ORGANIZATIONAL SUSTAINABILITY: WHAT IS IT, AND WHY DOES IT MATTER?

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Abstract

This working paper is the first of two articles which aim to explore the issue of organizational sustainability, and to seek to understand the relationship between the Human Resource Management function and sustainability. This first paper will explore definitions of organizational sustainability, review how it relates to concepts such as Corporate Social Responsibility, and seek to identify why this concept has come to such prominence. A following paper will seek to analyse the role of Human Resource Management in contributing to the sustainability agenda in organisations.

It is clear that the context in which organizations exist has changed. Trends such as climate change, globalization, demographic change and social inequality have created a significant challenge to the traditional business model with its focus on shareholder value. The “credit crunch” and corporate scandals have led to a loss of trust in business, and companies are facing pressures from governments, consumers, employees and investors to demonstrate that they are adopting ethical and sustainable business practices.

Colbert and Kurucz (2007) note that for many years business owners, academics and activists have debated the role of business in society, with those calling for social justice pitted against those arguing for unfettered managerial capitalism.

Porter and Kramer (2011) state that “The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental and economic problems. Companies are widely perceived to be prospering at the expense of the broader community”.

However, as Porter and Kramer (2006) point out in an earlier report, organizations may find themselves caught between the demand for a new, more “ethical” approach to business, and the continued desire of investors for maximum short-term profits.

This paper will review the literature in order to seek to identify whether the Involvement and Participation Association (2011) is right in claiming that “we are entering the age of sustainability”.

Methodology

In order to carry out the research for this article, database searches were conducted focussing on business-related databases. The search period was from March 2012 to May 2013. The UCS Library search system ‘Summons’ was used, but most of the relevant resources were available through databases such as Proquest Business and Emerald management e-journals.
A total of over 200 hits were returned. However, many of these focussed on environmental rather than business aspects of sustainability. Approximately 40 articles were found to be directly relevant, and these included review articles and case studies. Nearly all of the relevant articles were available as full text versions, and the references listed within each article were reviewed to find additional articles.

Search terms included both “business sustainability” and “organizational sustainability”. The latter was included in order to include articles on sustainability in the public sector, but the results were in fact limited in this area. A further search term used was “sustainability and corporate social responsibility”. This was specifically used in order to develop the analysis of the differences between, and relationship between, sustainability and CSR.

With the exception of a few key papers on CSR, the articles reviewed were all published after 2000.

A number of key themes arose from this review process, and these have informed the creation of the structure of this article, and are reflected in the sub-section headings.

**What is Organizational Sustainability?**

Colbert and Kurucz (2007) identify the colloquial definition of sustainability as being to “keep the business going”, whilst another frequently used term in this context refers to the “future proofing” of organizations. Boudreau and Ramstad (2005), refer to “achieving success today without compromising the needs of the future”.

The Charter of the Sustainability Committee created by the Board of Directors at Ford focuses on sustainable growth, which it defines as “the ability to meet the needs of present customers while taking into account the needs of future generations” (Ford, 2012).

Sustainable growth encompasses a business model that creates value consistent with the long-term preservation and enhancement of financial, environmental and social capital.

According to the Chartered Institute of Personnel and Development (CIPD, 2012), the essence of sustainability in an organizational context is “the principle of enhancing the societal, environmental and economic systems within which a business operates”. This introduces the concept of a three-way focus for organizations striving for sustainability. This is reflected also by Colbert and Kurucz (2007), who state that sustainability “implies a simultaneous focus on economic, social, and environmental performance”. This notion may of course relate to the growth of so called “Triple bottom line accounting”, which will be explored later in this paper.

Perhaps organizational sustainability is more related to organizational culture rather than specific policies and procedures?

Eccles et al (2011) note that organizations are developing sustainability policies, but they highlight that these policies are aimed at developing an underlying “culture of sustainability”, through policies highlighting the importance of the environmental and social as well as financial performance. These policies seek to develop a culture of sustainability by articulating the values and beliefs that underpin the organization’s objectives.

