An Excerpt From

Making Sustainability Work 2nd Edition
Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts

by Marc J. Epstein and Adriana Buhovac
Published by Berrett-Koehler Publishers

"Lucid, well-written, timely ... Highly recommended." *Choice*

SECOND EDITION
Completely Revised and Updated

MAKING SUSTAINABILITY WORK

Best Practices in **Managing and Measuring** Corporate Social, Environmental, and Economic Impacts

Marc J. Epstein
and **Adriana Rejc Buhovac**

With Forewords by **John Elkington** and **Herman B. "Dutch" Leonard**

Making Sustainability Work
Second Edition

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Foreword from the First Edition

John Elkington

On the face of it, few books seem further removed from Making Sustainability Work than Robert Pirsig's bestseller Zen and the Art of Motorcycle Maintenance. But, at least to my mind, there are interesting links. Pirsig's book, which first appeared in 1974 and sold many millions of copies in 27 languages, turned into a global phenomenon, as has the sustainability agenda which Marc Epstein presents in the following pages. What sticks in my mind over 30 years after reading Zen is the way Pirsig spotlighted two very different personality types. The first type is mostly interested in what the Germans call the Gestalt, focusing on big-picture trends and the configuration of elements, rather than the elements themselves. This 'Romantic' personality enjoys the experience of bike-riding, but is none too keen on the messy business of engineering, let alone maintenance. The second, 'Classic' type enjoys the experiences, but is much more interested in the details, the inner workings, the mechanics.

Reading through Marc Epstein's latest book, I was tempted to conclude that he falls into the second, Classic type. His title as Distinguished Research Professor, coupled with the Rice and Harvard affiliations, seemed ample proof. And, adding further circumstantial evidence, the titles of his books over the years underscore his intense analytical focus on the inner workings of what he and his co-editors dubbed 'The Accountable Corporation' in a series of books of the same name. His other works include Counting What Counts: Turning Corporate Accountability to Competitive Advantage and Measuring Corporate Environmental Performance: Best Practices for Costing and Managing an Effective Environmental Strategy.

Case proven? Well, not entirely. Because if there is one thing that really influenced me in Pirsig's book, which was subtitled An Inquiry into Values, it was the notion that the most successful people in any field combine elements of both the Classic and the Romantic world-views. They are vigorous hybrids. My sense is that Marc Epstein is such a hybrid. Making Sustainability Work, which in the context of mounting challenges in areas like climate change, pandemic risks, and poverty must be a central political and business priority in the coming decades, is now throwing up some very unlikely champions. In the United States, which has been on something of an excursion away from sustainability in recent years, we now have companies like GE and

Wal-Mart, combinations of corporations and NGOs like the U.S. Climate Section Partnership, and politicians like Arnold Schwarzenegger embracing issues once seen as almost un-American—and, more to the point, driving forward with imaginative, entrepreneurial market solutions.

In short, the timing could not be better for such a book as you hold in your hands. As Epstein notes in his opening lines, "With growing sensitivity toward social and environmental issues and shareholder concerns, companies are increasingly striving to become better corporate citizens. Executives recognize that long-term economic growth is not possible unless that growth is socially and environmentally sustainable. A balance between economic progress, social responsibility, and environmental protection, sometimes referred to as the triple bottom line, can lead to competitive advantage."

The time has come to kick the tires and look under the hoods of our most powerful institutions, most particularly our corporations, to test their capacity to help drive the sustainability transformation of our politics, governance, economies, corporations, communities, and, ultimately, societies. Those who lead the way will be able to see the big picture, mapping the future and engaging a wide range of decision-makers and other stakeholders in the process, while simultaneously being able to drill down to the detail, to the critical points where the rubber hits the road. Marc Epstein is a successful, proven navigator in these complex new risk and opportunity spaces. Fasten your safety belts—and make sure your CEO and board have copies of this invaluable guide ready to hand.

In 1987, John Elkington co-founded SustainAbility (www.sustainability.com) and blogs at www.johnelkington.com. In 2004, *BusinessWeek* described him as "a dean of the corporate-responsibility movement for three decades."

Foreword from the First Edition

Herman B. "Dutch" Leonard

If you are a corporate leader who is seriously interested in getting your organization to find, develop, and actually carry out successful programs in the domain of social responsibility—programs that actually improve social and environmental outcomes while building business value for your firm—then you have long needed this book.

There are two forms of corporate social responsibility (CSR) programs: the kind where corporate leaders talk a lot about what their firms are doing (but don't actually do very much or generate much impact), and the kind where socially responsible activities are being carried out on a material scale and significant results are actually being achieved. Sadly, at this stage in our history, there is still far too much of the former—and not nearly enough of the latter.

The reasons for this are not far to seek. First, there are some payoffs from just talking about CSR or running low-impact CSR programs—critics can sometimes be mollified and stakeholders reassured if a firm develops and describes a small collection of well-intentioned and plausible-sounding "citizenship" initiatives. Second, going beyond a few simple, nice-sounding initiatives to develop significant programs that build both business and social value is much more difficult than it might appear.

Ultimately, the real policies of an organization are not what its leaders say they are; the real policies are what the people in the organization are actually doing. It is easy for corporate leaders to talk about the "business case for social responsibility"—the idea that doing things in a way that improves social and environmental outcomes will also build greater business value (often with the caveat ". . . in the long run")—but talking about it is a far cry from making it be what is actually happening throughout the firm.

So, if you do actually want to make social responsibility be what your firm is doing, what do you need to do? You will need to articulate a combination of business, social, and environmental goals and then build structures, systems, and procedures within your firm that will focus attention on the combined goals—and enact your stated policy by embedding it in the ongoing actions and decisions of the firm. Unless and until the wide range of consequences of business activities—impacts on customers, revenue, markets, cost, social conditions, and environmental outcomes—are viewed at the same time and within the same discussions and analyzed and examined with the same rigor, CSR-related programs will remain sideline, non-strategic, secondary activities.

And that is where this book comes in. In this work, Marc Epstein presents a wide range of tools, methods, and approaches to bring social and environmental results into focus in the same ongoing business processes that drive the mainline business activities of the firm. He begins with an overview of the leadership necessary to animate and organize a serious corporate effort to build social and economic value through social responsibility, and lays out the elements necessary to make such an effort an integral aspect of an overall, comprehensive business strategy. He then examines the organizational structure issues that need to be addressed to create and maintain alignment among the activities designed to address the broader array of corporate goals that result from pursuing an integrated strategy.

The heart of this book—and the centerpiece of its contributions to corporate performance—is the series of sections on how to build and operate the organizational processes that will determine whether the firm is paying lip service to CSR or, instead, is enacting it in its daily operations and work. How can the costs of meeting social goals—and the risks of not meeting them—be factored into capital investment and allocation decisions? How can performance evaluation and reward systems be reconstructed to reflect the broadened set of goals? And how can organizational information systems be constructed to help managers achieve the high performance those personnel systems seek to reward? Both the evaluation systems and the management and learning systems will require metrics to inform them: How can we construct organizational processes that will define, collect, track, and analyze relevant data to provide managerial incentives, drive organizational learning, and guide strategic action across the full integrated panoply of firm objectives? How can the standard corporate processes associated with important business decisions—budgeting, personnel assignments and career tracking, and so on—be modified to include the full array of consequences from financial to social, that the firm now seeks jointly to manage? And, finally, how should firms organize the development of and carry out the internal and external communication of its goals and accomplishments across the full domain of consequences for which it is now taking responsibility?

