Checking the Sustainable Development Box

Sustainability programs have reached the point where they are being packaged, sold, and implemented like predecessor programs such as environmental management systems. That's a very shortsighted plan for meeting the next wave of environmental challenges.

Richard MacLean

Corporate "sustainability programs" have proliferated rapidly over the past few years. Organizations can now even buy "off-the-rack" sustainability programs.

But many companies seem to be deriving little value from their sustainability efforts. Even worse, in the rush to adopt prepackaged sustainability programs, corporate leaders may be failing to think about what sustainability really means for the future of their organizations.

This column offers some context on the growth of corporate sustainability programs—and suggests why companies should take a harder look at the strategic significance of sustainability issues.

The Predictable Path

Business challenges and opportunities tend to evolve over a predictable path. Environmental issues are no exception.

Companies that early on identify the emerging dynamics and develop the innovative practices to position themselves are the ones that gain the most competitive advantage. These successful leaders inevitably are followed by the mimickers, some of whom may refine and improve the leaders' practices. Finally, the laggards jump on board when it is absolutely safe (i.e., when the once-innovative practices become the "expected" way of doing business).

Meanwhile, a new generation of leaders is moving the bar higher to meet the next set of challenges and opportunities.

Innovation Is Crucial—and Uncomfortable

Cynics may deride this constant search for innovation as a "flavor-of-the-month" approach

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to management. For true innovators, however, it most assuredly is not.

As I sat down to write this column, on my desk was a copy of the latest issue of the *Harvard Business Review* (December 2009). The cover boldly states, "Your Next Big Idea—Spotlight on Innovation." As this title suggests, innovation clearly is crucial to continuing competitiveness.

By definition, however, innovation involves change or stepping outside well-defined boundaries. This makes many managers very uncomfortable, which can in turn make them reluctant to take advantage of innovations that more successful competitors seize immediately.

Once the "low-hanging fruit" has been plucked, environmental practices (unless they contribute directly to revenue) can quickly become viewed as just another cost of doing business, another item that requires a check mark.

Think of the classic example of William Edwards Deming, who is widely credited with early innovations in quality management systems. Although Deming was American, it was Japanese manufacturers in the 1950s who embraced his techniques. Only when the benefits became clear (read "safe") did manufacturers in the United States start to adopt his methods.

Environmental Practices: The Road to Routine

Environmental practices, like other activities, quickly lose their innovative edge and become routine. Early environmental innovators can receive praise, build the company's image, identify process improvements, motivate employees, and attract the best job candidates. But, as is usually the case, the greatest benefits come from being at the leading edge.

As each environmental issue matures, it will offer fewer obvious opportunities for improvement. Once the "low-hanging fruit" has been plucked, environmental practices (unless they contribute directly to revenue) can quickly become viewed as just another cost of doing business, another item that requires a check mark.

Most of the early innovations in environmental processes and procedures have now become systematized and standardized. Compliance programs, which were nonexistent in the 1960s, now take the form of computer checklists. Early efforts at corporate environmental reporting have been succeeded by standards such as the Global Reporting Initiative (GRI) G3 Sustainability Reporting Framework. You can download the list of items to check off.

Similarly, environmental management systems were built in-house in the mid-1980s. Now companies can hire consultants to "install" systems designed to be in conformance with ISO 14001. The people who certify these systems have checklists too, of course.

This evolution has instilled in some business managers preconceived notions about how issues related to environment, health, safety, and social responsibility should be dealt with, both now and in the future. More significantly, it has shaped the way they view the strategic importance of these interrelated issues.

Sustainability Goes Mainstream

Sustainability stories can be found everywhere in the current business literature. The cover of the September 2009 issue of *Harvard Business Review* reads, "How Green Will Save Us." The issue's feature story is entitled "Why Sustainability Is Now the Key Driver of Innovation."

The *MIT Sloan Management Review* recently issued a special report called "The Business of Sustainability (Findings and Insights from the First Annual Business of Sustainability Survey and the Global Thought Leaders' Research Project)."