The CIPD (2012) also emphasizes the importance of organizational culture in seeking to understand organizational sustainability, referring to “the creation of meaningful values that shape strategic decision-making and building a culture that reinforces desirable behaviour”. 
So is sustainability the latest manifestation of what was previously referred to as Corporate Social Responsibility (CSR). Is it part of CSR, or is CSR part of sustainability? Is this fundamentally a marketing or branding issue for organizations, or does this really indicate a step change in the way businesses operate? Are we really seeing a new form of capitalism?

Blaga (2013) identifies the birth of the concept of CSR as resulting from Milton Friedman’s tellingly titled article ‘The social responsibility of business is to increase its profits’ (Friedman, 1970). He defines CSR as an approach to enhancing corporate governance, which he notably claims “leads towards sustainability”.

The European Commission on the other hand defines CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” and goes on to say that organizations “are increasingly aware that responsible behaviour leads to sustainable business success” (Van de Ven, 2008).

Perhaps usefully summarizing these definitions, Carroll (2008) claims that CSR “includes the compulsory, economic, and legal, social and ethical responsibilities of organizations”.

In seeking to explain the development of the notion of CSR, Blaga (2013) highlights an increased focus on the need for organizations to demonstrate “socially desirable behaviour”, perhaps in response to an increased awareness amongst societies and communities of the potential for organizations to have a detrimental impact on the environment and their way of life. He notes that the 2004 survey by the Environmental Protection Agency (EPA) in the US, found that 93 per cent of those surveyed felt that organizations should be responsible for protecting the environment, and 72 per cent said that organizations should support social concerns.

Blaga thus concludes therefore that CSR can be seen as a business strategy for achieving sustainable growth i.e. that organizations “can do well by doing good” for communities.

Van de Ven (2008) argues that organizations can and do seek to “market” their CSR strategies. This may include both the strategy of reputation protection and improvement; and also the strategy of building a “virtuous” corporate brand. This latter concept introduces the notion of a critique of an exclusively “bottom line”-focussed approach to CSR.

This builds on MacIntyre’s (1985) notion of “virtue ethics”, which in seeking to condemn capitalism seeks to extend the concept of ethics to the organizational context both in terms of “goods” and “practices”. Van de Ven (2008) argues that MacIntyre is claiming that “good judgment emanates from good character”, implying that this good “character”, in an organizational context an “ethical” approach to issues such as CSR, is dependent on the motives of the decision makers.

Blackledge and Knight (2011) look at this from the other way around, i.e. from the point of view of the communities within which organizations are seeking to be “corporately responsible”. They note that MacIntyre’s thesis “articulates a politics of self-defence for local communities that aspire to protect their practices and sustain their way of life from corrosive effects of the capitalist economy” (p. 31).

Beadle and Moore (2006) however point out MacIntyre’s challenge to the contention that management in organizations really do have the power to control “social outcomes”, that this is rather a myth in which “the distinction between manipulative and non-manipulative action is obscured in the name of effectiveness.”
According to marketing theory, CSR is about brand, image, reputation, cost reduction, risk management and access to capital. Clearly, achieving objectives in these areas will make any business “sustainable”, so it could be argued that sustainability may be an “outcome” of CSR. However, Porter and Kramer (2006) argue that CSR needs to be seen as “an opportunity rather than as damage control or a PR campaign” if it is to lead to sustainable competitive advantage.

So what practices do organizations adopt in order to demonstrate their CSR? Porter and Kramer (2006) highlight the focus of many organisations on the notion of Corporate Philanthropy, which they define as “a form of public relations or advertising, promoting a company’s image through high-profile sponsorships”, for example supporting arts or social projects.

However, they argue that there is a more truly strategic way to think about philanthropy. Corporations can use their charitable efforts to improve their competitive context . . . the quality of the business environment in the locations where they operate. Using philanthropy to enhance competitive context aligns social and economic goals and improves a company’s long-term business prospects. (Porter and Kramer, 2006)

In referring to “long-term business prospects”, they are clearly alluding to business sustainability. More recently, Porter and Kramer (2011) have referred to the concept of “shared value”, which they define as policies and operating practices that enhance the competitiveness of a company, while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.

