5 Issues concerning Sustainability

5.1 Introduction

Of the major principles of governance and the one which is most prominent at the present time is sustainability. Consequently we are devoting a complete chapter to dealing with this topic. It is one that has recently become very important for businesses, and all large businesses – and many smaller ones – have a sustainability plan, or at least claim to have such a plan. We need therefore to start by establishing exactly what we mean by sustainability.

5.2 Defining sustainability

Sustainability is concerned with the effect which action taken in the present has upon the options available in the future. The starting point for every definition of sustainability comes from the Brundtland Report, which was published in 1987. This is actually a report named Our Common Future which was produced by the World Commission on Environment and Development. It is generally known however as the Brundtland Report after the commission chair.

Strictly speaking the Brundtland Report was concerned with sustainable development which they regarded as unquestionningly both possible and desirable. Their definition of sustainability starts from the premise that if resources are utilised in the present then they are no longer available for use in the future. This has led to the standard definition of sustainabile development which states that this is:

”Development which meets the needs of the present without compromising the ability of future generations to meet their own needs”

This principle has been incorporated in the Maastricht and Amsterdam Treaties on European Union, as well as in the Rio Declaration and Agenda 21, adopted by the United Nations Conference on Environment and Development (UNCED), meeting in Rio de Janeiro 3 to 14 June 1992. The European Community and its Member States subscribed to the Rio Declaration and Agenda 21 and committed themselves to the rapid implementation of the principal measures agreed at UNCED.

5.3 The Brundtland Report

This report is considered to be extremely important in addressing the issue of sustainability. The report described seven strategic imperatives for sustainable development:

- Reviving growth;
- Changing the quality of growth;
- Meeting essential needs for jobs, food, energy, water and sanitation;
- Ensuring a sustainable level of population;
- Conserving and enhancing the resource base;
- Reorienting technology and managing risk;
- Merging environment and economics in decision-making.

It also emphasized that the state of our technology and social organisation, particularly a lack of integrated social planning, limits the world’s ability to meet human needs now and in the future.

This report made institutional and legal recommendations for change in order to confront common global problems. More and more, there is a growing consensus that firms and governments in partnership should accept moral responsibility for social welfare and for promoting individuals’ interest in economic transactions (Amba-Rao, 1993).

Significantly however the Bruntland report made an assumption – which has been accepted ever since – that sustainable development was possible and the debate since has centred on how to achieve this. Thus ever since the Bruntland Report was produced by the World Commission on Environment and Development in 1987 there has been a continual debate concerning sustainable development. Similarly emphasis has been placed on such things as collaboration, partnerships and stakeholder involvement. It has however been generally accepted that development is desirable and that sustainable development is possible – with a concomitant focus on how to achieve this. Quite what is meant by such sustainable development has however been much less clear and a starting point for any evaluation must be to consider quite what is meant by these terms.

There is a considerable degree of confusion surrounding the concept of sustainability: for the purist sustainability implies nothing more than stasis – the ability to continue in an unchanged manner – but often it is taken to imply development in a sustainable manner (Marsden 2000; Hart & Milstein 2003) and the terms sustainability and sustainable development are for many viewed as synonymous. For us we take the definition as being concerned with stasis (Aras & Crowther 2008a); at the corporate level if development is possible without jeopardising that stasis then this is a bonus rather than a constituent part of that sustainability. Moreover, sustainable development is often misinterpreted as focusing solely on environmental issues. In reality, it is a much broader concept as sustainable development policies encompass three general policy areas: economic, environmental and social. In support of this, several United Nations texts, most recently the 2005 World Summit Outcome Document, refer to the "interdependent and mutually reinforcing pillars" of sustainable development as economic development, social development, and environmental protection.

5.4 Critiquing Brundtland

For more than 20 years the starting point for any discussion of sustainable corporate activity has been the Brundtland Report. Its concern with the effect which action taken in the present has upon the options available in the future has directly led to glib assumptions that sustainable development is both desirable and possible and that corporation can demonstrate sustainability merely by continuing to exist into the future.

