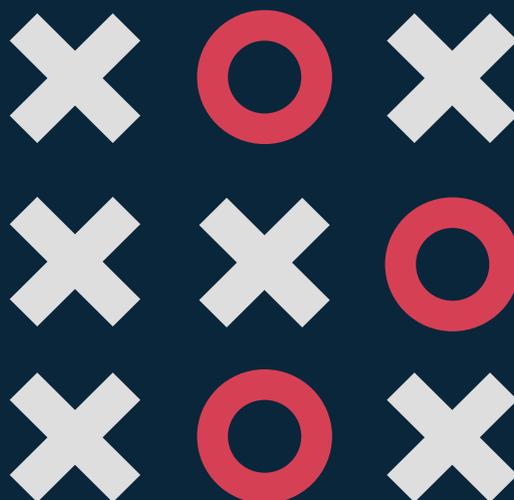


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**REPORT**

# **RESPONSIBLE MANAGEMENT IN A VUCA WORLD**

Madrid, July 3rd 2019

Before 2015, managing corporate responsibility could feel like driving through an infinite desert, never knowing when you would run out of gas, with no station in sight. However, the United Nations' [Sustainable Development Goals](#) (SDGs) have improved circumstances considerably.

## “Its policies have become increasingly demanding, with energy, climate, gender and inequality issues taking centerstage”

But what changed, exactly? Why weren't these effects seen with the Millennium Development Goals (MDGs)? At the time, many companies undertook awareness initiatives, such as the “[2015, A Better World for Joana](#)” campaign. However, companies did not fully commit to the MDGs, so they failed to generate meaningful changes in business strategy. Some analysts believe this low impact was primarily a result of the MDGs' lack of ambition and clarity. In short, they were too nonspecific.

In 2015, a much more ambitious and concrete message was sent, reaching companies, individuals, organizations and governments across all facets of society. All received a clear message: we were to work toward 17 major goals, each with specific means to achieve them.

Mandated by the Spanish Securities Market Commission [Code of Good Governance](#) and notably including responsible business management as a non-delegable function of the Board of Directors, corporate responsibility became a full-fledged aspect of corporate existence.

Supported by the SDGs and new Good Governance Rules, that desert road has begun to look less bleak. In fact, this era of hyper-transparency—marked by social networks, higher

public awareness and regulatory pressure around issues such as climate change—has turned that dusty road into a racetrack.

Be prepared for tight turns and efficient pit-stops. The road to a good reputation is unsteady, and sustainability is indispensable for dealing with setbacks, fluctuations and unexpected threats. It's imperative we know the track, use the right gears and stay smart about our speed.

So, how do we prepare for our race?

## REGULATIONS AND POLITICAL CHANGES

Despite the European Union's efforts to promote regulation and create social pressure for economic sustainability, its actions have been marred with inefficient national management, unreliable evaluation and follow-up systems and, above all, a lack of comprehension and real commitment. However, its policies have become increasingly demanding, with energy, climate, gender and inequality issues taking centerstage.

In Spain, sustainability may not headline debates, but all its political parties are working, to greater or lesser degrees, to capture the public on these issues. For example, after informing the King of his intention to form a government, acting President Pedro Sanchez declared “ecological transition, mitigation and adaptation to climate change” to be his top policy priority.

Sustainability can have a policy presence without being surrounded by polarizing debate. However, political parties have not yet been able to develop a thorough, sophisticated sustainability strategy free of political bias, one ready to be brought to the state level to create broad, sweeping changes.

The [2030 Agenda](#), as well as the Spanish High Commissioner's work, have already had an impact. The main difference between political parties lies in the depth and breadth of their exploration into the topic. NGOs want results that will allow them to evaluate parties' levels of commitment, which remain far from outstanding.



Having the right idea is constructive, but in the hands of an unstable government that must prioritize avoiding disagreements, the execution of much-needed strategies tends to stagnate. Consequently, many urgent measures are implemented by municipal and regional governments, often in a sensationalist manner due to their relative agility with respect to sociopolitical activism—not to mention their less polarizing position in national politics.

Although countries with different regulations are slowly making progress toward the 2030 Agenda, the engine of the industry is not legislation, but conscientious consumers. The market provides a virtual map, and industry must do its best to follow it, adapting to customer opinions. And innovation is the fuel for that particular engine.

