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Sustainability in start-up ventures: what founders say versus what they do

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Abstract

Purpose – Although founders of start-up ventures seem to hold similar views about ethical, social, and environmental principles as those in large firms, entrepreneurs tend to be focussed on their immediate stakeholders, including customers, employees, suppliers, and investors. The purpose of this paper is to compare founders' views – "what they say" – about sustainable business practices to their described business models – "what they do."

Design/methodology/approach – An opinion survey of prospective business start-up founders, along with a content analysis of their business plans, is used to compare founders' views – "what they say" – about sustainable business practices to their described business models – "what they do."

Findings – Findings suggest that prospective business founders do value sustainable business practices. However, the content of their business models does not reflect their espoused importance of sustainability.

Research limitations/implications – The main limitation of this study is that university students in a business-planning course were used as surrogates for actual start-up venture founders. That being the case, a small percentage (just under 5 percent) of the students indicated at the end of the course that they would like to continue pursuing the venture they helped develop a business plan for. To address this, future research should focus on actual founders of new ventures.

Practical implications – The content analysis of the business plans revealed a marked disconnect between the high-value founders reported to place on sustainability and the actual limited inclusion of sustainability in their business models. Therefore, more work needs to be done to educate, encourage, and coach start-up founders to raise their awareness of and desire to include sustainability as key parts of their business models.

Originality/value – To date, no studies have attempted to compare start-up venture founders' views – "what they say" – about sustainable business practices to their described business models – "what they do."

Keywords Sustainability, Entrepreneurship, Start-up, Founders

Paper type Research paper

Introduction

Sustainability has become the strategic imperative of the new millennium. The phrases Sustainability, Corporate Social Responsibility (CSR), Corporate Social Performance, Going Green, and the "Triple Bottom Line" (Elkington, 1998) all refer to organizations enhancing their long-term economic, social, and environmental performance. Both business leaders and academics recognize that sustainability is important to the long-term success of firms and the communities in which they operate, with numerous examples of organizations, both large and small, that have seen success from their sustainability efforts (Jenkins, 2009; Orlitzky *et al.*, 2003; Wu, 2006). Moreover, there is an increased interest in sustainable entrepreneurship as a phenomenon and a research topic (Cohen and Winn, 2007; Dean and McMullen, 2007; Hockerts and Wüstenhagen, 2010). Hence, founders of start-up ventures today can benefit from implementing sustainability efforts to enhance their viability over the long term. But, do founders of start-up ventures regularly incorporate and reinforce sustainable business practices in their business models?

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Terminology

Despite the momentum of sustainability efforts across the corporate and entrepreneurial sectors, "sustainability" remains an ill-defined term and there are several monikers by which the concept is referred to. Sustainability, CSR, Going Green, Social Entrepreneurship, and the "Triple Bottom Line" are all common phrases that are used to refer to the phenomenon, creating confusion about the meaning (Strategic Direction, 2010). Therefore, for consistency, we use the term sustainability throughout our discussion, which pertains to the development, implementation, assessment, and study of all aspects of sustainability and the related concepts.

Sustainability and start-up ventures

There is an ever-increasing body of literature on sustainability and start-up ventures, with the concept of social entrepreneurship emerging in the late 1990s and more recently becoming a focus of academic research (Hockerts and Wüstenhagen, 2010). Sustainability and entrepreneurship is, ultimately, an integration of social, environmental, and economic value creation. This integrated view has only recently appeared in the academic literature (Cohen and Winn, 2007; Dean and McMullen, 2007; Schaltegger and Wagner, 2008).

The implementation of sustainable business practices within an existing organization is frequently a difficult and drawn-out process (Schick *et al.*, 2002). However, the incorporation of sustainability in start-up ventures seems to be more advantageous, as new businesses have few, if any, established organizational processes and procedures. Therefore, opportunities exist to develop sustainable business practices from the very beginning of a new venture (Anderson and Leal, 1997). According to this reasoning, the assessment of sustainability in new ventures should not only focus on the few "ecopreneurs" who have ideas for sustainable enterprises, but also on start-ups conceived by entrepreneurs just planning to create a conventional business. New business founders in general can also become aware of the opportunities that more sustainable business practices have to offer, and subsequently build those practices into their ventures. A widespread sustainability orientation in start-ups could speed up the overall process of restructuring industry and commerce toward sustainable business practices (Schick *et al.*, 2002). However, little is known about the meaning and the practices of sustainability for start-up companies (Jenkins, 2004; Lee, 2008). Although, founders of start-up ventures seem to hold similar views about ethical, social, and environmental principles as those in large firms, entrepreneurs tend to be focussed on their immediate stakeholders, including customers, employees, suppliers, and investors (Lahdesmaki, 2005). Therefore, we sought to find out "what business founders say" by asking the question: do start-up venture founders value sustainability and, if so, for what reasons?