On all of these subjects, this book provides practical advice grounded in examples drawn from a wide array of businesses. Epstein engages the issues at the frontier of CSR today: the practical questions of how to make it work in practice, in detail, day in and day out, so that what the firm wants its CSR policies to achieve actually turns out to be what the firm is accomplishing.

Many books have been written about why corporations should redefine their intentions and accept greater responsibility for the wide array of consequences that flow from business action. Many others have been written about what CSR strategies should look like in the abstract. This book transcends that rather stilted (and often moralistic) discussion. It assumes that there are good business reasons to pursue social and environmental goals, and then helps business leaders build the organizational processes necessary to discover and develop those opportunities—and to deliver on them.

Herman B. "Dutch" Leonard is Co-Chair of the Initiative on Social Enterprise and Eliot I. Snider and Family Professor of Business Administration, Harvard Business School; and George F. Baker, Jr. Professor of Public Management, John F. Kennedy School of Government, Harvard University.

Preface

Marc J. Epstein's work with CEOs and other senior executives of global corporations over the last 30 years has often begun with a query that goes something like: "Marc, I have spoken publicly about the importance of stakeholder engagement and sustainability [or corporate social responsibility], but do you realize how great the challenge is to implement this in my company of 50,000–100,000 employees? How can we get this done?" One can fully appreciate how daunting the challenge can seem; and much of our work has focused on answering these questions. This book will steer companies through this process.

Making Sustainability Work: Second Edition is not so much about what, whether, or why to focus on the "triple bottom line" of social, environmental, and economic impacts—but *how*. The study and practice of sustainability has matured. It is no longer just about risk and compliance, but also about innovation and opportunity and how to simultaneously achieve excellence in both sustainability and financial performance. With corporations facing more risks, with greater potential impacts, from a larger number of sources, the issues are more critical than ever. And, with the opportunities for innovation and growth in these areas more pronounced, this topic has come to the forefront of senior management discussions in most large organizations.

The book is grounded in extensive academic research and the best practices of corporations throughout the world. The research is the best in the field today, augmented by our own work, usually with academic colleagues, which includes field research and interviews, surveys of corporate practices, and conceptual development on approaches to improve the identification, measurement, and management of corporate social, environmental, and economic impacts. It also builds on research work that we have undertaken in the field, and the practices of the 100 or so leading companies that are discussed throughout the book (see page 10 for a list of companies cited). But of course this book could not have been completed without the hard work of managers worldwide who are even now implementing sustainability in their organizations. We are indebted to them for educating us, guiding us, and allowing us access to their corporations and their work.

We have been working with companies and conducting research in CSR (corporate social responsibility) for most of our professional careers. In his doctoral studies, Marc was fascinated by the development of CSR and worked to develop approaches to measuring companies' impacts on society. He continued this work as Director of Social

Measurement Services at Abt Associates Inc. in Cambridge, Massachusetts. During his time there he saw the inception of the "corporate social audit" with both for-profit and nonprofit entities focusing on measurement and reporting of social impacts. Over the years his articles in academic and managerial publications on social and environmental responsibility—along with governance, accountability, and related topics—have run into dozens. He has also completed quite a number of books on this topic, including *Corporate Social Performance: The Measurement of Product and Service Contributions* (with Eric Flamholtz and Jack McDonough; New York: National Association of Accountants, 1977); *Counting What Counts: Turning Corporate Accountability to Competitive Advantage* (with Bill Birchard; Reading, MA: Perseus Books, 1999); and *The Accountable Corporation* (Westport, CT: Praeger, 2006), a four-volume edited series with Kirk Hanson. In many senses, though, this book is a follow-up to *Measuring Corporate Environmental Performance: Best Practices for Costing and Managing an Effective Environmental Strategy* (Burr Ridge, IL: Institute of Management Accountants/Irwin Professional Publishing, 1996).

Adriana has been concerned about this area and has been involved in research projects with company visits in North America and Europe on this topic.

Since Marc wrote *Measuring Corporate Environmental Performance*, he has been affiliated with four business schools: Stanford Business School, Harvard Business School, INSEAD (European Institute of Business Administration in France), and the Jones Graduate School of Management at Rice University. This book could not have been completed without the intellectual contributions, discussions, research assistance, collaboration, and other support by many, many friends and associates. Colleagues at each of those schools (and other schools and organizations besides) have provided intellectual stimulation and lively discussions around these issues and have significantly impacted his thinking. We thank all of them for their contributions. Though we don't have space to list them all individually, we do acknowledge that many of the thoughts on this topic were due to substantial learning from smart and dedicated colleagues, many of whom also collaborated with us on research projects. At these schools this includes Srikant Datar, Dutch Leonard, Kash Rangan, Jim Austin, Bob Kaplan, Bob Simons, Krishna Palepu, Greg Dees, Kirk Hanson, Jean-François Manzoni, Henri-Claude DeBettignies, Michael Brimm, Steve Currall, Sally Widener, Karen Schneitz, and Rick Bagozzi.

We also cannot say enough about our research colleagues at other schools who have engaged in many research projects with us on these and related topics. Their contribution to the research was often far greater than ours and their dedication and discussions always provided great stimulus. We have learned much from each of them, especially Marie-Josée Roy, Tony Davila, Priscilla Wisner, Wendy Smith, Tamara Bekefi, Melissa Tritter, Bill Birchard, Jed Emerson, and Kristi Yuthas. Our collaboration with these colleagues has produced much of the work upon which this book is based.

Numerous bright and diligent researchers have provided extraordinary assistance, including Nicolas Lacouture, Rachel Gelman, Alicia Yancy, and Tammy Knotts. Tammy's work with Marc over the last two years has been extremely important in finalizing all of the details of the manuscript. Karen Lavelle has been working with Marc for many years providing valuable assistance in all facets of this research. He couldn't have done it without their dedicated work.

We also want to thank our editors John Stuart at Greenleaf Publishing and Johanna Vondeling and Neal Maillet at Berrett-Koehler Publishers who provided guidance and enthusiastic support for this project.

Making Sustainability Work: Second Edition is dedicated to corporate managers throughout the world who face the challenge of integrating sustainability considerations into their daily decision-making. And it is dedicated to those managers who are not just thinking about corporate social responsibilities and risks—but also about corporate social *opportunities*. The goal of simultaneously improving both corporate and societal performance is certainly a noble one.

Marc J. Epstein and Adriana Rejc Buhovac
July 2013

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INTRODUCTION

Improving sustainability and financial performance in global corporations

On April 24, 2013, the catastrophic collapse of the Rana Plaza building on the outskirts of Dhaka, Bangladesh, killed more than 1,100 garment workers who had been producing apparel for some of the world's largest retailers.[1] The deadliest disaster in the history of the garment industry triggered a chain of actions that may result in a major shift in corporate liability in terms of global supply chain safety. Up until today, retailers would be using factory inspections and audits to claim their global supply chains are safe and in line with their business codes. From now on, where their contractors have factories, retailers may also become accountable for building safety. The world's largest apparel companies, including H&M (Hennes & Mauritz), Marks & Spencer, Inditex (the parent of Zara), and others, have already signed a far-reaching and legally-binding safety agreement. The plan requires retailers to have rigorous independent inspections and to help pay for fire safety upgrades and some other building improvements. While global climate change, local air and water pollution, child labor, and workers' rights, remain among the key challenges that face corporate executives on a daily basis, the scope of corporate responsibility is changing.