It seems that everyone is jumping onto the sustainability bandwagon. Moreover, everything remotely related to the environment seems to be labeled with a "sustainability," "energy," "climate change," or "green" tag.

But we should remember that sustainable development has been a consideration within some companies for two decades. The earliest corporate leaders in this area were often the CEOs of small, privately owned companies who did not have to justify the numbers and wanted to build the fabric of the company around sustainability principles. During this same period, leadership by large companies was often more narrowly focused on sustainability reporting and engaging in voluntary initiatives to build their images as good corporate citizens.

Green Marketing and Sustainability

The real game changer for sustainability has been the adoption of "green marketing" strategies. Increasingly, green marketing efforts are being strategically managed as a key business growth area.

Over the past decade, "sustainability groups" have emerged in some companies to promote green marketing. These units, which often are separate from the environmental department, may be headed by someone with a title such as "vice president of sustainability." Sometimes they are staffed by individuals who have little or no experience or training in traditional environmental issues (e.g., regulatory compliance, ecology, or environmental engineering).

The managers of these groups often report higher up in the organization than do traditional environmental managers. They may go through different reporting lines and receive more top management airtime. Why? Because the potential benefits to the bottom line are obvious to business management.

Marketing of any type is familiar turf to business. It is upbeat and exciting. It is here to stay. It will be aggressively and enthusiastically pursued wherever possibilities exist. Moreover, marketing is not viewed as a philanthropic activity or just a cost of doing business. Instead, it is a potential profit center.

A fascinating insight into current business management thinking on this topic appeared in a recent issue of *Fortune*, which contained an interview with Linda Fisher, chief sustainability officer at DuPont.[1] The article stated, "The main reason Fisher's job is demanding is not environmental compliance issues, but rather its place at the center of the future economy, where DuPont and its competitors seek business opportunities and growing profits in making the planet greener."

Fisher referenced the well-known Brundtland Commission definition of sustainability as "meeting the needs of today without sacrificing future generations' ability to meet their needs." Then she linked the concept with her company's core business concerns, stating, "To DuPont that means looking at our major markets and seeing the megatrends that are going to affect those markets, and what are our opportunities to grow business."

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Keeping Up With the Greens

In reality, of course, sustainability is more than just "selling green." It involves a number of complexities and potential downsides that most business managers do not fully understand.

Despite these challenges, the relentless buzz about sustainability makes business executives feel compelled to keep up with the surging tide of interest. They scan the sustainability reports of their competitors, read the headlines, and then ask, "When are we going to have our own sustainability program?"

Déjà 1970

Most executives can certainly comprehend (and manage) the marketing side of sustainability. But in many respects, the downside aspects (such as cap and trade, energy, and Registration, Evaluation, Authorisation, and Restriction of Chemicals [REACH] regulations) are mysterious to business managers. These dimensions of sustainability present problems and uncertainties similar to those created by compliance issues in the early days of the environmental movement, circa 1970.

It appears to this writer that executives are responding to the new "threats" posed by sustainability with the same strategies they have used in the past. In essence, they are sending a message down through the organization that these new environmental boxes need to be checked off.

If a company is headed down the wrong path (using an outdated strategy, measuring the wrong metrics, or focusing on extraneous issues), it will derive little benefit from implementing an off-the-shelf sustainability program.

Companies that were not at the forefront of sustainability are now requesting installation of cookie-cutter programs, either by internal staff or by external consultants who go through the standard motions. In one case, a potential client of mine wanted nothing more sophisticated from me than a checklist of activities that the company could implement to claim that they had a functioning sustainability program.

Consulting firms that once "installed" management systems are now installing so-called "sustainability systems," energy-efficiency programs, and the like. These consultant-generated systems typically have their own proprietary templates loaded with the consultant's brand of buzzwords.

The promises that plug-and-play consulting firms make are usually grandiose but vague, and invariably crafted to incorporate as many vogue words as possible. They often seem to read something like the following (and here I'm parodying only slightly): "We will leverage value justification to accelerate business objectives employing lean user engagement with iPhone apps based on success metrics." For the client firm, the result is often an expensive system that is essentially worthless.

