

PART THREE

# TIME FOR A MINDSET SHIFT

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# PROFOUND SYSTEMS TRANSFORMATION WILL NOT BE BROUGHT ABOUT BY STICKING TO OUR EXISTING IDEAS AND PRIORITIES.

A number of our current mindsets stand in the way of the transformations that are required to realize a world in which 9+ billion people can live well, within planetary boundaries. Over the next decade we need to unlock change in a way – and at a rate – that has so far eluded us.

It is not enough to know what needs to be done. We need to accept that radical shifts in all parts of society will be required, including business.

Critically, the required transformations will depend on three shifts in strategic business mindsets: reinventing capitalism to reward true value creation, not value extraction; building long-term resilience; and taking a regenerative approach to business sustainability.

Business mindsets in these three areas will guide the way in which decisions are made over the next decade – they are foundational to the transitions and actions required across our Vision 2050 transformation pathways. Ultimately, these mindsets are critical to long-term business success.

## MINDSET SHIFT // 01

# REINVENTION

Reinvention means recognizing that our current system of capitalism is producing outcomes that are unsustainable. Generating long-term returns requires a transformed model of capitalism that rewards true value creation, rather than value extraction.

## MINDSET SHIFT // 02

# RESILIENCE

Resilience means enhancing business' capacity to anticipate, embrace, and adapt to changes and disruptions in order to safeguard its long-term success.

## MINDSET SHIFT // 03

# REGENERATION

Regeneration means moving beyond a "doing no harm" mindset to one in which we build the capacity of our social and environmental systems to heal and thrive.

## MINDSET SHIFT // 01

# REINVENTION

Reinvention means recognizing that our current system of capitalism is producing outcomes that are unsustainable. Generating long-term returns requires a transformed model of capitalism that rewards true value creation, rather than value extraction.

**Reinvention involves a fundamental shift in the purpose of business and the global economy as a whole – from the pursuit of financial profits for their own sake, to the pursuit of true value.**

### WHY THE REINVENTION OF CAPITALISM IS NECESSARY

Capitalism is the main operating system for today's global economy. Most production is guided and most income is distributed through markets on a for-profit basis. This is true across all major economies, albeit with significant differences between countries in terms of culture, regulation and degree of state involvement.

Capitalism's combination of for-profit enterprise and competitive markets has contributed to innovation, wealth creation and rising living standards. However, it is also generating outcomes that are unsustainable – socially, environmentally and economically. At the same time, its innovative power and tremendous reach are essential if we are to tackle our toughest challenges.

The core problem is that capitalism as we know it today does not distinguish between value creation and value extraction. By privileging returns on financial capital over the preservation (let alone accumulation) of other forms of capital, our current version of capitalism has dangerously depleted the natural, social and human capital that underpins economic value creation. In addition, risks are socialized while rewards are privatized, and decades of market concentration is threatening competition, a critical and core feature of capitalism.

We see failures at three levels – the way we think about and measure economic and business performance; market structures and dynamics that favor financial value extraction; and weak institutions that are not able to regulate markets

effectively enough to ensure they function efficiently, fairly and sustainably. Together, these failures lead to negative societal outcomes and stand in the way of companies' ability to fully pursue the transformations that are required to bring about Vision 2050.

Ten years ago, Vision 2050 included an "Economy" pathway that made it clear that a radical shift in the way companies do business was required if the overall vision was to be achieved. It advocated that we move toward economies that reward true value creation, not value extraction. We still stand by this vision. Capitalism needs to be reinvented to reward value creation that internalizes all social and environmental costs and benefits. This needs to be reflected in the relative price of goods and services, and in companies' P&L statements, costs of capital and market valuations.

Today, asking questions about the kind of capitalism we need has gone from niche to mainstream. Society is increasingly aware of the negative outcomes our operating system creates; COVID-19 has underscored problems with the status quo and further propelled the capitalism debate into the mainstream. Even avowed capitalists are among those now calling for a fundamental reset. Not simply because the status quo is unsustainable, but because the ideological backlash being triggered threatens to make things worse. Klaus Schwab of the World Economic Forum has warned that, without meaningful change to the way capitalism works and the outcomes it generates, "the ideological pendulum – already in motion – could swing back toward full-scale protectionism and other lose-lose economic strategies".<sup>42</sup>

Reinventing capitalism is, therefore, not simply a social and environmental agenda: it is about creating the conditions for long-term business success. A liveable planet, cohesive societies, free and fair markets overseen by robust, inclusive institutions – these things are essential for any business to thrive in the long run. Ensuring that markets reward behaviors that strengthen the environmental and social systems underpinning economic prosperity is squarely in the private sector's best interest.

