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Integrating corporate sustainability and strategy for business performance

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Abstract

Purpose – The purpose of this paper is to make business the centrepiece of its inquiry into responses to the sustainable development challenge.

Design/methodology/approach – This paper uses the individual firm as its lens for viewing the sustainability challenge. It explores and synthesises the new strategic capabilities that business will require to meet this challenge and how these can contribute to sustainable competitive advantage. It argues that to focus management attention and understanding, these capabilities must be rooted in existing strategy paradigms. It cites India, a developing economy exemplar, to posit the compelling rationale for making corporate sustainability an integral part of business strategy for the developing world as well. It sounds an important cautionary note that – notwithstanding corporate acceptance of the urgent need – building sustainability, as a strategic business capability will still require significant management attention and efforts.

Findings – The prevailing social and environmental challenge that are an intractable negative outcome of development underscore the equal and vital significance of integrating corporate sustainability into business strategy in both developing and developed countries.

Originality/value – Inducting the conclusion that society needs to be a key consideration in a business's strategy, this paper underscores the essential business logic that can make it so – a causative flow from key sustainability-related resources to strategic capabilities and thence to potential sustainable competitive advantages for the firm.

Keywords India, Sustainable development, Competitive advantage, Developing countries, Business performance, Corporate sustainability, Business strategy, Natural capitalism

Paper type Conceptual paper

The firm as the unit of inquiry into sustainable development

This paper uses the individual firm or business as its lens to view the sustainability challenge. It is from this vantage point that the "driving forces" (Wilkinson, 2009) in the mega-environment, of "rapid technological diffusion", "extensive environmental threats", and "vast current inequalities of income and power" (Sachs, 2008, p. 8) are viewed. The dystopian scenarios of undermined global governance, social unrest, and ineffective safeguards that may arise from these critical uncertainties (World Economic Forum (WEF), 2012, pp. 16-27) are also contemplated from this firm-centric mindset.

There is a temporal identifier for this prevailing era of relentless and dynamic uncertainty that the above description foregrounds. It is conceptually useful because it highlights the decade and more since the start of the millennium as the vanguard of over two centuries of Anthropocene, an epoch where humanity has seriously disturbed many critical earth systems (Crutzen, 2009). Amongst the more impactful and potentially deleterious markers of business's macro-environment landscape in this era are chronic fiscal imbalances, greenhouse gas emissions, global governance failure, unsustainable population growth, critical systems failure, overexploitation of species, and mismanaged natural cycles (WEF, 2012, p. 11; Sachs, 2010, pp. 7-9). This is the overarching sustainability challenge.

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There are two compelling reasons for making business the centrepiece of any inquiry into responses to this challenge. The first is a present and clearly articulated understanding on the part of government and civil society that, "business leadership is needed in adopting efficiency measures, mobilising capital, creating new markets, developing new technologies, driving innovation, deepening our skills base and developing partnerships across the whole community" (Rudd, 2008). The second is the complementary realisation on the part of business that it must pro-actively lead on this issue because by "playing the bystander" it will "recklessly" ignore "a significant shift in its market environment" (Hoffman, 2007, p. 34). On the basis that business's strategies and its leadership responses are correlated to changing environments, it should be possible to broadly link its different responses to the particular characteristics of this challenge (Murthy and McKie, 2009, p. 51).

This paper will therefore: explore the form and substance of the sustainable development challenge; synthesise the new strategic capabilities that business will require to meet this challenge; and root these capabilities in existing strategy paradigms. It concludes by stressing the importance of its findings for both emerging and developed economies.

Sustainable development and changing perspectives on the role of business

There have been significant temporal shifts in the roles that business has been progressively assigned and pro-actively sought in its unfolding colloquy with government, NGOs, and civil society with regards to sustainable development. Traditionally, governments and NGO groups have looked to the private sector solely as a funding source to support poverty reduction and make philanthropic donations (de Ferranti, 2006). This limited expectation was justified on the grounds that this was one way of "ameliorating the worst consequences of foreign direct investment […] especially in the poorest countries" (Blowfield, 2005, p. 517). On business's part there has been a tacit understanding that "while the market may punish a firm for irresponsible behaviour, such reaction is slow and usually linked to ethical transgressions, rather than failures with regards to social initiatives" (Boyle and Boguslaw, 2007, p. 115). There have been fundamental gaps and contradictions between commercial goals and development ones that have led corporations to be historically viewed more as a cause of the problem rather than its solution.

