From Social Responsibility and Environmental Management to Sustainable Business

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Summary

Sustainability and eco-efficiency have become the words of today's business. For the past two decades there has been a growing pressure on businesses to pay more attention to the environmental, but also the social, consequences of their actions. The three spheres of sustainability and triple-bottom-line reporting are probably familiar to most environmentalists and environmental managers but what does sustainability mean from business perspective? Business sustainability, or corporate sustainability, is quite recent and less researched area. This paper examines the development of sustainable thinking from environmental management and social responsibility to sustainable businesses of the future. In this paper we outline, based on literature review, the development path of environmental managerial approach and social responsibility of business towards current understanding about business models and their development. In the future, sustainable business is not only about eco-efficiency, but increasingly about socio-efficiency and creating economic, social and environmental value to all stakeholders. According to this new line of thinking, sustainable values should be closely integrated into the company's business values and strategies. Through sustainable business practices, companies can create competitive advantage and social legitimacy.

Keywords: sustainability, environmental management, corporate social responsibility, sustainable business, corporate sustainability

1. Introduction

The World Commission on Economic Development (WCED) popularized the term ‘sustainable development’ in the 1987. It calls for people and organizations to pursue their current needs without compromising the ability of future generations to meet their needs [1]. This and the triple-bottom-line thinking, considering economic, environmental and social issues [2], widened corporate responsibilities to cover the management of impacts upon the natural world and the social world as well as economic factors. According to Bansal [3] this was met with scepticism because it was believed that environmental integrity and social equity were at odds with economic prosperity.

Over time, corporate commitment to sustainable development has changed considerably. Bansal [3] identifies two different mindsets: institutional and resource-based view. The institutional view argues that the sustainability change is often motivated by firms seeking social approval. The resource-based view emphasizes firm’s internal processes through which it can accumulate valuable resources and capabilities that lead to superior firm performance.

These two mindsets can also be applied when sustainability is considered in the context of business. Practicing sustainability in business is about companies contributing to the well-being and wealth of people, organizations and society. It is about considering the social and environmental consequences, along with the economic impacts, of doing business. This is usually
motivated and applied through legislation, standards (e.g. ISO 14000 and OHSAS 18001) and social approval. This has already reached the realm of applied business [4] and numerous corporations are creating voluntary environmental programs and actively involve stakeholders in improving local economic, environmental, and social conditions [5].

The resource-based mindset is the basis for current business sustainability literature. It is about companies capturing a number of benefits by becoming more sustainable: improved cost savings, access to capital (through the growing number of socially responsible investment funds), opportunities to penetrate new markets and create new products, provide value added solutions, unlock numerous opportunities to improve competitiveness and enhance reputation [6]. Thus, it makes sense to be more sustainable!

This paper intends to clarify the different themes and terminology to separate between social responsibility, environmental management, sustainable development and sustainable business. In the recent research literature, sustainable business is sometimes discussed only from environmental or just from social responsibility perspectives. Business sustainability is however more. It is about combining the economic, environmental and social aspects of business and creating/improving innovation and new practices through this new line of thinking. This paper tells the story of sustainable business: What does it mean today? What is its effect on business operation? How can companies operate more responsibly and sustainably?

2. Sustainability in business

The definition of sustainability and sustainable development has evolved over the decades. The Brundtland report [1] defines sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This definition clearly captured the problem of environmental deterioration that often accompanies economic growth and the fact that this growth is actually needed to increase social welfare.

Thus, to be sustainable, companies need to be economically viable but also consider the social and environmental impacts of their actions. Socio-efficiency can be described as the relation between positive or negative value added created by the company and its social impact [8]. Eco-efficiency on the other hand is about the amount of used environmental resources related to the economic activity of the company [9]. The following chapters discuss shortly the economic responsibilities of companies and more elaborately the development of Corporate Social Responsibility and Environmental Management in the past decades.

