SUSTAINABLE DEVELOPMENT AND BUSINESS SUCCESS

REACHING BEYOND THE RHETORIC TO SUPERIOR PERFORMANCE

A REPORT OF THE AUSTRALIAN BUSINESS FOUNDATION AND THE FOUNDATION FOR SUSTAINABLE ECONOMIC DEVELOPMENT AT THE UNIVERSITY OF MELBOURNE

March 2005

Suzy Goldsmith
Danny Samson

Foundation for Sustainable Economic Development
University of Melbourne
PREFACE

PROJECT OUTLINE
The Foundation for Sustainable Economic Development at the University of Melbourne has been engaged by the Australian Business Foundation to undertake an investigation to question and critically analyse how far and in what ways sustainable development practices can contribute to the productivity, performance and success of Australian companies. The aim of this research is to produce rigorous frameworks for executives and policy makers to better understand when there is, and when there is not, a sound case for the adoption of sustainable development and related practices by Australian businesses.

ACKNOWLEDGMENTS
We would like to thank Narelle Kennedy, Jonathan Cartledge and Peter Clifton-Smith of the Australian Business Foundation for their guidance and support during this project, and most particularly for their vigorous testing of its relevance and usefulness to Australian businesses. The Project Steering Committee has met twice, and we acknowledge the contribution of its members: Robert Burke, Micheal Carolin, Peter Crowfoot, Rhonda Granger, Brooke Flanagan, Linda Funnell-Milner, Joe Moore, Phillip O'Donoghue, Max Ogden, Paul Orton and David Robinson. Finally, we would like to thank the many interviewees who gave their time, ideas and experiences to this project, and the University of Melbourne for its provision of facilities and IT and administrative support.

ABOUT THE FOUNDATION FOR SUSTAINABLE ECONOMIC DEVELOPMENT
The Foundation for Sustainable Economic Development (FSED) is a research unit within the Department of Management at the University of Melbourne. The Foundation was established as an initiative of the Victorian Government and the University of Melbourne. The mission of the Foundation is to create and disseminate knowledge to investors, management, unions, and the broader community to increase awareness and effectiveness of management practices that deliver sustainable outcomes such as better organisational, societal and environmental performance. Examples of our recent projects are available at www.fsed.org.

ABOUT THE AUTHORS
Suzy Goldsmith is Senior Research Fellow at the Melbourne Water Research Centre, University of Melbourne. She also teaches a postgraduate class in Risk Management and is finalising a doctorate in Corporate Risk in the Department of Management. She worked as Research Fellow in the Foundation for Sustainable Economic Development to conduct the research covered in this report. Prior to her academic work, she has twenty years’ experience as a consulting environmental engineer, leading a team and working for a large number of public and private sector clients. She has been an Accredited Auditor
(Industrial Facilities) under the Environment Protection Act, Victoria, and has a long-term interest in how businesses recognise and resolve the competing claims of stakeholders.

Danny Samson is Professor of Management at the University of Melbourne and Director of the Foundation for Sustainable Development in the Department of Management. During his academic career, he has been a consultant to senior executives in most manufacturing industries and numerous service sector organisations. He regularly provides industry and executive seminars and has participated in a number of committees and industry bodies, including appointment as a member of the Australian Manufacturing Council and Commonwealth Government Industry Task Force on Leadership and Management (Karpin Committee). He has published widely in academic journals on his research interests in management strategies and best practices, total quality and innovation, operations management strategy, decisions and systems. His book titles include Managerial Decision Analysis, Production and Operations Management, Management for Engineers, Patterns of Excellence, Technology Management, and E-Business: Value for Managers.

ABOUT THE AUSTRALIAN BUSINESS FOUNDATION

The Australian Business Foundation is a private sector business research think tank, itself sponsored by the pre-eminent industry association Australian Business Limited which represents some 5,000 member and 25,000 associate member companies. The Australian Business Foundation operates with a single mission – to conduct and disseminate groundbreaking research that advances knowledge and fosters new thinking and best practice on Australia’s business competitiveness, prosperity and jobs. More details of the Australian Business Foundation’s latest research are available at www.abfoundation.com.au.
CONTENTS

PREFACE .................................................................................................................................. 2
  Project Outline ...................................................................................................................... 2
  Acknowledgments ..................................................................................................................2
  About the Foundation for Sustainable Economic Development ............................................2
  About the Authors ..................................................................................................................2
  About the Australian Business Foundation ...........................................................................3

EXECUTIVE SUMMARY ........................................................................................................... 5
  Background ...........................................................................................................................5
  Key Issues and Findings .........................................................................................................6
  Taking Action .........................................................................................................................10

1. PROJECT RATIONALE AND APPROACH .......................................................................11
  1.1 Focus of this Project ........................................................................................................11
  1.2 Questions .........................................................................................................................12
  1.3 Approach .........................................................................................................................13
  1.4 Structure of Report .........................................................................................................14

2. BUSINESS AND SUSTAINABLE DEVELOPMENT .........................................................16
  2.1 What is Sustainable Development? .................................................................................16
  2.2 What are Sustainable Development Practices? ...............................................................18
  2.3 What is Long-Term Business Success? ............................................................................21
  2.4 Sustainable Development Practices and Long-Term Business Success: A Model ..........22

3. SUSTAINABLE DEVELOPMENT PRACTICES ..................................................................24
  3.1 Effective Sustainable Development Practices ...................................................................24
  3.2 Sustainable Development Practices and Strategy .............................................................32
  3.3 Sustainability Orientation: Common to Advanced Companies .......................................40
  3.4 Summary – Attributes of Sustainable Development Practices .......................................43

4. MOTIVATIONS FOR SUSTAINABLE DEVELOPMENT ..................................................45
  4.1 Why Do Companies Pursue Sustainable Development? ................................................45
  4.2 Motivations – The Path to ‘How?’ ..................................................................................53

5 A NEW PERSPECTIVE: MANAGERIAL AND BUSINESS IMPLICATIONS ............................55
  5.1 Sustainable Development Practices and Business Success: Rhetoric versus Causal Connection .................................................................55
  5.2 Implications for Practice: A Way Forward ......................................................................58

6. CONCLUSIONS ...................................................................................................................62

7. REFERENCES .......................................................................................................................63

APPENDIX ...............................................................................................................................64
  Industry Groups Interviewed .................................................................................................64
  Companies Interviewed .........................................................................................................64
EXECUTIVE SUMMARY

BACKGROUND
Almost every business magazine and newspaper exhorts managers to become active in sustainable development. It is in danger of becoming yet another fad through the lightweight, amateurish debate and rhetoric that simply says: “Do something and be counted.”

The accounting for sustainable development activities usually comprises checklists of the practices that a firm is engaged in and these fall completely short of measuring any connection with the firm’s business strategy and purpose. Investors are therefore poorly informed by these imperfect measures, such as triple bottom line reporting, which measure sustainable development practices as in a vacuum. Worst of all, this field that has been characterised by the chaos and confusion of writings within it, often leads firms to act because of the fear of doing nothing, or because of a felt need for pure philanthropic efforts.

In most industries, sustainable development efforts have proceeded in fits and starts. Many initiatives, some expensive, have not lasted nor provided any benefits. Success has at best been mixed, from spectacularly useful through to a complete waste of effort and resources.

The lack of clarity in terms of what a firm should do is holding many executives and their businesses back from a substantial engagement in sustainable development practices. Until now, there has not been a clear path or set of guidelines, particularly at a strategic level, to guide businesses forward.

Definition
Sustainable development practices are defined for the purposes of this study (after World Commission on Environment and Development, 1987):

Sustainable development practices manage technology and social organisation to make balanced and equitable progress on economic, environmental and social needs so that meeting these needs in the present does not compromise the ability of future generations to meet their own needs.

For the purposes of this study, the scope of the economic, environmental and social needs addressed by sustainable development practices is described in the Sustainability Reporting Guidelines 2002 published by the Global Reporting Initiative.
KEY ISSUES AND FINDINGS

Doing business has become a lot more complex in the last twenty years. A major aspect of this is the attainment of approval, cooperation and satisfaction of a range of stakeholders, including customers, suppliers, owners, employees, financiers and regulators. These groups are demanding a broader set of performance outcomes than just profit. In the past, it has been possible to be anything from reactive and minimalist in dealing with these requirements through to proactive, strategic and therefore ahead of the pack. Technology, globalisation and rapid changes in the business environment mean that firms must find strategically sensible ways to get ahead of these stakeholder requirements.

From a practical perspective, businesses and their executives must make concrete decisions, other than ‘do nothing’, about why, what, when, how and how much they should engage in sustainable development.

WHY?

Businesses should work to limit the downside and expose the upside of their strategic opportunities through including sustainable development practices for consideration in their business practices choice set. They can substantially assist in delivering the business’ complete strategy and satisfying a variety of stakeholders at a higher level than would otherwise be the case. Indeed, the most advanced companies that we studied were proactive and innovative in leading stakeholder expectations and creating new and different forms of value for all players. The motivation need not be and in advanced companies is not, born of the “isms”, namely altruism, voluntarism, and so on. Rather, it is a deep-seated set of principles that guide the organisation to develop its interdependence with its stakeholders, and grows through successive implementation of sustainable development practices. We call this guiding set of principles ‘sustainability orientation’, comprising breadth of vision, stakeholder empowerment and being progressive, as outlined below. The sustainability orientation of a company helps business leaders make the connection between their sustainable development practices and pursuit of the distinctive character and strategic advantage of their business.

Breadth of Vision

Although some of the leading companies we studied were large and some were small, all were big picture thinkers – viewing the business in its broadest context and appreciating the needs, rights and interests of an extended array of stakeholders. This stakeholder approach goes way beyond a response model. The leading companies value highly the respect of their stakeholders and understand that they need to earn a community leadership position by establishing a reputation for trust and integrity that endures in the long-term. Rather than simply ranking and responding to stakeholder issues, they desire a leadership role that is open to ideas and seeking new and mutually beneficial opportunities. Companies view this role as providing the opportunity for business to drive for performance beyond compliance, with the aim of generating sustainable futures for both the business and its stakeholders.
**Stakeholder Empowerment**

Stakeholder empowerment is clearly much deeper than engaging in transactional relationships even if these are long-term. Stakeholder empowerment is perhaps the ‘newest’ practice we encountered in our assessment of the sustainability orientation of leading companies. It describes businesses’ active and consistent efforts to build, lengthen and strengthen relationships with their stakeholders. Where stakeholder empowerment differs from more traditional approaches to stakeholder relations is in the profound degree to which power and influence becomes shared between the two parties: business and each stakeholder. It is this sharing of power that underpins the shared future described by the principle ‘breadth of vision’ and is the objective of stakeholder empowerment.

Stakeholder empowerment is an active engagement between the business and its stakeholders that goes beyond dialogue and results in a genuine mutuality rather than a transactional co-dependence. It is commonly understood that new ideas and solutions can come from customers and suppliers. Stakeholder empowerment seeks to capture this business advantage, by creating more opportunities for stakeholder input, choice and benefit. Rather than being viewed as an adversary or irritant, stakeholders are viewed as a genuine source of new ideas and value.

**Being Progressive**

In keeping with their long-term vision and enthusiasm for change and new opportunities, the leading companies we studied also shared a commitment to progress through models such as excellence, best practice and high performance.

How businesses operationalise the ‘being progressive’ principle depends on their business strategy. For companies like Eli Lilly, Multiplex and OneHarvest/Vegco, innovation is core to their competitiveness; whereas for companies like Blackmores, VicSuper and BHP Billiton, other forms of competitive advantage are supported by quality, service and reliability. These are all ‘being progressive’ practices that are chosen at the operational level to also complement the strategy of the business.

**WHAT?**

Given this sustainability orientation, sustainable development practices are a sub-set of business practices, engaged in to achieve sound strategy and performance outcomes. There is no single set of sustainable development practices because every firm has a unique business strategy.

In essence, we found that one or more of three generic strategic requirements - namely stakeholder support, efficiency and market edge – are critical to sustainable development outcomes and ongoing effectiveness, and therefore the specific sustainable development practices chosen.

