De-confusing Sustainability

Some executives see sustainable development as merely a checklist, others see it as an unpleasant imperative. But still others see opportunity

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For sustainability advocates, the confusion about sustainability among business leaders (see box on page 27) isn't encouraging. The picture was rosier for them in the 1990s, when President Clinton appointed a council to study and publicize sustainability. But in recent years, the U.S. government's focus on it has subsided as terrorism and war have dominated the agenda.

So is sustainability just a passing fad?

No. Quite the contrary. There is plenty of evidence the concept is here to stay. In government circles in Australia, Canada, and Europe, and several other regions, sustainability has been gaining momentum. Attention to it has also been on the rise among leading businesses, academic institutions, and other sectors in the United States and abroad.

More than 70 percent of large companies surveyed by PricewaterhouseCoopers reported that sustainability was important or very important to them, and nearly 9 of 10 respondents believed there would be more emphasis on it in the near future. World leaders like British Prime Minister Tony Blair and UN Secretary General Kofi Annan have promoted it.

Over the past few years, sustainability conferences have been held throughout the world — even in places like Chile, China, Croatia, Iceland, Kenya, Morocco, Palestine, and the United Arab Emirates.

Forty major banks around the world have committed to consider sustainability effects in making major investment decisions. Wangari Maathai, a crusader for poor women and the environment in her native Kenya, acknowledged the importance of the concept in her acceptance of the Nobel Peace Prize in 2004.

It was included in UN resolutions on the recovery and rebuilding of Iraq. The European Commission issued a "green paper" on it in 2001 and chartered an organization to determine how to further it. In recent years there has been a blizzard of discussion and debate among business, activists, and academics about it. Books, articles, and conferences abound on the topic. In 2006, there were over 60 million entries on sustainable development on the Internet, up eight fold from 2003.

First, a little history

But even with all this attention to sustainability, and its antecedent term, sustainable development, much confusion remains about it in business circles. The concept — really a blend of concepts — first emerged at the UN Conference on the Human Environment held in Stockholm in 1972. There, industrialized and developing nations debated which was more important: environmental protection or economic development. The environmental movement was just bursting on the scene, 10 years after Rachel Carson published *Silent Spring*. The same year of the Stockholm meeting, the United States passed five major pieces of environmental legislation. Only a year later, India would witness the Chipko citizen uprising against deforestation. Within this setting, the debates at Stockholm gave birth to the notion that both environmental protection and economic development were inextricably linked. That idea has been refined through extensive discussions in UN circles over the years.

Other events were sparking outcries — Love Canal, Bhopal, Chernobyl — about the need for environmental responsibility, coupled with growing demands for transparent communication from industry and government about environmental risks. In the United States, these headline events inspired a number of laws, including the Emergency Planning and Community Right-to-Know Act.

But environmental issues were not the only concern. A burgeoning number of universities, pension funds, and local governments in Europe and the United States began dropping their investments in companies that refused to recognize human rights and equal opportunity in their operations in racially segregated South Africa. Socially responsible investing had been born.

These issues became the backdrop for the Bruntland Commission, a group appointed by the UN to propose strategies for improving human well-being without threatening the environment. The commission's 1987 report, *Our Common Future,* contained the definition of sustainable development most widely used today: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Five years later, the concept was fleshed out in the Rio Declaration on Environment and Development, the work product of the Earth Summit. The declaration recited the economic and environmental concerns that had been the main focus of sustainability, but added social topics like peace, poverty, and the role of women and indigenous people.

In 1997, Briton John Elkington introduced a definitional term drawn from financial accounting: the triple bottom line, or TBL. By this he meant that to reach sustainability, one must achieve not only economic bottom line performance but environmental and social performance as well. When the Global Reporting Initiative issued its draft Sustainability Reporting Guidelines for organizations in 1999, it, too, assumed sustainability entailed all three TBL elements. The final versions continued that assumption.

In recent years, other developments have refined the dimensions of sustainable development. High-profile incidents involving sweatshops in Asia have given rise to voluntary inspection and certification programs targeted at operations supplying products to transnational companies. Pressures from activists have led to other certification programs on fair trade, lumber, fishing, and agricultural products. Labor and environmental groups have appeared together in front-page photos of demonstrations against global trade policies. Financial scandals at Enron, Tyco, and WorldCom have highlighted the importance of good corporate governance. Organic food and hybrid cars are no longer novelties but big business. Product and packaging take-back laws have extended the responsibility of producers across Europe. Climate


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change is now a threat backed by serious science, and an issue of growing investor concern. Rating groups have exploded on the scene to evaluate company social and environmental performance to satisfy growing legions of socially responsible investors. The Global Reporting Initiative, a coalition of investors, nonprofits, businesses, and other organizations, has helped make sustainability reporting commonplace among major companies. Activist and public interest groups have gained considerable voice and power. With their creative use of coalitions and the Internet, their role continues to expand. All of this has been encircled within the concept of sustainability.