The problem with Brundtland is that its concern with the effect which action taken in the present has upon the options available in the future has directly led to easy assumptions that sustainable development is both desirable and possible and that corporation can demonstrate sustainability merely by continuing to exist into the future (Aras & Crowther 2008b). It has also led to an acceptance of what must be described as the myths of sustainability:

- Sustainability is synonymous with sustainable development;
- A sustainable company will exist merely by recognising environmental and social issues and incorporating them into its strategic planning.

Both are based upon an unquestioning acceptance of market economics predicated in the need for growth and are based upon the false premise of Brundtland to which we will return later. An almost unquestioned assumption is that growth remains possible and therefore sustainability and sustainable development are synonymous. Indeed the economic perspective considers that growth is not just possible but also desirable and therefore that the economics of development is all that needs to be addressed and that this can be dealt with through the market by the clear separation of the three basic economic goals of efficient allocation, equitable distribution, and sustainable scale.

Concomitantly all corporations are becoming concerned about their own sustainability and what the term really means. Such sustainability means more than environmental sustainability. As far as corporate sustainability is concerned then the confusion is exacerbated by the fact that the term sustainable has been used in the management literature over the last 30 years to merely imply continuity. Thus Zwetsloot (2003) is able to conflate corporate social responsibility with the techniques of continuous improvement and innovation to imply that sustainability is thereby ensured. Consequently the trajectory of all of these effects is increasingly being focused upon the same issue.

There have been various descendents of Brundtland, including the concept of the Triple Bottom Line. This in turn has led to an assumption that addressing the three aspects of economic, social and environmental is all that is necessary in order to ensure not just sustainability but to also enable sustainable development. And all corporations imply that they have recognised the problems, addressed the issues and thereby ensured sustainable development. Let us start with the Triple Bottom Line - 3 aspects of performance:

- Economic
- Social
- Environmental

It is our argument that these conceptions are not just incorrect but also positively misleading through an obfuscation of the key issues and have led to an inevitable outcome of false security. It is therefore time to re-examine the legacy of Bruntland and to redefine what is meant by sustainable activity.

5.5 Sustainability and the Cost of Capital

It is recognised in the financial world that the cost of capital which any company incurs is related to the perceived risk associated with investing in that company – in other words there is a direct correlation between the risk involved in an investment and the rewards which are expected to accrue from a successful investment. Therefore it is generally recognised that the larger, more established companies are more certain investments and therefore have a lower cost of capital. This is all established fact as far as finance theory is concerned and is recognised in the operating of the financial markets around the world. Naturally a company which is sustainable will be less risky than one which is not. Consequently most large companies in their reporting mention sustainability and frequently it features prominently. Indeed it is noticeable that extractive industries – which by their very nature cannot be sustainable in the long term – make sustainability a very prominent issue. The prime example of this can be seen with oil companies – BP being a very good example – which make much of sustainability and are busy redesignating themselves from oil companies to energy companies with a feature being made of renewable energy, even though this is a very small[14] part of their actual operations.

All businesses[15] recognise the business benefits of CSR activity in their reporting. Equally all business recognise that sustainability is important and it features prominently in their reporting. For example an investigation of the FTSE100 companies (see Aras & Crowther 2007a) reveals the following:

Mention on corporate website	*% of companies*
Sustainability	100
Sustainable development	35
Express link sustainability to CSR policy	70

Any analysis of these statements regarding sustainability however quickly reveals the uncertainty regarding what is meant by this sustainability. Clearly the vast majority do not mean sustainability as discussed in this chapter, or as defined by the Brundtland Report. Often it appears to mean little more than that the corporation will continue to exist in the future. Our argument is not just that this focus upon such a vague notion of sustainability is misleading and obfuscates the need for a rigorous debate about the meaning of sustainability. Our argument is that this treatment of sustainability is actually disingenuous and disguises the very real advantages that corporations obtain by creating such a semiotic of sustainability.

5.6 Redefining sustainability

It is therefore time to re-examine the legacy of Bruntland and to redefine what is meant by sustainable activity.

