



Resilience in a Hotter World

by Andrew Winston



Artwork: **Julie Dodd, *Paper Eggs***, 2011, recycled magazine pages, 3" x 2.5" x 2.5"

Wild weather is taking a toll on people and businesses around the globe.

In late 2011 devastating floods struck Thailand, upending supply chains. With suppliers of critical auto parts knocked out, the production of Toyota, Honda, and other carmakers fell by hundreds of thousands of vehicles (and Toyota took an earnings hit of \$1.5 billion). In October 2012, when Hurricane Sandy flooded New York, a Con Edison electric substation exploded, plunging lower Manhattan into nearly four days of darkness. The record-setting 14-foot storm surge cost the utility more than \$500 million—and New York businesses a total of \$6 billion. A year later, Typhoon Haiyan, reportedly the most powerful storm to ever make landfall, ravaged the Philippines, killing more than 6,000 people and causing an estimated \$14 billion in damage.

It's impossible to pin any one weather event on climate change, but the scientific consensus is that as the planet gets hotter, the frequency and severity of destructive weather will only increase. Along with—and

often because of—these weather patterns, we’re seeing increases in the prices of most commodities that business and society rely on. This is a sharp reversal of the trend toward lower prices that occurred during the past century. (See the exhibit “Soaring Commodity Prices.”) Major storms, droughts, and floods are cutting the supply of some renewable commodities, such as crops and clean water. Nonrenewable resources, such as oil and some metals, are also becoming scarcer. The world won’t run out of them immediately, but easily obtained, cheaper stores of them are dwindling. Meanwhile, growing populations and new wealth, particularly in China, are driving up demand for all commodities. This recently happened with cotton. As a consequence, prices for it rose 300% over one two-year period, forcing apparel makers and retailers to choose between passing along the costs to consumers, which would reduce sales, or keeping prices steady and taking a direct hit to margins.

Soaring Commodity Prices

Though companies today face many global-scale challenges—from destabilizing demographic shifts to the threat of financial system collapse—extreme weather caused by climate change and increasing limits on resources are both having an unprecedented impact, threatening corporate profits and global prosperity. These “megachallenges” will require companies to fundamentally rethink their strategies and tactics.

To manage them, all parts of society—government and public institutions, the private sector, and citizens—must act in concert. But business, with its financial and material resources and unique innovativeness and talent, must lead the way.

Pivot Strategy: A New Framework

I’ve spent more than a decade studying and advising many of the world’s largest companies, exploring how they deal with environmental and social pressures. So far, I’ve seen companies pursue mostly incremental improvements in environmental performance with easily justified projects that deliver quick paybacks, such as energy-efficiency initiatives. It’s time to move beyond such table stakes, however. An extreme world calls for extreme change.

Andrew Winston on Why Incremental Goals Won't Cut It

Companies in the vanguard are beginning to make what I call “the big pivot.” This represents a profound change in strategy, operations, and business philosophy that will make organizations more resilient and help them create new value in a hotter, resource-scarce world. As I’ll discuss in detail, pivoting requires companies to take radically different approaches to how they craft their vision, define value, and form partnerships. (See the chart “The Big Pivot Strategies.”)

The Big Pivot Strategies

Companies that embrace pivot strategies will be better able to thrive in the face of extreme, unpredictable “black swan” events, such as rapid shifts in input availability or record storms like Hurricane Sandy and Typhoon Haiyan. The one thing we know for sure is that such events will happen. And as the uncertainty expert Nassim Taleb argues in his book *Antifragile*, the best systems help organizations not only survive the unpredictable but get stronger.