A reinvented capitalism that generates true value will ensure that we see:

- 1 More well-run companies, making better decisions, delivering the necessary product, service and business model innovations that generate true value and contribute to a flourishing society.
- 2 Capital markets that properly value inclusive, sustainable business practices, rewarding the companies with the greatest positive social and environmental impact.
- 3 More capital being mobilized toward businesses, assets and solutions that deliver more sustainable outcomes and create true value for society.

## WHAT DOES A REINVENTION MINDSET LOOK LIKE?

Companies cannot reinvent capitalism on their own. But they can recognize that the system they are part of is undermining the social and environmental systems that underpin economic prosperity and work to ensure markets do not reward further decline. Companies, especially big multinational ones, can play a role in addressing the negative outcomes from our current approach, and corporate mindsets must shift to reflect that fact: they have the ability, the influence and the incentives to push for change. Markets – and the outcomes they deliver – are shaped both by those participating in them, such as businesses and investors, and those overseeing them, such as governments and regulators. For that reason, business can and must both walk the talk through its actions, and advocate for changes to the “rules of the game”.

There have been many high-profile proposals for a reinvented, reimagined or reset capitalism in recent years, and all share characteristics.

## A CAPITALISM THAT REWARDS TRUE VALUE CREATION WILL BE CHARACTERIZED BY FIVE FEATURES:

1

### STAKEHOLDER-ORIENTED

Rather than shareholder-value-maximizing.

2

### IMPACT-INTERNALIZING

Rather than impact-externalizing.

3

### LONG-TERM

Rather than short-term.

4

### REGENERATIVE

Rather than degenerative.

5

### ACCOUNTABLE

Rather than unaccountable.

### UNDERSTANDING TRUE VALUE

True value, a concept developed in the original Vision 2050, is where social and environmental costs and benefits are internalized and reflected in the relative price of goods and services, and in companies' P&L statements, costs of capital and market valuations.

Together, these features will shift the purpose of business so that it generates long-term true value for all: employees, customers, suppliers, communities, the natural environment and, of course, shareholders.

Capitalism has been reinvented before – generally in response to periods of profound crisis, as happened following the Great Depression and World War Two, and again following the “stagflation” era of the 1970s. It is likely that we are living through another period in which a series of rolling shocks to the system – resulting from rapid technological change, mounting inequality, and the intensifying impacts of ecological overshoot, compounded by trade wars and a potential COVID-19 Domino Effect<sup>43</sup> – are creating conditions conducive to reinvention.

Our challenge now is to move from talk to action – from tinkering to transformation – and that will depend on a mindset of reinvention. It is vital that business leaders, investors, regulators, governments and civil society actors work together to address the root causes of contemporary capitalism's negative outcomes and reinvent it to deliver true value to society.

We explore this mindset shift in more detail in our Vision 2050 issue brief [Reinventing capitalism: a transformation agenda](#). The issue brief includes specific guidance on the actions that business, and the CFO community in particular, can drive, alongside aligned asks for policymakers.

## MINDSET SHIFT // 02

## RESILIENCE

Resilience means enhancing business' capacity to anticipate, embrace, and adapt to changes and disruptions in order to safeguard its long-term success.

**Resilience is not about having strong defenses and being resistant to change. It is about anticipating, embracing and adapting to changes and disruptions. Companies must shift their mindsets to recognize that they are only as resilient as the systems they are a part of.**

**WHY LONG-TERM RESILIENCE IS NECESSARY**

Resilience is increasingly being adopted in management and sustainability thinking, but, as a relatively new concept for business, a common definition or approach is yet to be agreed. COVID-19's arrival revealed a wide range of systemic vulnerabilities (economic, social and environmental): it has demonstrated how major disruptions can snowball through interconnected systems. Around the world, we realized that our societies were nowhere near as resilient as we believed, let alone as they needed to be.

