

## Module 4. Sustainability

**This Module provides conceptual background on the evolution of corporate social responsibility (CSR) toward the concepts of “sustainability” and “Creating Shared Value (CSV).” You can skim this module if you do not intend to do Case #4. analysis. However, you may need to refer back to this Module if questions related to the foregoing concepts are raised by later cases.**

### Module 4. Outline

#### I. Sustainability

- A. “Sustainability” is Added to The Enterprise’s Responsibilities in the 1990s
- B. “Sustainability” is Broadly Embraced in the Global Political Culture in the 21<sup>st</sup> Century
- C. CSR and Sustainability Today
- D. Contemporary “Big Picture” Representations of Sustainability
- E. Analytical Tools
- F. Company Examples

#### II. Creating Shared Value

### Module 4. Text

#### Sustainability

##### “Sustainability” is Added to The Enterprise’s Responsibilities in the 1990s

In the 1990s, “Sustainability” became a popular term, but one with multiple meanings. When applied to business, it meant **“meeting the needs of business while simultaneously contributing to the possibilities that humans and other life will flourish on the earth for a long time.”** Quite explicit in this definition is the primacy of business needs, i.e., one could say that it implies that the business must be “sustainable” as an economic entity.

In this period, a second phrase related to sustainability enjoyed a measure of popularity--“Natural capital.” “Natural capital” was the extension of the economic notion of “capital” (manufactured means of production) to the natural environment to ensure future flow of goods or services.

The **“Triple Bottom Line”** was another sustainability-related phrase that emerged in the effort to redirect business to CSR. The Triple Bottom Line, like natural capital, expands the traditional business reporting framework to account for social, environmental and financial performance, or as someone called it, balancing “people, planet and profit.”

Quite clearly, these various definitions brought the idea of CSR further into focus. In effect, business was being asked to report what it was doing to “sustain” not just itself, but the societies in which it operated (“people”) and the environment (local ecosystems and “the planet”).

## “Sustainability” is Broadly Embraced in the Global Political Culture in the 21<sup>st</sup> Century

The idea of sustainability was being introduced into business, it was also being introduced into the broader public arena in the form of a call for “sustainable development.” Sustainable Development is defined by the United Nations: “Sustainable Development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Governments, national, regional and local, began to talk about sustainable development within the framework of their boundaries, with a strong emphasis on issues related to employment, resource depletion, and public health. Further, the CSR activities of businesses, or lack thereof, operating within political entities came to be one of the foci of sustainable development concerns.

### CSR and Sustainability Today

This half century of CSR development has clearly seen an evolution in terminology and a broadening of attention given to it. There has been significant progress within the business community in developed economies in eliminating the corporate irresponsibility that helped foster the CSR movement, if it can be described as a kind of social movement. **However, for any single issue within the scope of CSR, and for CSR itself, there remains considerable ambiguity as to how a firm or manager should respond to particular decision making challenges when social, environmental and political issues are raised.** It is not the intention of this course to resolve those ambiguities and tell prospective how they should resolve those dilemmas. Rather it is to draw into clear focus the underlying issues, and equip prospective managers with the professional perspective and analytical tools to resolve their dilemmas once they occur.

- 👤 CSR and Sustainability have established legitimacy in the public and political institutions,

BUT

- 👤 Where do the CSR and Sustainability go from here?
- 👤 In an era of economic stagnation and decline, will CSR and Sustainability take a back seat to short-term economic survival and reestablishment of economic growth?
- 👤 Is there a place for CSR and Sustainability in reestablishing long-term economic growth

### E. Analytical Tools

Various analytical tools have been offered to “measure” corporate social performance. See, for example, CSR4U Tool, [www.csr4utool.org](http://www.csr4utool.org)

CSR4U TOOL is a web tool dedicated especially to SMEs to approach CSR and business ethics principles. It is a results of an European funded research project called LOIEs. CSR4U TOOL let your organization to test your social, environmental and financial performances in an easy way.

F. To see two good examples of companies setting CSR and Sustainability goals and measuring their performance against those goals, see:

NIKE, a US sports apparel company: <http://about.nike.com/pages/sustainability>

and

MIGROS, a Swiss retail food company: <http://m10.migros.ch/en/unsere-verantwortung-en/grundsaeetze-en/nachhaltigkeitspolitik-en.>

(The MIGROS site is also available in French, German and Italian)

### **Creating Shared Value (CSV)**

The concept of **Creating Shared Value** was expounded in a January 2011 Harvard Business Review article entitled "Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society" written by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard University and co-founder of FSG, a global not-for-profit consulting company. The article provides insights and relevant examples of companies that have developed deep links between their business strategies and corporate social responsibility (CSR). In 2012, Kramer and

Porter, with the help of the advisory firm FSG founded the Shared Value Initiative to enhance knowledge sharing and practice surrounding creating shared value, globally.