2.1 Economic responsibility

The economic viability of companies is at the heart of sustainable development. At macro-level corporate contribution is linked to employment, economic growth, the fiscal conditions of a country, its competitiveness and the balance of trade. At micro-level companies contribution can be listed under three headings: financial performance, long-term competitiveness and company’s economic impact on stakeholder groups. Financial performance, or “financial robustness”, can be described with indicators like sales, turnover, cash flow, profit, shareholder value, profitability, debt-equity ratio and liquidity. Sustainable development is also about long-term foresight why a business can be considered sustainable only if it takes strategic steps to improve its competitiveness. In addition, sustainable companies need to pay their taxes, adequate prices to their suppliers and wages to their employees, interests to their creditors and (at least at a certain point in time) dividends to their shareholders. [6, 7]

2.2 Corporate Social Responsibility

The discussion of Corporate Social Responsibility (CSR) started in the 50s and 60s when researchers debated whether the goal of business is to increase its profits [10] or to create a process, which enables also humanity to flourish [11]. Social activist groups of the 1960s broadened the notion of corporate social responsibility, but it was not until the significant social legislation of early 1970s when the message became indelibly clear [12].
One of the leading approaches to the concepts of CSR has been Carroll’s [12, 13] definition of CSR, which defined four categories of social responsibility: economic, legal, ethical and discretionary responsibilities. Historically, business organizations have been the basic economic unit of our society providing goods and services and making maximum profits in the process. At the same time, businesses are expected to pursue their economic missions within the framework of the law and regulations.

Ethical responsibilities embody ethical norms about fairness and justice while philanthropy encompasses those actions that make businesses “good corporate citizens”. [12]

Fig. 1 Balance between economic and social responsibilities

The idea of CSR, as we currently understand it, started to take form in the late 70s. This new school of thought arose when researchers suggested that companies could be socially responsible by being socially responsive. This refers to how well a company responds to social demands and needs (= social pressure). Instead of asking why? whether? and for whose benefit? companies started to ask how? by what means? and with what effect? [14] This movement thus emphasized corporate action, proaction and implementation of social role, which was indeed a necessary reorientation [12].

In the mid 1980s, questions of values and culture of ethics stimulated the debate of CSR. It was realized that companies are heavily conditioned by prevailing societal and cultural values and it is not enough to consider only the core values of the business system, i.e. the economic and organizational growth, the preservation of power and the quest for profits, but a new way of linking social values with business purposes needed to be found. It was suggested that mere responsibility or mere responsiveness is not enough but companies should act in rectitude, to acknowledge that ethics belongs to the core of management decision making, analyze and cope responsibly with ethical problems and attempt to align its policies with the core values found within the culture of ethics. [14]

Today, the intergovernmental compacts and national laws set comprehensive guidelines, tasks and limits for companies pursuing high levels of CSR. Guidelines include rules for employment practices and policies, consumer protection, environmental protection, political payments and involvement, basic human rights and fundamental freedoms that are currently pursued worldwide. [14] Friedman [15] and McGuire et al. [16] list also the following social responsibilities of corporations:

- provide employment
- eliminate discrimination
- satisfy stockholders and bondholders
- make charitable contributions
- promote community development plans
- maintain plants in economically depressed locations
- avoid pollution
- establish environmental protection procedures

As can be seen from this list, already at the 70s and 80s some CSR advocates highlighted also environmental issues as social responsibilities. It was not, however, until the turn of the millennium when natural, environmental and ecological awareness started to embed into the CSR thinking. Until that, environmental responsibilities were seen as a separate liability of business management.
2.3 Environmental Management

At the same time as the height of corporate social responsibility, another social liability emerged, i.e. environmental responsibility. Environmental management is a way to connect the activities of environmental issues into the company's management and decision-making systems [17]. The modern environmental management takes into account the environmental aspects of management at operational, strategic and institutional levels. The aim is to create a competitive advantage and social legitimacy, to minimize the negative environmental impact, and continuously improve the operations of the company. [18, 19]

An important opening statement of the environmental discussion was Rachel Carson's book "Silent Spring" [20] on the chemicalization of the environment. Before the 1970s, emissions limits and environmental provisions were still relatively underdeveloped, but when the results of climate models awoke the concerns of climate change and when oil crises, the theory of ozone layer and forest deaths and acid rains came to public awareness, the discussion of environmental management heated. In the 1970s, environmental regulations developed and tightened and companies were forced to adapt to the new emission and operational limitations. At this first stage of environmental management, environmental factors were experienced mainly as a constraint, which they had to accept despite the fact that they were opposed [18].