The issue of whether companies should consider their sustainability or the impacts of their activities on their stakeholders is thus no longer up for discussion. On the contrary, these issues, and many many more like them, have become a central part of the creation of shareholder value and the management of both global and local enterprises. The challenge has moved from "whether" to "how" to integrate corporate social, environmental, and economic impacts—corporate sustainability—into day-to-day management decisions when managers at all levels have significant incentive pressures to increase short-term earnings. It is now about how to be more socially responsible or sustainable, and how to engage corporate stakeholders more effectively. It is about the specific actions that managers can take to effectively deal with the paradox of trying simultaneously to improve corporate sustainability and financial performance.

Sustainability has been defined as economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.[2] For businesses, this includes issues of corporate social responsibility and citizenship along with improved management of corporate social and environmental impacts and improved stakeholder engagement. In this book, the terms "(corporate) sustainability" or "(corporate) sustainability performance" will imply that a company is contributing to sustainable development of society, which includes economic growth, environmental protection, and social progress. Further, "sustainability strategy" will relate to a set of strategic activities by which companies are following sustainability principles and contributing to sustainable development.[3]

Developing innovative sustainability strategies is often an important challenge for senior executives, but implementation is usually the larger challenge. In most of the successful implementations, CEOs are involved and are the drivers of corporate concern to implement sustainability. But these senior managers are often challenged as to how to manage the paradox of simultaneously improving social, environmental and economic, on the one hand, and financial performance, on the other. Business unit and facility managers are pressured to deliver profits and their performance is typically measured primarily on how successfully they deliver. So, there is often difficulty in obtaining an alignment of strategy, structure, systems, performance measures, and rewards to facilitate effective implementations. It is also often difficult to obtain the resources to manage the various drivers of social, environmental, and economic performance effectively.

Leading companies have increasingly recognized the critical importance of managing and controlling corporate social, environmental, and economic performance. The impetus for implementing a corporate strategy to integrate social, environmental, and economic impacts may be driven by internal factors, such as a management commitment to sustainability as a core value or by management recognition that sustainability can create financial value for the corporation through enhanced revenues and lower costs. Often, however, the leading impetus for a sustainability strategy is from external pressures such as government regulation, marketplace demands, competitors' actions, or pressure from NGOs (nongovernmental organizations). For example, controls on GHG (greenhouse gas) emissions will affect the price of energy and the products, services, and sectors that rely on that energy. Executives should assess their business strategies to determine whether there are opportunities in new worldwide markets in carbon, capital, advanced technologies, and products and services that emit lower amounts of GHGs.[4]

Managers have now recognized the importance of stakeholder input and engagement and the potential impact on long-term corporate profitability. The consequences for businesses when they do not effectively consider the impacts of their activities on society are often substantial. Thus, effective management of stakeholder impacts and relationships is critical.

Some companies have not developed any coherent sustainability strategy or even any systematic way of thinking about or managing their social, environmental, and economic (sustainability) impacts. Negative sustainability impacts have tarnished the reputation of many corporations. However, some have recognized the social, environmental, and economic effects of their actions, developed a corporate sustainability statement, and made progress toward defining a policy that confronts the problems. These companies have developed partial systems to deal with social, environmental, and economic problems and may have transferred technologies from other parts of the company to use in implementing sustainability. They may have set up systems for improved costing, capital budgeting, performance evaluations, or product design but have not developed an integrated program that includes sustainability in day-to-day decision-making. Some companies have developed effective reactive systems to address these issues and others have been more aggressively proactive.

It is unlikely that any company has fully integrated or achieved sustainability—this is a huge task—but numerous companies have taken important steps toward improving their sustainability performance and reducing their negative social, environmental, and economic impacts. Many of these companies are included in this book as exemplars of best practice. Rather than searching for one best company example to model, those companies and managers that want to improve their sustainability performance should instead look to adapt and adopt the various best practices of individual sustainability elements illustrated in this book. Through the detailed model, measures, and guidance to implementation presented here and the extensive best practice company examples from around the world, companies can select those practices that can be used to better implement sustainability in their own organizations to simultaneously improve corporate social, environmental, economic, *and* financial performance.

Leading companies are examining the impacts of their products, services, processes, and other activities more broadly. They are looking at a more comprehensive set of social, environmental, and economic impacts on a broader set of stakeholders. Managers recognize that stakeholders have numerous impacts on company profits—employees in their desire to work for the company, customers in their desire to buy from the company, the community in its desire to permit the company a license to operate. But they have faced difficulty in managing competing stakeholder interests and simultaneously improving both sustainability and financial performance. Business leaders who want to respond sensibly to activist calls for corporate responsibility should think about the issue in the same way they would about any other business problem.

But stakeholder management has to be more than identifying the squeakiest wheels and greasing them. Sustainability cannot be managed as just a public relations strategy to pacify stakeholder concerns. Doing so can be quite risky as stakeholders expect actions and results to be consistent with rhetoric. Furthermore, it is only through the identification, measurement, and management of sustainability impacts that social, environmental, economic, and financial performance can be improved and value created. For sustainability to be valuable to both the organization and its stakeholders, it must be integrated into the way a company does business.

The size of corporate sustainability expenditures is increasing rapidly and the necessity of improved identification and management of these impacts has become critical. Business leaders need to make an independent assessment of their social, economic, and environmental impacts to see where pressure is most likely to come and also to see where the company is providing unpriced social, environmental, and economic benefits for which it is not receiving credit. Firms should not underestimate their ability to turn sustainability into a competitive advantage. Patrick Cescau, the former group chief executive of Unilever, once said: “We have come to a point now where this agenda of sustainability and corporate responsibility is not only central to business strategy but will increasingly become a critical driver of business growth . . . . how well and how quickly businesses respond to this agenda will determine which companies succeed and which will fail in the next few decades."[5]

Why it's important

Although this book focuses on *implementation*, here are the four main reasons why sustainability now demands our urgent attention:

1. **Regulations**. Government regulations and industry codes of conduct require that companies must increasingly address sustainability. Noncompliance with regulations was (and still is) costly, as regulatory noncompliance costs to companies include:

- Penalties and fines
- Legal costs
- Lost productivity due to additional inspections
- Potential closure of operations
- The related effects on corporate reputation

2. **Community relations**. The general public and activist NGOs are becoming increasingly aware of sustainability and the impacts that corporations have on society, the environment, and economy. Identifying the social, environmental, and economic issues that are important to key stakeholders and improving stakeholder relationships can foster loyalty and trust. Gaining a license to operate from governments, communities, and other stakeholders is of critical importance for corporations to be able to conduct business on an ongoing basis. Good performance on sustainability can garner a positive reputation with stakeholders and improve community relations and business performance. Alternatively, the consequences of mismanaging sustainability and stakeholder relationships can be significant and costly in terms of reputational damage and potential impacts on the bottom line. Coca-Cola, for example, has been working hard to provide data that show it uses water responsibly, and to make the case that it would be contrary to its own business interests to damage water sources and harm residents in the process. In doing so, it has gained ground in the courts and among regulators. Coca-Cola has been successful in securing the "technical" and "regulatory" licenses for using the water it needs. But where it has sometimes been challenged is in securing the "social license" for its operations among the communities that host them. To secure the trust and goodwill of the people in the communities where these operations are located, candid, continual dialogue with residents is needed, as well as showing residents how the company is managing water resources and what it is doing to improve them.[6]

3. **Cost and revenue imperatives**. Sustainability can also create financial value for the corporation through enhanced revenues and lower costs. In other words, managing sustainability is a good business decision. Revenues can be increased through

increased sales due to improved corporate reputation. Costs can be lowered due to using resources more efficiently, product and process improvements, and a decrease in regulatory fines. The key is to identify the areas where good for society, good for the environment, and good for the company intersect.

