improving the human condition at all levels
- Dual focus on both environmental sustainability and economic sustainability
- Broad corporate social responsibility encompassing fight against poverty and child labor

DRIVERS

Which sustainability issues will have the biggest implications for managers?

- Economic crisis means that economic sustainability will dominate for the next two-to-three years

THREATS AND OPPORTUNITIES

What threats and opportunities will sustainability-related concerns present?

- Threats: Mono-focus on economic viability; potential for global terrorist event or large social unrest from rising unemployment
- Opportunities: Crises give management teams built-in excuse to prioritize and make tough decisions

IMPEDIMENTS

What obstacles keep organizations from acting on sustainability problems/opportunities?

- Tanking world economy gets all the attention
- Long-term investing even more difficult to build support for in tough economic times

ETC.

ENVIRONMENTAL SUSTAINABILITY WILL TAKE A BACK SEAT TO ECONOMIC SUSTAINABILITY FOR SEVERAL YEARS ... FINANCIAL CRISIS MAY HELP BREAK POLITICAL PROTECTIONS THAT TRADITIONALLY KEEP CHANGE FROM HAPPENING IN PUBLIC SECTOR ... THE BETTER CORPORATE AMERICA IS AT PROVIDING SOCIAL SERVICES LIKE SCHOOLS OR HELP ON INFRASTRUCTURE, THE MORE IT WILL BE EXPECTED TO DO

Yes, but it looked like it was potentially confined to the banking industry. We didn't begin to see a lot of the other troubles, and one can only imagine that we're going to see more.

Today, I think there's a chance of a decade-long change in consumer behavior, because I think it's going to be a deep "L shape" recession. That essentially puts sustainability conversations on hold. I think in the short term there's no question that environmental sustainability will take a back seat as people worry more about having the energy—whether it's polluting or not—because they don't want to freeze in the winter and they want it to be cheap.

The next two, three years will be utterly dominated by the financial crisis, so I'm really hesitant to talk beyond that because every decision counts. Companies cannot be socially responsible if they lose money. For companies, it will boil down to having to make money. Having to sustain. You have to be an ongoing concern.

Some argue that down times are perhaps the more opportune moment to remake yourself in a more sustainable way.

It's absolutely correct. Take the auto industry. Classic example. It was going down, and it would have gone out of business regardless of the financial crisis. But the crisis gives it new opportunities. First of all, the government gets involved to manage the bankruptcy. Then there's an opportunity to get these three companies together and rewrite the labor agreements. Instead of 30, 40, 50 auto plants in the U.S., maybe we'll end up with 20. Maybe we'll see a combining of some or all of the three U.S. automobile companies.

It's the same with banks. Maybe we'll see more coming together. The threat becomes the opportunity. Why did Merrill Lynch agree to be bought?

Because it didn't have a choice.

Exactly. It was going down. At the end, Lehman was desperate to be bought, to no avail. So, the question for them was do we do something different or do we go down? That's the opportunity for change.

I completely agree that adversity is also an opportunity to create long-term sustainable enterprises. Furthermore, strong players in every industry will benefit from weaker players falling.

Companies who want to survive have to restructure and use the opportunity to restructure even towards environmental sustainability, but only in cases where it goes hand in hand with economic sustainability. Managing through this requires foresight and leadership and strength of purpose.

THE MIT SUSTAINABILITY INTERVIEW SERIES

The MIT Sustainability Interview appears every other Wednesday.

The interviewees will include thought leaders from arenas as diverse as management, urban studies, history, energy science, civil engineering, and design.

The conversations will be wildly varied, but at root their goal is to help leading managers answer just two questions: "As sustainability—economic, environmental, social, and personal—becomes the defining business issue of our times, what decisions will I need to face, and what will I need to know when I face them?"

Many people make the argument that much of what companies can do toward being more sustainable will also save money, make them more efficient, and provide part of an answer to the economic sustainability problem.

The problem, of course, is a question of short term and long term. Let me give you an example.