The Dangers of Standardization

Sustainability systems and standards (with policies, visions, programs, reporting procedures, metrics, and all the other component elements) are becoming an adjunct to existing environmental management systems. Standardization is in vogue: In 2010, there will even be a standard published for corporate social responsibility (ISO 26000).

A uniform approach has its benefits, of course. But it also carries real risks. A standardized system may not match a particular company's needs. Indeed, it may miss what is truly critical at that point in the company's evolution.

If a company is headed down the wrong path (using an outdated strategy, measuring the wrong metrics, or focusing on extraneous issues), it will derive little benefit from implementing an off-the-shelf sustainability program. As we have seen at companies that take this approach with environmental management systems, implementation may simply cost the organization money while providing few long-term benefits.

When Checklists Don't Tell the Whole Story

The checklist approach can often give a misleading picture of what is really going on within manufacturing sites. Even ISO 14001 certification—one of the most touted environmental check marks of all time—may not indicate a facility's actual environmental management status. For example, many factories in China are notorious for achieving ISO 14001 certification despite rampant environmental problems.

Recently published research by the American Chemistry Council (ACC) includes information on members' compliance with RC14001,® the association's Responsible Care® standard. The study reveals that the weakest areas (i.e., those most likely to be in nonconformance) are management review (section 4.6 of the standard), document control (section 4.4.5), and operational control (section 4.4.6). All of these are key sections of the standard. By contrast, the section on environmental policy (4.2) is almost always in conformance. See **Exhibit 1**.

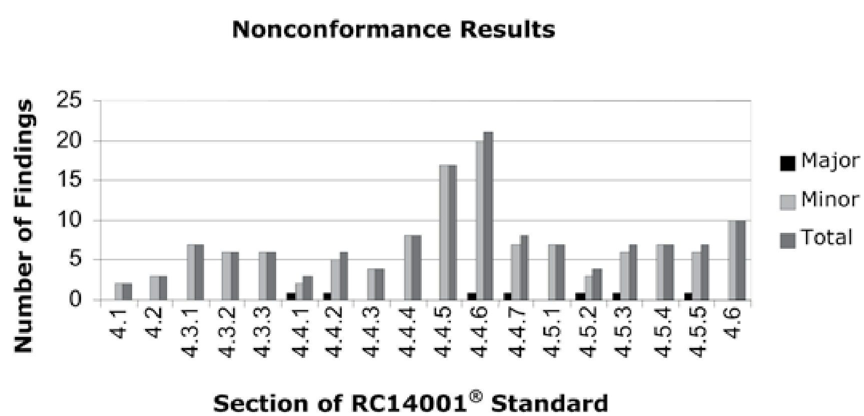
This ACC study is revealing for at least a couple of reasons. First, the industry represented by the American Chemistry Council is very sophisticated when it comes to addressing environmental issues. Dan Roczniak, ACC's senior director for responsible care, states:

> The chemical industry was one of the first to be regulated and has been at the forefront of innovation, particularly with regard to systems development. Responsible Care Management Systems® and RC14001® have provided companies with an effective tool for integrating multiple management systems across their organizations and more closely aligning headquarters, site and supply chain operations.[2]

In other words, the results of this ACC study most likely represent a "best-case scenario" for the business world.

Second, the ACC results imply that the most challenging aspect of a management system is not obtaining a policy statement from upper-level managers, but rather engaging them enough to attract their actual time and involvement. As with any program, the nuts and bolts

Exhibit 1. American Chemistry Council Study: RC14001® Nonconformance Results (2004–07)



4.1 General Requirements
4.2 Environmental Policy
4.3.1 Environmental Aspects
4.3.2 Legal and Other Requirements
4.3.3 Objectives, Targets and Programmes
4.4.1 Resources, Roles, Responsibility, and Authority
4.4.2 Competence, Training, and Awareness
4.4.3 Communication
4.4.4 Documentation
4.4.5 Control of Documents
4.4.6 Operational Control
4.4.7 Emergency Preparedness and Response
4.5.1 Monitoring and Measurement
4.5.2 Evaluation of Compliance
4.5.3 Nonconformity, Corrective Action, and Preventive Action
4.5.4 Control of Records
4.5.5 Internal Audit
4.6 Management Review

of RC14001 (such as paperwork and operational control) can be problematic. But it is top-down management involvement that is the most crucial factor in meeting these requirements since management awareness is a key element in securing the resources needed to make conformance a reality.