We have stripped much of the slack out of our systems. The post-1970s period of globalization saw companies become ever more devoted to efficiency, and guided by "just-in-time" thinking. Over a similar period, fiscally-stretched governments have had to cut operating budgets and defer investment in public goods such as infrastructure, health and education. In addition, our societies push further and further into the natural world, and the demands we place on the natural resources we rely on have increased fourfold, with global material use exceeding 100 billion tonnes in 2020.<sup>44</sup>

Slack, it turns out, is necessary insurance and essential to our ability to react to disruptions, let alone adapt to them. And with political, cultural, environmental and economic volatility all set to remain high over the next 10 years, it is safe to assume that there are more shocks and disruptions in store. Resilience is something we are going to need more of, especially if we are to support the scale of systems transformation that Vision 2050 requires.

An expanded understanding of resilience sits at the core of long-term success. Companies are only as resilient as the ecosystems, communities, economies and societies they operate in. True resilience is not about withstanding change: it is about embracing it. It is not only about access to raw materials and operational efficiency, but also recognizing and protecting the enormous investments and value found in skilled and healthy workforces and vibrant communities. It is about protecting and enhancing vital ecosystems, and ensuring that strong institutions, transparent rule of law, and healthy national and local budgets can support the resilience of the system overall. True resilience prioritizes the transformational role of innovation in finding ways to create value in the face of challenges and disruptions.

When businesses recognize that they are part of a wider system, their understanding of resilience shifts from making themselves robust and able to resist change, toward a mindset of adaptation and evolution that is required if they are to continue to exist as employers, as value-generators for shareholders, and as members of communities around the world.

**WHAT DOES A RESILIENCE MINDSET LOOK LIKE?**

Resilience is what will provide companies with both the impetus and confidence to drive the kinds of transformations that Vision 2050 demands. WBCSD has defined resilience as a business's ability to anticipate and prepare for change, then adapt to circumstances in the manner that provides the greatest chance of thriving over the long term. It is dynamic and consciously transformational.



# RESILIENT COMPANIES

## EXHIBIT **FOUR KEY CHARACTERISTICS:**

1

### DIVERSITY

The variety among the components of a system. This characteristic includes redundancy or having slack in a system. It encompasses diversity in a people sense – for example in skills, opinions and backgrounds. Diversity also means having multiple options for achieving certain goals.

2

### MODULARITY

The ability to separate and recombine a business system's components. A major benefit of modularity is that it enables flexibility and a variety of operation and response modes. Both the connectivity and openness of a system are key to achieving modularity. A practical example of modularity is the seamless connectivity and just-in-time qualities that make a supply chain efficient, coupled with enough supply chain diversity or redundancy to ensure that a single interruption or issue does not halt supply altogether.

3

### COHESION

The way in which a resilient system is likely to be founded on social togetherness and trust. Cohesive organizations are inclusive, have strong leadership and a vision of value for the full range of stakeholders, especially the most vulnerable.

4

### ADAPTABILITY

The ability to respond to changing conditions to make a business enduring. Adaptability is rooted in planning for multiple inherently uncertain scenarios, and draws on diversity, modularity and cohesion to change or transform in response to system conditions. It requires feedback loops, triggered when thresholds are breached. It also involves learning from past experiences to adjust approaches going forward.

These four characteristics need to be considered across a range of different corporate functions that are critical to the resilience of the organization as a whole, such as supply chain management, procurement, treasury, corporate governance, risk management, human resources and strategy. Applying a resilience mindset in these areas will enable companies to better anticipate, embrace and adapt to changing conditions, and recognize the role they play in strengthening the resilience of the stakeholders in their value chains and the communities and societies in which they operate.