**Stakeholder Support** refers to all the stakeholders in the business. The support of direct stakeholders, such as shareholders and debt-holders, may be increased by an improved
organisational risk profile; by recognition by socially responsible investment indices; or by improved communication, for example.

*Employee support* may be increased not only through programs directly related to their employment such as training and wage negotiation; but also by support programs such as child care and health and fitness provisions; and further by involvement in philanthropic programs such as charitable donations from wages matched by the company, special leave for charity work, and so on.

The support of *suppliers* may be increased through evidence of mutuality or partnering in the supply chain, whereby the company promotes, supports and brokers their efforts to improve efficiency or standards and agrees to share the benefits.

*Customer support* may be increased by efforts that recognise their needs and preferences such as environmentally friendly products, health information and product security and quality control.

Finally, the *support of regulators* may be increased by evidence of responsible and consistent adherence to required performance and reporting; support for international relations such as inter-country aid programs; and support for local programs such as community liaison committees and customer training and support.

*Efficiency* refers to the range of sustainable development practices that make a direct or indirect contribution to the company’s financial performance. Waste minimisation is an example of a practice that generates efficiency gains, through reduced costs of raw materials, and reduced costs of treatment, storage, handling and disposal of wastes. Similar benefits apply to practices that reduce energy or water consumption and reduce greenhouse gas emissions.

Areas of practice that are less commonly associated with efficiency gains, but which do have the potential to generate them, are multi-skilling and other forms of workforce training and support; and life-cycle analysis of products, whereby the costs of product maintenance and disposal are internalised to the business rather than being shifted to consumers and governments. Plastic bag bans and levies are a simple example of this kind of initiative, although much more complex versions are being developed in industries such as the information industry.

*Market edge* describes those practices that contribute to the company’s market opportunities in terms of new markets, market share and profit opportunity. Research and development, innovation and supply chain improvements are all examples of practices that can have a sustainable development component and that can open up new markets for a company or assist it to be more responsive to existing ones.

Practices that contribute to the reputation of the company or brand can also increase its market edge. These types of sustainable development practices may also contribute to
the strategies of stakeholder support and efficiency mentioned earlier, but the company’s market orientation is the driving force for their adoption.

WHEN?
Advanced companies have been engaged in sustainable development for more than a decade. Many waited until they were forced by a disaster to act. The opportunity is there for any firm to be proactive at any time. We found that businesses pursue sustainable development practices for a range of reasons – horses for courses. Generally, sustainable development practices complement the three generic strategic requirements listed in the section “What?” above. However, the motivation for their adoption might range from a guiding philosophy, through strategy, to practice-level standards for example. We found that this motivation for sustainable development practice adoption mattered little, and that over time, companies engaging in strategically congruent, high quality sustainable development practices would develop a guiding set of principles, or culture, that can be described generically by the characteristics of ‘sustainability orientation’.

Businesses derive long-term success from sustainable development practices that they are well placed to broker and to benefit from. Specifically, sustainable development practices give businesses a greater opportunity for long-term success when they are:

- Strategically congruent with the business – specifically, by contributing to the business strategic requirements of stakeholder support, efficiency and market edge.
- Deep practices that achieve genuine improvements in sustainable development outcomes, rather than superficial tick-a-box efforts.
- Mature, leading edge approaches that offer the best available value proposition for the business on the scale from comply through transform.
- Well integrated with other business practices, thus promoting efficiency and effectiveness in implementation.

HOW AND HOW MUCH?
The companies that have succeeded in this domain have developed their own approach and have retained control of practice choices and their business rationale. It is like any other investment, in that it is there to create business advantage and the basket of investments made must yield a sensible stream of time-phased benefits.

The recent prominence of socially responsible investment surveys and rankings might suggest that companies should pursue sustainable development practices because that is what investors want. Yet publicly listed companies know that their investors also want returns, and privately held companies struggle to see the relevance of a reporting effort that has no external audience.

Our work helps to resolve this dilemma by clarifying the nature of the connection between sustainable development practices and long-term business success. It consists of two main attributes: the quality of the sustainable development practices themselves, and their alignment with specific strategies of the business.
The motivations for companies' adoption of sustainable development practices are many and varied; they are both practice- and context-specific. The leading companies don’t simply adopt sustainable development practices, they continue to refine and extend their efforts to achieve a better balance between the economic, environmental and social consequences of their business activities, and to complement their business strategies.

Perhaps the most exciting finding from our research is that companies do not require an external incentive or provocation to embark on sustainable development practices that will generate a long-term performance premium. The most successful efforts will result for companies that have a strong framework for the sustainable development considerations, such as strong leadership and a robust strategic planning process.

Sustainable development practices cannot fix an ailing strategy, but they can complement a promising one by stimulating innovation and change that will deliver a premium on long-term business success.

**TAKING ACTION**

It is not possible to specify one single formula that connects sustainable development practices to business success. Further, there is no definitive set of sustainable development practices, nor is there a single persuasive argument or motivation for embarking on them.

However, it is possible to recognise the high-level framework for sustainable development that is common to advanced companies. From our observations, companies that are successful:

- Review, recognise and acknowledge the company’s sustainability orientation as it develops as an integral part of the business strategy and culture.
- Canvass their specific sustainable development issues and business activities for opportunities to make beneficial changes (implement sustainable development practices).
- Analyse the potential for these sustainable development practices to contribute to one or more of three strategic business requirements, namely stakeholder support, efficiency and market edge.
- Choose, develop and implement their unique set of sustainable development practices.
- Measure progress, adapt, review and extend their sustainable development practices within an evolving business environment, strategy, culture and business practice set.

In short, we conclude from our observations that companies can make the most of their sustainable development practices, not simply by reacting to a single stimulus like managing compliance or protecting their reputation. Rather, a stronger argument for sustainable development practices rests in the creation of business advantage and innovation.
1. PROJECT RATIONALE AND APPROACH

1.1 FOCUS OF THIS PROJECT

Business is under ever-increasing pressure to engage with and respond to sustainable development issues. (These are defined as the balancing of economic, environmental and social needs for the benefit of present and future generations.) Despite this pressure, there is no clear path for leaders and executives to determine why, where, when, how and how much they should act on sustainable development issues in their overall business strategy.

Growing Community Concern

Community interest in social and environmental issues has been growing steadily since the 1960’s. The focus of these concerns has shifted over time. In the 1980’s, a number of high profile incidents led to increased regulatory and informal pressure relating to the environmental performance of industry. However, environmental performance is not a single issue, and involves significant trade-offs between competing social and economic issues. The phenomenon of “globalisation” introduced geo-political issues of community expectations, equity and progress. The World Commission on Environment and Development (1987), also known as the Brundtland Commission, worked over several years to clarify these issues and has provided a carefully developed global perspective on “sustainable development”.

Since the Brundtland Commission, a wide range of both government and non-government organisations have been established or repositioned to develop and advance sustainable development objectives in the business sphere. These groups and initiatives include the European Union, the World Business Council for Sustainable Development and Australian State and Federal Government awards. There are many directives and tools for business to undertake to satisfy sustainable development objectives. This has been accompanied by a vast increase in pressure from interest groups, and a broadening of these interest groups to include, for example, shareholders who want to engage in socially responsible investment.

Shift in the Role of Business

Over the same period, private enterprise has become increasingly engaged with issues that are traditionally dealt with by the public sector (eg health, energy and unemployment). This shift has been brought about by institutional changes such as privatisation, corporatisation, public-private partnerships and self-regulation. These changes have variously aimed to promote workplace efficiency and cost reduction, reduce public sector risk, improve on regulatory outcomes and reduce enforcement costs,
and address short-term budgetary deficits. An additional outcome of these initiatives has been that the traditional interface between private and public agenda has become blurred.

The rapid growth in large multi-national enterprises (MNEs) has also served to heighten the apparent role of business in addressing public concerns. Issues often raised in this context include the relatively large financial and therefore political power of MNEs and the parity of standards between their operations in developed and emerging nations. At the same time, globalism has introduced the competing pressures of increased cost-based competition and global investment markets. Businesses also have to deal with rapid technological change.

Although these shifts in the role and pressures faced by business are generally applied and discussed in relation to large businesses, they also impact upon small businesses. There is an ever-increasing pressure for businesses of all sizes and types to engage with and respond to sustainable development issues.

1.2 QUESTIONS

The previous Issues Paper[^1] for this project “Sustainable Development – State of the Art: Asking the Questions” clarified the questions facing Australian businesses as follows.

- What is the appropriate role for businesses in sustainable development?
- How can a particular company decide on the nature and extent of their sustainable development role?
- Why pursue sustainable development?
- What is the appropriate motivation for businesses to adopt sustainable development practices?
  - Does this motivation differ between businesses and industries?
  - Does this motivation change over time?
  - Does this motivation indicate which sustainable development practices should be employed?
  - Do stakeholders agree on what matters?
  - How are trade-off decisions made, and how can trade-off rates be reduced?

The pressure for businesses to adopt particular sustainable development practices (e.g., environment management systems) derives from many quarters ranging from non-government organisations and community interest groups to government departments and regulators. These groups have “operationalised” sustainable development demands as specific activities sought from business. Each has their own peculiar agenda for business’ involvement, ranging from the particular to the general case. For example, a community living in close proximity to a factory may have specific requests regarding noise or dust pollution affecting their daily amenity. Whereas, a standard setting organisation may wish to promote the take-up of their branded environmental approach in

[^1]: See www.fsed.org
order to maximise their market share for that service, with the lesser imputed objective of improving the environmental performance of those users of the standard. The demands created by this extensive and diverse set of interested parties have been variously characterised by commentators as rent-seeking, fragmented, and regulatory inflation.

There has been considerable confusion in the business community as to how to respond to these widely disparate demands, recognising that meeting them all is simply not affordable for many enterprises. Some businesses have dealt with this difficulty by attempting to retreat to a financially based “maximising shareholder wealth” definition of their role. There is considerable evidence in the form of legislative trends and community opinion that this stance, taken in a simplistic way, cannot effectively resolve the sustainable development demands being placed on business. Further questions are:

- How is sustainable development pursued?
- Which sustainable development practices should a business adopt, and how much?
  - Is there an optimum mix of practices?
  - Does this differ between businesses?
  - How does it relate to the motivation of the business in adopting sustainable development practices?
  - How does it affect business success, both in the short and long term?
  - How can business and societal outcomes be measured and tracked?

Some businesses have spent significant portions of their resources on adopting various sustainable development practices. This has prompted many improvements and innovations. However, it is unclear whether these practices, individually or in combination, have been successful in supporting the objectives of either sustainable development or the individual business strategy and performance. Evaluation of the relationship between these sustainable development practices and business performance has provided mixed results, and to date little light has been shed on the relationship between the two, and the factors governing it.

The implication of some authors is that pursuing sustainable development goals will naturally and inevitably result in greater business success. Such a sustainable-development-centric view ignores the lack of consistent empirical support for this proposition, and denies the influence of managerial choices and organisational difference in determining the ultimate success or failure of any business strategy.

1.3 APPROACH

We sought to explore the sustainable development issues and identify what a range of active and leading companies were doing in this field. The objective was to build a guiding framework for other companies. In exploring these issues, our study was of the linkages between organisation goals, strategy and culture, the goals of other stakeholders, and sustainable development opportunities. We explored industry level activities,
company resourcing of sustainable development, and individual executive perceptions and activities.

We consulted with a range of industry groups, and selected six companies for detailed study. The companies were selected carefully for their diversity of business contexts, and their differences in terms of industry, scale, market position, culture and strategy. Our aim was to explore the central research question:

“Why, and in what circumstances, do sustainable development practices contribute to business success?”

We identified the differences between companies that might result in their taking a specific position on this question. By exploring across this range, we sought to reach conclusions that were generalisable, having meaning for most companies. Our findings therefore, are not simply a description of the practices of a set of companies, rather they result from a careful analysis and distillation of the evidence, against theoretical frameworks built from the literature and drawing on the practical experience of the authors.