Indeed, trends and events ascribed to sustainability, and the scores of definitions of it, have reflected a common theme about its meaning. In this article, we conceptualize sustainability in terms of two Rs:

> *Resources*: the wise use and management of economic and natural resources; and
>
> *Respect* for people and other living things.

The aim of the 2Rs from an organization's perspective is long-term well-being, both for society as a whole as well as for itself.

Sustainability? Corporate social responsibility? Something else?

Sustainability and sustainable development are terms that cover the 2Rs as it applies to organizations. But there are other terms, too. Corporate social responsibility, organizational social responsibility, social responsibility, corporate responsibility, corporate social investment, corporate citizenship, global corporate citizenship, and sustainable growth are sometimes used to mean the same thing. While sustainability, as we have seen, originated from a concern about the balance between the environment and economics, the terms related to responsibility and citizenship have generally sprung from the tradition of corporate philanthropy. With the advent of the TBL, all those concepts have been drifting together.

Still, there are many who insist that these terms carry different meanings. In one sense, social responsibility is but one of the three parts of the TBL that covers community and employee issues and the like. But the term is often used in a broader sense. Some relegate sustainable development or sustainability to the larger societal focus of the TBL and 2Rs, and consider social responsibility to cover the company perspective on the same topics. For example, the draft Guidance on Social Responsibility of the International Organization for Standardization (ISO 26000) defines social responsibility to be

> the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that (1) is consistent with sustainable development and the welfare of society; (2) takes into account the expectations of stakeholders; (3) is in compliance with applicable law and consistent with international norms of behavior; and (4) is integrated throughout the organization.

Think also of socially responsible investing, which has come to mean investing in companies taking into account not only their financial performance but performance on environmental, social (in the narrow sense), and governance matters as well.

Corporate social responsibility, or CSR, is a term especially popular in Europe. It is occasionally used in a way that excludes environmental responsibility, although the more popular usage includes it. Indeed, documents labeled "CSR reports" often cover the same TBL scope as those called "sustainability reports." Some other variations of CSR exclude economic responsibility, however. For instance, the European Commission Green Paper defines it as "a concept whereby companies integrate social and environmental concerns in their business operation and in their interaction with their stakeholders."

The term corporate responsibility is usually thought to be synonymous with social responsibility in either its broad or narrow sense, or with business ethics. To some people, corporate citizenship suggests an emphasis on activities within local communities weighted more toward social concerns than environmental ones. However, the most commonly cited difference between sustainability and the responsibility and citizenship terms is that the latter concepts sometimes exclude a company's financial viability — its need to economically prosper as a business.

Companies like DuPont that use the term sustainable growth intend it to mean corporate sustainability as defined by the TBL, adding the word growth to make clear sustainability is not about stagnation. However to others, the word growth is to be avoided because it suggests the need to increase size or consumption, irrespective of other ways of adding value through sustainability. Some even think these words mean simply perpetual growth with no social or environmental emphasis at all. Businesses may also find more descriptive terms, like "a better company, a better world," "long-term well being," or "people, planet and profits" to be useful in certain communications.

Admittedly, the raft of terms can be quite confusing, especially since these fine distinctions are sometimes followed, sometimes not. Regardless of the words used, however, sustainability and sustainable development should be explained to a firm's employees because of the historical significance and since workers are bound to encounter these terms outside their organization. For our purposes, sustainability or sustainable development are the most appropriate terms given their breadth, origin, and consistent inclusion of a company's financial success. And, of course, financial success is an indispensable element of a company sustainability initiative because without it, the organization cannot contribute to the well being of its community or employees — or do anything else for that matter. Moreover, the terms sustainable development and sustainability have become increasingly important in communications with government and industry leaders over the past decade.

T e executive view: " T at sounds nice, but . . . "

From what has been said, sustainability sounds like a warm and comforting concept. The reality is, though, few executives understand the hard-nosed business ramifications. Granted, a 2002–03 survey of over 500 U.S. business executives found 80 percent agreeing that good corporate citizenship helps the financial bottom line and that it needs to be given a priority. But while most executives have their hearts in the right place, their actions speak louder than their words. Less than one third of those surveyed said they were increasing resources in that area and 14 percent were cutting them. Nearly one half of the respondents declared the lack of resources to be a barrier to corporate citizenship within their companies. Even among corporations noted for sustainability — members of the World Business Council for Sustainable Development — nearly one third claimed their management doesn't have much faith in the business case for sustainability and doesn't actively support the concept internally. Examining their actions, it is apparent that many executives don't fully appreciate what a pursuit of sustainability can mean to business success and society; still fewer know how to approach it in a systematic way that realizes its maximum business value.