Management Buy-In: The Critical (and Often Missing) Success Factor

I firmly believe that achieving management ownership of the process is the most critical factor for success in any area. This sounds obvious, but it is an enormous challenge—as illustrated by the ACC research.

Cut-and-Paste Environmental Policy

Corporate environmental policy statements offer some interesting insights into the level of management buy-in at many companies. If you read a large number of environmental policy statements, you will probably find that most of them tend to sound the same. It is clear that the process at many companies involves just three main steps: (1) benchmark, (2) cut and paste, and (3) management review and endorsement.

Corporate environmental policy statements offer some interesting insights into the level of management buy-in at many companies.

Companies' stated environmental policies and visions tend to be broad and sweeping. Because political correctness can hamper real dialogue, these statements often focus more on public and employee expectations than on the organization's actual (often unstated) objectives. Terms commonly found in these statements (such as "excellence," "continuous improvement," and "commitment to the environment") are subject to differing interpretations.

Top managers sign off on these statements, but they do not necessarily buy into them. There is a critical difference.

Sustainability Statements: More of the Same

As companies generate new "policy and vision" statements for sustainability and social responsibility, many are approaching the task using the same three steps outlined above for environmental policy statements. Only now the process is even more flawed.

Unlike environmental compliance, sustainability and social responsibility truly exist "in the eye of the beholder." There are few universally accepted practices. So when management draws up these statements, politically correct wording is even more likely to mask the company's real business objectives or interfere with frank discussion. "Visions" are subject to interpretation, and achievements are measured with poorly defined metrics.

It doesn't have to be this way, of course. For an example of a better alternative, see the sidebar case study on Consolidated Edison of New York.

Misalignments on Sustainability

Based on direct quantitative measurement, I have found significant misalignments with respect to sustainability objectives at many organizations. Company leadership, managers, the environmental department, and employees may all have very different ideas about what sustainability means.

What is not obvious is that the main source of this problem may be the dysfunctional process the company used to create its sustainability program in the first place. Unless top management offers quantifiable targets and definitive supporting statements to back up terms like "sustainability" and "social responsibility," their vision statement may sound good, but provide no meaningful direction.

Business research has shown that it is extremely difficult for executive leadership teams to take off their "functional" hats and view the company holistically.[3]

The Perils of Puff

Top leadership generally can live with a grandiose (but unsupported) vision statement since its lack of preciseness will not threaten their own

Case Study on Sustainability Goal Setting: Consolidated Edison of New York

In early 2008, Consolidated Edison Company of New York was receiving awards and widespread recognition for its environmental and energy conservation efforts. The company's board of directors, its officer group, and the environmental department were all very proud of these accomplishments. But there was a growing awareness that the status quo would not suffice. Con Edison's leaders realized that a more comprehensive sustainability strategy would be needed to support the company over the long term.

So, over a period of six months, the company collected detailed data on existing programs and potential new opportunities. Unlike environmental information-gathering efforts at many other companies, the process at Con Edison was internally focused, looking at the company's own competitive strengths and vulnerabilities. External analysis centered on overall societal, energy, and regulatory trends, with relatively little emphasis on what everyone else in the industry was doing. The object was not to mimic others (that is, not to pick and choose best practices), but rather to step into unexplored areas of innovation.

In the realm of environmental decision making, this data-gathering process was unusual enough. But Con Edison also departed from the norm in an even bigger and more important way—by directly involving the top executives at the company. First, two business vice presidents acted as mentors and served as a sounding board for the environmental group. Second, emphasis was placed on educating the top executives.

The company made clear that it did not just want to develop a "program package" and then sell it to the executive group. Instead, the executive group, once brought up to speed, would formulate the overall strategy themselves. Within this process, the company environmental group and my consulting firm served as information providers and facilitators; we did not push any preconceived agenda.