## TRANSPARENCY

As outlined in the article “[Corporate Empathy: A New Approach to Reputation Management](#),”

reputation is based on a simple principle: if you exceed consumer expectations, then you will have a good reputation.

To understand what is expected of you, you must first observe recent trends. It is abundantly clear that the primary cause of cracks in the industry’s foundation is loss of confidence. Many sociological studies confirm that society is going through a crisis of institutional distrust, including toward governments, media, NGOs and, of course, companies. Simply put, the current economic and social systems are targets of popular criticism and distrust, with business leaders more affected by this than most.

Many of these issues are only exacerbated by the newfound prevalence of fake news, which can become headlines and, according to MIT researchers, spread 7 times faster than accurate news. In a recent study, law firm Garrigues warned of the correlation between the spread of fake news and company reputations, asserting that there is a “clear link between misinformation campaigns and economic effects on companies.”

As a result, transparency ceases to be a luxury, instead becoming an absolute imperative for maintaining your reputation. The leaders in this race must exude maturity, security and coherence in the handling of their data, financial or otherwise.

## COMPETITION AND NEW BUSINESS AND CONSUMPTION MODEL

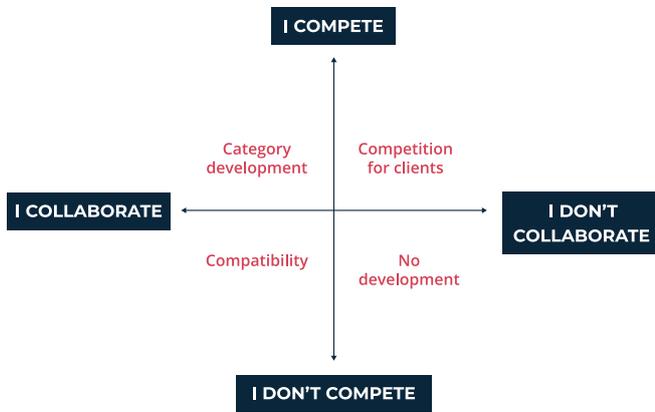
There have been very recent examples of changes in consumption patterns brought about by new technological advances.

As seen in Fernando de la Rosa’s competition and collaboration matrix, there are four possible scenarios, but only one serves to promote and expand the field through creating of new market opportunities. In order to create these conditions, we need a comprehensive vision based on active listening, constructive dialogue and innovation.

So, how do you make it to first place?

Market realities are be quick-changing, and the path ahead of us may be perilous, but we are

Figure 1.  
COMPETITION AND COLLABORATION MATRIX



no longer alone. What's more, we're now free to choose our vehicles and speed our pace. And we must, for the competition is moving fast. There are many factors that go into choosing the ideal tool, but above all, you must understand today's demands so you can take suitable action for the current terrain. What impacts our stakeholders, and why?

**1. Climate Emergency:** Despite the many mitigation and adaptation measures, there are those who believe the effects of climate change to be inevitable. Climate change, or what experts think should be called a "climate emergency," is undeniable, and its consequences are showing themselves.

As indicated in the [IPPC's special report on the impact of a 1.5°C climate increase](#), "compliance with the current mitigation commitments under the [Paris Agreement](#) is not enough to limit global warming to 1.5°C, even if it is supplemented by ambitious and large-scale measures after 2030." The [IPPC](#) also adds that, "considering the Paris Agreement's Nationally Determined Contributions (NDCs), 2100 will see an increase of around 3°C over pre-industrial level, since emissions in 2030 are expected to be approximately 52-58 eq/year of CO<sub>2</sub>--double the emission rates compatible with a 1.5°C increase." The only response to this imminent reality must be the efficient development of new industrial models to reduce environmental impact and resource consumption.

Business innovations take place faster than legislative change, and if we follow the collaboration/competition matrix, they also drive market growth. This is accomplished by developing the field, sharing knowledge and offering solutions to public policy challenges, especially through concrete objectives much more ambitious than those proposed by the UN.

One ambitious strategy is the Smart Cities plan for reducing emissions. There are large companies accelerating their technological solutions aimed at local public administrations, offering savings of up to 80 percent in public lighting costs through the use of LED technology, as well as more than 30 percent in energy costs through the use of photovoltaic solar energy.