4. **Societal and moral obligations**. Because of their impact on environment, society, and economy, companies have a responsibility to manage sustainability. A personal concern for social, environmental, and economic impacts and their social and moral obligations has led some executives and corporations to include sustainability in their strategies.

These four reasons may also be interrelated. Leadership organizations recognize the relationship between business and society and are redefining their economic, environmental, and social responsibilities around the concept of sustainability. Some corporate leaders have adopted sustainability for each of the reasons listed above. Yvon Chouinard, founder of Patagonia, an outdoor clothing and equipment company, always wanted to put the environment first in his business. Patagonia was one of the first companies to reuse materials and it used its mail-order catalog as a platform to speak out on environmental issues such as genetically modified foods and overfishing.[7]

In contrast, it is clear that the focus of GE (General Electric) on sustainability is driven by its goal of improving the bottom line. GE's CEO, Jeffrey Immelt, has publicly stated that his company must focus on innovation and the environment in order to increase revenues and stay competitive. However, he has made it clear that this is about business first. The social and environmental strategies developed at GE to reduce social and environmental impacts must also achieve financial goals. For example, Ecomagination, announced in 2005, is a major GE program to dramatically increase the company's business in environmental technologies. The company has pledged to increase investment in environmental technologies to US$1.5 billion and sales of environmental technologies to US$20 billion by 2010. In 2012, Ecomagination met this objective, with revenue totaling US$25 billion. Ecomagination R&D investments in 2012 totaled US$1.4 billion and overall R&D investment totaled more than US$5 billion between 2010 and 2012. It has also pledged to reduce GHG emissions by 1% and improve energy efficiency by 30% by 2012. Indeed, GHG emissions were lowered to 4.88 million metric tons of CO2 equivalents, a reduction of 32% from GE's adjusted 2004 baseline. Products included in the Ecomagination initiative, for example, include a fluorescent light bulb that saves 70–80% of energy compared with an ordinary light bulb and a wire coating for cars and electronics that does not include any pollutants in its production.[8]

Managing corporate sustainability

Corporations have become more sensitive to social, environmental, and economic issues and stakeholder concerns and are striving to become better corporate citizens. Whether the motivation is concern for society and the environment, government regulation, stakeholder pressures, or economic profit, the result is that managers must make significant changes to more effectively manage their social, economic, and environmental impacts. The best practices in corporate sustainability performance are no longer primarily focused on companies like Ben & Jerry's or The Body Shop, as they were ten or 20 years ago. It is now also some of the world's largest corporations such as GE and Walmart (along with many others) that are leading the way with significant financial and organizational commitments to social, environmental, and economic issues.

As companies search for ways to improve their performance, determining the best ways to thoroughly integrate these improvements into all parts of the organization still presents challenges. These challenges are because implementing sustainability is fundamentally different than implementing other strategies in the organization. For operating goals, the direct link to profit is usually clear. For innovation, though long-term and often difficult to predict and measure, the intermediate goal is new products and the ultimate goal is increased profit. However, for sustainability, the goal is to achieve excellence in social, environmental, economic, *and* financial performance. Managing and measuring this paradox creates challenges since financial initiatives are associated with clear, measurable, short-term metrics, whereas sustainability measurements are often uncertain and long-term.

A particular challenge is how to integrate sustainability impacts and financial performance into day-to-day management decision-making. Such decision-making is related to the various tensions between these goals. The relationship between social, environmental, and economic, on the one hand, and financial goals, on the other hand, is typically characterized with short-term competition and inconsistencies and long-term benefits.[9] More specifically, while these initiatives may benefit one another in the long-term, they often conflict in their need for resources.[10] Managers must make resource allocation trade-offs between these multiple goals, which is difficult because the long-term financial gains of sustainability initiatives may not fit well into a traditional capital budgeting format, unless the risks and reputation-related impacts are measured and integrated into decision-making.

There are also other tensions. Pursuing social goals demands cooperation to achieve public benefits, while financial goals encourage competition for individual gains.[11] Through decentralization and employee empowerment, typical of some large organizations, cooperation is even more difficult to achieve. The tensions evolve further as business unit and facility managers have significant incentive pressures to increase short-term earnings. Their performance is typically measured and rewarded primarily based on profits while they are accountable for excellent performance in all areas (social, environmental, economic, and financial performance).

In addition, it is often unclear how stakeholders will respond. For companies with leading positions in their respective industries, every major action taken is visible and is picked up by the media on some level. However, when there is a significant financial cost in improving social, environmental, and economic performance, managers are faced with a dilemma of how to make the choices and which actions to take.[12]

Often, it is unclear how trade-offs between financial and environmental or social performance should be made. Moreover, the trade-offs keep changing—at certain times, shareholders may want the company to place substantial weight on social performance and the environment, whereas at other times they may want the company to place more weight on short-term profits.

The costs of implementing sustainability are also constantly changing. For example, potential technology improvements may make it far cheaper to implement pollution reduction later rather than earlier. Even when sustainability is thought to provide financial benefits, the benefits can, at best, only be measured over long time horizons. This makes it difficult to measure the impact of social, environmental, and economic performance and to quantify the resulting benefits. The constant uncertainty about how far to move toward sustainability, the constantly changing emphasis on and costs of implementing sustainability, and the long time horizons therefore make it difficult to implement sustainability in the same way that other strategic initiatives are implemented.

For these reasons, the standard implementation approaches often fail. In order to improve the integration of social, environmental, and economic impacts into day-to-day management decisions, companies must tie the measurement and reporting of these impacts into decision-making processes. Further, these impacts must be measured and reported in financial terms and then integrated into the traditional investment models. So, how can companies integrate sustainability into day-to-day decision-making? Through the combination of a clear and well-articulated and well-communicated sustainability strategy, senior management commitment to a broader set of objectives than profit alone, and utilizing appropriate structures and systems to drive sustainability through the organization.

The importance of vision and communicated core values are well accepted. But these commitments to social, environmental, and economic concerns must be consistently communicated both in words and actions. Top managers must exercise leadership to decide how much integration of sustainability concerns they want and how they want to do it. They must articulate the trade-offs to managers, help them deal with the trade-offs by leading by example, and continually reinforce these objectives throughout the organization. As one senior executive at Nike, the world's leading designer, marketer, and distributor of athletic products and clothing, stated: "Consistent support of leaders is more important than refined measures on environmental impact and compliance."[13] They must also choose a strategy that is consistent with mission, culture, and aligned with geography, customer, product, community, and other stakeholder requirements. Strategy and leadership are minimum enablers to successful sustainability implementation.