Another key step was the preparation of a white paper that laid out the emerging dynamics in business terms. This information was supplemented by numerous one-on-one discussions between the environmental staff and management.

Prepared with this background, Con Edison's top executives—literally all of the direct reports to the CEO—held a half-day workshop to formulate their vision for sustainability. With brutal frankness, the executives offered differing opinions on strategic direction. This workshop was not about political correctness, but rather about developing a business strategy for achieving specific goals related to corporate responsibility.

A select group of functional representatives attended the workshop, but only as monitors, so that they could observe firsthand the subtleties of what the officer group wanted. I facilitated the process, but the executives did all the heavy lifting.

Several weeks later, the strategic ideas that came out of this workshop were presented to the CEO for his input and direction. Eventually, details of the executives' vision (and, more importantly, its underlying rationale, principles, and strategy) were provided to the Con Edison board of directors.

Overall, the process took nearly a year. A decision-making process of this length is not all that unusual when a company is developing key business strategies (i.e., strategies on things that "really matter"). In the corporate world, the tools used by Con Edison (white papers, numerous one-on-one discussions with officers, and half-day facilitated workshops of the entire executive staff) are all common. What is remarkable, however, is that Con Edison had the vision to apply such a process to its sustainability efforts. The company did not follow the all-too-common approach of benchmarking, cut-and-paste, and rubber-stamp approval by top management.

Con Edison's sustainability strategy was built not by the environmental department, but by the executives themselves. The net result is that the executives now have a personal ownership stake in the company's vision and strategy for sustainability.

This innovative decision-making approach has paid off for the company. Randy Price, Con Edison's vice president for environment, health & safety, says:

> The process offered a unique approach to setting our environmental and sustainability goals. We didn't sit in a classroom lecture or copy what other companies did. We engaged in real discussions with our senior executives and encouraged them to develop the goals and strategies our company needs to thrive and continue to serve our customers and investors. We were as pleased with the process as we were with the results.

functional area. So, in the absence of intervention by the company's board of directors or CEO, or the eruption of a major external threat, this "fuzzy" status quo will often prevail until competition, external events, or some internal calamity raises the bar.

Once upper-level managers formulate their required statement, the company can be said to have checked the "vision" and "sustainability principles" boxes. But their statement will probably read like everyone else's and it will provide little actionable direction. Even more significantly, it will signal that management's support for sustainability programs will be ambiguous come budget time.

Even if management verbally demands a "leadership strategy" for sustainability, the company will fall short if management's stated vision is not reflected in the reality of the budget process.

In many cases, of course, this outcome reflects an unstated business objective: Follow the well-beaten path and honestly claim that the company has a "sustainable development program."

Such an approach is common, and officer groups may feel quite comfortable with it. But where is the competitive edge? Where is the innovation? How will vague universal guiding principles produce an end result that is significant to the company (i.e., one that helps position it competitively)?

Failing the Test

I recently presented an officer group at a major corporation with a list of vision statements from five of their competitors in the energy sector and asked them to identify which company had produced each statement. Not a single business executive could match a corporate name to its sustainability vision.

Several years earlier, I tried a similar experiment at the annual meeting of environmental staff members for another major corporation (with approximately 100 attendees from locations around the world). When asked to identify by a show of hands their own environmental vision statement from a list of five in their industry sector, only about 20 percent of attendees were correct—essentially the result one would expect by random chance.

Checking Off the Sustainability Box—Without Really Buying It

Flawed strategies for implementing environmental, sustainability, and social responsibility initiatives are almost inevitable if business management has not truly bought into the process. Even if management verbally demands a "leadership strategy" for sustainability, the company will fall short if management's stated vision is not reflected in the reality of the budget process.

Management invariably funds compliance programs, since managers understand the consequences of failure to meet mandatory environmental, safety, and health requirements. But programs that promote excellence, leadership, and "beyond compliance" practices generally must compete head to head with other business programs for funding.

Dozens of studies, including the ACC research mentioned previously, have documented how company performance suffers when management is not genuinely engaged in environmental programs. I have known scores of environmental managers, many at the functional top of their organizations, who meet with the company CEO or the board of directors as infrequently as once a year, and then for only a few minutes.