This research has included:

- Examination of the academic and business literature relating to corporate sustainable development and business success.
- Development of new models and hypotheses relating to the research questions.
- Interviews and background research on fourteen industry associations and groups.
- Detailed interviews and background research on six companies operating in Australia, identified as leaders in sustainable development practices.
- Review sessions held with the Project Steering Committee and business groups.
- Use of the research findings to define the proposed models and hypotheses more clearly.
- Development of a new generic model for corporate sustainable development that explains current experience and practice and can be used as a guide to action.

Contributors who were interviewed during this project are acknowledged in the Appendix.

1.4 Structure of Report

This report is the Final Report for the research project and summarises the key insights and conclusions from the work.

Chapter 2 clarifies the definition of sustainable development practices. Aspects of the relationship between sustainable development practices and long-term business success are discussed and a model is proposed to explain this relationship for the range of enterprises and industries.
Chapter 3 details the attributes of sustainable development practices – what are they and when are they successful? The link between sustainable development practices and long-term business success is then clarified: it is mediated by three generic strategies, namely stakeholder support, efficiency and market edge. The high-level principles that explain a key feature of the model proposed in Chapter 2, sustainability orientation, are identified.

Chapter 4 explores the motivations for companies’ adoption of sustainable development practices. Motivation does not explain success, rather a range of motivations help to build a successful body of practices and reinforce sustainability orientation. In this chapter, we explain how motivation supports a process of strategic transformation.

Chapter 5 provides a discussion of the managerial and business implications of this research. New approaches are presented, based on this research, which can assist companies to adopt, adapt and extend sustainable development practices that will contribute to their long-term success.

Chapter 6 provides our conclusions for this research.
2. BUSINESS AND SUSTAINABLE DEVELOPMENT

This chapter is about the concepts of sustainable development and its relationship with business success.

2.1 WHAT IS SUSTAINABLE DEVELOPMENT?

Global Context
The work of the World Commission on Environment and Development, generally known as the Brundtland Commission (1987), is widely recognised as the genesis of efforts in sustainable development over the past fifteen years. Although its title implies a focus on environment issues, the definitions employed by the Commission in its deliberations were extremely broad: “Environment – where we all live, development – what we all do in attempting to improve our lot within that abode.” Thus both environmental and social issues were clearly included, and that breadth of scope was reflected in the breadth of interests represented on the Commission.

The definition of sustainable development arrived at by the Brundtland Commission (1987) is widely acknowledged by active groups in the field, such as the World Business Council for Sustainable Development, the Organisation for Economic Cooperation and Development, the United Nations and the European Union. “Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs.”

The Brundtland Commission’s work was not limited to developing this goal statement for sustainable development. The outcomes of several years of deliberation on the complexities surrounding the competing pressures of development, environment and the future were distilled, and provide useful insights on the boundary issues listed below, and which are drawn on for the purposes of this study.

In Practice
The Brundtland Commission (1987) took a global perspective for their assessment of sustainable development issues. “These challenges cut across the divides of national sovereignty, of limited strategies for economic gain, and of separated disciplines of science.” The profound effects of development, resource use and new technology, coupled with a predicted doubling of the World’s population, more than 90% occurring in the poorest countries, were the basis for the Commission’s work. They provided a philosophical backdrop for the more detailed work to follow. This included ideas about priority setting: “Needs, in particular the essential needs of the World’s poor to which overriding priority should be given...”; for goal setting and equity in goals: “Perceived needs are socially and culturally determined, and sustainable development requires the promotion of values that encourage consumption standards that are within the bounds of the ecological possible and to which all can reasonably aspire.”; and for addressing issues of constraint, for example the issue of human rights which can create or limit the capacity for other issues to be addressed. These ideas can be summarised as requiring
balance and equity in the pursuit of sustainable development goals. The Commission acknowledged that these ideas would be difficult to realise: “Painful choices will have to be made...sustainable development must rest on political will.”

This research does not intend to address the global context of sustainable development beyond its use of a globally accepted, consistent scope for what issues are covered by the term. The focus for this research is the business enterprise, viewed in the context of its industry and the nation (Australia) within which it operates. Drawing on the global perspective of sustainable development provided by the Brundtland Commission (1987) provides three key directions for practice.

(i) The idea of balance and equity in the pursuit of sustainable development goals as a key definitional concept.
(ii) The issue of fragmentation, whereby sustainable development issues are addressed silo-fashion globally and locally, making them harder to understand and address.
(iii) The boundary conditions of national policy that can govern the national context within which an industry operates. Examples of this include the global debate over sugar beet versus sugar cane production, import tariffs and farm subsidies, our national reliance on low cost electrical energy, budgetary provision for aid to poorer nations, and national security decisions such as oil refining capacity. Our study assumes that these factors are a given, and examines enterprise behaviour and performance within this context.

Our unit of analysis (the enterprise in the national and industry context) effectively is different from the Brundtland Commission’s (1987) emphasis on global equity and raising of standards in the poorest nations. However, it was never intended that the position of the poorest nations should constrain global effort. The Kyoto Protocol provides a strong example of this in its stretch targets for developed nations. Developed nations are viewed as better equipped to develop technologies and approaches to address the problems of greenhouse gas emissions, and thus able to provide a pacesetter role in eventual global progress. The aim of this research is to develop a clearer understanding of the relationship between sustainable development practices and business success in the Australian context. This will clarify whether the factors which govern the relationship can be attributed to the enterprise, or to its environment.

While the unit of analysis selected for this research restricts industry comparisons to the Australian context, it still includes those necessarily related overseas activities for each industry. For example, an industry that exports most of its product has economic significance, product responsibility and product end-of-life issues with its overseas customers. An industry that imports components for its products must include the impacts of those overseas supply activities in its own sustainable development assessment.
2.2 **WHAT ARE SUSTAINABLE DEVELOPMENT PRACTICES?**

The Brundtland Commission (1987) clearly viewed sustainable development as a progressive goal, rather than an absolute one when they stated: “The concept of sustainable development does imply limits – not absolute limits but limitations imposed by the present state of technology and social organisation on environmental resources and by the ability of the biosphere to absorb the effects of human activities. But the technology and social organisation can be managed to make way for a new era of economic growth.” The practices of sustainable development can be viewed as the means by which technology and social organisation are so managed. The Brundtland Commission takes this further, describing in more detail what sustainable development practices might include: “…sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs.” Including ideas developed in “Unit of Analysis” above, balance, equity and progress are key definitional concepts for sustainable development practices.

**Scope of Sustainable Development Practices**

Broadly, the “needs” in the Brundtland Commission (1987) definition of sustainable development refer to three main areas: economic, environmental and social effects. Work undertaken by many groups, such as the WBCSD², UNEP³, OECD⁴ and EC⁵ has employed idiosyncratic definitions of these areas of need. Often the detailed definition has been derived during a study, through stakeholder consultation for example. Partial standard definitions have been developed under a range of banners, including ISO 14000⁶ for environmental management systems, AA 1000⁷ for social and ethical accountability, ILO⁸ conventions, and so on. The Global Reporting Initiative (GRI) is the most recent international effort to achieve a harmonious and consistent understanding of the “needs” that are addressed by sustainable development practices.

The purpose of the GRI (Global Reporting Initiative 2002) was to bring sustainability reporting practices up to the level of financial reporting practices, and to make this reporting both achievable and of a high standard in terms of its reliability and usefulness for comparisons. The GRI was convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). Their work has involved extensive consultation with corporations, environmental and social NGO’s, accountancy organisations, trade unions, investors, and other stakeholders worldwide. It is generally accepted as the template against which further development of sustainable development initiatives will progress. The final version of the GRI was released in October 2002. Sector (industry) specific supplements

---

² World Business Council for Sustainable Development, see http://www.wbcsd.org
³ United Nations Environment Program, see http://www.unep.org
⁴ Organisation for Economic Cooperation and Development, see http://www.oecd.org
⁵ European Commission, see http://europe.eu.int
⁶ International Organisation for Standardisation, see http://www.iso.org
⁷ Institute for Social and Ethical Accountability, see http://www.accountability.org.uk
⁸ International Labour Organisation, see http://www.ilo.org
have been produced for the automotive, financial services (social), tour operators and telecommunications sectors, and more are planned for the financial services (environmental), logistics, mining and metals and public agency sectors (at the date of this report).

The GRI is proposed as the definition of the scope of sustainable development for the purposes of this study (see Table 2.1) because it:

- has been developed with the intention of becoming the international standard for sustainability assessment and measurement
- is the most up to date resource available
- includes guidelines on the consistent measurement (thus interpretation) of each item
- relates to outcomes of sustainable development activity and as such are internally consistent and support a relative view of sustainable development performance
- is sufficiently detailed to provide a sound basis for thorough review and comparison of industry/enterprise approaches.

**Definition**

Sustainable development practices are defined for the purposes of this study (after World Commission on Environment and Development, 1987):

Sustainable development practices manage technology and social organisation to make balanced and equitable progress on economic, environmental and social needs so that meeting these needs in the present does not compromise the ability of future generations to meet their own needs.

For the purposes of this study, the scope of the economic, environmental and social needs addressed by sustainable development practices is described in the Sustainability Reporting Guidelines 2002 published by the Global Reporting Initiative.
<table>
<thead>
<tr>
<th>Category</th>
<th>Aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic</strong></td>
<td></td>
</tr>
<tr>
<td>Direct economic impacts</td>
<td>Customers</td>
</tr>
<tr>
<td></td>
<td>Suppliers</td>
</tr>
<tr>
<td></td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>Providers of Capital</td>
</tr>
<tr>
<td></td>
<td>Public Sector</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
</tr>
<tr>
<td>Materials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Energy</td>
</tr>
<tr>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td>Biodiversity</td>
</tr>
<tr>
<td></td>
<td>Emissions, effluents and waste</td>
</tr>
<tr>
<td></td>
<td>Suppliers</td>
</tr>
<tr>
<td></td>
<td>Products and services</td>
</tr>
<tr>
<td></td>
<td>Compliance</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
</tr>
<tr>
<td></td>
<td>Overall</td>
</tr>
<tr>
<td><strong>Labour practices</strong></td>
<td>Employment</td>
</tr>
<tr>
<td></td>
<td>Labour/management relations</td>
</tr>
<tr>
<td></td>
<td>Health and safety</td>
</tr>
<tr>
<td></td>
<td>Training and education</td>
</tr>
<tr>
<td></td>
<td>Diversity and opportunity</td>
</tr>
<tr>
<td><strong>Human rights</strong></td>
<td>Strategy and management</td>
</tr>
<tr>
<td></td>
<td>Non-discrimination</td>
</tr>
<tr>
<td></td>
<td>Freedom of association and collective bargaining</td>
</tr>
<tr>
<td></td>
<td>Child labour</td>
</tr>
<tr>
<td></td>
<td>Forced and compulsory labour</td>
</tr>
<tr>
<td></td>
<td>Disciplinary practices</td>
</tr>
<tr>
<td></td>
<td>Security practices</td>
</tr>
<tr>
<td></td>
<td>Indigenous rights</td>
</tr>
<tr>
<td><strong>Society</strong></td>
<td>Community</td>
</tr>
<tr>
<td></td>
<td>Bribery and corruption</td>
</tr>
<tr>
<td></td>
<td>Political contributions</td>
</tr>
<tr>
<td></td>
<td>Competition and pricing</td>
</tr>
<tr>
<td><strong>Product Responsibility</strong></td>
<td>Customer health and safety</td>
</tr>
<tr>
<td></td>
<td>Products and services</td>
</tr>
<tr>
<td></td>
<td>Advertising</td>
</tr>
<tr>
<td></td>
<td>Respect for privacy</td>
</tr>
</tbody>
</table>
2.3 What is Long-Term Business Success?

Can we expect to distinguish between enterprises in terms of their long-term business success? Should all businesses view long-term success in the same way, or are there differences depending on their environment and strategy?