Cisco runs schools, two-year programs, to teach people how to be network technicians. The schools are free. There's one in every big city in the United States. When people finish, Cisco puts them on a website and promotes them to tech companies: "We have 200 technicians in your area, and they're all ready to work." My wife was talking with a guard at an AT&T store, currently making seven dollars an hour, who's going to a Cisco school. When he's done, he can make \$45 an hour instead of \$7, which is the difference between sub-sufficient living and middle class. Maybe he can start his own business. In the long run, it's a great program. But it takes years from starting such a program to seeing results in terms of stronger sales.

It's very hard to think about investment in sustainability that will help in the current economic climate. Investing in brand is not a short-term investment, it's a long-term investment. But when you have the burning platform, you have short-term fear.

To get inventory and transport aligned smartly you have to redesign your networks. That's not a short-term thing. You can do some on-the-margin short-term stuff, but you have to redesign the distribution network to get long-term benefits.

The cost of change is always high.

Yes. The costs are immediate, and the benefits are longer term.

What are the other opportunities that you think are going to be presented to organizations because of some aspect of sustainability?

Well, there's a real opportunity to make the tough decisions today because people understand you have to make the tough decisions. There are opportunities to prioritize business units, prioritize development efforts.

Going through the exercise of prioritizing, of understanding where the costs are, modeling the organization, understanding what the impact is of taking one part out of some other parts of the organization—this is a time to really just look at the business in a holistic fashion. It's an opportunity to understand the organization even better and then to take some tough decisions. A moment of crisis gives the CEO and senior management team a "cover," in some sense.

Do you think there are aspects of organizations that are, in general, going to be more fruitfully available for change?

I think the biggest potential is actually not in commercial corporations but in the public sector. In the public sector, tough decisions have never been made because they are politically protected. The Commerce Department, for example, is where some tough decisions can be made, if we really want change and this is where the potential is enormous.

So the less that hard decisions have been made in the past, the larger the opportunity when the organization is under duress?

Exactly. Maybe the opportunity was always there, but now because of the financial crisis there's more chance that some of it will actually happen. There's impetus to making this happen. As an aside, note that the same logic applies to MIT and other universities who were loath to make tough decisions due to faculty pressures.

If I'm a manager, now I get to do what I intended to do all along?

Not really. Because to balance this, you have fewer resources to invest. So, yes, you want to do things, but the crisis makes you sharper because you have to do more with less, and you have to live in a large company like you are in a startup. Startup managers know they have to do everything and work hard. Some of this mindset will have to seep in.

You've talked about opportunities, now let's talk about threats. We've been discussing the obvious and understandable economic threats that exist now. Are there other kinds

of sustainability-related threats that you think are going to prompt organizations to have to change?

Any big, global event will change the balance of all of these decisions, about economic sustainability, environmental sustainability, the multi-objectives that we are talking about. When something becomes out of whack like the economic situation, then it becomes the most important.

So if there's a terrorist attack—especially a significant one, maybe nuclear—everything goes by the wayside. That is the only thing that will count. Nothing else will matter; certainly not environmental sustainability. So a big terrorist attack, or big social unrest somewhere important (like China) will dominate the business calculus, if it happens.

Companies can't just sit back and expect the government to handle all this.

Right. Like the Cisco example: the government talks a lot about upgrading skills, but it's companies that are doing this. In India, companies are building infrastructure, like roads because the government is too corrupt and too bureaucratic so that nothing gets done.

I think this may be the start of a trend that companies will do it more of what we used to think of as government domain, and although they're not expected to now, at some point they will be. They'll be expected to worry about global warming and green logistics. They'll be expected to help in schools. They'll be expected to help infrastructure just because they can.

I bet you that after the next disaster Wal-Mart will be expected to do at least as much as it did in Louisiana after Katrina. Again, not because they have to, but if they don't do it, the brand will be hurt. It started with building the brand positively, and now if you don't do it you will hurt the brand because you don't fulfill expectations.

The underlying business of customer service is fulfilling and even exceeding customer expectations. The hurdle is that customer expectations are a moving target. Companies are moving those expectations without realizing it.

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