Every CEO needs to anticipate at least one major shock in their tenure and prepare to lead accordingly. To be truly resilient in the long term, companies will need to put plans in place for inevitable disruptions while also driving and thriving in the process of transformation at the heart of Vision 2050. We have identified a number of ways companies can leverage the key characteristics of resilience to do this. These include:

- Leading with purpose and values, offering employees a clear and inspirational direction during times of profound change, allowing a company to be more agile and decisive.
- Putting people first, from the C-suite to the contractor.
- Engaging stakeholders in strong, mutually dependent and beneficial relationships.
- Re-examining supply chains to strike the right balance between efficiency and resilience and revisiting responsibility for social and environmental impacts.
- Embedding long-term thinking and risk management into strategic planning.
- Accelerating the transition to sustainable business models and systems, since companies that work proactively are most likely to survive the profound changes that are coming – and thrive.

We explore this mindset shift in more detail in our Vision 2050 issue brief: [Building Long-term Business Resilience](#).



## MINDSET SHIFT // 03

# REGENERATION

Regeneration means moving beyond a “doing no harm” mindset to one in which we build the capacity of our social and environmental systems to heal and thrive.

In the face of spiraling social tensions and ecosystem tipping points, we have to stop just trying to sustain the status quo and take on a regenerative mindset.

### WHY IS A REGENERATIVE MINDSET NECESSARY?

Human society is part of – and completely dependent on – the living world around us. Science tells us that we are in a downward spiral, at risk of triggering key ecological tipping points. Yet nature, including humanity, has an in-built capacity to grow, evolve and thrive, which could catalyze a positive wave of regeneration even in the face of very challenging conditions.

Adjusting to the reality of a depleted environment and rising social tensions, many businesses have embraced the need to operate more sustainably. In recent years, these activities have mostly focused on taking action to mitigate negative environmental and social impacts – on doing less harm.

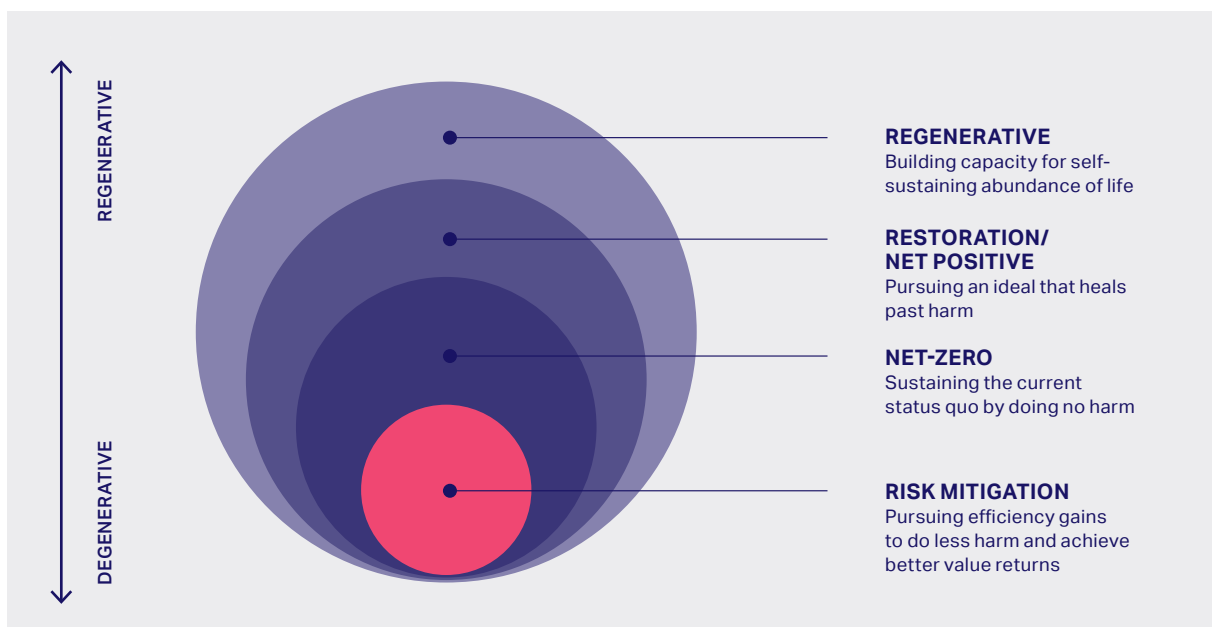
Some action has been ambitious, for instance corporate commitments and science-based targets to achieve net-zero carbon emissions. But unfortunately, even pursuing “net-zero” impact – while critical – is ultimately insufficient. We urgently need to put more back than we take out, in order to repair the harm that has already been done and restore critical global systems that are in decline.