The second phase of environmental management began in the mid-1980s, when companies realized that no organization can succeed in the long run if its actions contradict with the requirements and values of the surrounding society. In this so-called modern environmental management, the companies started to re-evaluate their approach to environmental issues and to recognize the hidden strategic potential of environmental management. Because of new and stricter environmental laws and regulations of the 1980s and growing demands of corporate stakeholders, companies had to readjust their attitudes towards environmental issues. [18] In the late 80’s the International Standardization Organization (ISO) published the first quality management and quality system standards, which followed a series of standards for environmental management (ISO14000).

In the early 1990s only a few companies had achieved a level of "environmental" innovation and the "greening" of companies was initially verbal – not operational. Policies and practices started to change in the late 1990s and introduced tools and methods began to stabilize in the turn of the millennium. Legislative and market pressures are increasingly affecting the implementation of environmental issues and the corporate slogan of many companies has become eco-efficiency. [18]

3. Business sustainability

As discussed before, numerous researches has interpreted and evaluated the social-economic and the environmental-economic relationships separately with the result of different understandings of business sustainability. These approaches cover only two of the three concepts of sustainability at a time why a holistic inclusion of all elements of the tripartite model has been adopted by many researchers [8, 21, 22]. Sustainable business can be understood as a dynamic sustainable development where "a company recognizes its impact on the social and natural systems, owns that impact, and seeks to derive profitable competitive advantage from that impact by creating new products, services, and processes that lessen the impact or even restore original social and natural capitals to generate financial capital." [23] The concept of economic development has expanded since the Brundtland report and there is a need to understand the interconnections between economic, social and environmental issues in decision-making and to understand that organizations are part of this tripartite system [24].
One of the most used references of operationalization of sustainability in business is John Elkington’s [2] *triple-bottom-line* approach. This approach measures corporate performance and success by focusing on economic prosperity, environmental quality and social justice. This means that organizations should be able to sustain financial, human-social and environmental resources over the long-term and not just maintain short-term financial health alone [23, 25]. According to Elkington [2] sustainable capitalism needs more than just environment-friendly technologies. It also needs the new views of social equity, environmental justice and business ethics. This means combining the three focus areas of business responsibility: economic, environment and social (Figure 3).

To get ahead in the sustainability agenda, corporations need to identify all sustainability issues relevant to the company’s activities. These can be identified for example through stakeholder consultations, research at the sectoral level or pilot studies. [6] Table 1 summarizes some examples of these sustainability issues.

