Sustainability – the Missing Ingredient in Strategy

Dr Ingrid Bonn

School of Business, Bond University, Gold Coast, 4229, QLD, Australia

Email: ibonn@bond.edu.au

Dr Josie Fisher*

School of Business, Economics and Public Policy. University of New England, Armidale, 2351, NSW, Australia

Email: jfisher@une.edu.au
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ABSTRACT

While strategy has been addressed in the literature since the 1960s and sustainability has received a lot of attention recently, there has been little attention paid to the question of how sustainability considerations might be integrated into an organisation’s strategy. In this paper a framework that outlines how sustainability can be addressed strategically in organisations is introduced and analysed. It is argued that all three dimensions of sustainability – economic, environmental and social – must be integrated into all aspects of an organisation’s strategy and need to be addressed on an ongoing basis.

Stream: Sustainability and Social Issues in Management

Keywords: Sustainability, strategic decision-making, strategy

Strategy has come a long way since its inception in the 1960s. Scholars and consultants have provided executives with a large number of concepts, frameworks and tools to analyse strategic situations, to help in the formation of strategies and to translate strategies into actions (for an overview see Johnson, Scholes & Whittington 2006; Hanson, Dowling, Hitt, Ireland & Hoskisson 2008). However, despite the multitude of these concepts, frameworks and tools, the question of what strategy is remains unclear (Porter 1996).

According to Hambrick and Fredrickson (2001: 49) strategy has become a ‘catchall term used to mean whatever one wants it to mean’. They argue that the term has been used in a piecemeal fashion, describing strategic threads such as ‘our strategy is to provide unrivalled customer service’ rather than a comprehensive and coherent course of action. Hambrick and Fredrickson (2001) attempt to remedy the lack of comprehensiveness by identifying five major elements that constitute a strategy, namely (1) arenas – where will we be active, (2) vehicles – how will we get there, (3) differentiators – how will we win in the market-place, (4) staging – what will be our speed and sequence of moves, and (5) economic logic – how will we obtain our returns. These five elements must be integrated with each other and, according to the authors, should be the basis for designing a comprehensive activity system. Although Hambrick and Fredrickson (2001) provide an integration of previous fragmented
approaches, their approach does not address the critical question of whether the resulting strategy is sustainable.

Other authors have focused on sustainability and its importance for business (e.g. Hart & Milstein 2003; Lo & Sheu 2007; Marshall & Brown 2003) however, none of these authors have addressed the question of how to integrate sustainability into an organisation’s strategy. The aim of this paper is to fill this gap. We argue that sustainability needs to be an integral part of an organisation’s overall strategy. Our discussion focuses on the broader holistic sense of strategy, as opposed to an instrumental sense that only addresses the operational level with the aim to enhance the reputation of the organisation (see Brooks 2005). The purpose of this discussion is twofold, namely (1) to provide organisations with a guide that they can use to assess the degree to which they have achieved sustainability and to identify the gaps they need to address and (2) to provide researchers with a framework that can serve as a basis for further research into organisational sustainability.

The outline of this paper is as follows: We first discuss the term sustainability and how it has been used in business. We then look at strategy and sustainability and develop a framework that outlines how sustainability can be addressed strategically in an organisation. We then analyse the each part of the framework in detail.

**WHAT IS SUSTAINABILITY?**

The Brundtland Report (1987: 24) defined sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’. In applying this concept to business, Dyllick and Hockerts (2002: 131) modify this definition to define corporate sustainability as ‘meeting the needs of a firm’s direct and indirect stakeholders…, without compromising its ability to meet the needs of future stakeholders as well’.

Sustainability is generally defined as a business approach that creates long-term value by embracing opportunities and managing risks in three domains: economic, environmental and social. Crane and
Matten (2007: 23) for example define sustainability as referring ‘to the long-term maintenance of systems according to environmental, economic and social considerations’. In the *environmental perspective* the basic principles of sustainability focus on the effective management of physical resources to ensure they are conserved for the future. This requires addressing such critical problems as the depletion of non-renewable resources, the effect of industrialisation on biodiversity and the production of pollution. The concept of *economic sustainability* incorporates both the economic performance of the corporation (the strategies which, for example, lead to a long-term increase in the share price, profits and market share as opposed to a focus on short-term profit maximisation) and the corporation’s approach towards, and impacts on, the economic framework in which it operates (for example, tax evasion, paying bribes or collusive practices could be considered economically unsustainable because they undermine the functioning of markets in the long-term). The *social sustainability* perspective is newer and has received less attention than the environmental and economic perspectives. Central to this perspective is the notion of social justice. While social issues have been addressed in the past, the inclusion of social considerations in conceptualisations of sustainability marked a significant shift. The UN’s 8 Millennium Development Goals provide some clarification of the goals of social sustainability, but how business should respond to these challenges is yet to be resolved (Crane & Matten 2007).