“Built to Last” (Collins and Porras 2000) found “A detailed pair by pair analysis showed that the visionary companies have generally been more ideologically driven and less purely profit driven than the comparison companies in seventeen out of eighteen pairs. This is one of the clearest differences we found between the visionary and comparison companies.” What we can draw from the Collins & Porras study is at least the suggestion that, taken on a very long view, companies that have been more ideologically driven as well as profit driven reap greater success. (Collins & Porras do not suggest that visionary companies ignore profitability, rather that it is not their sole aim or guide.)

Whereas short-term studies of the relationship between sustainable development practices and corporate performance have produced mixed results, the Collins & Porras study is one which supports the “benefits over the long run” argument so often advanced by protagonists of sustainability.

Collins & Porras’ visionary companies were not apparent in a ten year view of profitability or “most admired”. However, they yielded markedly better returns than their peers did over the long (50+ year) haul. This suggests we should be extremely careful with our understanding of the role of time in our assessment of sustainable development practices and business success.

Definition

For the purposes of this study, we consider long-term business success to be characterised by:

- Both financial and non-financial performance measures, recognising that in the long-run, non-financial performance is reflected in financial performance.
- Business practices that are selected for and together provide strategic advantage to the business.

This definition has led us to look for the possible connection between financial and non-financial performance, business practices, strategy and culture in the context of sustainable development.
2.4 Sustainable Development Practices and Long-Term Business Success: A Model

Sustainability Orientation
There is no one set of practices which comprises “sustainable development practices” and applies to all enterprises across all industries. To explore the relationship between sustainable development practices and business success, we have developed a model (Figure 2.1) which places sustainable development practices in the context of an individual enterprise, its strategy, and the industry or supply chain to which it belongs.

This model helps pursue the question of which sustainable development practices a business should adopt, and challenges the assumption that the outcomes from the variety of sustainable development practices available are simply additive and always congruent with business success. Is there an optimum mix of practices which maximises efficiency and effectiveness in terms of both the needs of sustainable development and the strategic objectives of the business? We propose an interim construct, called ‘sustainability orientation’, which attempts to capture this optimum mix and explain the differences between different enterprises and industries.

Figure 2.1: Sustainability Orientation
The Issues Paper for this research (Goldsmith & Samson, 2002) provides the background to the new concept of sustainability orientation:

Sustainability orientation describes the degree to which the organisation culture and its set of sustainable development practices are efficient and effective both in meeting economic, environmental and social needs and in supporting the strategic direction of the business, hence providing greater opportunity for long term superior business success.

In essence, sustainability orientation is a deep-seated set of guiding principles about an organisation’s approach to its stakeholders and to meeting their needs in a balanced way.

**Sustainability Orientation, Strategy, Practices and Performance**

Figure 2.1 compiles and integrates what Australia’s leading companies are doing in the realm of sustainable development.

Membership of a particular industry both constrains and provides opportunities to individual companies to define their sustainability orientation, and to engage in sustainable development practices within their set of business practices.

Business strategy is informed and influenced by a firm’s sustainability orientation. In advanced companies, sustainability orientation is not dictated by the business strategy but has become a guiding cultural characteristic.

In all firms, business strategy, whether explicit or not, determines all business practices, including sustainable development practices.

The relationship between practices and performance is clearly not fully deterministic, since every firm faces many uncertainties in its business environment.

Through market mechanisms and the competition involved in markets, the success of practices can be measured by a range of key performance indicators including operational measures, financial measures, industry comparative measures, market measures and stakeholder satisfaction as well as long term economic, social and environmental outcomes.

Sustainable development practices are influenced by industry membership, sustainability orientation and business strategy. In Chapter 3, we explore these influences in more detail, examine the integration of sustainable development practices into broader based business practices and consider their relationship with performance.
3. SUSTAINABLE DEVELOPMENT PRACTICES

This chapter explores sustainable development practices in detail: “What are successful sustainable development practices, and what is their place within a business?”

We look at this in three ways. First, we examine the features that distinguish effective practices from ineffective. Second, we examine how sustainable development practices connect with business strategy and industry membership. Third, we identify the set of high-level principles, sustainability orientation, that are common to advanced companies.

3.1 EFFECTIVE SUSTAINABLE DEVELOPMENT PRACTICES

The whole range of activities undertaken by an organisation can be described as a set of practices. These might be operational or strategic, short term or long term, one-off or repeated, structured or informal, and so on.

There is no specific set of common sustainable development practices that works across the vast range of industries and businesses in our economy. However, individual practices that work tend to have the following characteristics. They are:

- focused on delivering specified performance improvement;
- integrated with the broader set of business practices;
- subjected to re-shaping within the organisation until they achieve depth and effectiveness;
- adapted in response to evolving stakeholder issues; and
- selected to maximise the value they add to the long-term prospects of the business.

Focused on Delivering Specified Performance Improvement

In practical terms, advanced companies take the following approach: “Figure out what you want to achieve through sustainable development, then implement practices and initiatives to get specifically there.”

According to our definition, sustainable development practices are distinguished by their outcomes (contribution towards the goals of sustainable development) rather than by their origins or processes. Many of the larger companies benchmark their efforts in sustainability by comparing progress between different sites and company-wide progress over time. Rather than compiling an account of effort or budget spend from a sustainability point of view, these companies make a subjective ranking of the relative progress of different sites against a detailed set of company objectives related to sustainability.
It is this outcome-based feature of sustainable development practices that has created such difficulty in making comparisons between the efforts and sustainability performance of different companies. The efforts of companies like BHP Billiton are necessarily idiosyncratic or company-specific, yet they are practical, addressing the dominant sustainability issues facing the organisation across its operations, and based on a careful monitoring of local and global community concerns. This outcome-based approach is characteristic of the leading companies we have studied.

**Integrated with the Broader Set of Business Practices**

Businesses initiate practices for many different reasons. Sustainable development performance improvements may be secondary benefits that flow from these practices. This is why companies like BHP Billiton find it easier to monitor their progress on sustainable development targets than on specific sustainable development practices. At the day to day operations level, many sustainable development practices are classified under a different purpose such as security or customer service, although they also satisfy the sustainability agenda. By making the link between all business practices with a sustainability component and the sustainable development agenda, leading companies achieve the necessary integration to avoid overlap and improve efficiency.

**BHP Billiton’s Overall Approach**

BHP Billiton maintains a detailed set of community, safety, health and environment targets. These are determined at the corporate level and change and extend over time. Performance against these targets is monitored by an audit process that compares progress towards best practice on a scale from 1 to 5. Examples of targets are:

- **Health and safety:** Zero fatalities.
- **Community:** Aggregate contribution to community programs, including in-kind support, equivalent to 1% pre-tax profit, calculated on a three-year rolling average.

**OneHarvest/Vegco Market-Led Innovation**

OneHarvest/Vegco’s development of a nursery-grown product is a major innovation in horticulture, developed in response to a market demand for year-round supply. Australian horticulture generally either transplants seedlings from the nursery, or uses direct sowing. At the OneHarvest/Vegco nursery, seed is germinated in plugs, grown for about 3-4 weeks, and then harvested as a crop directly out of trays as a finished product. Sustainability benefits emerged quickly – waist-high working; no soil component; eliminating diseases, pests and chemical sprays; high nutritional value and “organic status”. These sustainability outcomes are clear benefits, but were not the impetus for the new initiative.

For some businesses, their central business purpose is closely aligned to the sustainable development agenda. For example, the pharmaceuticals industry is working to improve community health, and the renewable power industry is working to reduce the reliance of
communities on fossil fuels and the associated greenhouse emissions. These businesses in particular, find it hard to re-describe their core practices as a sustainable development overlay. Businesses that make this separation between sustainable development practices and the fullness of their business activities lay themselves open to be accused of “greenwash”. That is, the application of a thin film of “goodness” across the surface of the business rather than making significant change at the core. Indeed, apart from satisfying some forms of external monitoring, it is hard to see what purpose this distinction can serve.

**Subjected to Re-Shaping Within the organisation Until They Achieve Depth and Effectiveness**

Some companies undertake sustainable development practices but in a minimalist way, while others undertake the same activity in a whole-hearted, comprehensive manner, i.e. intensively.

The same practice by name, applied in different organisational settings can describe a different activity in terms of its depth and outcome. This observation holds true regardless of the original motivation for the practice. For example, Company A may seek to comply with a regulation regarding the provision of information to customers, while Company B, in a different industry, may simply volunteer customer information. There is no logical reason why the compliance measure should be any more or less beneficial to the customer than the voluntary measure. The difference between the two companies’ efforts depends on the precise details of the customer information process, whether it meets customer needs, is kept up to date, can be verified, and so on. So the extent to which sustainable development practices contribute to progress on the goals of sustainable development varies, and cannot be determined just by observing the name or category of the practice itself.

**Electrolux and CFC Replacement**

In 1994, pressure to replace CFC’s used for refrigeration resulted in many companies adopting the replacement chemical HCFC. Although still harmful to the ozone layer, HCFC was viewed as an acceptable short-term fix. Electrolux recognised the need for further changes and identified the likely long-term solution as isobutane. This technology was not yet fully developed. Electrolux selected the replacement chemical R134a as it was a better interim step to the ultimate zero-harm solution they had identified. The company was the first major whitegoods manufacturer to market CFC-free refrigerators. (Broman, Holmberg, Robert, 2000)

**Failed Attempts?**

We asked the leading companies we interviewed to describe sustainable development practices they had implemented that had failed in some way. Most companies had difficulty in identifying such examples. On further questioning, we found that rather than
accept a failed practice, leading companies would work on and adapt the practice until it met their expectations in terms of sustainable development and business outcomes. Where companies have a clear strategic purpose in implementing a particular practice, the leaders will adjust the practice until the strategic objectives are met. Thus, leading companies test and adapt their activities to ensure that they get successful outcomes and “depth”, rather than accepting more superficial results.

Multiplex and Continuous Improvement

“Individual programs, such as all the training in the mid-90s, don’t always work. The push for training yielded questionable results at that time. We now prefer to find development opportunities for people, rather than doing training in isolation. The Karpin report said that job opportunities provided the best training opportunities. We try to keep people constantly learning. So all those training courses were not a failure, but were not the great turnaround saviour that everyone thought they were going to be. Perhaps it’s neither failure nor success, rather a way you move forward and learn as you go.”

Adapted in Response to Evolving Stakeholder Issues

External assessment and monitoring agencies such as the Dow Jones Sustainability Index can be useful in providing partial guidance but are certainly not the whole story of sustainable development. They cannot be comprehensive, complete, nor sufficiently detailed on their own to provide the unique insights and provocations required for effective sustainable development practice choices.

The major external user of the defining attributes of sustainable development practices is the socially responsible investment (SRI) industry. This industry aims to make assessments of companies’ sustainable development credentials on the assumption that companies that perform strongly in sustainable development terms will on average over time enjoy greater business success.

SRI Assessment Methods

The methods used by SRI funds to discriminate between companies on the basis of their sustainable development performance vary. Methods include negative screens (certain activities excluded), positive screens (certain activities favoured) and comparisons. The SRI industry argues that strong sustainable development performance results in reduced risk and better long-term company financial performance. However, “…one cannot necessarily draw a line between sustainability and short-term share price movements. This is not an unexpected result as the factors influencing short-term share price movements are complex and multi-faceted.” (Mays, 2003)
The Dow Jones Sustainability Index is based on research by Sustainable Asset Management (SAM). SAM makes comparisons within and specific to each industry, with the aim of identifying the top sustainability performers in each industry sector. SAM’s approach is to identify and assess the sustainable development practices that place an enterprise at the leading edge of its industry. In this way, they seek to encourage progress year-to-year and specific to each industry. A portfolio is calculated that covers all industry sectors, drawing on these top sustainability performers.

The role currently performed by the SRI industry is to provide investors with information on company sustainable development performance and specially packaged funds that favour sustainable development as an investment objective. They do this by collating publicly available information on companies from a range of sources, as well as conducting surveys and in-depth interviews with companies and their stakeholders. In fulfilling this primary role, the SRI industry also plays a secondary role that is providing a channel of communication between investors and other stakeholders and corporate policy-makers.