Just as the formulation of sustainability strategy is critical, so is the execution. Management must also make choices about how to implement the sustainability strategy and integrate economic, social, and environmental impacts into their organizations. These impacts are sometimes managed using "soft" leadership elements, such as managing people and culture, along with a variety of informal systems. For example, in their recruitment and development practices, companies may seek to create in their employees a passion and commitment to sustainability. They in effect create a culture to support sustainability decisions. This culture is firmly embedded in the beliefs, values, and mission and vision statements of companies that serve to inspire and motivate employees to take sustainability obligations seriously.

Sustainability impacts can also be managed through "hard" or formal implementation systems such as performance measurement and evaluation, compensation, and incentives. Many companies have created performance measurement and management systems that include social, environmental, and economic indicators in addition to financial performance measures. Some are also including rewards and incentives that are based on social, environmental, and economic performance. Companies can also change their organizational design or structure to signal a commitment to sustainability. The right mix of soft and hard systems depends on the nature of the impacts: the potential magnitude, the degree of uncertainty, and the time horizons involved. It also depends on customer, product, geographic, and other characteristics.

Managing sustainability may not be paradoxical after all

In some companies, the trade-offs between sustainability and financial goals are not seen as difficult or paradoxical. These companies creatively use technology and innovation to overcome "win-lose" scenarios. For example, Nike, the leading designer, marketer and distributor of athletic products and clothing, created predictive tools for designers (Considered Index®) that help them focus on environmental issues rather than rely on measuring tools at the end of the innovation process. At Nike, the use of environmentally preferred materials is a "win" for the environment, but that use also increases the costs ("lose" for the company). But, by innovatively reducing waste the company also reduces costs ("win-win"). By using innovation, they try to balance the costs and increase long-term financial performance. When P&G (Procter & Gamble), one of the world's leading branded consumer products companies, designs a technology system, it also has to deliver on service at a low cost and be environmentally friendly. Innovation is a critical driver of these processes. This includes, for example, the Purchasing Asset Recovery Materials program, looking specifically at finding value in waste ("win-win"). At Nissan North America, a unit of Nissan Motor Co., a leading global auto manufacturer, even though expensive, some decisions are mandated, such as the achievement of the 95% recycling in plants. Plant groups are tasked with this environmental challenge. They use creativity and innovation to achieve this global goal.

These companies may hold on to social, environmental, economic as well as financial performance simultaneously, because they are using the tensions as a source of new ideas, innovation and creativity rather than seeing them as impediments to effective decision-making. In addition, they have keen awareness of anticipated stakeholder reactions to corporate social, environmental, and economic performance.[14]

The Corporate Sustainability Model

So what can companies do to improve their sustainability performance? More specifically, how can executives identify, measure, and manage the drivers of improved sustainability performance and create systems and structures that improve it? How does sustainability performance impact overall long-term corporate profitability, and how should executives communicate these impacts to general managers, financial managers, employees throughout their companies, and to external audiences?

For organizations, a sustainability framework or model of social, environmental, and economic performance creates a powerful opportunity to create enduring value for multiple stakeholders. At the same time, it challenges managers to understand the complex interrelationships between social, environmental, and economic performance. This book presents a model or framework to aid companies in identifying, measuring, and integrating social, environmental, and economic impacts into corporate strategy and into management decisions to successfully manage those impacts and increase profitability. It explains how various inputs and processes affect sustainability performance and stakeholder reactions, and how they drive long-term corporate financial performance.

The Corporate Sustainability Model describes the inputs, processes, outputs, and outcomes necessary to implement a successful sustainability strategy. The inputs include:

- The broader external context
- The internal context
- The business context
- Human and financial resources

Though the inputs sometimes act as constraints to improved corporate sustainability, managers have significant ability through leadership and the formulation and implementation of various processes including sustainability strategy, structure, actions, and systems to effect corporate sustainability performance. The output of these processes is the sustainability performance—that is, the effect of corporate activity on the social, environmental, and economic fabric of society. In addition to having an effect on society, these activities often affect corporate financial performance.

This typically occurs through various positive and negative stakeholder (such as customers, employees, regulators, and consumer activists) reactions such as additional purchases, consumer protests, employee loyalty or resistance, and government regulations. These stakeholder reactions affect corporate profits and are a part of the business case for sustainability that has been widely discussed in both academic and managerial circles.[15] The model of the drivers, actions, and measures that managers can use to implement corporate sustainability can provide guidance for future research and managerial practice. It can help executives better manage the pressure to simultaneously achieve excellence in social, environmental, economic, *and* financial performance and create sustainability programs that maximize sustainability and financial outcomes.

Background to this book

In 1996, Marc J. Epstein wrote *Measuring Corporate Environmental Performance: Best Practices for Costing and Managing an Effective Environmental Strategy*. The book has been used extensively by managers in business and government, researchers, and students. It was widely used by corporate executives in both small and large companies and in general management functions at the senior and middle levels of organizations. It was also widely used by functional managers in the social and environmental management functions and the finance function. *Making Sustainability Work* builds on this earlier work and numerous other articles and books, and develops an entirely new framework for the measurement and management of corporate social, environmental, and economic impacts. It is written to be accessible to corporate managers but is built on a solid academic research foundation.

Relying on the best practices of major corporations and the latest academic research, this book covers the broad dimensions of sustainability along with the specificity of how to execute it within companies. The academic research relies on:

- Our own extensive field studies with dozens of companies
- An extensive review of the many academic and managerial articles and books on various aspects of implementing sustainability
- A large body of empirical work including surveys of company practices
- Archival data from various sources
- Other academic and company research, analysis, and discussions

It also includes best practice examples and models from dozens of global companies that are listed below. The examples include companies that have primary activities across the globe: in Europe, Asia, North America, South America, Australia, and Africa. Companies in different industries with different challenges are used to examine how to formulate and execute a sustainability strategy.

Companies cited in this book

- ABN AMRO
- adidas Group
- Advanced Micro Devices (AMD)
- Alcatel-Lucent
- Alcoa
- Allied Waste Industries
- Allstate Insurance
- Alpha Natural Resources
- Amanco Guatemala
- AMP Ltd
- Anglo-American
- Apple
- Avon Products
- Banco Real
- Bank of America
- Barclays
- Baxter
- Bayer
- Ben & Jerry's
- BG Group
- BHP Billiton
- The Body Shop
- The Boeing Company
- BP
- Bristol-Myers Squibb
- British American Tobacco
- British Telecom
- Browning-Ferris Industries
- Canadian Pacific
- Canon
- Cargill
- CEMEX
- China National Petroleum Corporation
- Chiquita Brands International
- Citigroup
- Coca-Cola
- Colgate
- Compañía de Minas Buenaventura
- The Co-operative Bank