In the absence of a crisis, executives rarely make probing inquiries about environmental issues that could lead their companies in new strategic directions. The questions they ask are more likely to be along the lines of: Are we in compliance? Do we have ISO certification? Did we issue the annual social responsibility report? Did we make it onto the Dow Jones Sustainability Index? These questions reduce complex issues to binary "yes/no" answers.

When executives ask such narrow questions, it is clear that they view environmental and sustainability programs as costs of doing business and tasks that must be checked off a list. Their business goal is to mark the right boxes and then move on. They do not find it necessary to explore other business benefits (or uncover other issues) associated with environmental and sustainability programs since these elements are assumed to be relatively small and insignificant compared to the many other (and, in their view, more pressing) competitive dynamics in play at the company.

Sustainability and Corporate Survival

While green-product development and marketing opportunities are evident to business, the impacts of emerging environmental issues generally are not so obvious. Nonetheless, among leading companies, an opinion is emerging that sustainability issues have the potential to become core business concerns.

The impact of these issues will reach far beyond current concerns such as climate change, the cost of energy, and green marketing. In the long term, sustainability issues will probably have an even greater impact on industry than did the environmental movement that began in the late 1960s.

Companies such as DuPont sense this. My clients also are aware of the transition that is under way. However, most companies seem oblivious. And no wonder. The dynamics in play have not been articulated by the media or covered in publications aimed at the business and environmental communities.

Media commentators and the business literature obsess over climate change and the benefits to society of sustainability and all things green. But they fail to appreciate the fundamental business importance of sustainability.

For example, in the September 2009 issue of *Harvard Business Review*, the editor's introduction stated that "becoming eco-friendly will soon be a necessary cost of doing business." Statements like this misinterpret and distort the dynamics for business.[4] They give business management the impression that "going green" is just another philanthropic endeavor and/or additional cost that is not core to their competitive position.

In fact, however, the next stage of environmental change will not be about imposing another cost of doing business. Instead, it will be about the sustainability of corporations themselves.

Sustaining Your Business

In an earlier installment of the *Environmental Leadership* column, I described the emergence of a "fourth wave" of environmental issues that will center on the control, exploitation, and use of natural resources.[5] Already, a growing number of indicators (or "signposts" as they are called in the scenario planning lexicon) point to the arrival of this next wave.

In the long term, sustainability issues will probably have an even greater impact on industry than did the environmental movement that began in the late 1960s.

Competition to secure resources is emerging around the world. As this competition intensifies, environmental and social responsibility issues will form key components of successful business strategies. The dynamics of bringing new raw materials into production and building new factories have already begun to change: The time lines are longer. Environmental and social responsibility issues now dominate the critical path.

My earlier column on the fourth wave was originally drafted in May 2009. In the intervening months, the signs of change have become more visible and have begun to appear with more frequency. For example, at a November 2009 meeting of Organization Resources Counselors (ORC) in Washington, D.C., an environmental manager reported that a major issue was brewing over control of a rare earth element that is used to make an exotic alloy for the aerospace industry.

Not long after this meeting, a front-page story in the *Wall Street Journal* reported that companies are shifting toward greater vertical integration, which the article describes as "a 100-year-old strategy in which a company controls materials, manufacturing and distribution." The discussion went on to note that "moves toward vertical integration are a departure from the past half-century, when companies increasingly specialized, shifting functions like manufacturing and procuring raw materials to others."[6]

Around the same time, *BusinessWeek* ran a feature story entitled "Land Rush in Africa" about agribusiness and global investors buying up farmland. Among the buyers are "Arab oil countries . . . vying for fertile acreage for fear their homelands are running out of water."[7]

As these stories suggest, for business, "sustainable development" will increasingly center on maintaining critical supply chains. This is a far cry from the idea that sustainability is first and foremost about eco-friendly practices.

There will be winners and losers in this fourth wave. The winners will be those companies that have best positioned themselves with respect to accessing key raw materials and creating strong supply chains. How is your company preparing for the next great wave of change?

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