Yet continuous restoration alone cannot be our ultimate goal. Restoring nature and society whilst operating with the same extractive mindset and practices will not create the long-term shift that we need to see toward self-sustaining abundance. To lay the foundations for a truly prosperous world by 2050, in which 9+ billion people are living well, within planetary boundaries, we need to stretch our ambitions and mindset toward creating a positive, self-perpetuating wave of regeneration that builds the capacity for all life to grow, evolve and thrive.

### WHAT DOES A REGENERATIVE MINDSET LOOK LIKE?

Within industrialized economies, our way of looking at the world has been heavily shaped by metaphors of machines and production lines. A regenerative mindset helps us to reconnect to the particular characteristics of being “alive”. Unlike mechanical systems or the products they produce, living beings are each unique, and ecosystems don’t degrade over time or have a maximum capacity – instead, they have the potential to heal, grow, evolve and create new conditions for more prosperity and wealth. They are resilient as they react and adapt to change.

FIG. 11: EVOLVING TOWARD A REGENERATIVE MINDSET



Many of our sustainable innovations in recent years have naturally embraced and enabled these unique attributes to some extent, through industrial ecology, circular economy approaches and a growing recognition of the importance of diversity to business success.

At present, regenerative thinking and practice are advancing most visibly in agriculture. Instead of the more extractive and efficiency-driven mindset that has defined much of modern industrialized agriculture, we are seeing producers adopt practices that inherently rehabilitate and strengthen the health and vitality of ecosystems that crop, livestock and forest production depend on. Regenerative approaches focus on increasing biodiversity, enriching soil health, improving watersheds and capturing carbon. They are also building capacity for equality and prosperity for all individuals along the supply chain – recognizing that human communities are also an integral part of our living world and our agricultural system.

The conversation about regenerative thinking and practice now needs to broaden from agriculture. We urgently need to apply the creative capacity of business to explore how we can operate regeneratively across all systems and sectors. Our transformation pathways include a selection of regenerative actions that business can take. A shift toward more regenerative mindsets across the global business community will help to both implement known actions and identify many more.

Understanding of how to apply regenerative thinking in a business context is still at a relatively early stage.

## HOWEVER, AT THE CORE OF THIS MINDSET ARE **THREE** KEY CONCEPTS:

1

### EMBRACING SPECIFICITY

No two living beings, communities or ecosystems are the same. Taking a regenerative approach involves recognizing that every place in which a business operates (and each of the communities that it is a part of and sells to) is unique, and is accompanied by its own set of opportunities and challenges. It is important for business to take an approach that is context-specific and customized to particular operating environments, rather than a model built on “scaling best practice”.

2

### SUPPORTING THE CAPACITY TO GROW, DEVELOP AND EVOLVE

Although business cannot control the behavior of the communities and ecosystems that it is a part of, it can work to replenish their underlying capacity.

This is about going beyond problem-solving for existing challenges and recognizing the future potential these social and ecological systems have. It is about enabling them to evolve and grow in their unique circumstances, instead of imposing a pre-defined set of interventions. A regenerative mindset is not about trying to restore “back” to a point in history; a self-sustaining system that builds its own abundance will not necessarily look like anything that has come before.

3

### THINKING SYSTEMICALLY

A business cannot be regenerative without understanding the complex web of interconnections that make up the system that it is a part of. The health of every business is intrinsically linked to the health of the system as a whole, and every action has ripple effects that can be felt across each system. It is critical to redefine business purpose beyond inward-facing targets for growth or shareholder returns, and to focus on the contributions that business can make to value chains that work toward the long-term health and prosperity of people and planet.

These concepts are applicable at every level of business operation. From valuing diversity and creating a nurturing environment for employees, to how business perceives its role within a wider ecosystem of organizations, and informing how it can contribute to large-scale efforts to revitalize ecosystems.

Regeneration is a topic that will only increase in importance over the next 10 years. WBCSD will work with its members to ensure that developing a regenerative mindset and business practices becomes standard for forward-thinking companies all around the world.