- Danone
- Dean Foods
- De Beers
- Deutsche Bank
- Dell
- The Dow Chemical Company
- DuPont
- DyeCoo Textile Systems
- Eaton Corporation
- EGYPTAIR
- Emirates
- Ethiopian Airlines
- FleetBoston Financial
- Ford Motor Company
- Foxconn Technology Group
- Fujitsu Group
- Gazprom Bank
- Gazprom Group
- General Electric
- General Mills
- General Motors
- Georgia-Pacific
- Gillette
- GlaxoSmithKline
- Grameen Telecom
- Heineken
- Heinz
- Henkel International
- Hennes & Mauritz
- Herman Miller
- Hewlett-Packard
- The Home Depot
- Honda
- Honda North America
- HSBC
- ICICI Bank
- Inditex
- ING
- Intel
- Interface
- Johnson & Johnson
- Kingfisher
- L'Oréal
- Lucent Technologies
- Marks & Spencer
- Massey Energy
- Mattel
- McDonald's
- Microsoft
- MillerCoors
- Mitsubishi Corporation
- National Australia Bank
- Nestlé
- Newmont Mining
- Niagara Mohawk Power
- Nike
- Nissan Motor Company
- Nissan North America
- Novartis
- Novo Nordisk
- Ontario Hydro
- Patagonia
- Perrier
- Pfizer
- Philips
- Procter & Gamble
- PUMA
- Reebok
- Rio Tinto
- Roche
- Royal Dutch Shell
- Samsung
- Santander
- Sberbank
- ScottishPower
- Seiko
- Shaw Industries
- Siemens
- Sony Corporation
- Starbucks
- Star-Kist
- Steelcase
- Stonyfield Farms
- Suncor Energy
- Sun MicroSystems
- Teck
- Texaco
- Timberland
- Toyota Motor Corporation
- Unilever
- Union Carbide
- United Technologies Corporation
- UPS
- Uzbekistan Airways
- Verizon Communications
- Visa
- Vodafone
- Volkswagen Group
- Volvo Car Corporation
- Walmart
- West LB
- XcelEnergy
- Zara

The academic research and the examination of best-practice companies have all been integrated into a model (the Corporate Sustainability Model, described in Chapter 1) and guide to best practice. The subsequent chapters offer guidance to help translate sustainability strategies into specific policies, programs, systems, and measures that will provide direction and boundaries for decision-making and move the entire company toward its sustainability and financial performance goals.

Sustainability at CEMEX

CEMEX, a leading global cement company headquartered in Mexico, has a rich history of improving the wellbeing of those it serves through its efforts to pursue innovative industry solutions, efficiency advancements, and efforts to promote a sustainable future. Since launching its Eco-efficiency Program in 1994, CEMEX is aggressively pursuing a leadership role in the development of products and building solutions that reduce the environmental impacts of construction projects while fostering social and economic growth. CEMEX product innovations help to improve the sustainability of buildings and other structures (such as with self-compacting concrete, which has a dense formulation, improves the strength, durability, and life of a structure, while reducing labor costs, energy use, and health risks during construction, and maintenance costs throughout its life). The company is evaluating and improving the LCA (life-cycle analysis) of its products to enhance the understanding of, and ultimately reduce, its environmental footprint. A specific example is the LCA of concrete pavements versus asphalt pavements that demonstrate the reduction of CO_2 emissions during the life utility of the pavement by several factors, through, for example, less maintenance, less power consumption in illumination during its use, and less fuel consumption due to reduced rolling resistance.

Through partnerships with private enterprises, governments, and academic institutions, CEMEX supports programs that help people in emerging markets gain the knowledge to save money for housing, start a business, build homes and infrastructure, and help improve community services. Over 450,000 Latin American families benefited from Patrimonio Hoy, Productive Centers of Self-Employment, and ConstruApoyo. Combining the global presence of CEMEX distribution with the power of microcredit, Patrimonio Hoy offers integral solutions to low-income families by providing financial and technical assistance in the construction of their homes. Productive Centers of Self-Employment are community spaces where individuals manufacture concrete blocks and other precast forms, keeping half of their production for personal construction purposes while selling the other half to state and municipal governments. Today, there are 76 such centers in Mexico and Columbia. Through its ConstruApoyo program, CEMEX facilitates the distribution of funds for the construction, repair, or extension of homes with a prepaid debit card system, creating a transparent system through which aid recipients are able to purchase the building materials they need.[16]

Identifying the impacts created by an industry can aid in the development and implementation of a sustainability strategy. The cement industry embarked on a collaborative research project to identify the challenges and opportunities in achieving sustainability. The environmental issues include:

- Depletion of nonrenewable resources (i.e., fossil fuels)
- Impacts of resource extraction on landscape and environmental quality
- Dust emissions
- Other emissions including nitrogen oxides, sulfur dioxide, and carbon monoxide

The industry has positive and negative social impacts. Communities are concerned about health effects, worker safety, noise, and dust. On the other hand, in many developing countries, cement companies are contributing to improved roads and sewers, and training workers. The economic issues include job creation and economic growth due to the development of cement facilities and financial prosperity for the company.[17] The cement industry will continue to face challenges. To succeed, companies in this industry must monitor changes in the industry, be proactive in responding to challenges, and realize the opportunities that effective management of these challenges can have for the company and for society.

Making sustainability work: an overview of the revised book

We look at the important role of leadership, organizational culture, and strategy in achieving success in corporate sustainability in Chapter 2, examining the role of senior managers and corporate boards in leading and governing the sustainability activities and developing the sustainability strategy, along with the importance of senior management commitment and the various choices of strategy.

We also show how organizational design impacts the success of corporate sustainability, looking at the choices of organizational structures and the applicability to different organizational types. This includes centralized and decentralized functions, outsourced activities, and approaches to integration. One of the major challenges to successful sustainability implementation is to fit this new strategy into existing organizational structures simultaneously to improve social, environmental, economic, *and* financial performance. Chapter 3 discusses various organizational designs issues that can improve sustainability.

The various management systems that can be used to execute a sustainability strategy are critical elements in any successful implementation. This includes the variety of information that is needed to improve both operational and capital investment decisions. It includes improving the financial analysis needed for better management decision-making throughout the organization, along with a more formal integration of social, environmental, and political risks into the analysis. These systems provide the levers that managers can use to increase sustainability and financial performance. Chapter 4 looks at capital investment, costing, and risk management systems.

We take an in-depth look at specific ways to measure and reward sustainability performance. In this book, the emphasis is on measuring the performance of the *process* of sustainability along with measuring sustainability performance *results* as an ultimate goal and also as an intermediate goal to achieving financial success. We discuss each of these along with the role of incentives and rewards in improving sustainability performance, which are the focus of Chapter 5. Just as effective leadership and strategy are minimum enablers for sustainability success, some of the various formal and informal organizational systems must be used to effectively implement sustainability.

The measurement of social, environmental, and economic impacts of products, services, processes, and other corporate activities is critical. Chapter 6 gives an overview of the approaches that can be used to measure these impacts effectively, along with more detailed and applied examples of how to do this for inputs, processes, outputs, and outcomes.

Chapter 7 gives specific guidance on how to implement social, environmental, and economic impact measurement systems, including an extensive list of useful measures that can be used or adapted to measure the inputs, processes, outputs, and outcomes of sustainability investments. One of the biggest challenges for managers is to determine how to measure progress in sustainability. This requires process measures (which typically do not exist), in addition to results measures. Guidance is provided on the development of high-performance sustainability metrics to measure sustainability success and improve performance, as well as a framework and set of measures that can be used to measure performance and payoffs of sustainability investments. The extensive discussion of the foundations of sustainability measurement, along with the list of sample measures, is one of the unique features of this book.

Feedback and internal reporting are also needed to improve sustainability. This includes the design, content, audience, frequency, distribution, and communication of sustainability information. Chapter 8 describes how organizations can use this information to improve organizational learning and change products, processes, services, and other activities to be more sensitive to sustainability issues. It also includes a discussion of the feedback loops in the Corporate Sustainability Model and the importance for both learning and organizational performance.