We concluded at an early stage in this project that simple descriptions and counts of sustainable development practices would provide little indication of the true range and depth of sustainable development activity being undertaken by a particular business. Further, simple practice classifications cannot properly account for key business performance factors such as the time lag between the implementation of a practice and the realisation of its business benefits, and the degree to which the practice is aligned with the overall strategy of the business. However, the leading companies that we spoke to for this study acknowledged the current role of the SRI industry in generally communicating the concerns of the investment and wider communities. Companies that already work to SRI criteria such as Westpac, use these criteria to assist them in developing and challenging the scope of sustainable development concerns they address in their policies. While at this stage, companies are investing considerable resources in liaising with the SRI industry, they expect initiatives like the Global Reporting Initiative (GRI) to simplify and consolidate the communication and reporting effort in the future.

The Global Reporting Initiative (GRI) is the most recent international effort to achieve a harmonious and consistent understanding of the “needs” that are addressed by sustainable development practices. The GRI was convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP). Their work has involved extensive consultation with corporations, environmental and social NGO’s, accountancy organisations, trade unions, investors, and other stakeholders worldwide. It is generally accepted that the GRI is the template against which further development of sustainable development initiatives will progress.
The purpose of the GRI was to bring sustainability reporting practices up to the level of financial reporting practices, and to make this reporting both achievable and of a high standard in terms of its reliability and usefulness for comparisons. (An example of comparative data might be tonnes of carbon dioxide emitted to atmosphere per unit of production.) While many years of benchmarking practice would indicate that data for comparison are harder to derive and use for improvement purposes than might be expected, instruments like the GRI offer significant immediate advantages. First, they are a means for establishing the contemporaneous list of sustainable development issues, as these issues change with community knowledge, attitude, opinion and experience. Second, they provide a general basis for businesses to develop their own measurement program that will at least be internally consistent, and thus useful for monitoring progress on these issues year to year.

### Comparison and Benchmarking

Inter-company comparisons of performance can be problematic. Efforts and benchmarking activities such as the National Pollutant Inventory (www.npi.gov.au), have demonstrated the difficulties in definition, measurement and interpretation that occur. Even relatively straightforward information such as lost time injury statistics, can be hard to use for inter-company comparison and improvement.

### Selected to Maximise the Value They Add to the Long-Term Prospects of the Business

Can sustainable development practices sensibly exist as if in a vacuum, separate from the rest of the organisation’s activities?

What features of sustainable development practices distinguish between those making a high contribution to business success and those making a lower contribution to, or even degrading, business success?

Early in this study, we sought a method for analysing a company’s sustainable development practices that would reveal some of the distinguishing features we have described so far in this chapter. For a particular company, we suggested that their sustainable development practices could be plotted in terms of their “Stakeholder Reach” and their “Time-to-Reap”.

The term “Stakeholder Reach” is our measure of the impact and intensity of practices on stakeholders and their concerns. For example, a formal procedure added to satisfy a reporting requirement purely for the purposes of avoiding a fine, has a small “Stakeholder Reach”. Whereas, a general community program involving education and treatment related to HIV-AIDS, has a large “Stakeholder Reach”.

29
The term “Time-to-Reap” ranks practices according to the average time for the benefits (both financial and non-financial) of implementing the practice to be realised. For example, a low cost effort to prevent a waste from being released to the environment would be a practice with a low “Time-to Reap”. Whereas, a major research and development investment aimed at replacing a low efficiency fuel with a high efficiency fuel would be a practice with a high “Time-to-Reap”.

Where a company’s sustainable development practices could be plotted in these terms, four distinct categories of practices emerged (see Figure 3.1). These were:

- **Comply** – simply meeting all regulatory requirements, avoiding fines and penalties.
- **Conform** – satisfying the accepted norms of your industry, for example, triple bottom line reporting, environment management systems, and so on. Many ethical investment screens make their assessments at this level.
- **Perform** – capturing opportunities to improve your balance sheet through such activities as waste minimisation, employee commitment, and community support, for example Rio Tinto in their decision to abandon the Jabiluka project.
- **Transform** – achieving major gains on sustainable development concerns by changing the business model in a major way, for example VicSuper in taking the new role of sustainable development business entrepreneur, a more active role than the equity investor role traditionally held.

![Figure 3.1 Sustainable Development Practices: Stakeholder Reach vs. Time-to-Reap](image-url)
We suggested that these categories of practice would indicate the “maturity” of a company’s approach to sustainable development through its practices. A less mature approach would be restricted to compliance activities – a simple response to regulatory pressure for example. An increasingly mature approach would move through adopting normative approaches such as industry codes of practice, and ultimately would involve a commitment to innovation and change to the accepted business model.

Placing sustainable development practices on a continuum from compliance through innovation and transformation of the business model, mirrors the traditional hierarchy approach to practice improvement. This approach is most commonly encountered as the “waste management hierarchy” and is a form of value proposition, whereby practices at a higher level on the hierarchy typically cost less for the benefits they provide. The categories of comply through transform similarly suggest an increasing benefit-cost ratio moving rightward across the diagram in Figure 3.1.

BHP Billiton: A Well-Balanced Mix of Practices
The sustainable development practices of BHP Billiton were plotted according to their estimated Stakeholder Reach and Time-to-Reap. Practices were distributed across all four categories indicating a high degree of “maturity” in the practices studied. This is the expected result for a leading company example that focuses on self-reported leading edge practices. (BHP-Billiton, 2002)

Stakeholder Theory
Stakeholder theorists characterise “corporate strategy or posture towards social responsiveness” using the RDAP Scale (Clarkson, 1995).

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactive</td>
<td>Fight all the way</td>
</tr>
<tr>
<td>Defensive</td>
<td>Do only what is required</td>
</tr>
<tr>
<td>Accommodative</td>
<td>Be progressive</td>
</tr>
<tr>
<td>Proactive</td>
<td>Lead the industry</td>
</tr>
</tbody>
</table>

Our method (Figure 3.1) of distinguishing between sustainable development practices provides a useful tool for describing and explaining the practices of a particular company, and for making comparisons. It can assist companies wishing to test and improve the efficiency and maturity of their sustainable development approach. Critically however, it relies on the assumption that the sustainable development practices described generate strategic value for the company. How do successful businesses make this link?
3.2 Sustainable Development Practices and Strategy

Effective sustainable development practices must make a strategic contribution rather than merely having a tactical impact. They can be characterised by:

- Contributing towards the firm’s overall position of industry leadership.
- Being customised to the firm’s unique circumstances.
- Specifically supporting one or more of the strategic requirements: stakeholder support, efficiency and market edge.

Contributing Towards the Firm’s Overall Position of Industry Leadership

Our industry analysis (Figure 3.2) shows that sustainable development is a progress agenda that differs for each industry. Mature industries with a long-term planning horizon such as the mining industry (box 4), will include sustainable development practices to maintain their strategic position through protecting access to resources, for example. Evolving industries with a long-term planning horizon such as the renewable energy industry (box 3), may view sustainable development practices as a key growth opportunity. Evolving industries with a short-term planning horizon such as biotechnology (box 2), may initially view sustainable development considerations as a constraint to their activities, although they will tend to migrate to a position whereby sustainable development practices either offer them increased opportunities as in the OneHarvest/Vegco example (box 3), or are simply practices required to achieve stable operations (box 4). Finally, mature industries with a short-term planning horizon, as a result of changed market requirements and increased competition for example such as in the printing industry (box 1), may view sustainable development practices as largely unrelated to their strategic future.

Thus the pressures, incentives and rationale for adopting sustainable development practices vary between industries. Industries in box 3 of our diagram (Figure 3.2) have a strong incentive to adopt sustainable development practices, while industries in box 1 of our diagram have little incentive to do so, and may resist pressure on sustainable development issues because of their poor strategic prospects.

Figure 3.3 shows how individual businesses can select a different strategic stance in relation to sustainable development practices. This individual enterprise position may be influenced by the sustainable development position of the industry to which each enterprise belongs. However there is considerable scope for enterprises wishing to depart from the ‘average’ sustainable development position for their industry. Each and every one of the leading businesses that we interviewed for this study can be described as making efforts to position themselves in the top right quadrant “Leader” of the above diagram. In various ways, each is working to gain a strategic advantage from its sustainable development practices.
### Figure 3.2 Differences Between Industries

| Evolving  | 2. Sustainable Development as a Constraint  
|          | Eg. Biotechnology | 3. Sustainable Development as an Incentive  
|          |                  | Eg. Renewable Energy |
| Mature   | 1. Sustainable Development as an Irrelevance  
|          | Eg. Printing | 4. Sustainable Development as a Strategy  
|          |                  | Eg. Mining |
| Short Term | Strategy | Long Term |

### Figure 3.3 Differences Between Enterprises

| Evolving  | **Emerging/Unstable**  
|          | Sustainable Development as a Constraint |
|          | **Leader**  
|          | Sustainable Development as an Incentive |
| **Strategy** |  
| **Laggard** | Sustainable Development as an Irrelevance |
|          | **Compliant**  
|          | Sustainable Development as a Strategy |
| Mature |  
| Short Term | **Strategy** | Long Term |
Being Customised to the Firm’s Unique Circumstances

Industry Differences
Different industries operate in different environments – they are subject to specific sets of opportunities and threats. Our discussions with industry groups indicated that at the industry level, there is a varying degree of commitment to sustainable development practices. Commitment is higher in those industries with a high concentration ratio (made up of a small number of influential large enterprises), and dealing with stakeholders in common. These industries have developed codes of conduct and detailed procedures to assure stakeholders of their bona fides in relation to sustainability issues. They have tended to work as a group on issues that they share and that enhance the prospects of the whole group, such as environmental protection, rehabilitation and carbon trading. Other sustainability issues such as industrial relations are dealt with by these companies on an individual basis.

<table>
<thead>
<tr>
<th>Licence to Operate</th>
</tr>
</thead>
<tbody>
<tr>
<td>The minerals industry needs to maintain access to resources, both new resources and extensions of existing leases. Performance of the industry as a whole influences governments’ ability to cooperate with and support individual players. A range of adverse experiences for each of the major players has demonstrated the “long tail” of adverse situations and how community trust requires consistent performance of the industry as a whole. Mining companies recognise that building a climate of trust and mutual benefit with the communities around their sites is vital to maintaining and extending their “licence to operate”. The minerals industry in Australia is recognised as a world leader in its sustainability practices and codes of conduct.</td>
</tr>
</tbody>
</table>

We have suggested that those industry groups with a high concentration ratio share stakeholder concerns to the extent that they have the incentive to cooperate on progressing issues of difficulty and constraint. Their members have considerable market power and by cooperating, can make progress on these issues without jeopardising their competitiveness. Indeed, poor performance on these issues by one member can limit the opportunities available to all members. By contrast, industry groups with a low concentration ratio tend to adopt the stance of educating and defending their members. Members do not share the same stakeholders and suffer tougher short-term competitive pressures. Common interest in sustainability issues is much harder to develop, and the consequences of poor performance are not suffered in common. Education programs often emulate the approaches taken by larger enterprises, cut-down to suit smaller enterprises.

Enterprise Differences
Our observations about industry group differences led us to explore enterprise differences. What enterprise characteristics influence the strategic suitability of a
particular sustainable development approach? Perhaps the strategic value derived from sustainable development practices is not the same for large, publicly listed companies and small, privately held companies.

- Large, listed companies are more concerned with equity, while small privately held companies are more concerned with debt.
- Large, listed companies have significant reputation issues connected with their public profile – brand, media.
- Small companies may be required as suppliers, or followers, to imitate large company approaches to sustainable development. However, small companies are more nimble and can find these requirements sometimes overly bureaucratic and counter-productive.
- Large companies need formal systematic approaches to achieve consistency across their operations, whereas small companies may not have sufficient resources or need for such approaches.
- Large companies tend to have a longer term strategic planning timeframe than small companies.
- Large companies have greater market power than small companies. Large companies can act differently and retain their competitiveness more readily.