This view has been changing progressively with time to the extent that business has been recast as a key stakeholder in the sustainable development conversation alongside government, civil society, and NGOs. The modern mileposts in this transition mirror on-going refinement in the conception of sustainable development beginning with the Report of the world commission on environment and development: our future (Brundtland, 1987). This seminal report serves to foreground the three vectors of the sustainable development debate – economic growth, needs of the poor, and environmental limits – and extends their impacts intergenerationally. While business has not been explicitly mentioned in the report, it could be construed; however, that the report related sustainability to corporations and economic prosperity by the way it defined the term "sustainable development" (WCED, 1987, p. 43).

The 1992 Earth Summit in Rio de Janeiro provided an additional impetus that resulted in widespread acceptance of the definition of sustainable development by business leaders (Dyllick and Hockerts, 2002). Business had begun to consider itself a key stakeholder in any debate on adaptation and mitigation strategies to prepare the planet and humankind to "meet the basic needs of all, moderate the use of natural resources and renew the earth's depleting finite resources" (Shrivastava, 1995, p. 938). The challenge for corporate social responsibility (CSR) in developing countries was further framed by a vision that was distilled into the Millennium Development Goals in 2000 – "a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women and a healthier environment" (United Nations, 2006, p. 3). For its part, private enterprise was formally invited to contribute directly to the goals through core pursuits such as increasing productivity and job creation, or seeking opportunities for service delivery through public-private partnerships (Commission on the Private Sector Development, 2004, p. 137).

Sustainable development and business's new realities

The multiplicity of definitions and the broad remits they invest in the term "sustainable development" are understandable in the light of the various political, public and academic influences that have shaped this domain over time. These influences include: "the conservation movement of the early twentieth century, the environmental and counter-technology movements in the 1960s and 1970s, the 'no growth' philosophy which emerged in the 1970s, as well as contributions from the discipline of ecology. During the 1980s, social issues became more prominent, including human rights, the quality of life as well as poverty" (Linnenluecke and Griffiths, 2010, pp. 357-8).

The concept has expanded even further since then and now has a focus on economic profits, social impact and the environment – the triple bottom line (Elkington, 1998). This continuing augmentation of the term sustainability has brought with it the criticism that it has become "too broad in its scope to be relevant to organisations" (Banerjee, 2001, p. 42). It has also served to underline business's enlightened self-interest in demanding voice and vote on this issue. This is because the new and cascading realities of sustainability make anticipation and/or containment of the sustainable development opportunity and/or threat increasingly onerous for business. Each of these realities is discussed in turn below.

Trade-offs

The first reality is the dominant logic of trade-off that has coloured this debate. The philosophical origins of this logic harks back to the enlightenment and Malthus's (1798/2004) compelling if unpopular arguments at the time, that unfettered improvement in the human condition would be ultimately thwarted by the strong and constantly operating check of subsistence. Almost two centuries later, *The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind*, first published in the early 1970s, stressed that, "continuing 'business as usual' policies through the next few decades will not lead to a desirable future, or even to meeting basic human needs" (cited in Meadows and Meadows 2007, p. 196). This trade-off mindset between economic development and environmental and social security was further reinforced by the definition of the term "sustainable development" (WCED, 1987, p. 43). This dominant zero-sum and "extremely cautionary" view of sustainable development has spawned a second reality (Murthy, 2009, p. 213).

Moral free space

The second reality concerns the ambiguity that now surrounds the meaning of ethical business practice in specific economic interactions (Barge and Oliver, 2003, p. 132). As an example, "broadly framed investments in poverty reduction do not fit neatly into business strategies focused on short-term cost-benefit analysis" (Boyle and Boguslaw, 2007, p. 103).