External reporting is also important for communicating sustainability performance to stakeholders. Chapter 9 provides an overview of the existing regulations and guidance for social, environmental, and economic reporting and describes best practices. This includes a discussion of the reporting related to the Global Reporting Initiative, the choices for reporting in corporate annual reports, sustainability reports, and the web, and the choices for verification and auditing of the sustainability reports.

Chapter 10 summarizes the book's main points and provides guidance for managers with additional examples of best practices. It describes the opportunities available for innovation when companies proactively manage sustainability. And it focuses on the significant benefits that can accrue to both corporations and society by making sustainability work.

The development and implementation of a sustainability strategy is important for companies with either high or low social, environmental, and economic impact, companies small and large, manufacturers and service companies, with large community affairs or environmental, health, and safety (EH&S) staffs, and with no full-time EH&S staff at all. The numerous examples and approaches suggested in this book are at this very moment being introduced and used successfully in a variety of companies and can be readily adapted to companies of different sizes and complexities, in different industries, and with different environmental, economic, and social sensitivities.

The concepts discussed in this book are especially relevant to corporate general managers, sustainability managers, and financial managers who take a proactive role in creating systems to measure and manage corporate performance. It is also imperative that financial executives understand the relationships between social, environmental, and economic performance, as these complexities are increasingly key components of corporate valuations, analyses, and reporting. Most organizations now have sustainability managers who need to have the knowledge and tools to help create a strategic sustainability management system that links to corporate value.

The approach presented here also provides an opportunity to make better resource allocation decisions throughout the organization. It also provides an opportunity for sustainability managers to more effectively measure and report the value created through more effective management of stakeholder impacts and improvement of sustainability performance. Through more careful analysis and measure of the payoff of sustainability investments, general managers, financial managers, and sustainability managers can more effectively justify investments. In this way, sustainability investments can be integrated into the same capital investment process as other investments and the value of these investments to improving shareholder and other stakeholder value can be seen more clearly.

Operational managers, who are on the frontline of managing operations, need an understanding of the potential synergies and conflicts between operational, environmental, economic, and social performance, so that they can make informed decisions that create value for the organization. Many of the concepts and practices discussed in this book also have relevance for marketing managers, distribution managers, and legal managers, for the complexities involved in managing the impacts of an organization's products, services, processes, and other activities touch on all aspects of an organization and its constituents. R&D leaders, and product and process design engineers, will be interested in how analysis and management of social, environmental, and economic impacts present opportunities for innovation.

As well as senior and middle managers, academics and others interested in the field will benefit from reading this book. Nonprofit and governmental organizations, alike, will continue to be very interested in this topic as they have become increasingly sensitive to their social, environmental, and economic impacts and the evaluation of the costs and benefits of their activities.

Sustainability at Chiquita Brands International

Developing and initiating a sustainability strategy involves many steps. Chiquita Brands International, a leading producer and distributor of bananas, began its sustainability program by creating a Corporate Responsibility

Steering Committee consisting of senior and middle managers. The goal of the committee was to determine a way Chiquita could introduce values management into the organization. The result was Chiquita's Code of Conduct . . . Living by Our Core Values, which established standards including social responsibility. The code includes the requirements of Social Accountability 8000 (SA8000) and a goal to have third-party certification to SA8000 of all facilities located in Latin America. It also details its reporting guidelines, which includes an identification of measures and indicators. These reports are distributed to employees and disclosed publicly. Chiquita also established the position of Corporate Responsibility Officer. The officer reports directly to the CEO and board of directors. Prior to the creation of this position, sustainability was the responsibility of operating managers who did not receive much oversight.[18]

Despite these developments, Chiquita continued to face the difficulties that plague many multinational corporations. In many countries, government security of employees is not effective. Chiquita, for example, was fined for financially supporting a terrorist organization to protect its employees in Colombia. Additional lawsuits were filed against Chiquita seeking compensation for the deaths of people allegedly killed by the terrorist group.[19]

Many companies are globalizing into countries where current social and environmental regulations are lax. These companies are faced with severe competitive pressures that question whether global standards are too costly or unsafe for the operations in many countries. Deciding whether to follow a global standard or to follow common country practices or locally adapted standards is just one of the many challenges that multinational corporations encounter when trying to set a sustainability strategy.

And finally . . .

Companies know that it is critical to formulate a sustainability strategy, but how to formulate and execute it remains a challenge. This book provides a framework and model for implementing sustainability in large, complex, global organizations. But, for this to happen:

- Sustainability must be an integral component of corporate strategy
- Leadership must be committed to sustainability and build additional organizational capacity
- Sustainability strategies should be supported with management control, performance measurement, and reward systems, as appropriate
- Sustainability strategies should be supported with mission, culture, and people as appropriate

- Managers must integrate sustainability into all strategic and operational decisions. Then, additional systems and rewards can be introduced to formalize and support decision-making
- Managing sustainability performance should be viewed not only as risk avoidance and compliance, but also as an opportunity for innovation and competitive advantage

CHAPTER 1

A new framework for implementing corporate sustainability

With growing sensitivity toward social, environmental, and economic issues and shareholder concerns, companies are increasingly striving to become better corporate citizens. Executives recognize that long-term economic growth is not possible unless that growth is socially and environmentally sustainable. A balance between economic progress, social responsibility, and environmental protection, sometimes referred to as the triple bottom line, can lead to competitive advantage.[1] Through an examination of processes and products, companies can more broadly assess their impact on the environment, society, and economy, and find the intersection between improving sustainability impacts and increased long-term financial performance. To aid executives in achieving sustainability, this chapter will:

- Define the principles of sustainability
- Identify important stakeholder relationships
- Introduce a framework—the Corporate Sustainability Model—to guide managers in measuring and managing sustainability performance. This framework will be the basis for the remainder of the book and provides a tool for the implementation of corporate sustainability and the evaluation of corporate impacts

The evaluation of social, economic, and environmental impacts of organizational actions is necessary to make effective operational and capital investment decisions that positively impact organizational objectives and satisfy the objectives of multiple stakeholders. In many cases, reducing these impacts increases long-term corporate profitability through higher production yields and improved product quality. Novo Nordisk, the global Danish-based healthcare company specializing in diabetes care, strives to conduct its business in a financially responsible (profitable for the long-term), socially responsible (patients first), and environmentally responsible (doing more with less) way. The aim is to ensure long-term profitability by minimizing any negative impacts from business activities and maximizing the positive footprint from its global operations: improved health, employment, economic prosperity, and social equity (see Fig. 1.1).