Funk (2003) claims that a sustainable organisation is one whose characteristics and behaviour are designed to lead to a sustainable future state. More specifically, a sustainable organisation is an organisation that in addition to focusing on economic performance, actively supports the ecological viability of the planet and its species and contributes to equitable and democratic practices and social justice (Benn & Dunphy 2004).

**STRATEGY AND SUSTAINABILITY**

The way an organisation engages with its stakeholders including society and the natural environment can be conceptualised as a continuum of theoretically possible responses. At one end of the continuum a business could simply ignore the impact it has on society and the environment (and the potential for society and the environment to impact on it). In the middle, organisations can be responsive or reactive to the expectations of society with respect to its operations. At the other end of the continuum, organisations can take a strategic approach which, according to Porter and Kramer (2006), involves doing things differently in order to create shared value through symbiotic relationships with the community.

There are (at least) three reasons why companies adopt corporate sustainability practices: because they feel they have an obligation to, because they are compelled to, based on legislation, regulation or the need for compliance, or because they recognise it is the right thing to do (van Marrewijk 2003). Clearly, the motivation for pursuing sustainability will influence the way sustainability is integrated into strategy. This paper is aimed at organisations that are motivated to adopt a strategic approach to sustainability because they want to do the right thing.

Research by Ernst & Young revealed that of 114 companies from the Global 1000, 73% identified corporate sustainability as being on the board’s agenda, 94% believed that a corporate sustainability strategy could result in financial benefits, but only 11% actually implemented a corporate sustainability strategy (van Marrewijk 2003). One possible reason for this low percentage of implementation may be a lack of understanding about what constitutes practices and initiatives that promote sustainability.

Sustainability initiatives are complex and multifaceted. They involve taking into account economic, environmental and social aspects. We argue that they need to be included in the vision which reflects the organisation’s commitment to sustainability issues, the strategic decision-making process as well as the strategy content. In addition, sustainability initiatives need to be supported by the organisational system in a proactive way. Hence, for sustainability issues to be taken seriously they have to be part
of the strategy process from the very beginning and they need to be addressed on an ongoing basis. This argument is in line with Porter and Kramer’s (2006) strategic approach to corporate social responsibility as well as with Brook’s (2005) notion of holistic strategy. We also recognise that sustainability issues are influenced by the national and global context in which the organisation operates. A basic depiction of the framework we use to analyse how sustainability can be incorporated into strategy is shown in Figure 1.

Insert Figure 1 about here

VISION

Senior managers are faced with a high level of uncertainty, incomplete information and equivocality. They need to make sense of complex and multifaceted projects which often require taking differing economic, environmental and social aspects into consideration. Managers who face such a situation need some sort of guidance – or as Weick (1995: 27) has argued ‘values, priorities and clarity about preferences’ – to help them develop viable strategies and design appropriate courses of action. A commonly shared vision can provide this guidance and give a sense of direction in the decision-making process, in particular when tradeoffs among goals are necessary (Marshall & Brown 2003).

A genuine vision – as opposed to the popular ‘vision statements’ – conveys a sense of direction and provides focus for all activities within the organisation (Bonn 2001). For Senge (1990: 142, italics in original), a genuine vision is ‘a calling rather than simply a good idea’. It reflects fundamental intrinsic values and a deep sense of purpose and provides the ‘glue’ that holds together the other parts of the organisation (Shrivastava 1995a). A vision that is oriented towards long-term sustainability will include all elements of sustainability – economic, environmental and social, signalling strong corporate norms and values and providing principles that guide the day to day decisions of line managers and employees (Shrivastava & Hart 1995).

STRATEGIC DECISION MAKING PROCESS
Strategic decisions are those that are ‘important in terms of the action taken, the resources committed, or the precedents set’ (Mintzberg, Raisinghani & Theoret 1976: 246). They are typically made by upper-level management and affect the long-term health of the organisation (Eisenhardt & Zbaracki 1992). Strategic decisions are often difficult to define with managers being required to make sense of a variety of limited and often conflicting information (Brockmann & Simmonds 1997). They are often associated with different trade-offs and risks (Elbanna 2006), have rarely one best solution and, once a decision is made, are often difficult to reverse (Wilson 2003).