Again focussing on the concept of “shared value”, Lacy et al. (2010) state that “companies will need to develop a broader sense of what value means to society as a whole”. Kanter (2011) notes that companies increasingly “not only want to make money but also to invest in the future while being aware of the need to build people and society”.

Thus it is suggested that the growth, or indeed survival, of any organization providing goods or services is dependent on the economic and social conditions in the communities in which it operates, supporting the notion that the key aspects of CSR are fundamental to organizational sustainability.

**Why the increased focus on organizational sustainability?**

If it can be shown that organizations are adopting a sustainable approach to their activities, what are the reasons for this? Is it just another exercise in public relations? Is it for purely business reasons (i.e., profit), or are social/ethical issues increasingly significant?

Eccles, Ioannou and Serafeim (2011) argue that research evidence suggests that organizations are not adopting sustainability policies purely for public relations reasons, but rather that they reflect “substantive changes in business processes”.

However, if it is accepted that even under whatever “new capitalist” system evolves profitability will still be key, what evidence is there that sustainability can be profitable?
Eccles, Ioannou and Serafeim (2011) found that “High Sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance.”

Nidumolu, Prahalad and Rangaswami (2009), in a cover story of the *Harvard Business Review*, claim that “By equating sustainability with innovation today, enterprises can lay the groundwork that will put them in the lead when the recession ends” and indeed that “there’s no alternative to sustainable development”.

Catrin Ballinger (2011), announcing the launch of a Business Sustainability Research project by the Chartered Institute of Personnel and Development, identifies the reasons for the drive for a more sustainable approach to business as including:

- the pressures of globalization;
- corporate scandals (Enron, financial services etc.);
- the global economic crisis;
- calls for greater scrutiny of business by external stakeholders.

It is perhaps significant that globalization is at the top of this particular list.

Kielstra (2008) supports this, noting that “The most powerful business case for adopting a responsible and sustainable approach to business would appear to be the emergence of globalisation, which has considerably changed the roles and relationships of business, governments and other key stakeholders”.

Even organizations that do not operate globally, including public sector organizations, have relationships with organizations or suppliers that are working internationally. Alternatively they may, as in the health sector, be involved in global recruitment.

So is the driver for sustainability the growth of global business, or should the focus be even broader than this, e.g. on global environmental and demographic issues?

Summarizing the findings of their most recent research, the Cranfield University School of Management (2011) note that in a world with finite resources OECD statistics show that the world population has now passed the 7 billion mark.

“Increasing resource constraints and dramatically shifting demographics clearly pose significant challenges for organizations” (McKinsey Global Institute, 2011).

As we are seeing in the current recession, population growth does not of course necessarily imply demand growth, if the population cannot afford to buy what organizations produce.

Marcus Jamieson-Pond (in CIPD, 2012) claims that

> Western businesses have indeed woken up to the need to ensure the well-being of those who maintain the constant craving for raw materials and other “stuff” . . .

> Call it global karma – with an imbalance in favour of those who consume over those who produce. Unless there is a true sharing of benefit, supply chains will never be sustainable in the long term.

Eccles, Ioannou and Serafeim (2011) point out that the issue perhaps relates to what is the relevant time frame over which economic value is produced. They argue that a short-term
focus on creating value exclusively for shareholders can result in the loss of value over the longer term through a failure to make the necessary investments in production processes or quality management.

Colbert and Kurucz (2007) argue that shareholders may in fact be a driver, rather than a barrier, to a more sustainable approach to business, highlighting the shifting nature of the business/society relationship. Though perhaps reduced during the recession, there are still pressures from some shareholder groups for more sustainable/ethical investment opportunities, and significant pressures from shareholders in relation to executive pay. The relevant stakeholders here are increasingly diverse – for example we are seeing pressures from communities in relation to the environmental impact of business transport arrangements (moving freight from road to rail, opposing airport development), pressures from employees/Trade Unions on employment security and pressures from governments through green taxation.

The development of global, 24-hour news media, together with the explosion of the use of social media means that business leaders know that any mistakes relating to the environment can now be publicized globally and immediately – witness the global media storm faced by BP following the Gulf of Mexico Oil rig incident of 2011.