In Spain, the Working Group on Climate Change Adaptation (GTAdapta) is working toward these objectives, promoted by the Spanish National Congress on the Environment 18 (CONAMA 18). Its goals include the establishment of general guidelines (for use as a roadmap for future strategic plans), the mobilization of various stakeholders and of course, thorough and accurate training and education regarding climate change and its effects.

**2. Ecosystem Sustainability:** Every time we refuel our vehicle or have a coffee, we are using natural resources. Socioeconomic systems are inextricably linked to our ecosystem. So-called "ecosystem services" consist not only of food and raw material provision, but also of services surrounding cultural and hereditary assets, including historic landscapes. These services are grouped into supply, regulatory, cultural and support services.

The stability of ecosystem services and the effort we dedicate to their growth and development directly impact socioeconomic stability and increase the likelihood that society will remain as we know it today.

Day by day, we are becoming more aware of how our activity affects these systems, but we're still far from fully understanding and



respecting the limits of our ecosystems. In Spain, it takes only 5 months to exhaust the same amount of natural resources it takes its ecosystems an entire year to replenish. According to a WWF and Global Footprint Network report titled “[Living Beyond the Limits of Nature in Europe](#),” in 2019 the continent entered “ecological debt” 15 days earlier than it did the year prior.

**3. Employment Stability and Labor**

**Market Exclusion:** The climate and natural environment are important points to emphasize, but we must also remember people. The labor market is changing at a breakneck pace due to deep-seated fears that the fourth industrial revolution—and subsequent increase in automation and robotization—will mean a significant job loss.

In Spain, for example, an [OECD report on the future of work](#) found that 21.7 percent of Spanish workers have jobs that will likely be replaced with automation, and 30.2 percent have jobs very likely to be lost to restructuring. These statistics both surpass the [OECD](#) average. Despite this, experts believe these alarmist fears will not come to pass.

“Many are concerned that the labor market is heading towards a dystopian future of mass unemployment, precarious jobs, workers with little or no bargaining power and large training gaps as the population ages,” states the report. “...But appropriate policies and institutions, opportunities offered by

digitization and globalization and longer life expectancies can mitigate the risks.”

In order to mitigate these risks and avoid labor market exclusion, it’s imperative we reduce inequality by investing in professional training for all groups. This is another area in which Spain has a more difficult path than its neighbors.

**“Business innovations take place faster than legislative change”**

Now that we understand the track and have thoroughly prepared, let’s review the three main buttons we need to get moving: Leadership, Alliance and Responsibility (LAR).

Company-consumer relations are rapidly changing, especially following the implementation of the SDGs, which have required companies to become involved in—or even lead—the search for solutions to major social and environmental challenges. Companies can create new, socially responsible products or innovations to show they have the resources, knowledge, performance and capacity for innovation to lead the search for solutions. To maintain this, it’s essential we continue pressing toward sustainability.

## “It’s imperative we reduce inequality by investing in professional training for all groups”

It is clear that companies must lead the way. However, in our complex and hyper-transparent society, the leadership models are shifting. In the first industrial revolution, companies responded to societal challenges with philanthropic and paternalistic measures, but now they must work to win back public confidence by evolving their leadership style into one of transformation and collaboration, one oriented toward talent creation across all areas.

And now the second button comes into play. Our vehicle is quickly accruing companions. These alliances may help break through the barrier of mistrust between companies and society, or even

between fellow companies, which may have been competitors until only recently.

This collaborative work is a fundamental element of addressing the market’s growing complexity. Alliances facilitate discussion around supplementary activities and resource allocation, allowing for improvements in efficiency or reach into new spaces or groups, lending them legitimacy. In short, heed the words of this African proverb: “if you want to go fast, walk alone; if you want to go far, bring friends.”

Finally, responsibility must be the frame that holds our entire vehicle together. The concept of “responsibility” has evolved away from expressions of guilt toward a holistic practice of maintaining balance between who we are and how we impact our environment.

For our race to be successful, its participants must be companies and people seeking to transform and evolve for the maximum benefit not only of themselves, but of their fellow racers and of those who will use the track in the future.

*This article was written in collaboration with Alba Herrero, Leadership and Corporate Positioning Consultant at LLYC Madrid.*

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