In a related vein, the business's choice of the sustainability issue that it wishes to pursue could be constrained by its markets. For example, social issues are generally given more political, economic, and media emphasis in developing countries in comparison to environmental, ethical or stakeholder issues (Schmidheiny, 2006). Sustainability has therefore become a normative concept in which ethical belief systems converge to limit the "moral free space" of business (Donaldson and Dunfee, 1999, p. 38; Gladwin *et al.*, 1995). This in turn creates a third reality for business.

Persistent notions of equilibrium

The third reality is a persistent notion of equilibrium that is threaded-through conceptions of sustainability. This is best foregrounded in Costanza *et al.* (1991) description of sustainability as:

> A relationship between dynamic human economic systems and larger-dynamic, but normally slower-changing ecological systems, in which: a. Human life can continue indefinitely; b. Human individuals can flourish, and; c. Human cultures can develop; but in which the effects of human activities remain within bounds, so as not to destroy the diversity, complexity, and function of the ecological life support system (p. 8).

The second-order effects of such a dynamically balanced relationship on human beings and commerce is captured by Hawken's (1993) homily:

> Sustainability is an economic state where the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to produce for future generations. It can also be expressed as [...] leave the world better than you found it, take no more than you need. Try not to harm life or the environment, and make amends if you do (p. 139).

In the aggregate these three cascading realities will have significant impacts on business performance. In order to succeed, business may need to eschew vaunted post-industrial business strategies for sustainable competitive advantage. Instead it may have to build competitive advantages in business areas and by means that have been hitherto unfamiliar.

The pressure to learn anew "what works"

Globalisation is an evidenced example of just such a dramatic reorientation in company strategy. Once considered a redoubtable competitive advantage by business because of the sustained economic growth it has generated for a generation, it no longer measures up to the new metrics of sustainable development. Against these benchmarks benefits have been uneven and the economic disparity between and within countries that it has created have been stark (WEF, 2011). van Marrewijk (2003) dubs it a "pathological system" (p. 98) and Korten (2001) lists its outcomes as the "three-fold global crisis of deepening poverty, social disintegration, and environmental degradation" (p. 13).

The on-going conundrum for business is best described in Lubin and Esty's (2010) summation:

> Over the past 10 years, environmental issues have steadily encroached on businesses' capacity to create value for customers, shareholders, and other stakeholders. Globalised workforces and supply chains have created environmental pressures and attendant business liabilities [...] Externalities such as carbon dioxide emissions and water use are fast

> becoming material […] These forces are magnified by escalating public and governmental concern about climate change, industrial pollution, food safety, and natural resource depletion (p. 44).

Business is struggling with the paradox of redirecting its attention from its single traditional objective of financial performance to two additional vectors of strategic performance, social and environmental sustainability. The seemingly equal importance attached to all three is reflected well in Jones and Kramer's (2010) equivocal description below:

> Social and human sustainability comprises the development and fulfilment of people's needs and maintenance of social relationships that will thrive in the long term. Environmental sustainability refers to the protection and renewal of the biosphere for present and future generations. Financial sustainability refers to the ability of the organisation to provide for its proprietors' needs now and into the future (pp. 250-1).

When viewed from the purely economic corner of the proposition (McDonough, 2009), the apparently conflicted nature of the demands of social and environmental sustainability goals on the one hand and the financial and commercial objectives of business on the other hand, are in sharp relief. It is this counterpoint that Siegel (2009) asserts when he says that:

> Managers of publicly traded firms have a fiduciary responsibility to adopt "green management" practices only if such actions complement the organisation's business and corporate-level strategies. They should not engage in such activities for "moral" reasons or in response to societal pressure alone, but rather in response to a legitimate demand for green management practices from groups that can directly benefit the firm (p. 5).

In the balance, it maybe fair to argue that the performance of business with regard to sustainability is at best mixed with most companies being oblivious to the challenges and opportunities surfaced by sustainability issues (Frankel, 1998). This suggests that business must actively seek to identify, understand and build those new strategic capabilities that will help it succeed in a sustainable world. More importantly it must do all this using the "tools of the strategist" so that the "issue is best addressed" (Porter and Reinhardt, 2007, p. 22). This is the focus of the section that follows.