Ian Cheshire, CEO, Kingfisher Group, quoted in CIPD (2012), argues that both businesses and investors need to reject “traditional” bottom line metrics:

Infinite high-resource intensity growth is simply not possible, and we are already living off our future capital. It may be gradual, but most businesses will have to adjust to a very different reality. . . . Instead of the goal of maximum linear growth in GDP, we should be thinking of maximum well-being for minimal planetary input.

Paul Polman, CEO, Unilever (in CIPD, 2012) returns again to the theme of the need for a longer term focus:

Unilever has been around for 100-plus years. We want to be around for several hundred more years. So if you buy into this long-term value-creation model, which is equitable, which is shared, which is sustainable, then come and invest with us. If you don’t buy into this, I respect you as a human being, but don’t put your money in our company.

But is there any empirical evidence that a sustainable approach to business can lead to measurable “bottom line” improvements?

In 2011 researchers from the Harvard Business School and London Business School published _The Impact of a Corporate Culture of Sustainability on Corporate Behaviour and Performance_ (Eccles, Ioannou and Serafeim 2011). This study tracked financial metrics for matched pairs of companies over an 18-year period. The performance of “high sustainability” companies, defined as having implemented a range of environmental and social policies, were compared with companies that were similar but which had not adopted such practices. The results were found to be significant. A £1 investment in a group of high-sustainability firms in 1993 increased to a value of £22.60 by the end of 2010, compared to an increase to just £15.40 from the low-sustainability group. The high-sustainability firms also performed better on metrics such as return on assets and return on equity.
Is there evidence that organisational sustainability is becoming mainstream?

Does the hard evidence indicate that the concept of organizational sustainability has really become mainstream in modern organizations, or is this just another example of the rhetoric of consultants and academics talking up their current fad?

According to the Environment Data Services’ Sustainable Business report (2011), businesses have “rapidly increased their capacity to engage with sustainability” and increasing numbers of both employees and graduates are identified as having sustainability skills and knowledge. However, it perhaps should not be assumed that just because organizations have the capacity to engage with sustainability means that they will necessarily do so, especially during times of economic difficulty.

Colbert and Kurucz (2007) highlight the fact that companies now seek national and international recognition for their sustainability policies, such as through achieving a high ranking on the growing number of “sustainability indices”, such as the Dow Jones Sustainability index. An Exeter University study (2011) found that that in the USA 80% of Global Fortune 250 companies were reporting externally on their sustainability initiatives.

The very existence of such indices, and the fact that businesses vie for recognition on them, would seem to support the notion that sustainability issues have become increasingly important to organizations, at least from an external reporting/PR perspective.

Colbert and Kurucz (2007) report that many businesses report publicly on their sustainability performance based on the notion of “triple bottom line” reporting i.e. economic, social and environmental performance. They cite a KPMG survey finding of 2005 that 68% of the top 250 companies on the Fortune 55 undertake such triple bottom line sustainability reporting.

Similarly in the UK, the CIPD (2012) also report that many organizations area adopting an integrated triple-bottom-line approach to measuring their value.

A review of business and management literature does show some evidence that a more sustainable approach to business is becoming mainstream in organizations. For example, Lacy et al (2010) identified sustainability as being a “strategic priority of the future for Chief Executive Officers”. They report that 93% of CEOs see sustainability issues as being “critical to the future success of their businesses”.

Kanter (2011) notes the activities of companies such as Unilever, who highlight their objective of seeking to “help more than 1 billion people take action to improve their health and well-being”. She goes on to identify companies as diverse as Wal-Mart, Marks and Spencer and Honda, all of whom highlight their commitment to social and environmental business targets on their websites.

However, if organizational sustainability is about taking a more long term view, rather than just a more social/environmental perspective, is such a focus really new? Eccles, Ioannou and Serafeim (2011) report that Dow Chemical has been establishing 10-year goals for the last 20 years. Perhaps it is the definition of “long term” which is changing? This study further reports that Dow Chemical has now established objectives for the next 100 years.