Incorporating sustainability into the business model

Setting the organization's sustainability direction

The process of fostering sustainable business practices in an organization begins by incorporating sustainability into the firm's strategic direction. Along with performance benefits, strategic management enables firms to have a clearer direction, a sharper focus on what is important, and an improved understanding of a rapidly changing environment (Andersen, 2000). There is evidence to support how the clear articulation of sustainability as part of the firm's mission, values, goals, and strategy are key factors in fostering organizational sustainability practices.

To begin with, a firm's mission defines and establishes the priorities of the organization (Jacopin and Fontrodona, 2009). Considerable research has shown that a well-articulated mission statement provides critical signals to organizational stakeholders regarding the aims of the organization and can ultimately lead to positive outcomes that benefit the entire firm (Desmidt *et al.*, 2011). With regard to sustainability, it is important that a firm's mission articulates the role of the organization to the market, as well as the role of the organization in relation to society (Castello and Lozano, 2009; Quinn and Dalton, 2009).

To cultivate their sustainability aims, firms begin with their mission statements, and then proceed by instilling sustainability in their organizational values. Values refer to standards of behavior firm members should follow to achieve organizational goals (Schein, 2010). Values influence the decisions individuals make, the people they trust, the appeals they respond to, and the way their time and energy are invested (Posner, 2010). Clearly articulated organizational values can also be a basis for determining the "fit" between employees and the firm. Studies have found that when an employee's values fit the organization's values, the employee will stay longer and be more productive (Kristof-Brown *et al.*, 2005). Shared values have been found to be a key component of aligning decision making and behaviors with a firm's sustainability efforts (Hargett and Williams, 2009).

It is important for firm's that have embraced sustainability in their mission and values to also incorporate sustainability in their goals. Goal-setting is a robust motivational technique that is widely recognized as a tool for shaping performance at both the individual level (Locke and Latham, 2012) and the organizational level (Smith and Locke, 1990). Goals communicate to all stakeholders the direction the company is headed, the priorities of the firm, and the organization's intended future domains of activity (Etzioni, 1960; Thompson, 1967). Goal setting also provides the basis for establishing the metrics that will be used to measure progress (Ransom and Lober, 1999). Organizational sustainability goals should complement sustainability-centered missions (Galpin *et al.*, 2012).

Beyond a firm's mission, values, and goals, a global survey of more than 1,500 corporate executives found that a majority of respondents believe sustainability is becoming increasingly important to business strategy (Berns *et al.*, 2009). The link between a firm's strategy and its performance is well established (Beard and Dess, 1981; Lee *et al.*, 2010). Moreover, empirical evidence also shows a strong link between an organization's strategy and the firm's performance in terms of social responsibility (Galbreath, 2010).

Reinforcing sustainability after setting the direction

The components of a start-up's strategic management approach (i.e. the mission, values, goals, and strategy) provide a foundation from which to build sustainability into the business model. However, a desired sustainability direction must be reinforced as the venture is launched and grows. Evidence supports the view that successful organizations establish human resource management (HRM) and operational practices, which support their strategic intent (Dessler, 1999; Chow and Liu, 2009; Galpin *et al.*, 2014).

The goal of embedding sustainability into a firm's HRM and operational practices is to align the values and behaviors of managers and employees with the organization's sustainability mission, values, goals, and strategy. A firm's HRM and operational policies and practices also provide a foundation for management to work from when making day-to-day management decisions such as hiring and firing, job design, training, promotions, communication, and coaching. Firms that adopt integrated HRM and operational practices experience a range of positive outcomes associated with improved firm performance (Lee *et al.*, 2010) and enhanced sustainability performance (Galpin *et al.*, 2012).

To begin with, companies often use value-based hiring practices to screen potential new hires for a commitment to a set of chosen values (Dessler, 1999). Substantial research has shown that a firm's sustainability practices influences its attractiveness as an employer (Albinger and Freeman, 2000; Backhaus *et al.*, 2002; Bhattacharya *et al.*, 2008).

After hiring, continuous reinforcement of a firm's strategic intent is also enhanced through incentive pay, information sharing, empowerment, and skill development (Pfeffer, 2005). Similarly, Dessler (1999) identifies training linked to strategy and values, tradition-building symbols and ceremonies, extensive two-way communications, and promoting the right leaders – those who demonstrate a commitment to the firm's strategy and values – as essential elements of reinforcing a firm's strategic intent. Research has shown that a company's reward system also significantly influences the decision making of organizational members (Trevino and Nelson, 1995). Rewards shape behavior and often yield immediate and long-term effects (Lawler, 2003). Implementing performance management systems that link the achievement of sustainability goals with rewards provides powerful reinforcement of a firm's sustainability values, goals, and strategy (Lacy *et al.*, 2009; Rok, 2009).