The strategic decision-making process is concerned with the way decisions are reached in an organisational setting (Fahey & Christensen 1986) and includes the activities that lead up to and support the choice of strategy (Huff & Reger 1987). Important players in the strategic decision-making process are the strategists and the way they think and take action. In line with Bonn (2005: 337), we view strategic thinking as ‘… a way of solving strategic problems that combines a rational and convergent approach with creative and divergent thought processes’. Hence, we argue that strategists go through a strategic reasoning process that has logical and rational as well as creative and intuitive elements.

As part of the strategic reasoning process, strategists need to identify the strategic problem and analyse its nature as well as its underlying causes. This involves scanning the environment to gather data and making sense of it by building mental representations that guide their thinking and the direction of their decisions (Rumelhart & Norman 1985). These representational systems structure the unknown, but they also define what strategists regard as relevant and act as a filter that influences their perception of organisational events and what should be done about them (Bonn 2005). Strategists who receive the same stimuli may use different frameworks to interpret them and, therefore, disagree about meanings, causes or effects (Starbuck & Milliken 1988). Hence an important issue in the strategic decision-making process is an understanding of an individual’s tacit beliefs and deeply ingrained assumptions or mental models (Senge 1990) that may unconsciously influence how strategic problems are framed and how solutions are developed.
Understanding the deep-seated beliefs and mental models of strategic decision-makers is important if an organisation aims to become more sustainable. Top level managers need to be open-minded and prepared to challenge their fundamental values and assumptions, in particular if they are not oriented towards sustainability. Addressing sustainability considerations in strategic decision-making is a process – as opposed to a single event – which requires ongoing management attention, meaning that there is a continuous need for identifying, analysing, forming and creating new strategies and acting sustainably over a long period of time. Such an ongoing process requires top managers to be sensitive to sustainability issues and to understand the practices that are required at the different organisational levels to act in a sustainable manner.

There is a need for top managers to incorporate sustainability concerns into every decision-making process as well as into all plans, policies and practices. Such commitment is particularly important when there are significant conflicts between economic, environmental and social considerations. Dealing with these conflicts by focusing on long-term sustainability outcomes rather than short-term financial gains will provide clear messages to organisational members that sustainability is an important part of the organisation’s strategy.

**STRATEGY CONTENT**

The outcome of the strategic decision-making process is the strategy content. It focuses on the specifics of what was decided and is concerned with the goals, scope and competitive strategies of organisations or their business units (Fahey & Christensen 1986). It is important to recognise that strategic decision-making process and strategy content are interconnected and that strategy content can significantly influence the direction of the strategic decision-making process and vice versa (Mintzberg & Waters 1985).

The competitive strategy of an organisation is reflected in the specific actions it takes within its chosen domain. Ketchen, Thomas and McDaniel (1996) argue that perhaps the most critical of these
decisions is the choice of which products or services to offer to the market. The impact of products is strongly influenced by the technologies that are used in their production. Production technologies influence the type of raw materials that can be used, production efficiencies, the type and amount of pollution that is emitted during the production processes, the health and safety of employees and the public, as well as the management of wastes (Shrivastava 1995b).

Organisations that aim to become more sustainable face the question of whether they want to modify their existing products (and services), processes and technologies to make them more sustainable or whether they want to divest non-sustainable businesses and develop or acquire new ones that are sustainable. Aras and Crowther (2008) point out that the approach most often adopted by organisations is to focus on improving the efficiency of resource use through initiatives such as adopting an energy efficiency program.

A commitment to sustainability requires organisations to conduct a life cycle analysis of products (and services) to assess each product’s impact from each of its life-cycle stages. This includes product development, raw material access and extraction, production and distribution, product use as well as the disposal of packaging and used products (Hart & Milstein 2003). Such analysis takes the whole ‘product system’ into account (Shrivastava & Hart 1995) and prevents the transfer of negative impacts and risks between the different stages in a product’s life (Shrivastava 1995a). The life cycle analysis may lead to redesigning products and packaging and improving the efficiency of production facilities to maximise material and energy conservation and to minimise the release of by-products that have harmful impacts, such as solid waste, liquid and gaseous pollutants as well as heat and noise pollution (Starik & Rands 1995). A life-cycle assessment therefore requires extensive interaction and dialogue between an organisation and its suppliers and distributors to ensure that sustainable business practices are used in both the upstream and downstream value chains.