Incorporating sustainability into business strategy

Porter and Kramer (2006) make a compelling argument that business "must integrate a social perspective into the core frameworks it already uses to understand competition and guide its business strategy" (p. 84). They contend that any sustainability approach that is "fragmented" and "disconnected from business and strategy" will "obscure many of the greatest opportunities for companies to benefit society" (Porter and Kramer, 2006, p. 80). The proliferation of overlapping "concepts such as sustainable development, corporate citizenship, sustainable entrepreneurship, Triple Bottom Line, business ethics, and corporate social responsibility" and the ensuing confusion and impediments in implementation of a coherent corporate sustainability strategy are both an evidence and outcome of such fragmentation (van Marrewijk, 2003, pp. 95-6; Faber *et al.*, 2005).

The case therefore exists for integrating sustainability issues into business strategy and more importantly thereafter, using them as levers for value-creation and sustainable competitive advantage. Yet, as Gladwin *et al.* (1995) observed in the period leading up to 1994:

> Attention to nonhuman nature is absent from the strategic management literature. Phrases such as biosphere, environmental quality, ecosystem, or sustainable development are virtually absent from the leading management journals (appearing less than 0.003% of the abstracts of articles contained in the ABI/Inform Database from January 1990 to January 1994) (p. 874).

In the 15 years thereafter to the end of the first decade of the new millennium, the progress on the subject of "making social impact integral to the overall strategy" (Porter and Kramer, 2006, p. 90) has remained desultory as underlined by Crews (2010) observation that "the focus of much of the research [in sustainability] is on evaluation and monitoring, with little attention to strategy formulation, and implementation" (p. 15).

The starting point for such integrated strategy formulation is conceptualising a sustainability framework for the business. As Selznick (1957) advised so presciently more than 50 years ago, this requires understanding the business's "external expectation" and matching that with its "internal state" by developing "distinctive competences" (pp. 67-74). External expectations such as environmental regulation, standards set by governments, and pressures resulting from customer groups and community provide useful stimuli to business (Howard-Grenville, 2006). They signal the "foreseeable change in the social, political, and macroeconomic context" of the firm and its industry (Christensen *et al.*, 1982, pp. 179-80).

The business's response to these signals provides a partial understanding of how external environment and the opportunities and threats therein, guide its actions. From a sustainability perspective, it explains for example, the forces that drive it to minimise emissions and waste, limit life cycle cost of products, and reduce the environmental burden of firm growth (Hart, 1995, p. 992). However, if these merely result in the development of practices with the limited objective of control and compliance, then business's response has been partial, reactive and tactical. What it needs to fully comprehend in addition to its external expectation therefore, is the structure and content of its internal state and the nature of its distinctive competence: i.e., its key resources and capabilities and the sustainable competitive advantages that could potentially accrue from their leverage.

One strategy paradigm that recognises the potential of valuable, rare, inimitable and non-substitutable firm resources to generate competitive advantage is the resource-based view (Barney, 1991, p. 99; Barney, 2001; Wernerfelt, 1984). Augmenting this paradigm in the light of the sustainability challenge Hart (1995) has argued: "It is likely that strategy and competitive advantage in the coming years will be rooted in capabilities that facilitate environmentally sustainable economic activity – a natural-resource-based view of the firm" (p. 991).

Hart (1995) has proposed a conceptual classification for this natural-resource-based view, where three strategic capabilities of pollution prevention, product stewardship, and sustainable development, have been founded on three key firm resources of continuous improvement, stakeholder integration and shared vision, respectively. These three strategic capabilities could each then conceivably yield the business sustainable competitive advantages. Pollution prevention, which seeks to prevent waste and emissions, could give a sustainable competitive advantage of overall lower costs. Product stewardship, which expands this prevention to include the entire value chain and life cycle of the business's product systems, creates the potential for competitive advantage through strategic pre-emption. Sustainable development, which reduces the environmental burden and increases the economic benefits for lesser-developed markets, could deliver a competitive advantage of future position (Hart, 1995, p. 992; Hart and Dowell, 2011, p. 1466).