In addition to HRM practices, embedding sustainable practices into day-to-day operations also reinforces a firm's sustainability direction. For example, HSBC employees regularly develop projects that fall within one of three areas: sustainable business opportunities (e.g. the development of new financial instruments that integrate climate change, creating new products that integrate sustainability criteria, and including sustainability in customer relationship management programs); sustainable operations (e.g. projects which contribute to meeting HSBC's environmental footprint reduction targets in the areas of waste, water, energy, and CO_2, and will in the process help reduce operating costs); and sustainable communities (e.g. projects that help to raise broader community awareness about risks associated with climate change and the practical measures individuals can take) (Barker *et al.*, 2011). Sierra Nevada Brewing employees across all departments generate and implement environmental stewardship actions following the mantra "Reduce, Reuse, Recycle" to decrease expenses by reducing waste and energy usage, reusing water, and recycling (Casler *et al.*, 2010). Vail Resorts 18,000 employees across the company help drive the firm's sustainability efforts by identifying more sustainable business practices in daily operations, achieving greater financial performance and reducing the firm's environmental impact (Galpin *et al.*, 2014).

Hence, we sought to find out "what business founders do" by asking the question: do start-up venture founders regularly incorporate sustainability into their business models, and if so, to what degree?

Population and method of data collection

Population

In total, 56 upper-level (i.e. third- or fourth-year) university students participating in an undergraduate entrepreneurial business-planning course entitled "New Venture Creation" represented the population of start-up business founders. The students worked in teams of two, three, or four members each to develop a business plan for 19 different start-up venture ideas each team conceived. The contents of the course focussed on researching, developing, and presenting various sections of a start-up business plan including: industry and competitive analyses, strategic management (mission, values, goals, and strategies), marketing and market testing, operations, management and human resources, action-planning and key milestones, financials, critical risks and contingencies, and harvest and transition strategy. Beyond these elements of the business plan, the course topics did not address the topic of sustainability. There was also no course requirement that sustainability be a component of the start-up business models being developed. However, the students, being upper-level undergraduates from various majors including business, engineering, information technology, and design, were likely exposed to the topic of sustainability in one or more of the courses they had previously taken throughout their courses of study.

Data collection

To answer the question – do start-up venture founders value sustainability and, if so, for what reasons? – an opinion survey of the business-planning course participants' views of sustainability was conducted at the end of the course, after their business plans were completed. The survey, consisting of eight total questions, was structured based on the Global Reporting Initiative's (GRI) six key categories of sustainability reporting: economic, environmental, labor practices and decent work, human rights, society, and product responsibility (Global Reporting Initiative, 2013). The questions to assess respondents' views of the six GRI categories, along with response choices, are identified in Table I. All question descriptors in parentheses were taken directly from the GRI descriptors for each key category.

In addition to the six GRI category-specific questions, to assess respondents' overall views of sustainability, two additional questions were included; one closed-ended question (the biggest reason that I value sustainability in business is […]), and one open-ended question (in this text box, please let us know any additional views or comments you might have about the topic of "sustainability in business").

Finally, to achieve definitional consistency across respondents, a description of the term sustainability was provided at the beginning of the survey, which was: the definition of sustainability in businesses for the purpose of this survey is: the processes by which companies manage their financial, social, and environmental risks, obligations and opportunities – known as focussing on the "triple bottom line" – people, profit, and planet.

To answer the question – do start-up venture founders regularly incorporate sustainability into their business models, and if so, to what degree – a content analysis of the business-planning course participants' final business plans was conducted at the end of the course. According to Krippendorff (2013), "content analysis has an important place in the wide range of investigative tools available to researchers […] content analysis is an unobtrusive technique that allows researchers to analyze relatively unstructured data" (p. 49). Moreover, "compared with techniques such as interviews, content analysis usually yields unobtrusive measures […] hence, there is little danger that the act of measurement itself will act as a force for change that confounds the data" (Weber, 1990, p. 10). To clearly compare the course participants' survey responses (what they say) to their business models (what they do), the content analysis of their business plans was also structured based on the six key GRI categories described above. Each section described above of the 19 business plans was reviewed, and for the six GRI categories it was determined whether the category was – addressed in depth, addressed adequately, addressed briefly, or not addressed – within the plan.