**Table 1 Important issues in sustainable business [6, 7, 26]**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Some associated indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of non-compliance</td>
<td>Fines for economic, social and environmental non-compliance</td>
</tr>
<tr>
<td>Financial performance</td>
<td>Exhibit sufficient cash-flow and persistent return to shareholders, profit, sales, turnover, investments…</td>
</tr>
<tr>
<td>Long-term competitiveness</td>
<td>Maintain or improve future competitiveness and company performance</td>
</tr>
<tr>
<td>Economic impact</td>
<td>Deal with the impact of corporation on particular stakeholder groups, contribution to GDP, employment contribution</td>
</tr>
<tr>
<td>Shareholder value</td>
<td>Shareholder value or annual returns</td>
</tr>
<tr>
<td>Value added</td>
<td></td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
</tr>
<tr>
<td>Resources</td>
<td>responsible use of resources (energy, water, etc.), note resource depletion,</td>
</tr>
<tr>
<td>Emissions</td>
<td>avoid SOx, NOx, particles, noise</td>
</tr>
<tr>
<td>Environmental damages and risks</td>
<td>avoid loss of biodiversity</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>reduce</td>
</tr>
<tr>
<td>Waste</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>Number of km’s travelled, amount of fossil fuels used</td>
</tr>
<tr>
<td>Global warming potential</td>
<td>Company’s contribution to global warming</td>
</tr>
<tr>
<td><strong>Social</strong></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Equal opportunities and non-discrimination, equal distribution of income</td>
</tr>
<tr>
<td>Equity within a corporation</td>
<td>no child labour, no forced and compulsory labour, indigenous rights</td>
</tr>
<tr>
<td>International equity</td>
<td>Employee training and education</td>
</tr>
<tr>
<td>Internal social improvements</td>
<td>community, political and social contributions, no bribery and corruption</td>
</tr>
<tr>
<td>External social improvements</td>
<td></td>
</tr>
<tr>
<td>Health and safety</td>
<td></td>
</tr>
<tr>
<td>Management quality</td>
<td></td>
</tr>
<tr>
<td>Stakeholder involvement and liaison</td>
<td></td>
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<tr>
<td>Social partnership and sponsor</td>
<td>Involvement in community projects</td>
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</table>
So, how can companies reach these targets and reach beyond compliance of sustainability? Elkington [2] and several other researchers have presented from one to seven resolutions for business sustainability, which can be categorized under the following topics: markets, values, transparency, life-cycle technology, partnerships, time and corporate governance. These topics are discussed separately below.

**Markets**

Companies need to understand market mechanisms and conditions to be able to identify what factors drive for change in this challenging environment. Society will demand sustainable business, why companies need to learn how to utilize this as part of their business case for action and investment. In the future companies need to be leaner and meaner adopting approaches such as lean thinking. By eliminating all forms of waste and making what is really needed can help companies to drive towards their eco-efficiency goals. Companies which manage their resources more efficiently, as valuable resources become scarcer and more expensive, will gain a competitive advantage. "Companies that are better at managing the flow of value through their businesses will generally be more eco-efficient." [2]

**Values**

Successful companies need to identify, understand and respond to the values their customers want. Eco-efficiency is a necessary condition for sustainable development, but genuine sustainability demands also socio-efficiency. [2] Clarke and Roome [27] emphasize sensitivity towards customer and employee needs, community concerns and environmental implications to bring about organizational and social learning and change. Putting the emphasis on understanding different stakeholder values creates understanding about the corporate value and gives possibilities for closer relationships between actors. It also makes it possible to capitalize the presented opportunities and improve the motivation of the workforce [6]. According to Maak [28], mobilizing multiple stakeholders and responding to their needs results in the creation of value networks, which may enhance social capital and thereby contribute to both a sustainable business and the common good.

**Transparency**

Businesses will find that their thinking, priorities, commitments and activities are under more intense scrutiny than ever before. Customers are (or at least should be) demanding more information to compare, benchmark and rank firms performance. Sustainability reporting can be used as a tool to provide stakeholders information about challenges and achievements, but also as a marketing tool promoting sound environmental management and sustainability activities [27]. Internal reporting on company's sustainability achievements can have a significant effect on corporate culture while external reporting helps in responding to emerging issues and pressures [6]. Companies should communicate and share ideas with different stakeholders to find out what the expectations of different interest groups' are [27]. Responding to the expectations of stakeholders means being more transparent and open, and early, honest disclosure can help in building the public support. [2]
Life-cycle technology

The economic, social and environmental life-cycle impacts of technologies, products and processes will be under wider scrutiny in the future. If companies want to achieve necessary progress against the triple-bottom-line, they need to take into account the whole product/process life-cycle and improve the performance of the whole value chain. Every single activity at every level in the product life-cycle has an impact on business sustainability. Tools, such as lean thinking, may prove to be surprisingly powerful in minimizing the life-cycle costs and giving a boost against the triple-bottom-line. [2]

Partnerships

To achieve outstanding sustainability, companies need to look beyond their organizational boundaries to develop more extensive and long-term stakeholder relationships and partnerships. Although the idea of effective long-term partnerships may seem common sense, old perceptions and prejudices die hard. Companies need to position themselves in the value network and understand the potential value added they bring to the game. [2] Maak [28] motivates creating and nourishing trustful sustainable relationships in order to achieve mutually shared objectives and responsible change. To build trust, companies need to create and agree on a set of rules and boundaries, which will further help to build competitive edge and create new business ideas [2]. Stakeholders expect companies to contribute to a sustainable future and be part of the solution, not part of the problem.