**The central premise behind creating shared value is that the competitiveness of a company and the health of the communities around it are mutually dependent. Recognizing and capitalizing on these connections between societal and economic progress has the power to unleash the next wave of global growth and to redefine capitalism.**

Critics, on the other hand, argue that CSV is little more than long-term “enlightened self-interest,” a concept that has been around since the early discussions of CSR.

### Mechanism

**Companies can create shared value opportunities in three ways:**

- **Reconceiving products and markets** – Companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation
- **Redefining productivity in the value chain** – Companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development
- **Enabling local cluster development** – Companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system

Ecological and social accounting challenges

Like sustainability measures, accounting for ecological and social values and costs that are a significant challenge.

### Comparison with corporate social responsibility

Mark Kramer, the co-writer of a *Harvard Business Review* article on Creating Shared Value, states in his "Creating Shared Value" blog that the major difference is between CSR and CSV is that CSR is about responsibility, whereas CSV is about *creating value*. CSV is thus a transition and expansion from the concept of CSR, just as sustainability is. CSV advocates therefore claim they are laying down theoretical foundations for companies and society to sustainably and communally overcome societal issues. They foresee a more mature form of capitalism where companies pursue new market strategies that value both economic and societal development. Instead of being pushed by external factors, CSV is internally generated and visionary.

### Shared Value Initiative

The Shared Value Initiative (SVI) was created in the fall of 2012. The SVI serves as a global knowledge and learning hub for companies and other stakeholders in SV strategies of practice. The establishment of the SVI capitalizes on global momentum surrounding Shared Value by driving new adoption of SV strategies amongst companies while also improving the implementation of SV strategies that have already been put into practice. The SVI engages in four major activities – deepening and documenting knowledge, creating toolkits for implementation, building communities of practice via both physical and virtual engagement opportunities, and serving as a general steward of the concept of Share Value.

The SVI is managed and staffed by the global social impact consulting firm FSG. Current SVI programs include shared value executive education, an affiliate program that trains consulting firms on the implementation of SV strategies, an online community portal, and a variety of shared value resources. The SVI also hosts the Global Shared Value Summit, an annual three-day gathering of over 200 leaders from the business, public, and not-for-profit sectors.

### Shared Value and Universities

Numerous universities have adopted Shared Value initiatives. See for example, the *University of Torino's Center 4 Shared Value's Shared Value Living Lab*, whose goal is the creation of a shared value through a partnership between the University and companies.

The project consists in the creation of a "laboratory of ideas", which is a working group composed of students of the school of Management and economics, under the supervision of faculty representatives, research and test possible solutions to the problems of companies concerning the economic, social and environmental sustainability, corporate social responsibility and the network economy.

The interaction students/universities/companies allows them to expand their contacts' network enabling the development of innovative ideas, the ability to anticipate customer needs and, consequently, the opportunity to acquire a competitive advantage over competitors.

For further details, see:

<http://www.center4sharedvalue.org/en/sharedvalue-living-lab/>

### **Entry-level Employee Perspective**

As a young person, you no doubt have a desire to see a commitment to sustainability on the part of your government, corporations, and your own employer. Many companies large and small now speak about sustainability in their published

commentaries—in annual reports, in advertising, in employee communication, in public relations publications. However, for many companies the sustainability rhetoric is just that—rhetoric—and actual company practice is indifferent to the underlying goals and principles of sustainability. We call this “**greenwashing**.” Wikipedia defines **greenwashing** as “a form of spin in which ‘green PR’ or ‘green marketing’ is deceptively used to promote the perception that an organization's aims and policies are environmentally friendly. Whether it is to increase profits or gain political support, greenwashing may be used to manipulate popular opinion to support otherwise questionable aims. Here are some examples of “**greenwashing**” cited by Wikipedia:

1. the hotel industry's practice of placing placards in each room promoting reuse of towels ostensibly to "save the environment," when the goal is only to reduce their costs.
2. automakers claiming that their cars are "green," "clean" or "environmentally friendly" (while lobbying against improved emission and fuel efficiency standards).
3. Public utilities spending eight times more advertising themselves as clean green companies than the money they spent on pollution reduction research
4. European McDonald's changed the colour of their logos from yellow and red to yellow and green; a spokesman for the company explained that the change was "to clarify [their] responsibility for the preservation of natural resources.”
5. US telecommunication giant Comcast’s ecobill has the slogan "PaperLESSisMORE," but Comcast uses large amounts of paper for direct marketing.
6. Kimberly Clark's claim of "Pure and Natural" diapers in green packaging. The product uses organic cotton on the outside but keeps the same petrochemical gel on the inside. Pampers also claims that "Dry Max" diapers reduce landfill waste by reducing the amount of paper fluff in the diaper, which really is a way for Pampers to save money.

As an entry-level employee, you could be asked by your supervisor or a senior manager in your company to participate in this “**greenwashing**” effort. For example, to prepare a promotional campaign for a food company product that emphasizes its “all natural” ingredients when those ingredients have always been “all natural.” Would you do it?