Subsequent iterations of the original classification, additions to it from other strategy paradigms, and practitioner and scholarly inputs have made the natural-resource-based view comprehensive and robust. For example, the strategic capability of sustainable development has been separated into two distinct capabilities: clean technology and base of pyramid (BoP) (Prahalad and Hart, 2002). In addition, the explicatory strengths of the dynamic capabilities perspective, with its emphasis on adaptation within ambiguous and dynamic markets, have informed the study of clean technology and BoP. This is because the context in which firms develop capabilities to deal with these issues is highly complex and ambiguous (Teece *et al.*, 1997, p. 509; Prahalad and Hamel, 1990; Dierickx and Cool, 1989; Aragon-Correa and Sharma, 2003).

The natural-resource-based view resonates with sustainability experts and their "roadmap for natural capitalism" (Lovins *et al.*, 2007, p. 172). The strategic capabilities that it enumerates correlate well with the four interlinked shifts in business that proponents of natural capitalism advocate: first, radical resource productivity through cradle-to-cradle and whole-system design tenets (McDonough *et al.*, 2003, p. 436) and innovative environmentally friendly technologies; second, biomimetic production with closed biological and technical nutrient cycles (Benyus and Baumeister, 2002, p. 26; McDonough, 2005, p. 36); third, a solutions-based business model where value is delivered as a flow of services (Lovins *et al.*, 2007, p. 174); and lastly, reinvestment in natural capital through an augmented multiple capitals framework (Bent and Draper, 2007; Porritt, 2006).

It also makes common voice with academics who have been insisting for almost two decades that firms needed to cultivate an emerging set of sustainability-related capabilities like waste minimisation, green product design, and technology co-operation in the developing world in order to enjoy a sustainable competitive advantage in the future (Gladwin, 1992; Kleiner, 1991). The list of critical capabilities has only grown in the interim to include, for example the ability to anticipate and shape regulation; the capability to manage green know-how; and the ability to understand what customers want and to figure out different ways to meet their needs (Nidumolu *et al.*, 2009, p. 60). Such sustainability-related capabilities help firms create and capture private and social value as McWilliams and Siegel (2011) demonstrate so compellingly with CSR.

Figure 1 serves to collate the key points from the preceding discourse. It depicts the causative flow from key sustainability-related resources to strategic capabilities and thence to potential sustainable competitive advantages for the business.

The significance of corporate sustainability as a strategic capability for the developing world

The core arguments from the previous section have as much if not more significance for developing countries in comparison to the developed world. This is because developing countries are bearing the brunt of the impact of phenomena like globalisation, foreign direct investment, economic growth and business activity (World Bank, 2006). Globalisation in particular has evidenced markedly deleterious outcomes and its ensuing problems have been increasingly intractable and difficult to ignore.