Small companies do nonetheless make a significant contribution to the Australian economy and way of life. Figures from the Australian Bureau of Statistics (ABS 2002) show that small business (defined as businesses with income less than $5 million per year) accounts for about one third of Australia’s total employment and value add from business activity.

While our study has not confined itself to the narrow definition of small business used in ABS reports, we have chosen to include a range of enterprise characteristics in terms of industry, ownership and size (Table 3.1). We proposed that the long-term business success of sustainable development practices is mediated by their congruence with the strategy of the business. If this was so, then we needed to include different groups of businesses, distinguished by their differing strategic characteristics, to understand how this relationship between sustainable development practices and long-term business success might work.

Table 3.1 Businesses Selected for In-Depth Interview

<table>
<thead>
<tr>
<th>Sustainable Development Non-Core</th>
<th>Private Small</th>
<th>Private Large</th>
<th>Public Small</th>
<th>Public Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Development Mixed</td>
<td>Medium food products manufacturer</td>
<td>Multi-national construction company</td>
<td>Medium health products company</td>
<td>Multi-national resources company</td>
</tr>
</tbody>
</table>

Table 3.1 Businesses Selected for In-Depth Interview

<table>
<thead>
<tr>
<th>Sustainable Development Non-Core</th>
<th>Private Small</th>
<th>Private Large</th>
<th>Public Small</th>
<th>Public Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Development Mixed</td>
<td>Medium food products manufacturer</td>
<td>Multi-national construction company</td>
<td>Medium health products company</td>
<td>Multi-national resources company</td>
</tr>
</tbody>
</table>
We explored businesses across the range of size and ownership. The sample was restricted to industries for which sustainable development considerations were not core to the industry so that the influence of a strategically determined preference for sustainable development practices on long-term business success could be separated and examined.

**Specifically Supporting One or More of the Strategic Requirements: Stakeholder Support, Efficiency and Market Edge**

From our field studies, this section provides a model (Figure 3.4) connecting generic strategic business requirements with sustainability practice descriptions and their drivers. This answers the “How” question of sustainable development.

The scale of compliance through transformation (see Figure 3.1) tells us about the long-term value of individual sustainable development practices to a business and its stakeholders. However, that distinction tells us little about why sustainable development practices might connect to business success. Clearly, they don’t have to. A company can spend huge amounts of money on a range of good works – selecting practices with a high Stakeholder Reach and extended Time-to-Reap. Such philanthropy may be very well motivated and vital to the groups that benefit from it, but it may not be a business practice. Sustainable development practices are components of business practices and are, by definition, efforts that seek to re-balance and make progress on the combination of economic, environmental and social effects of the company’s activities. They are not separable from the business strategy and the activities that support it. If they were separable, then they could be provided by others without difference in the result, such as government assistance programs, charitable aid or another business.

**Failed Attempts: Altruism, But No Strategic Advantage**

A sustainable development practice that failed was the development of a product with more environmentally friendly packaging. The company focused strongly on the environmental objective. Long-term efficiency gains were present, but could not be realised without market support. The initiative was abandoned. “It showed us that acting from a purely altruistic point of view you can end up doing something that makes no commercial sense.”

We analysed the information on sustainable development practices gained from both industry and enterprise level interviews. The sustainable development practices that were described as successful related to one or more of three generic strategic requirements, namely stakeholder support, efficiency and market edge (Figure 3.4).
The provocation for sustainable development practices generally depends on the industry within which each enterprise is located.

**Regulated** - Industries like the pharmaceuticals industry and to a lesser extent the food industry are heavily regulated on a range of sustainable development concerns such as product responsibility, product quality and product security, although individual companies may still choose to outperform the regulations.

**Consistent** - Industries like the mining industry are less heavily regulated on sustainable development issues, but they choose to be consistent in their efforts across the range of jurisdictions in which they operate.

**Voluntary** - Industries like the financial services industry, adopt certain sustainable development practices on a voluntary basis, although the financial services industry is an example where regulation is increasing.

---

**Figure 3.4 Sustainable Development Practices and the Link to Strategy**

The provocation for sustainable development practices generally depends on the industry within which each enterprise is located.

**Regulated** - Industries like the pharmaceuticals industry and to a lesser extent the food industry are heavily regulated on a range of sustainable development concerns such as product responsibility, product quality and product security, although individual companies may still choose to outperform the regulations.

**Consistent** - Industries like the mining industry are less heavily regulated on sustainable development issues, but they choose to be consistent in their efforts across the range of jurisdictions in which they operate.

**Voluntary** - Industries like the financial services industry, adopt certain sustainable development practices on a voluntary basis, although the financial services industry is an example where regulation is increasing.

---

**Blackmores: Consistency Across Operations**

“We tend to act the same everywhere. Key differences are regulatory, since our products are regulated as medicines. There are cultural differences in terms of marketing. However for issues such as packaging, which may not be as big an issue in the Asian markets, we would still do it the same way. From our perspective, it is a global consumer, so we need to act consistently in all our markets.” Blackmores
Once provoked, by whatever means, sustainable development practices are typically described in terms of either industry, national or international standards; or company-specific approaches.

However particular sustainable development practices were selected, the leading companies we studied could consistently explain the connection between these practices and one or more of the generic strategies: stakeholder support, efficiency and market edge. It is this connection that is within the control of the individual business, and the leading companies choose to exert this control.

**Stakeholder Support** applies to the full gamut of stakeholders in the business. In terms of direct stakeholders, such as shareholders and debt-holders, their support may be increased by an improved organisational risk profile, recognition by socially responsible investment indices, or improved communication, for example. For employees, their support may be increased not only through programs directly related to their employment such as training and wage negotiation; but also by support programs such as child care and health and fitness provisions; and further by involvement in philanthropic programs such as charitable donations from wages matched by the company, special leave for charity work, and so on. For suppliers, their support may be increased through evidence of mutuality or partnering in the supply chain, whereby the company promotes, supports and brokers their efforts to improve efficiency or standards and agrees to share the benefits.

**OneHarvest/Vegco: Supplier Relationship**

The previous food processing factory closed in 1991. “We made it clear to the growers that the market they were supplying was not sustainable, as evidenced by 90 job losses and their loss of market. They could either help create a new market and change their practices, or else they wouldn’t have a business. We got a lot of support from the growing end, but they have looked to us for information on how to proceed. We have driven the change. Growers and transporters are actually able to make a difference on sustainability if they are making a livelihood out of the industry. It’s hard to ask them to do something extra if they can’t even get an income out of their business. As growers are becoming more profitable, and reinvesting in infrastructure, they are in a position to do things differently.” OneHarvest/Vegco
For customers, their support may be increased by efforts that recognise their needs and preferences such as environmentally friendly products, health information and product security and quality control. For regulators, their support may be increased by evidence of responsible and consistent adherence to required performance and reporting; support for international relations such as inter-country aid programs; and support for local programs such as community liaison committees and customer training and support.

Eli Lilly: Technology Transfer
A technology transfer initiative developed in conjunction with the World Health Organisation provides drugs for the treatment of multiple drug-resistant tuberculosis at minimal cost to developing countries. Through industry and university partners, these same countries will be able to manufacture the products themselves.

“It's driven by first, a genuine attempt to do something in this area of pharmaceutical solutions in developing countries – trying to do something constructive that will have a genuine impact. Another motivation is to counter the false perceptions of our critics that the industry is obstructive and difficult in terms of making products available to those markets. This sort of technology and intellectual property transfer arrangement with developing country governments can take time. To help speed access, Eli Lilly tends to partner across all the interested stakeholders, including prescribers and consumers, to increase the likelihood of success.”
Eli Lilly

Efficiency applies to the range of sustainable development practices that make a direct or indirect contribution to the company’s financial performance. Waste minimisation is a good example of a practice that generates efficiency gains, through reduced costs of raw materials, and reduced costs of treatment, storage, handling and disposal of wastes. Similar benefits apply to practices that reduce energy or water consumption and reduce greenhouse gas emissions.

Blackmores: Operational Cost Savings
Blackmores views the cost of production as a strategic issue for the company. The company was already an advanced adopter of measures that are now grouped under the National Packaging Covenant. These efforts were cost-driven at the time.

Areas of practice that are less commonly associated with efficiency gains, but which do have the potential to generate them, are multi-skilling and other forms of workforce training and support; and life-cycle analysis of products, whereby the costs of product maintenance and disposal are internalised to the business rather than being shifted to
consumers and governments. Plastic bag bans and levies are a simple example of this kind of initiative, although much more complex versions are being developed in industries such as the information industry.

Market edge describes those practices that contribute to the company’s market opportunities in terms of new markets, market share and profit opportunity. Research and development, innovation and supply chain improvements are all examples of practices that can have a sustainable development component and that can open up new markets for a company or assist it to be more responsive to existing ones.

OneHarvest/Vegco: Market-Oriented

“At this stage the business case is probably more indirect. Taking growing practices as an example, consumers are not thumping the table demanding good practices at the moment, but we think it’s going to come. So we’re taking a long-term view.” OneHarvest/Vegco

Practices that contribute to the reputation of the company or brand can also increase its market edge. These types of sustainable development practices may also contribute to the strategies of stakeholder support and efficiency mentioned earlier, but the company’s market orientation is the driving force for their adoption.

3.3 Sustainability Orientation: Common to Advanced Companies

Leading companies select their sustainable development practices according to their strategic objectives, so that these choices are necessarily particular to each company and its environment, circumstances and prospects. However, is there a set of “high level” principles that is common to the leading companies and that guides their sustainable development approach?

Our model, described in Chapter 2, proposed such a set of high-level principles, grouped together under the term “sustainability orientation”. We suggested that individual sustainable development practices applying at operations level are idiosyncratic to each company and its situation. These operational practices are therefore of limited use in determining the relationship between sustainable development practices and business success across a large number of companies. However, companies can be compared on their sustainability orientation, expressed as a set of high level principles that guides the selection and implementation of operations level sustainable development practices, has the potential to make the distinction between companies’ sustainable development approaches on a common basis. Sustainability orientation can also provide business leaders with guidance on how to make the connection between sustainable development practices and business success, and retain and enhance the strategic advantage and unique character of their business.
Our research has identified these high-level sustainable development principles, and we find that they are common to all the industries and enterprises studied regardless of size, ownership and industry. The principles comprising sustainability orientation are detailed in Figure 3.5. The attributes of each practice (dotted boxes) have been derived from the values statements of the various companies studied.

**Figure 3.5 Sustainability Orientation**

![Diagram of Sustainability Orientation](image)

**Breadth of Vision**
Although some of the leading companies we studied were large and some were small, all were big picture thinkers – viewing the business in its broadest context and appreciating the needs, rights and interests of an extended array of stakeholders. This stakeholder approach goes way beyond a response model. The leading companies value highly the respect of their stakeholders and understand that they need to earn a community leadership position by establishing a reputation for trust and integrity that endures in the long-term. Rather than simply ranking and responding to stakeholder issues, they desire a leadership role that is open to ideas and seeking new and mutually beneficial opportunities. Companies view this role as providing the opportunity for business to drive for performance beyond compliance, with the aim of generating sustainable futures for both the business and its stakeholders.

**Stakeholder Salience**
Some stakeholder approaches suggest ‘screening’ stakeholders according to their degree of influence on the business, both direct and indirect (WBCSD, 2000). This is a defensive approach reflecting research which suggests that managers’ perceptions rank the priority given to competing claims of stakeholders (salience) according to three attributes, namely legitimacy, power and urgency. While empirical data supports the link between managerial perceptions and these attributes, they do not support the link between managerial perceptions and firm performance (Agbe, Mitchell & Sonnenfeld, 1999).
Stakeholder Empowerment
Stakeholder empowerment is clearly much deeper than engaging in transactional relationships even if these are long-term. Stakeholder empowerment is perhaps the ‘newest’ practice we encountered in our assessment of the sustainability orientation of leading companies. It describes businesses’ active and consistent efforts to build, lengthen and strengthen relationships with their stakeholders.