Business people often see sustainability programs as outside the circle of things essential for success. These programs may be looked upon as the CEO's hobby — something to be tolerated but not taken seriously. They may be considered discretionary measures for image-polishing when times are flush, but something to be quickly jettisoned when financial results slip. Occasionally some enlightened company sets its course toward sustainability, but commonly this is understood and pushed by only a few executive champions; the rest are simply riding along. Even the enlightened few may struggle with how to address so broad a concept within their organizations, a concept that doesn't fit neatly into any one function or department.

On the other hand, sustainability may be taken very seriously at a few companies, especially those beaten down by the press over a dispute with activists. Frequent poundings from the media about a company's toxic emissions, unhealthy products, or unsound forestry practices — or front-page stories on its sweatshop labor, exploitative hiring policies, or overly zealous security measures — can bring the importance of sustainability to a business's front door. Executives across the organization can see first hand how sustainability issues can affect business risk, reputation, sales, and efficiency. Still, these managers may remain oblivious to the other business benefits a broader strategy on sustainability could provide. "Old school" companies under the same public relations heat may dismiss altogether any form of sustainability strategy and instead plead "victim!" and pull up the drawbridge to wait out the siege. To them, making money is job number one, happy customers and low costs are the keys to this, and these companies see no meaningful way sustainability can help achieve those ends. To them, the idea is, at best, garnish. Clearly,

Sustainability: T e Typical Executive's View

"Sustainability is nice to do if you can afford it, but we are running a lean organization here and don't have the time or money for such things."

"Sustainability is about good citizenship and good public relations. We have always tried to be a good corporate citizen. There's really nothing more we need to do."

"Sustainability seems to encompass everything under the sun. It's just more tree-hugger mumbo jumbo."

"We're in a U.S. service business. Sustainability is not for us. It's for those big international manufacturers."

"The business of business is business, not sustainability."

"What is sustainability?"

many people have a long way to go in grasping the value of this illusive concept to their organizations. They don't see that ignoring key sustainability trends and issues can impede a company's ability to compete. They don't understand that addressing these trends and issues systematically can open new business opportunities and protect the organization from the risk, reputational challenges, and inefficiencies that destroy shareholder value.

"If pursuing sustainability is all that important," say some business leaders, "why is it that many companies not noted for their drive toward sustainability can be so prosperous?" ExxonMobil and Altria (formerly Philip-Morris) are among the most successful corporations in the history of capitalism, yet none has a long track record as public stars of sustainability. Does this mean a business can have no formal approach toward sustainability — no "sustainability operating system" — and still build a successful organization? The answer is yes; for details on putting together a business SOS see the box on the next page. An SOS does not guarantee business success, but like other sound business aids, it can surely improve an organization's chances for achieving it. An SOS is a tool, an attitude, a philosophy, that can lead to new insights and solutions to business challenges while helping address some of the world's most worrisome problems.

Nobody's perfect

Another point: sustainability within business is not a black-and-white thing. It's not that a company either has or doesn't have initiatives driving toward sustainability. Whether they know it or not, almost all companies have some activities that further the cause of sustainability. Those that have sustained their own financial success and provided long-term employment for many have at least part of the sustainability formula right. Unfortunately, companies that suffer adverse press because of some misstep concerning their environmental or social performance may find that bad news overshadowing anything positive they do. While the public lambastes ExxonMobil for its stand on climate change and for alleged human rights abuses by the Indonesian military it hired to secure a project, few acknowledge the company has a world-class safety program. Nor do they recognize ExxonMobil's pipeline project in Chad and Cameroon, which has shown how large development projects of transnational corporations can be structured to guarantee ongoing benefits to local citizens. Altria's extensive charitable giving is forgotten when the safety of its products is debated. Shakespeare was right: "The evil that men do lives beyond them; the good is oft interred with their bones." Even so, the good that these companies have done and continue to do has helped them sustain operations through community and employee support, improved efficiencies, and in other ways.

Other companies like Shell, BP, Hewlett-Packard, Statoil (a Norway-based oil and gas producer), and Baxter lie on the opposite end of the spectrum. For years they enjoyed a solid public image in many circles when it came to sustainability. Certainly each has had many commendable accomplishments. Yet they are not perfect either. Within the past few years, all five companies suffered setbacks in credibility with investors — Shell for overstating oil reserves, Statoil for ethical improprieties in Iran, BP for Alaskan Pipeline leaks and fatal refinery explosions, Baxter and HP for failing to meet sales and earnings projections. Added to Shell's woes were well-publicized "alternative Shell reports" by Friends of the Earth criticizing the company for what it claimed were shortcomings in fulfilling its sustainability commitment in the field. Said Shell's new CEO, Jeroen van der Veer: "Recent events have only reinforced the importance of embedding sustainable development consistently in our systems, processes and behavior." He added: "People who accuse us of getting distracted by sustainable development miss the mark. Indeed, I am heartened to see growing awareness in the financial community that companies — especially energy companies — ignore sustainable development concerns at their peril." Fortunately all five companies are strong. Now under new leadership, all seem on the mend, and should continue to see positive results from their attention to sustainability. Firms such as BT (formerly British Telecom), Dow, and Procter & Gamble that have pursued sustainability aggressively and openly have their own challenges. Still, their focus on sustainability is proving advantageous as well. But even the best of them have not reaped all the benefits that a fully deployed SOS can offer.