Results

Participants' views of sustainability in general

Responses to the general question "The biggest reason I value sustainability in business is […]" indicate that the participants do indeed value "sustainability in business." almost two-thirds (62 percent) of participants selected the more altruistic responses

Survey results		Business plans content analysis results	
Answer options	Response (%)	Content options	Content (%)
GRI category: economic – a company's primary purpose is economic performance and economic sustainability			
Strongly disagree	0	Addressed in depth	42
Disagree	21	Addressed adequately	47
Not sure	11	Addressed briefly	11
Agree	57	Did not address	0
Strongly agree	11	Combined total	100
GRI category: environmental – it is a company's responsibility to reduce both its direct and indirect impact on the environment (materials, energy, water, biodiversity, emissions, effluents, waste, products and services, compliance and transport)			
Strongly disagree	2	Addressed in depth	5
Disagree	7	Addressed adequately	5
Not sure	9	Addressed briefly	11
Agree	52	Did not address	79
Strongly agree	30	Combined total	100
GRI category: labor practices and decent work – it is a company's responsibility to have a positive social impact through labor practices and decent work (employment, labor/management relations, occupational health and safety, training and education, diversity and equal opportunity and equal remuneration for women and men)			
Strongly disagree	2	Addressed in depth	16
Disagree	2	Addressed adequately	21
Not sure	5	Addressed briefly	47
Agree	59	Did not address	16
Strongly agree	32	Combined total	100
GRI category: human rights – it is a company's responsibility to address human rights issues (investment, non-discrimination, child labor, forced labor, security practices, indigenous rights, assessment and supplier human rights and grievance's)			
Strongly disagree	2	Addressed in depth	0
Disagree	5	Addressed adequately	0
Not sure	13	Addressed briefly	5
Agree	54	Did not address	95
Strongly agree	27	Combined total	100
GRI category: society – it is a company's responsibility to improve the society in which they operate through local communities, anti-corruption, public-policy, anti-competitive behavior, and compliance			
Strongly disagree	2	Addressed in depth	5
Disagree	9	Addressed adequately	5
Not sure	16	Addressed briefly	0
Agree	55	Did not address	90
Strongly agree	18	Combined total	100
GRI category: product responsibility – a company should be responsible for impacts of their products (customer health and safety, product and service labeling, marketing communications, customer privacy, and compliance) on the end user			
Strongly disagree	2	Addressed in depth	5
Disagree	2	Addressed adequately	5
Not sure	7	Addressed briefly	0
Agree	50	Did not address	90
Strongly agree	39	Combined total	100

Table I. Survey questions and response choices for the six GRI categories

"Sustainability is the right thing to do for society" or "Because I believe sustainable practices are the responsibility of all firms." Just over a third (38 percent) selected the more self-regarding response choices "To manage risk" or "To gain a competitive advantage." Notably, no participants selected the response "I do not value sustainability."

Responses to the open-ended question also illustrated the participants' value of sustainability, which included:

- "I think more firms need to take responsibility for the negligent actions on the environment";
- "I have always felt that companies should not cut corners to cut costs. They should take responsibility for their actions and not reward people simply because they cut costs"; and
- "Sustainability is important to maintain the health of our world and it SHOULD be a goal of a company."

Participants' views of sustainability, compared to the contents of their business plans

The comparison of the participants' survey responses for each of the six GRI categories, to the content analysis of their business plans is presented in Table I.

Discussion

What start-up founders say vs what they do

The content analysis of the business plans revealed a marked disconnect between the value founders appear to place on sustainability, and their business models. As illustrated in Table I, according to the survey responses, participants placed a high value on each of the six GRI categories. However, the content analysis revealed that participants addressed only the economic category to a high degree, which was addressed "In Depth" or "Adequately" in 89 percent of the business plans. The next closest category was Labor Practices and Decent Work, which was addressed "In Depth" or "Adequately" in just 37 percent of the plans. This is not surprising as new ventures often struggle to survive economically (Hogarth and Karelaia, 2012). Therefore, founders often place the highest priority on "economic sustainability." Comments made by the participants also illustrated this view, including:

- "I believe that sustainability is an important subject for businesses to consider, but it should also be prioritized after the business is certain that it can stay afloat"; and
- "Without either solid investment or solid revenue off the bat, it is difficult for a [start-up] company to focus on sustainability until it is off the ground and solidified. Therefore, sustainability is most likely not a concern."

Implications for practice

The content analysis of the business plans revealed a marked disconnect between the high-value founders reported to place on sustainability and the actual limited inclusion of sustainability in their business models. If, as Schick *et al.* (2002, p. 60) state "a widespread sustainability orientation in start-ups could speed up the overall process of restructuring industry and commerce toward sustainable business practices," more work needs to be done to educate, encourage, and coach start-up founders to raise their awareness of and desire to include sustainability as key parts of their business models.

Limitations and additional research

The main limitation of this study is that university students in a business-planning course were used as surrogates for actual start-up venture founders. That being the case, a small percentage (just under 5 percent) of the students indicated at the end of the course that they would like to continue pursuing the venture they helped develop a business plan for. To address this, future research should focus on actual founders of new ventures.

Conclusion

It appears that prospective business start-up founders do value sustainable business practices. However, within on our sample, the content of their business models does not reflect their espoused importance of sustainability; creating a disconnect between their views – "what they say" – and their described business models – "what they do."

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