These are the components of sustainability:

- Societal influence, which we define as a measure of the impact that society makes upon the corporation in terms of the social contract and stakeholder influence;
- Environmental Impact, which we define as the effect of the actions of the corporation upon its geophysical environment;
- Organisational culture, which we define as the relationship between the corporation and its internal stakeholders, particularly employees, and all aspects of that relationship; and

- Finance, which we define in terms of an adequate return for the level of risk undertaken.

These are all necessary in order to ensure not just sustainability but to also enable sustainable development. Moreover it is the balance between them which is crucial.

These four must be considered as the key dimensions of sustainability, all of which are equally important. This analysis is therefore considerably broader – and more complete – than that of others. Furthermore Aras & Crowther (2007b, 2007c) consider that these four aspects can be resolved into a two-dimensional matrix along the polarities of internal v external focus and short term v long term focus, which together represent a complete representation of organisational performance. This can be represented as the model below:

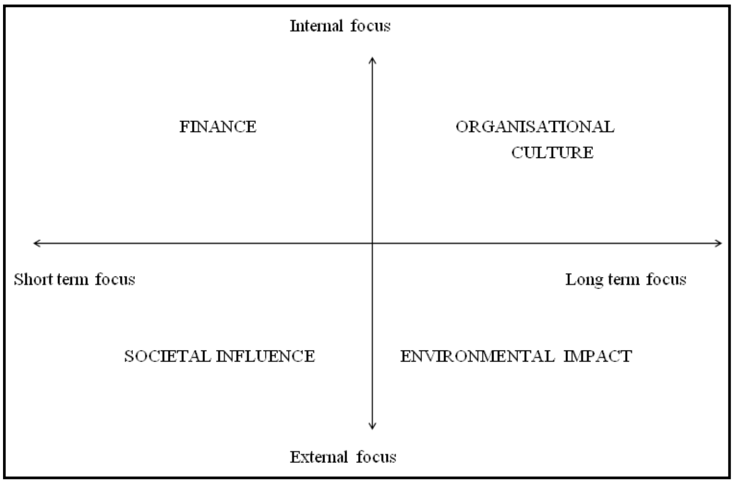

Fig 5.1 Model of Corporate Sustainability (Aras & Crowther 2007b)

These can be described differently:

- Maintaining economic activity, which must be the central raison d'etre of corporate activity and the principle reason for organising corporate activity. This of course maps onto the finance aspect.
- Conservation of the environment, which is essential for maintaining the options available to future generations. This maps onto the environmental impact aspect.
- Ensuring social justice, which will include such activities as the elimination of poverty, the ensuring of human rights, the promotion of universal education and the facilitation of world peace. This maps onto the societal influence aspect.
- Developing spiritual and cultural values, which is where corporate and societal values align in the individual and where all of the other elements are promoted or negated; sadly at present they are mostly negated

5.7 Distributable sustainability

At this point we deliberately use the term distributable sustainability in order to reflect one of the key components of this argument. This is that true sustainability depends not just upon how actions affect choices in the future but also upon how the effects of those actions – both positive and negative – are distributed among the stakeholders involved. A central tenet of our argument is that corporate activity, to be sustainable, must not simply utilise resources to give benefit to owners but must recognise all effects upon all stakeholders and distribute these in a manner which is acceptable to all of these – both in the present and in the future. This is in effect a radical reinterpretation of corporate activity.

It is necessary to consider the operationalisation of this view of sustainability. Our argument has been that sustainability must involve greater efficiency in the use of resources and greater equity in the distribution of the effects of corporate activity. To be operationalised then of course the effects must be measurable and the combination must of course be manageable.

This can be depicted as a model of sustainability.

Manageable (strategic)	Measurable (financial)
Equitable (distributional)	Efficient (technological)

Fig 5.2 Distributable sustainability (Aras & Crowther 2009)

This acts as a form of balanced scorecard to provide a form of evaluation for the operation of sustainability within an organisation. It concentrates upon the 4 key aspects, namely:

- Strategy
- Finance
- Distribution
- Technological development

Moreover it recognises that it is the balance between these factors which is the most significant aspect of sustainability. From this a plan of action is possible for an organisation which will recognise priorities and provide a basis for performance evaluation.