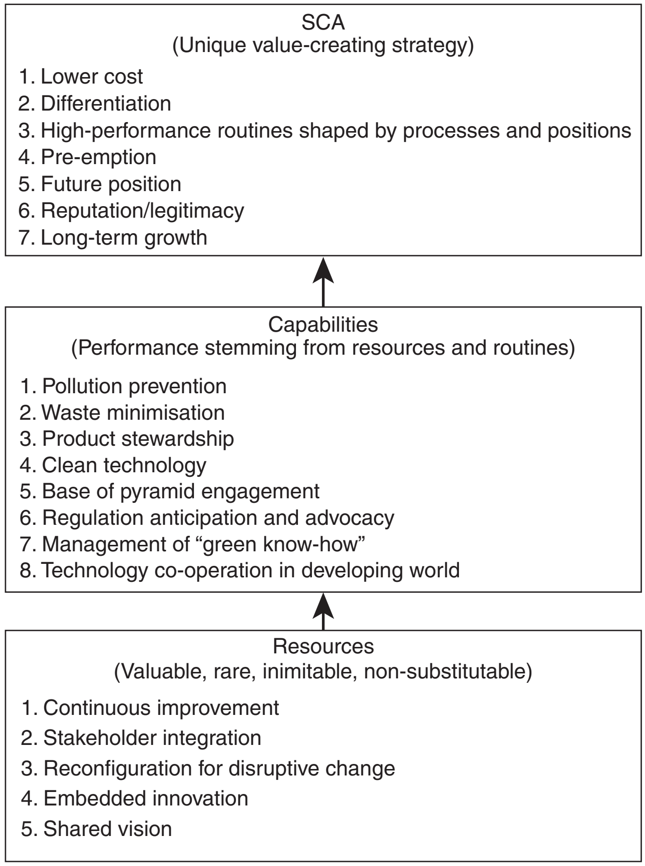

Figure 1.
The natural environment and firm's resources, capabilities, and competitive advantage

This has meant that the social theme is the pressing focus for business's role in society in developing countries as opposed to, for example, business ethics, or stakeholder management. CSR is thus synonymous with corporate sustainability in the developing world (Visser, 2008, p. 475). This is evidenced in India, for example, where "there is a strong belief that CSR is an essential element in social uplift and development, something very relevant to India" (Balasubramanian *et al.*, 2005, p. 86).

In turn this has meant that CSR in developing countries is itself yoked to a variety of economic multipliers, including but not limited to, the capacity to generate investment and income, create jobs, invest in human capital, spread international business standards, produce safe products and services, and build physical and institutional infrastructure (Nelson, 2003). This is understandable because in India, for example, even as its corporations have become globally competitive, the country still battles with issues like high unemployment, income inequality, and lower standards of health, education, safe drinking water, nutrition, etc., (Arora and Puranik, 2004).

Business therefore has a pragmatic rationale for such an economic focus, given that it "is negatively affected by poor education, poor health, delinquency, crime, and unstable regional and national development" (Boyle and Boguslaw, 2007, p. 103). Under the circumstances the corporate sector will be a key beneficiary of any systemic solution that can visualise investment in the development and growth of individuals, civil societies and nations as a critical necessity (Karnani, 2007).

Businesses in emerging economies apparently understand the above argument judging by the available empirical evidence on CSR from the developing world. Thus for example in the period just after the millennium, nearly three quarters of large companies in India, an emerging economy exemplar, presented themselves as having CSR policies and practices (Chapple and Moon, 2005).

The justification for this has come from turn of the millennium business strategy overhauls that advantaged longer-term business initiatives (Khan and Faisal, 2001) and supported social responsibility concerns on the part of business (Sankaran, 2003). This salutary state of CSR appears to be continuing and India, paradoxically, for a country with the lowest level of gross national product per capita, has the highest level of CSR among other Asian economies (Reserve Bank of India, 2009).

"Nonetheless", as Baskin (2006) has argued, "corporate sustainability in emerging markets, while more extensive than commonly believed, is less embedded in corporate strategies, less pervasive and less politically rooted than in most high-income OECD countries" (p. 46). Indian academic, practitioner and institutional commentators concur that while CSR is being seen as a strategic concern for corporations in India, it has not been extensively integrated into the daily practices of many of the large Indian corporations (Balasubramanian *et al.*, 2005, p. 87). They urge that effort is needed to establish the principles of CSR as part of normal strategy and business operations (NSE/NIFTY, 2003; Sankaran, 2003). As the experience of transnational corporations has demonstrated, these exhortations maybe well placed and worth heeding because, "these companies are in fact deriving strategic value from responsible business practice [...] even finding that principled behaviour is essential to business survival and success" (Hall, 2007, p. 31).

Conclusion

The need to develop and hone sustainability-related resources and capabilities as the basis of strategic competitive advantage is critical. Absent this capability "the natural environment could create a serious constraint on firms' attempts to create sustainable advantage" (Hart and Dowell, 2011, p. 1465). The presence of these strategic capabilities will on the other hand help firms to simultaneously improve social and human welfare, reduce their ecological impact and effectively achieve organisational objectives (Sharma, 2003). Thus as the immediately preceding commentary on business in emerging economies has underlined, "society may need to become a key consideration in business mission and strategy" (Hall, 2007, p. 32).

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