Time

Sustainable business should change its way of understanding and managing time. Current “wide time” –thinking (a lot of happening every minute) does not support sustainability but brings only short-term gains and losses. The sustainability agenda pushes companies to “long time” –thinking and seeing across decades and generations. "Building the infrastructure of a sustainable economy will take unusually long-term thinking, planning, and funding." [2] Azapagic [6] reminds that different stakeholders also operate in different timescales. One major challenge in business sustainability will thus be reconciling these different timescales and identifying the benefits and threats if business and sustainability priorities become unaligned.

Corporate governance & management

Sustainability requires a shift from exclusive to inclusive forms of corporate governance. Companies need to address the triple-bottom-line requirements and incorporate them into organizational structure and strategic planning processes. The owners and corporate boards should understand and prioritize the progress towards sustainability targets and integrate them into the overall identity of the organization. [2] For example, performance objectives and targets may be set in terms of emission levels and waste generation or perhaps number of working hours lost due to accidents or illness. Azapagic [6] reminds that sustainability strategy must emerge from and be embedded in the business vision and strategy of the company so that it is more an ‘umbrella’ than an ‘add-on’. This is not an easy task and it requires a vision, commitment and leadership, which enables the design, management and communication of business sustainability policies. The employees should also be involved and committed to environmental and social programs so that sustainable actions can be operationalized, adopted and routinized [27].

4. Discussion

The literature related to the sustainability concept in business is varied. Throughout the past several decades researchers and business executives have unintendedly mixed the terminology and definitions of different sustainability themes. Consequently, sustainability has been considered difficult to pursue as people find it difficult to make sense and operationalize the term. And no wonder. Sustainability, in different papers, means mere environmental responsibility, corporate social responsibility or the mix of economic, social and environmental issues. The last, the triple-bottom-line approach has been called at least with names like sustainable development,
sustainable business, corporate sustainability or sustainability management.

This paper is concluded with the notion that there are actually four understandings of business sustainability depending on which theoretical sustainability concept is more influential [24]. These are:

1. a corporation working towards long-term economic performance
2. a corporation working towards positive outcomes for the natural environment
3. a corporation that supports people and social outcomes
4. a corporation with a holistic approach

The first, economic performance, is the life-blood of corporations and thereby the life-blood of the community. Economically sustainable companies seek profitability, growth and long-term competitiveness through outstanding financial performance and strategy. Corporations comply with the existing legislation but meet only minimum standards related to environment and occupational health and safety. The following two concepts seek to look after and secure both the social and the natural environment. Ecologically sustainable companies aspire positive ecological outcomes and eco-efficiency through reducing the amount of resources used to provide goods and services. Socially sustainable companies strive for socially acceptable operation and adding value to the community by being ‘good corporate citizens’.

It is not however enough to consider only one or two of these concepts at a time, but all three together. A holistic approach to business sustainability implies the need to simultaneously alleviate global ecological and social problems while ensuring the effective achievements of organizational objectives. Sustainability should not be seen as a financial burden but it should be used as a touchstone for innovation [29]. The objective is to go beyond compliance and to use these three perspectives to create business advantage. By becoming sustainable, businesses can yield bottom-line and top-line returns, create competitive advantage, build a ‘greener’ brand in the eyes of the customers and help to improve the economic health, stability and social cohesion of the community. The list is endless. It is just about tuning the business managers’ mindset into realising that businesses can actually benefit by becoming more sustainable.

5. References