Furthermore, research undertaken by Environment Data Services (2011) found that indicators looking at economic and social aspects of sustainability (spending on research and development, pay inequality, labour standards etc.) had actually declined in 2010. This supports the findings of a report by the Economist Intelligence Unit which found that 80% of board time is still spent discussing only financial performance (Kielstra, 2008).
Perhaps it is precisely the focus of sustainability initiatives by organizations that is changing? There are of course many such initiatives which focus on environmental concerns. For example, Eccles, Ioannou and Serafeim (2011) quote the example of Natura, which has committed to “preserving biodiversity” and offering products that have “minimal environmental impact”. However, they go on to highlight an increasing trend for organizations to focus on educational sustainability objectives. For example, Intel Corporation claims to have invested more than $1 billion in the last 10 years on global educational initiatives, and in 2010, in conjunction with Barack Obama’s “Educate to Innovate” campaign, Intel announced a $200 million investment in advanced maths and science education in the USA.

So can it be concluded that a change to a more sustainable approach to business has now become part of mainstream organizational practice?

One of the undeniable outcomes of the global financial and economic crisis has been the proposal made by politicians, economists and business leaders that what is needed is a new form of capitalism, one based on a more long-term perspective, with the term “sustainable growth” often to the fore. However, any form of capitalism is based on the power of free markets, so this raises the question as to whether the markets, and in particular shareholders, have moved or will move away from their traditional focus on short term profitability. Perhaps the existence of Sustainability Indices, and the growth of financial instruments based on more long term performance, do indicate at least some movement here.

Barriers to organizational sustainability

If there is so much evidence of the importance of a sustainable approach for the growth or even survival of organizations, why are not all organizations adopting these practices?

Paul Polman, Chief Executive of Unilever, speaking at the World Economic Forum in 2010, noted that

There is still too much pressure on short-termism in terms of the drivers of success. It is interesting, because the same consumer who is demanding change is encouraging that behaviour because it is their money and their pension funds that are chasing that shorter-term return.

Polman went on to say that business leaders needed to

ignore the demands of short term shareholders and lead from the front on sustainability. . . . The (shareholders) would sell their grandmother if they could make money. They are not people who are there in the long term interests of the company.

This may result in managers taking decisions that increase short-term profits, but which reduce shareholder value over the long term and in the process may hurt other stakeholders.

It may be argued that the challenge for organizations grappling with the concept of organizational sustainability is in determining what should be their specific organizational approach and strategy. It has been argued that there is no “one-size-fits-all” approach to creating a sustainable approach to business in different contexts.
This lack of a single approach may have been the cause of the difficulties some organizations have had in creating a coherent sustainability strategy. Thus whilst research evidence suggests that a sustainable business policy can give an organization a competitive edge, the study by Kielstra (2008) found that just 53% of respondents had a coherent sustainability policy in place, and only 23% were trying to develop such a policy.

As has been stated above, a sustainable approach to business may be identified by evidence of the alignment of the organisation’s social, environmental and financial objectives through a “triple-bottom-line” measure of overall performance. In reality, many organizations find achieving this alignment to be problematic, perhaps because it necessitates a focus on a range of non-financial outcomes, when organizations have become so used to measuring everything in financial terms.

There has always of course been a body of opinion, amongst business people as well as economists (e.g., Friedman, 1970), that adopting environmental and social policies will basically reduce shareholder wealth. Eccles, Ioannou and Serafeim (2011) explain that this perspective identifies sustainability as “just another type of agency cost where managers receive private benefits from embedding environmental and social policies in the company, but doing so has negative financial implications”.

More broadly, according to this argument, there is a danger of management losing focus by “diverting attention to issues that are not core to the company’s strategy and business model”.

Jensen (2001) cited in Eccles, Ioannou and Serafeim (2011) states that organizations which seek to address “environmental and social issues” may be “eliminated by competitors who choose not to be so civic minded”.

Organizations pursuing what they see as a sustainable business strategy may be seen as incurring higher costs, for example because they pay above market wage rates, by investing in environmental protection beyond regulatory requirements, by missing out on market opportunities they see as being in conflict with their values, or by losing customers who are unwilling to pay for higher priced products or services. Companies that do not operate under these constraints will, it is argued, be more competitive and, as a result, will thrive better in the competitive environment.