Blackmores: Customer Responsibility
“Our practices that would be deemed to be part of sustainable development are core to our culture and fit with our approach to encourage people to be responsible for themselves and their health practices. This includes the lifestyles they lead, that they are responsible for their surroundings, and community and social issues. So it’s a natural fit, and core to our culture.”
Blackmores

Where stakeholder empowerment differs from more traditional approaches to stakeholder relations is in the profound degree to which power and influence becomes shared between the two parties: business and each stakeholder. It is this sharing of power that underpins the shared future described by the practice ‘breadth of vision’ and is the objective of stakeholder empowerment.

Stakeholder empowerment as a high-level practice is an active engagement between the business and its stakeholders that goes beyond dialogue and results in a genuine mutuality rather than co-dependence. It is commonly understood that new ideas and solutions can come from customers and suppliers. Stakeholder empowerment seeks to capture this business advantage, by creating more opportunities for stakeholder input, choice and benefit. Rather than being viewed as an adversary or irritant, stakeholders are viewed as a genuine source of new ideas and value.

OneHarvest/Vegco: Catalyst for Stakeholder Networks
OneHarvest/Vegco has instigated specific practices to engage their stakeholders for example:

- **Executive link** – a monthly supply chain ideas sharing session, involving people from the nurseries to growers to transporters to retailers. We have been recognised in Australia as a key driver of those sorts of programs. They have identified huge opportunities for all partners.
- **Grower forums** – creating buy-in from the growers. They see the benefits and then make the changes.
- **Grower support** – keeping them informed on trends ahead, assisting with seed genetics – good varieties.
The concept of stakeholder empowerment thus is quite different from more traditional stakeholder approaches: the approach of control, whereby stakeholders are ranked and dealt with according to the degree of influence and threat they pose to the business; and the approach of consultation, where stakeholder views are taken into consideration, but the company makes the final decisions; and the approach of cooperation where the company cooperates with stakeholders in making changes that benefit both parties. Stakeholder empowerment is about a collaborative process, where both business and stakeholder determine future opportunities and work collaboratively to realise them.

**Being Progressive**

In keeping with their long-term vision and enthusiasm for change and new opportunities, the leading companies we studied also shared a commitment to progress through models such as excellence, best practice and high performance.

Eli Lilly: Innovation

“Our market growth comes from having a continuous stream of innovation... The competition on price really only occurs dramatically once patent expiry occurs. So it’s right the more you can be out front in terms of innovation, the more likely you are to be able to seize market share and get a good price.” Eli Lilly

How businesses operationalise the ‘being progressive’ high level practice depends on their business strategy. For companies like Eli Lilly, Multiplex and OneHarvest/Vegco, innovation is core to their competitiveness; whereas for companies like Blackmores, VicSuper and BHP Billiton, other forms of competitive advantage are supported by quality, service and reliability. These are all ‘being progressive’ practices that are chosen at the operational level to also complement the strategy of the business.

### 3.4 SUMMARY – ATTRIBUTES OF SUSTAINABLE DEVELOPMENT PRACTICES

The preceding discussion describes a range of attributes of sustainable development practices. These illuminate the questions:

- What are sustainable development practices?
- How and when do they contribute to business success?

What Are Sustainable Development Practices?

Our research concludes that sustainable development practices are:

- A possible component of any business practice.
- Defined by their outcome – that is, re-balancing and making progress on the combination of economic, environmental and social effects of the company’s activities.
• Context-specific, in that they depend on the strategic characteristics of the
industry and enterprise within it.
• Defined by contemporary community concerns: currently, socially responsible
investment funds are partly relied on to communicate these to business.
• Company-specific at operations level.
• Derived from a generic set of high-level principles that we have called
‘sustainability orientation’.

How and When Do They Contribute to Business Success?

Businesses derive long-term success from sustainable development practices when they
pursue sustainability deals that they are well placed to broker and to benefit from.
Specifically, sustainable development practices give businesses a greater opportunity for
long-term success when they are:
• Strategically congruent with the business – specifically, by contributing to the
business strategies of stakeholder support, efficiency and market edge.
• Deep practices that achieve genuine improvements in sustainable development
outcomes, rather than superficial tick-a-box efforts.
• Mature, leading edge approaches that offer the best available value proposition for
the business on the scale from comply through transform.
• Well integrated with other business practices, thus promoting efficiency and
effectiveness in implementation.

Sustainable development practices that fail to contribute to business success either fail to
make the link with the business strategy, or are sub-optimal in terms of their depth,
maturity, efficiency or integration. By suggesting that sustainable development practices
do relate to business success when they are strategically complementary, we do not
suggest that business success either depends on or can be uniquely provided by these
practices. Industries that struggle under intense competition and whose customers are
reluctant to pay a margin for sustainable development advantages that they don’t
experience directly, such as the printing industry, have an uphill battle.
4. MOTIVATIONS FOR SUSTAINABLE DEVELOPMENT

4.1 WHY DO COMPANIES PURSUE SUSTAINABLE DEVELOPMENT?

Chapter 3 describes the strategic link between sustainable development practices and business success. But how is this link made? Why is it pursued? Clearly, some companies have made a greater commitment to sustainable development than others: why have they chosen this path?

Why Does “Why?” Matter?

Why should executives be interested in the motives that have driven other companies to engage in sustainable development practices? Some companies might argue that these early adopters simply have different business imperatives to their own: that their experiences do not translate into other contexts. Others might suggest that the leading companies we have studied are really part of the “bleeding” edge: that to imitate their efforts would divert companies’ scarce resources from the main game.

Chapter 3 examined these questions. First, by establishing a set of high level principles that is shared by the leading companies in sustainable development regardless of their business context and second, by identifying those characteristics of sustainable development practices that engender long-term business success. These latter characteristics are achieved through a specific set of practices at the operational level, and thus reflect and reinforce the unique competitive strengths of each business.

The leading companies we have studied may indeed have had particular or pressing reasons to adopt sustainable development practices. Let’s compare this situation to that of ‘High Reliability Organisations’ such as nuclear power plants. These have also had pressing reasons to adopt ‘high reliability practices’ as they operate in unique ‘high stakes’ environments where errors can have grave consequences, including the downstream effects of censure and penalty from governments and communities. The opportunity is there for other companies to interpret the parallels between these organisations and their own, and to learn from their efforts (Weick & Sutcliffe, 2001). So it is in sustainable development. The leading organisations may have responded to stronger signals in initiating sustainable development practices, but the advantages they have gained are generic and can be captured by a wider group. To pursue these generic sustainability-driven advantages, executives need to understand the range of motives for sustainable development adoption and how these mature into an enduring approach.
Many Paths to a Mature Sustainable Development Approach

In Chapter 3, we established the characteristics of sustainable development practices that influence their contribution to business success. While there are many possible sustainable development practices, we have identified a core set of high-level principles called ‘sustainability orientation’ that acts as a guide for companies seeking to make the link between sustainable development practices and strategic intent. It is this link we argue, that explains how sustainable development practices contribute to business success.

In our interviews with industry groups and leading companies we asked: ‘What motivates companies to pursue sustainable development objectives and practices?’ We found that although all the leading companies we studied share the features of a high sustainable orientation, they do not share a common motivation for their adoption of sustainable development practices, nor indeed does a particular company’s motivation necessarily remain unchanged over time.

Blackmores: Action Pre-Dates Current Terminology

Taking the GRI list as a guide, many of the issues on it would probably be addressed by Blackmores under areas of responsibility other than sustainability, for example the area of consumer information, product quality, etc – so although you put a lot of effort in some of these areas, you wouldn’t label that effort as sustainability? “Absolutely. I wouldn’t even know what’s on the GRI list.” Blackmores

This finding is not so surprising when one considers the weak link between motivation and adoption of other innovations and improvements in the business context. The mobile phone and the internet are just two examples of how businesses will take up and capitalise on new opportunities once they become available and for strategic reasons.

Motivation as a Process of Strategic Transformation

Much of the discussion on the adoption of sustainable development practices by businesses implies a simple and direct link between motivation and practice.

Business Case Achieved in Practice Selection

BHP Billiton has contributed to the “Business Case” work, for example at the World Business Council for Sustainable Development. They have since decided that the business case is clear and well accepted. They prefer to simply get on with it.
Our research suggests that this linear approach best describes sustainable development as a mature component of a company’s strategic planning (Figure 4.1). Figure 4.1 shows another important finding from our research: that the motivations for the adoption, adaptation or extension of a sustainable development approach can occur at any of the three levels – culture, strategy and practice. As experience is gained, the new process is locked in as a part of ‘top-down’ strategic planning, guided by the sustainability orientation.

**Figure 4.1: Sustainable Development – Mature and Emerging Approaches**

This finding has considerable implications for the many efforts aimed at promoting sustainable development efforts in business. The idea that there is a single persuasive argument or motivation for corporate sustainable development is not supported by our research. Rather we suggest that a mature sustainable development approach develops through a process of strategic transformation, driven by a range of motivations occurring at all levels. What are these motivations, and how do they differ between companies?

**Sustainable Development Motivation – At the Cultural Level**

Our research has explored companies’ motivations for adopting sustainable development approaches. At the ‘cultural’ level, we have identified a discriminating construct that we have called “Owner Culture”. This construct comprises two dimensions: Personal Integrity and Low Risk.
**Personal Integrity**

Of the six companies studied, four either are now, or were in the past, privately owned. For these companies, their commitment to sustainable development has been influenced to a great extent by the personal values of their owners. These private business owners take a keen interest in their companies’ reputation in the community – they take it personally. In each case, the founders of the private business have determined values that relate to sustainability in their business model. This values base proves unusually resilient in the face of change. It relates readily to the more recent, formal definitions of sustainable development.

OneHarvest/Vegco is an interesting example of how the culture of a company can be determined in a start-up by the owners’ choice of a business model. The company develops, sources, manufactures and distributes fresh and ready to eat herbs and vegetables. The business model is based on innovation and efficiency throughout the supply chain and is strongly market-oriented. This has resulted in a culture that is:

- **Innovation-focused** – the core business involves bringing new products to Australian consumers, and seeking ways to do this through change of production, process and delivery.
- **Open to new ideas** – the company is geared to provoking and taking up innovations emanating from a range of stakeholders.
- **Committed to the long term** – the company is working towards a sound long term business position through its relationships with customers, suppliers and the community, and through its investments.
- **Respectful** – a pervading quality of the company’s engagement with its broadest range of stakeholders is its respect for their needs, opinions and the contribution they can make to the success of the business.

Blackmores’ early initiatives in sustainable development (for example, recycling) originated in the 1930’s and emanated from the culture of the company, strongly determined by its founder. The company listed in 1985 and more recently worked on a careful revision of its culture to reflect the competitive pressures that it now faced. The company has purposely shifted its culture from a ‘family consensus’ approach to a ‘constructive performance-based’ approach. The company chose to update and strengthen, rather than sublimate, its culture demonstrating its belief in the critical role culture plays in shaping business decisions, practices and performance.

Eli Lilly was established as a privately owned company in the 1870’s. The company was publicly listed in the 1970’s, however its underlying values have endured and are attributed to its 125 year history. They have guided the company in an extensive range of sustainable development practices, including a charitable foundation that is funded on an earnings percentage that places the company in the top ten most generous companies in the world.

Multiplex has also been a private company until listing less than a year ago. This company also attributes its business success to its core values. These are communicated clearly through the scope and content of meetings involving the owners and are
understood throughout the company. Multiplex believe these values allow flexibility in their operations to respond to local market conditions, and to retain the key features that underlie their success.

These privately owned companies have tended to embark on sustainable development practices earlier than their publicly listed counterparts do. As a result these initiatives are often not termed or evaluated in sustainable development terms. The private/private history leaders are quite clear that these early initiatives have been driven by the values of their private owners. The early emphasis of these values has been on integrity, respect and support particularly for employees and customers, and excellence.

A similar phenomenon can exist in other than privately owned or founded companies. In large listed companies and government departments, a strongly influential person or group clearly can influence the organisation in terms of integrity, ethical and behavioural standards.