5.8 Summarising Sustainability

To summarise, sustainability requires a radical rethink and a move aware from the cosy security of the Brundtland definition. Aras & Crowther (2009) therefore reject the accepted terms of sustainability and sustainable development, preferring instead to use the term durability to emphasise the change in focus.

The essential features of durability can be described as follows:

- Efficiency is concerned with the best use of scarce resources. This requires a redefinition of inputs to the transformational process and a focus upon environmental resources as the scarce resource.
- Efficiency is concerned with optimising the use of the scarce resources (ie environmental resources) rather than with cost reduction.
- Value is added through technology and innovation rather than through expropriation;
- Outputs are redefined to include distributional effects to all stakeholders

5.9 ISO 26000

In 2010 the new standard ISO 26000 was introduced. This standard is concerned with social responsibility and sustainability and offers guidance on socially responsible behavior and possible actions; it does not contain requirements and, therefore, in contrast to ISO management system standards, is not certifiable. Although this standard by its current concept is just a collection of previously existed and globally agreed codes and principles, however there is a hope for its progressive movement to more specific requirements and procedures for implementation internationally. In this document it is emphasised that effective governance should be based on incorporating the principles of social responsibility where these principles are accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for the rule of law, respect for international norms of behaviour and respect for human rights into decision making and implementation.

This document is quite different to the previously existing and well known codes of governance known as the Anglo-Saxon model of governance. We have already explained the latter and other codes of governance in previous chapters. Actually the Anglo-Saxon model which has led directly to the notion of a free market as a mediating mechanism and the acceptance of the use of power for one's own end, in true utilitarian style, has caused the loss of a sense of community responsibility which removed any sense of social responsibility from business. According to a socially responsible code of governance, all organizations should put in place processes, systems, structures, or other mechanisms that make it possible to apply the principles and practices of social responsibility.

According to ISO FDIS 26000, an organization's decision-making processes and structures should enable it to:

- Develop strategies, objectives, and targets that reflect its commitment to social responsibility;
- Demonstrate leadership commitment and accountability;
- Create and nurture an environment and culture in which the principles of social responsibility are practised;
- Create a system of economic and non-economic incentives related to performance on social responsibility;
- Use financial, natural and human resources efficiently;
- Promote a fair opportunity for underrepresented groups (including women and racial and ethnic groups) to occupy senior positions in the organization;
- Balance the needs of the organization and its stakeholders, including immediate needs and those of future generations;
- Establish two-way communication processes with its stakeholders, identifying areas of agreement and disagreement and negotiating to resolve possible conflicts;
- Encourage effective participation of all levels of employees in the organization's social responsibility activities;
- Balance the level of authority, responsibility and capacity of people who make decisions on behalf of the organization;
- Keep track of the implementation of decisions to ensure that these decisions are followed in a socially responsible way and to determine accountability for the results of the organization's decisions and activities, either positive or negative; and
- Periodically review and evaluate the governance processes of the organization. Adjust processes according to the outcome of the reviews and communicate changes throughout the organization.

5.10 Conclusions

The two key components of sustainability and sustainable development therefore are efficiency and equity. But efficiency needs to be redefined to prioritise the efficient use of environmental resources rather than the efficient use of financial resources. And equity requires as a minimum the satisficing of all stakeholders, and not merely the provision of returns to owners and investors. These are the prerequisites for sustainable development.

Recycling is of course an integral part of the discourse of sustainability as far as environmental issues are concerned. The concept of recycling applies equally to corporate sustainability in terms of the recycling relationship with each stakeholder. By this we mean that a sustainable corporation needs to invest in all of its stakeholders in order to maintain and improve relationships between the company and its stakeholders but that the investment in stakeholder relations is returned to the company through being recycled. So a stakeholder who is well treated both receives benefit from the company and returns benefit to that company. For example employees will work better when they receive better conditions; similarly suppliers will reciprocate the receipt of good conditions while customers will pay a premium for quality. This can be considered to be renewable performance.

5.11 References

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5.12 Further reading

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5.13 Self-test Questions

1. What does the Triple Bottom Line consist of?
2. What are the 4 factors of sustainability?
3. What are the factors of distributable sustainability?
4. What is Brundtland and why is it important?
5. What is ISO 26000 about and how does it differ from other standards?