For example, Eccles, Ioannou and Serafeim (2011) notes that PepsiCo Chief Executive Officer Indra Nooyi was criticized for seeking to reduce the “health risk” of their products. In 2011 PepsiCo’s share values underperformed those of Coca-Cola by more than 10%.

What role has management education played in the development of organizational sustainability? Has it in general been an enabler of, or a barrier to, the concept? Given the case made for this “new” approach, and the evidence that many organizations are adopting this, it is difficult to see how any programme of management education can ignore the topic of sustainability. However, many years of focusing on business models emphasizing the need to generate profitability and increased shareholder value perhaps creates a significant barrier to the introduction of a different business model based on the need for organizations to build the resources and relationships needed to ensure long-term survival.

Malcolm Kirkup (2012), Course Director of Exeter University’s “One Planet” MBA, comments that “there is still a long way to go in terms of devising postgraduate business courses that are relevant and useful (in terms of sustainability)” (Smithers, 2012).
There is certainly evidence that general management programmes have at least to some extent increased their focus on sustainability. Certainly issues relating to Corporate Social Responsibility have been a key focus in MBA programmes for 20 or more years.

However, have even these developments really got a grip of sustainability as a key business objective, or is the focus still more on fairly nebulous concepts of an environmental or “green” agenda?

The Exeter University “One Planet” MBA (launched in 2011) referred to above seeks to move sustainability on from its “tree-hugging” image. However, whilst this programme links with Coca-Cola, Sony, Nokia and Lloyds Banking Group, its main partner is the World Wildlife Fund.

Harvard University has an MA in Sustainability and Environmental Management. The programme prospectus defines sustainability as “meeting the needs of the present generation without compromising the ability of future generations to meet their own needs”. However, the prospectus goes on to list the programme contents as including:

- carbon and water markets;
- green buildings, design, and specifications;
- sustainable management systems;
- corporate social responsibility;
- waste and energy technologies;
- life cycle analysis;
- eco-tourism;
- non-motorized transportation;
- sustainable agriculture.

Thus if educational institutions designing and delivering high-level programmes on sustainability continue to adopt a relatively narrow view what sustainability means in reality for organizations, the Environment Data Services (2011) conclusion referred to above that “increasing numbers of both employees and graduates are identified as having sustainability skills and knowledge” needs perhaps to be qualified.

With most Western economies facing long-term economic stagnation, is this the right time to be proposing enhanced corporate responsibility and sustainability, particularly with regard to what may be referred to as sustainable employment? Getting a job – let alone a career with a pension – seems increasingly unattainable for a generation of school-leavers and university graduates.

Conclusion

A review of any news channel confirms the notion that there are demands from both governments and the public for organizations to change the way in which they conduct their affairs following the global economic crisis.

The fact that many organizations seem to be so keen to be included on publicly available “sustainability indices” indicates the desire to be seen to be adopting a sustainable practices, at least in public relations terms. The growth of financial instruments based on more long term performance may also be significant.

Clearly the sustainability of any organization depends on the economic and social conditions in the communities in which it operates. On the other hand, listed businesses still need to accept that many shareholders will continue to make investment decisions based on short term profit motives.
However, the Harvard Business School/London Business School survey referred to in this paper Eccles, Ioannou and Serafeim (2011) conclude that this may not be a “zero-sum game”. The study shows that at least over a reasonable timeframe “high sustainability” organizations can outperform their competitors in terms of financial measures, as well as in terms of the environmental concerns more traditionally associated with the concept of sustainability.

As with many developments in managerial and organizational strategy, the concept of sustainability perhaps suffers from the lack of a single approach or model. This begs the question, is sustainability sustainable for organizations? If sustainability is about taking a more long term view, it is perhaps fitting that only time will tell in finding an answer. Further research into the impact of the recession on the sustainability practices of organizations would be of significant benefit. In particular a comparative study of the possible differences in this impact between organizations based in countries which have fared differently during the recession would be interesting.

Based on the findings of this research, further research is now being undertaken regarding the role of human resource management functions and professionals with regard to organizational sustainability. This will investigate the hypothesis that HR has been slow to engage with the concept of sustainability, seek to explore why this might be the case, and review what HR could be doing in order to contribute to this agenda.

References


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