The life cycle analysis should inform a comprehensive plan that identifies the goals and specific targets the organisation aims to achieve in each life cycle stage. It needs to include a timeframe as
well as a person responsible to ensure that the goals and targets are met on time. In addition, such a plan needs to spell out the strategies for achieving the goals.

**ORGANISATIONAL SYSTEM**

If a sustainable vision and strategy are to be successful, they must be supported by the organisational system (Shrivastava 1995c). An important component of the organisational system is the reward and compensation system, because it can either encourage or impede managerial behaviour (Hambrick & Snow 1989). Compensation design is likely to influence behaviour and has important consequences for managerial decision-making and firm strategy (Finkelstein & Boyd 1998). If sustainability is to be taken seriously, the reward and compensation system needs to reflect the importance of environmental and social as well as economic criteria to the organisation. It needs to encourage senior executives to focus on long-term horizons and to adopt a strategic approach towards sustainability. This can be achieved by including a high proportion of long-term and qualitative sustainability oriented performance measures in the remuneration package. Special recognition should also be given to individuals and teams for achieving outstanding results in economic, environmental or social sustainability initiatives.

Of critical importance to achieving sustainability are the informal problem-solving and decision-making processes (Shrivastava & Hart 1995) as well as prevailing norms and values within the organisation (Starik & Rands 1995). This requires building an organisational culture based on shared environmental and social values in which expectations of sustainability are built into formal job descriptions and performance appraisal systems and are considered important criteria in the recruitment, selection and training of organisational members.

There is also a need to create a centralised point of accountability for sustainability initiatives (Marshall & Brown 2003). This may involve a single appointment at management level who acts as a visible ‘champion’ for sustainability issues and who coordinates and facilitates sustainability
initiatives throughout the organisation. It may also involve appointing board members who oversee the sustainability efforts within the organisation.

GLOBAL AND NATIONAL CONTEXTS

The global and national contexts provide a framework that constrains and influences the ability of organisations to engage in sustainable practices. DesJardins (2007), for example, argues that globalisation and its implications for culture, politics and economics together with specific problems such as poverty, population growth (especially in poorer regions) and ecological threats provides a motivation to create a more just and environmentally sound economic model. He identifies an alternative paradigm to the current one based on economic growth and free markets and proposes long-term sustainability as the measure of success for economic and social development. In this paradigm sustainability is the recognition that economic development cannot be separated from issues relating to social justice and ecological stability. At the level of individual firms, he claims that ‘a particular practice is neither sustainable nor unsustainable in isolation of wider economic and ecological systems’ (DesJardins, 2007: 14).

In the past most organisations operated without too much concern for the wider impact of their activities on social and environmental systems. More recently there has been a recognition by an increasing number of organisations that if issues at the national and global levels are to be addressed, the impact of activities will need to be analysed not only in terms of economic growth but also in terms of their environmental and social consequences.

SUSTAINABILITY INITIATIVES (ECONOMIC, SOCIAL, ENVIRONMENTAL)

There is a broad range of sustainability initiatives that an organisation can undertake. We argue that to be effective these initiatives need to be supported at all levels of strategy: vision, strategic decision making process, strategy content and organisational system. Becoming a sustainable organisation is a long and arduous process which requires continuous capability building and management attention (Shrivastava & Hart 1995) and the need to integrate all sustainability initiatives so that they form a
cohesive whole. This includes a vision which incorporates economic, environmental and social aspects, a strategic decision making process that is based on decision-makers’ fundamental commitment to sustainability, a strategy content that makes specific reference to sustainability and an organisational system that promotes and supports sustainability efforts.

REFERENCES


For sustainability to be integral to an organisation’s strategy:

- The vision will articulate a commitment to sustainability.
- The strategic decision-making process will include a fundamental commitment to sustainability.
- The strategy content, in particular the goals, scope and competitive strategies, will include specific reference to sustainability.
- The organisational system will promote and support all sustainability efforts.
- The initiatives that the organisation undertakes will provide the evidence that sustainability has, in fact, been addressed.

An organisation that adopts this approach could be described as taking a strategic approach to sustainability.