

The Windsor Debates Special

Global Instability and the Business Context: Managing Threats – Maximising Opportunities

(Sponsored by PricewaterhouseCoopers and Shell Gas Direct)

The business world is still going through a roller-coaster ride, but whilst the economic situation appears to be improving – at least in the short term – it is clear that global threats are forcing a radical reassessment of the business operating context.

We are more than ever interdependent through globalization, networking and outsourcing.

In this environment, hard realities and hard choices render many traditional business tools obsolete at worst, and of limited value, at best. Managing in an environment of constant change means making critical decisions based on incomplete or uncertain information, at the same time grappling with the challenge of balancing long-term objectives against the need to maintain and improve short-term performance.

The sixth in the series of “Windsor Debates” pioneered by the Thames Valley Chamber of Commerce Group took place at Windsor Castle on Friday 18th September, when Business Alliance guests of the Chamber assembled to discuss the complexity, risk and uncertainty of the business environment with particular reference to climate change, energy and food shortages and how businesses might be affected, sometimes in unexpected ways; plans to meet those challenges, and barriers to doing so.

“Global Instability and the Business Context” was held under the Chatham House Rule, enabling difficult scenarios to be openly debated following presentations by subject matter experts. Moderator, Roy Sheppard, clarified vital issues so that guests could formulate strategies based on informed opinion, and at the same time identify areas that would need urgent and decisive intervention by Government before business could move forward. Many guests despaired at the inability of politicians to focus on issues which stretched beyond their natural career tenure.

Nick Robins, Head of HSBC’s Climate Change Centre of Excellence, gave an inspiring presentation about the bank’s progressive approach to climate change, which is championed by the bank’s Chairman, Sir Stephen Green. The findings of the Climate Change Centre of Excellence, that climate change could lead the whole world to catastrophe and entire countries to collapse, serve as a stark warning to customers, employees and stakeholders of business everywhere and leave no doubt about the need for action.

World leaders meet in Copenhagen in December for the biggest international negotiation since the end of WWII. Many countries have recently revised their national climate change plans in preparation, but the difficulty will be to convert intentions into action.

According to Robins, two desirable outputs from Copenhagen would be:

- (i) a clear shared vision, perhaps to limit warming to 2% by 2100;

- (ii) some ambitious targets, both for the long term (80% by 2050) and, critically, the medium term (15 to 20% by 2020).

The cost of tackling climate change was calculated to be 1% of GDP a year; but the cost of not tackling it was even greater, at 5% to 10% of GDP.

Mike Hogg, General Manager of Shell Gas Direct, described the outcomes of scenario-planning techniques applied by the company in the face of increasing energy demand, depleting energy supplies and growing environmental pressure. Shell developed scenario analysis as a strategic management tool over thirty years ago.

Two potential future scenarios were laid out for consideration: "Scramble" and "Blueprint". "Scramble" is a world in which everyone moves cautiously, carefully looking from side to side, waiting for everyone else to act. This is a world where, in the absence of any multilateral agreements, bilateral deals will surge (particularly between China and other nations), as will energy nationalism and, potentially, energy wars. In a "Blueprint" world, a coalition of the able and willing emerges, with a growth in carbon capture and storage: sufficient action would be taken to stem the tide.

For the first time ever, Shell has come out in favour of a "Blueprint" world, a scenario that they are actively embracing, starting with a six-step action plan for reducing their own emissions.

There was a strong consensus view amongst guests and speakers that Government has to take a stronger lead, not just on policy, but also because schools, hospitals and universities tend to be the most inefficient of all buildings.

The afternoon session was dominated by the likely impact on business of global food shortages – the "next big thing" – led by **Christine Williams, pro-Vice Chancellor of the University of Reading**. The food industry itself is worth £162 billion, generating 7% of the UK economy and sustaining 3.7 million jobs; but farming generates substantial carbon emissions through use of water, oil and fertilisers. And obesity is a time-bomb for the NHS, bringing with it an exponential leap in cases of diabetes, hypertension and cancer, all of which will impact business in terms of lost productivity and higher insurance costs at the very least. World food production must double by 2050 to meet increased demand. It can, therefore, be seen that the fundamental underlying conundrum of how to extract an increased yield from a decreasing acreage of land (because climate change renders fewer and fewer places suitable for food farming) whilst reducing energy inputs, has to be tackled.

New technologies could provide some of the answers, and the issue will need to be addressed sooner or later. The problem is the lack of support for agricultural innovation: the consumer has roundly rejected most of these options; whilst the Treasury has cut back spend on agricultural research and development. Even Reading University has had to close off some agricultural degree courses.

As an illustration of what can be achieved to meet the sustainability challenge, **Richard Evans, President of PepsiCo UK & Ireland**, described the new systems, attitudes and behaviours

embedded across the company – the number three drinks company in the world, employing 5,500 people in the UK – that have already generated real efficiencies. Progress is monitored through board level quarterly environmental reviews, driven by concern for the bottom line, and Evans gave examples of new initiatives through which they have reduced wastage, doubled their use of renewables and reduced their energy consumption by 13%. They would like to do more, but would welcome incentives from the Government.

Evans was followed by **Dr Ray Elliott, from Syngenta**, who went into more detail about technologies that could help resolve the food conundrum outlined by Christine Williams. Some of the areas they are looking at include mechanisation, a greater use of synthetic fertilisers, CO2 conversion and genetic modification (GM). In nearly all of these cases, the biggest barriers they faced to progress and action were not technological but societal, in terms of negative public attitudes, for instance: opposition to GM; growing interest in organic (without weed-killers, farming productivity falls by 40%); and our passion for meat (it takes 7 kg of grain to produce 1 kg of beef).

Speakers and guests engaged in a lively and wide-ranging discussion, concluding that:

- the debate is fundamentally emotional – but that is unlikely to change;
- the green charities may have held the intellectual and moral high ground in the 70s and 80s – but they now seem to have lost their way;
- if Government doesn't feel the political pressure now, it certainly will do when there are food shortages;
- this is really an issue about skills amongst the farming community;
- food labelling laws are inconsistent and ineffective (why do you get information on a pack of crisps but not an Indian takeaway?)

Dr Anthony Hesketh from The Centre for Performance-led HR, Lancaster University talked about the knee-jerk reaction in many big companies of cutting staff when times were tough, with the invariable result that high performers leave, whilst the poor performers remain. Hesketh followed with fascinating case-studies of the critical difference between volume and value, and the importance of human capital to company profitability.

Winding up formal proceedings on a high note, the **Shell Springboard winners** then made a number of whizzy presentations about their inventions: Luminanz in LED technologies (the only form of lighting to have escaped recent EU legislation); 2D Heat with their new heater element (that could reduce carbon emissions by 500,000 tonnes if installed into the nation's cookers); and Carbon8, who convert CO2 emissions into concrete blocks!

Over dinner, **James Smith, the Chairman of Shell UK**, pondered whether the world would really be capable of rising to the climate change challenge. He thought it came down to four critical factors: Is the technology there? Is the money there? Do we have the time? Is there the leadership?