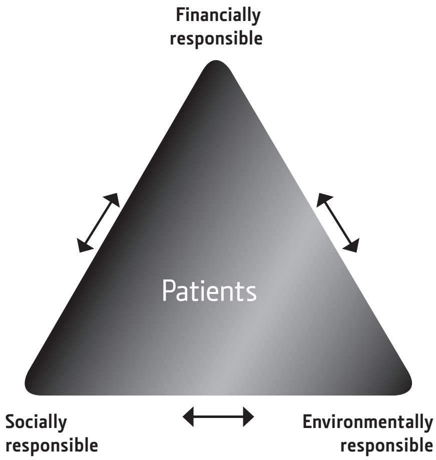

FIGURE 1.1 **Novo Nordisk's triple bottom line business principle**

Source: Novo Nordisk (2012) *Annual Report*

There is growing interest among the business community in the development and implementation of sound, proactive sustainability strategies, including significantly increased stakeholder engagement. The financial payoff of a proactive sustainability strategy can be substantial.[2] By addressing the nonfinancial aspects of business, companies can improve the bottom line and earn superior returns. The Dow Chemical Company, a global diversified chemical company, focuses on manufacturing efficiency inside the company while maximizing the contributions of Dow products to improve efficiency and expand affordable alternatives. Dow's manufacturing energy intensity has improved more than 40% since 1990, saving the company a cumulative US$24 billion. Dow is committed to bringing solutions to the challenge of climate change by producing products that help others reduce greenhouse gas emissions, such as lightweight plastics for automobiles and insulation for energy efficient homes and appliances.[3]

Henkel International, a German-based manufacturer of laundry and homecare products, beauty care, and adhesive technologies, has developed a sustainability strategy to create more value for its customers and consumers, for the communities it operates in, and for the company—at a reduced ecological footprint. Henkel concentrates its activities along the value chain on six focal areas that reflect the challenges of sustainable development as they relate to Henkel's operations. Figure 1.2 presents Henkel's six focal areas with five-year targets for 2015. Focal areas are subdivided

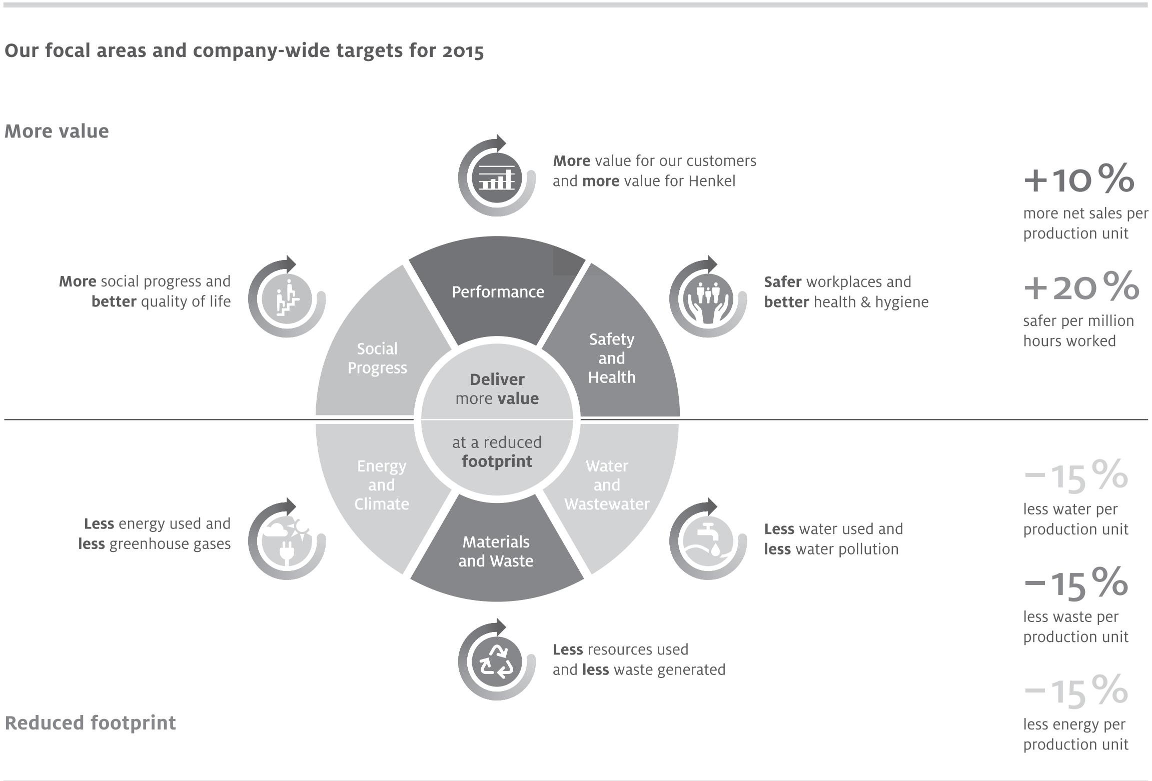

FIGURE 1.2 **Henkel's six focal areas in sustainability performance**

Source: Henkel (2012) *Sustainability Report* into two dimensions—"more value" and "reduced footprint". To accomplish these, the company uses innovations, products, and technologies, but recognizes that these dimensions must be ever-present in the minds and day-to-day actions of around 47,000 employees.

To become a leader in sustainability, it is important to articulate what sustainability is, develop processes to promote sustainability throughout the corporation, measure performance on sustainability, and ultimately link this to corporate financial performance. Corporate citizenship is an important driver for building trust, attracting and retaining employees, and obtaining a "license to operate" within communities. However, corporate citizenship is much more than charitable donations and public relations—it's the way the company integrates sustainability principles with everyday business operations and policies, and then translates it all into bottom-line results.

For sustainability to be long-lasting and useful, it must be representative of and integrated into day-to-day corporate activities and corporate performance. If it is seen only as an attempt to provide effective public relations, it does not create long-term value and can even be a value destroyer. The key is integrating sustainability into business decisions, and identifying, measuring, and reporting (both internally and externally) the present and future impacts of products, services, processes, and activities. In fact, this book is all about the integration of sustainability into corporate operations to simultaneously achieve increases in social, environmental, economic, *and* financial performance.

What is sustainability?

To help understand what sustainability is in the context of corporate responsibility, we have broken it down into nine principles (see Table 1.1).[4] These principles have three attributes:

1. They make the definition of sustainability more precise
2. They can be integrated into day-to-day management decision processes and into operational and capital investment decision-making
3. They can be quantified and monetized

These nine principles of sustainability will be used as a foundation throughout this book. They highlight what is important in managing stakeholder impacts (i.e. the impact of company products, services, processes, and other activities on corporate stakeholders).

Although we are presenting in Table 1.1 a broad definition of sustainability, this book focuses on the criteria that are usually included in sustainability discussions, analyses, measurements, and reports—social, environmental, and economic. So, though the principles of ethics and governance, for example, are important aspects of sustainability, they are not the focus of most corporate applications of corporate social responsibility or sustainability. But the discussion of systems, structures, performance measures, culture, and so forth necessary for implementation can be easily adapted to improve performance on all nine principles.[5] Further, the formal and informal organizational processes described in this book should be applied to all of these principles.

1. Ethics	The company establishes, promotes, monitors, and maintains ethical standards and practices in dealings with all of the company stakeholders
2. Governance	The company manages all of its resources conscientiously and effectively, recognizing the fiduciary duty of corporate boards and managers to focus on the interests of all company stakeholders
3. Transparency	The company provides timely disclosure of information about its products, services, and activities, thus permitting stakeholders to make informed decisions
4. Business relationships	The company engages in fair-trading practices with suppliers, distributors, and partners
5. Financial return	The company compensates providers of capital with a competitive return on investment and the protection of company assets
6. Community involvement/ economic development	The company fosters a mutually beneficial relationship between the corporation and community in which it is sensitive to the culture, context, and needs of the community
7. Value of products and services	The company respects the needs, desires, and rights of its customers and strives to provide the highest levels of product and service values
8. Employment practices	The company engages in human-resource management practices that promote personal and professional employee development, diversity, and empowerment
9. Protection of the environment	The company strives to protect and restore the environment and promote sustainable development with products, processes, services, and other activities.

TABLE 1.1 **The broad definition of sustainability performance—nine principles**

Source: Epstein and Roy (2003) "Improving Sustainability Performance"

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