Views on sustainability reporting

Often executives gain their understanding of sustainability by skimming through sustainability reports of their own company or those of a competitor or other respected peer. They become interested in these reports primarily to keep up with the herd. Some also may be influenced by the attention given these reports by a growing number of journalists, NGOs, and rating companies. Unfortunately, too many business leaders think sustainability is merely about reporting — getting the right message in the right form to the right people who will pass judgment. But given their vague understanding of sustainability, their sensitivity to criticism, and their tight control on resources, business executives often find sustainability reporting perplexing if not daunting.

Those who consider such reporting are often dissuaded by the extensive, polished reports issued by companies they consider big, liberal, elite corporations. Both the cost of publication and the effort needed for data collection seem way out of reach. A quick review of reporting guidelines issued by the Global Reporting Initiative doesn't help. Company representatives often skim over the part about materiality and mistakenly think most of the listed data must be reported to make a decent showing among peers and critics. Prospective reporters can be overwhelmed by the amount and complexity of the data they think they must gather. And the thought that some other companies may actually be reporting all this — as evidenced by their tomes — just exacerbates the frustration. In the end, some conclude they will never be able to compete and cease trying.

Companies that feel they can master the publication cost and effort still may be reluctant to report for other reasons. They may believe that transparent reporting — openly discussing problems — in shark-infested waters, with the press and activists circling hungrily, is simply a bad idea. Yet they are sophisticated enough to know that assorted good stories or greenwash may be greeted with even less favor. They see transparency as a risk but fail to comprehend that the lack of transparency is an even bigger risk — spawning distrust and inhibiting constructive change.

Many of the organizations that do report have problems too. They struggle with what to report and what to leave out. They question how much to include in the report, how to balance Internet data with hard copy reports, how often to report, and to whom. Some go too far, producing weighty documents that few read. Exhausted by the effort, they vow never again to attempt reporting. Yet others seem to find a comfortable balance between the effort and value of reporting, viewing it as a vehicle to drive both reputation and performance. Finding that balance is key.

Reason for optimism

While few business executives understand the full business value of sustainability reporting or of sustainability itself, more and more are getting the message. Wal-Mart, for years the retailing giant that activists loved to hate, has more recently taken on a wide range of sustainability commitments and actions, including improvements in the energy efficiency of its fleet vehicle and facilities, reductions in solid waste and packaging, and the introduction of sustainability-certified coffee, fish, and other products. In total the company plans to invest $500 million in sustainability projects. It has also announced initiatives to address the healthcare benefits of its employees and close the gender gap in pay and promotion. While this transformation in attitude may have been prompted at least in part by the McKinsey & Co. study the company funded showing it had lost 8 percent of its shoppers because of its reputation, Wal-Mart executives have come to realize this approach presents real opportunities to improve public and employee relations, increase sales, cut waste, and otherwise make the company more competitive.

Said Jeff Immelt, who heads the $150 billion GE, another company which, until recently, was not formerly known for leadership on sustainability: "The world's changed. Businesses today aren't admired. Size is not respected. There's a bigger gulf today between the haves and the have-nots than ever before. It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do. It's a business imperative." •

SOS: T e Sustainability Operating System for Organizations

A Sustainability Operating System, or SOS, is a process of proactive, holistic organizational management for purposes of achieving sustainability for both the organization and society.

T e Sustainability Handbook: T e Complete Management Guide to Achieving Social, Economic, and Environmental Responsibility explains the SOS in detail. Its critical elements can be captured under the following four categories:

1. The Drivers. These elements continually propel the organization's efforts toward sustainability. They include (a) a champion/leader; (b) an approach for selling management on sustainability; and (c) accountability mechanisms.

2. The Efficient Enablers. These elements help ensure that people and groups within the organization are properly equipped to undertake coordinated action toward sustainability in an efficient and effective way. These elements are (a) organizational structure and (b) deployment and integration.

3. The Pathway. Pathway elements chart the course toward sustainability. They include: (a) vision, values, and policy; (b) operating system standards; and (c) strategic planning.

4. The Evaluators. These elements help us periodically judge the sustainability performance of an organization so it may adjust its efforts for optimal results. These elements entail (a) indicators and goals; (b) measuring and reporting progress; and (c) stakeholder engagement and feedback.