**Low Risk**
Companies that are not or have not been privately owned can still develop an owner culture that reflects the long term, low risk aspirations of their shareholder owners. This is not to deny the moral code of decision-makers on the board and senior executives of these companies, but to acknowledge the role of shareholders’ low risk expectations in determining the companies’ adoption of sustainable development.

For example, BHP discovered through a succession of poor investments and disasters such as Ok Tedi, that its investors required the company to take a low risk approach to satisfy their long-term investment preference. This shareholder position contradicts the traditional view that shareholders will deal with company-specific risks by diversifying their investments. Many investors in BHP did not hold diversified portfolios, and they expected the ‘Big Australian’ to deliver steady and reliable performance. This formed a ‘quasi-cultural’ backdrop for BHP’s move into sustainable development practices as well as its complementary efforts in risk management, including the merger with Billiton.

Similarly, VicSuper has responded to the long-term ‘patient’ investment style of its members with a focus on sustainable development practices. For VicSuper, its earlier efforts in member services and support also fit within the interests of sustainable development, although they were probably driven by membership (customer) concerns. VicSuper is an unusual case, with members as investors as well as customers. As investors, VicSuper’s members are interested in the long-term performance of the funds as well as representing a broad range of workforce and community interests. Again, it is this long-term, low risk investor style that is in effect a cultural influence on VicSuper’s strategy.

The link between sustainable development practices and risk, generally expressed as volatility in investor returns, is proposed by many as a primary motivation for the adoption of a sustainable development approach (Mays, 2003).
Sustainable Development Motivation – At the Strategic Level

Chapter 3 explains how the link between sustainable development practices and long-term business success depends on the contribution these practices make to three generic strategies:

- Stakeholder support
- Efficiency, and
- Market edge.

Examples of these practices are given in Chapter 3. In this section, we explore the further question: ‘How do sustainable development approaches emerge through these strategies: what are the motivations at the strategic level?’

These strategic motivations are more context-dependent than those identified at the cultural level, since they respond to strategic threats and opportunities as they arise.

Stakeholder Support

Our research has identified four categories of motivation relating to the generic strategy of Stakeholder Support: long term; shared future; licence to operate; and employee commitment.

Long Term: All the leading companies studied include a long-term approach in their strategic planning. Their recognition of the needs of their businesses in the long term has been the primary motivation for some sustainable development practices. For example, companies like Eli Lilly and BHP Billiton make significant investments in research and development and exploration that have payoffs extending well beyond ten to fifteen years into the future. These companies are well used to evaluating opportunities (and practices) against a strategic framework of change and long-term benefit. This strategic planning capability suits the assessment of sustainable development opportunities that may have an extended time-to-reap.

Shared Future: All the leading companies studied also recognised the dependence of their business model on the continued success not only of the company, but also its stakeholders. OneHarvest/Vegco provides one of the clearest examples of this motivation for sustainable development practices. For example, OneHarvest/Vegco’s desire to provide year-round baby leaf product meant that it needed growers to commit to a medium term capital investment in a protected cropping facility. To make this commitment viable for the grower, OneHarvest/Vegco in turn was prepared to enter into a five year contract – a longer contract term than has been traditional in this industry.

Licence to Operate: Some leading companies are mindful of their dependence on the goodwill of communities in which they operate to continue and extend their operations. BHP Billiton provides a typical example of this situation and it has been a prime
motivation for many of their sustainable development practices. Examples include their work in AIDS and HIV prevention programs in their African operations, and their indigenous community support and development programs in Western Australia. In natural health products, Pan Pharmaceuticals has provided a dramatic example of a company failing to maintain its licence to operate. However, this is a case of failure to achieve a level of performance that is simple regulatory compliance. Blackmores’ efforts in the area of product integrity are related to the support of their brand rather than simple compliance, and they extend well beyond this aim.

Employee Commitment: All the leading companies studied recognise the strategic benefits available from increased employee commitment, in terms of the attraction, retention and effectiveness of staff. Multiplex recognises the importance of its employees in maintaining the company’s competitive strength of flexibility. The company spends time selecting, training and developing its staff, and this is a key motivation for many of its sustainable development practices. Companies also recognise the importance of their sustainable development practices in creating commitment and loyalty from employees indirectly – through their shared pride in the company and support for staff selected charities for example.

Efficiency
Reduced operational costs are the motivation for sustainable development practices in many companies. Efforts such as cleaner production are clearly understood to deliver benefits in two ways – reduced waste loads and lower use of resources. The importance of this motivation for companies’ adoption of sustainable development practices is contingent on the degree to which production costs dominate their earnings.

Market Edge
Improving and maintaining market edge is a key motivation for sustainable development practices for many of the leading companies. This extends the motivation behind sustainable development adoption beyond a ‘defensive’ model, eg compliance and keeping options open, to an ‘extension’ model, eg innovation and brand. This attribute of sustainable development practices is discussed in Chapter 3, where it is suggested that more innovative practices can offer better long-term payoffs and that sustainable development practices can deliver premium strategic benefits that advance the company into a new industry position.

Innovation: Eli Lilly is a pharmaceuticals company that relies on a continuous stream of innovation to develop and maintain its market edge. A recent development has been an innovative reworking of Eli Lilly’s approach to clinical trials and data management. This has supported the innovation focus of the company by reducing the time and cost from discovery to market. However, its can also be viewed as a sustainable development practice since it has benefited trial participants and future patients, and will continue to do so over time.

Market Orientation: Both Multiplex and OneHarvest/Vegco describe their strategic approach as market-oriented; that is, they seek to lead their customers’ expectations and
preferences. This has driven a number of sustainable development practices. In Multiplex’s case, they seek to lead industry standards in sustainable development, and to satisfy customer’s expectations of a leading company even where the requirements are not made specific. For example, the company was the first in its industry to obtain certification for quality assurance, occupational health and safety, and waste-wise. In OneHarvest/Vegco’s case, about 30% of their sales at any point are products that have been engineered in the last twelve months. Sustainable development practices are a part of the company’s constant commitment to product development. In growing organic products for example, the company has led the market. Few customers were prepared to pay the 20-30% premium on price for these products a few years ago, but that is now changing.

**Brand:** Blackmores’ key competitive strength is its brand. As a monolithic brand, its reputation can be enhanced by a range of sustainable development practices. The company’s core values of trust, leadership, superior performance, customer focus and a more natural approach to health, are communicated to the market as brand. The focus for its brand differentiation is product quality – from ingredient selection and evidence through to manufacture and customer support. The company goes beyond compliance in these areas, many of which include sustainable development practices.

**Sustainable Development Motivation – At the Practice Level**

Sustainable development practices that make a successful contribution to business performance are strategically relevant. However, our leading companies could also provide examples where the motivation for adopting a particular practice was initially the practice itself.

The practice of sustainability reporting is being pursued by many companies and for different motivations. For BHP Billiton, achieving a leading position in investor sustainability appraisals has been a driving motivation for part of their sustainability effort. This is because the company approached sustainable development adoption through the experience of investor and public censure, and was keen to establish its credentials of reform. The company has also used sustainability reporting protocols as a useful supplement to its own canvassing of sustainable development issues.

For Eli Lilly and Blackmores, sustainability reporting is a new practice that is planned to communicate more effectively to investors the sustainable development credentials of these companies. In Eli Lilly’s case for example, although it is among the top ten most generous companies in the world, and can demonstrate a leading performance in sustainable development, the company is not included in the Dow Jones Sustainability Index (top ten percent of sustainability performers in the industry sector).

VicSuper also plans to increase its attention to sustainability reporting, in this case to provide improved information to its members and to stimulate further improvements in
its portfolio. OneHarvest/Vegco and Multiplex, as privately held companies, have not pursued sustainability reporting because they do not believe they have a significant audience for such reports. It will be interesting to see whether Multiplex takes the position of Eli Lilly and Blackmores now that it has listed.

Leading companies report adopting standard sustainable development practices to help them achieve specific goals of their efforts in sustainability including consistency between operations, consistency with others in their industry, completeness and extension – for example ensuring they have canvassed the full range of possible improvement areas.

Finally, sustainable development practices are also adopted for altruistic reasons. Companies report a desire to satisfy owner concerns, to make a genuine contribution to the community, and to support their employees.

4.2 Motivations – The Path to ‘How?’

Distinctive Pathways Leading to Sustainability Orientation

Our research shows that there is no single path to sustainable development adoption. No single path, motivation or method can be sensibly prescribed. Companies respond to a range of motivations depending on the strategic context and timing. Rather than a single business case for sustainable development, there are many business cases, and these may differ depending on the context (strategic, organisational, etc.) as well as the content of each specific practice.

The leading companies we have studied have approached sustainable development adoption through their own distinctive set of motivational pathways (Figure 4.2). They have not stopped there; they have continued to adapt and extend their sustainable development practices through the same wide range of available provocations. Over time, as company experience with sustainable development grows, a cultural guide that is sustainability orientation influences each strategic choice.
Common Ground for Many Practice Changes

Businesses are under ever-increasing pressure to improve their performance and prospects; pressure brought about by competition and technological change, for example.

Many of the practices that respond to this pressure are complementary to sustainable development practices, including the high-level principles described as sustainability orientation. Practices in technological and process innovation, frictionless networks, supply chain management, knowledge management, risk management and ethics are examples of business practices that are complementary to sustainable development concerns and practices.

This research provides an explanation for the motivation that underlies sustainable development practices that fits with business’ adoption of the range of practices and strategic change programs that prevail today. It makes sense that companies will use the
same processes and paradigms to survey, evaluate and select the business improvement options available to them.

5 A NEW PERSPECTIVE: MANAGERIAL AND BUSINESS IMPLICATIONS

We have sought to explain the connections between sustainable development practices and business success in the long-term. We have also examined the reasons for leading companies’ engagement in these practices. Sustainable development practices, selected carefully for their attributes and strategic congruence, offer companies a long-term performance premium. These conclusions hold regardless of the type of company studied, although some industries are better positioned strategically than others.

What is new about these findings? Are they simply more rhetoric about sustainable development and business success, or do they give us new insights into the connection between the two? The first part of this chapter examines some of the myths that are prevalent in the corporate sustainable development debate and explains how the findings of this research identify the causal connection between sustainable development practices and business success.

Rather than wait for a clear incentive to adopt sustainable development practices, such as a new regulation or customer protest, we believe that companies can be proactive and move to adopt sustainable development practices that will benefit their long-term performance. How can executives do this? In the second part of this chapter we provide a thinking frame for managers wishing to take this step.

5.1 SUSTAINABLE DEVELOPMENT PRACTICES AND BUSINESS SUCCESS: RHETORIC VERSUS CAUSAL CONNECTION

What do we mean by the rhetoric that surrounds the corporate sustainable development debate? Many practitioners and critics have had nagging reservations about the arguments that are commonly put in support of corporate sustainable development. “Do companies do well because they do good, or do they do good because they do well?” is a typical example of the concerns raised. Shrouded as they are in moral overtones and political correctness, ideas about corporate sustainable development have been hard to challenge publicly. Critics are often attacked as ‘naysayers’, out of touch with the attitudes of modern society.

We believe that there is foundation for some of the criticism of corporate sustainable development assertions. Saying this does not undermine the basic idea that sustainable development practices can contribute to business success, rather it makes it more urgent to strengthen that idea by providing tighter frameworks to understand and explain it. We suggest that the criticisms of the ‘rhetoric’ of corporate sustainable development relate to two aspects: first, the use of loose and imprecise definitions and second, the use of inaccurate explanations that present co-existent features as cause and effect. Critics are
‘unsettled’ by the gaps and holes in the arguments presented. Our research seeks to resolve some of these dilemmas.

**More Precise Definitions**

Generally, the ‘definitions in use’ for sustainable development suffer from a lack of specificity. It is this definitional ‘looseness’ that leads to a complementary rigidity whereby particular tools or practices are held to *embody* the aims of corporate sustainable development.

In this research we have reprised the Brundtland Commission report (1987) and developed from first principles, not simply a quote, a clear definition for corporate sustainable development practices that:

- Makes the distinction between the goal and practices of sustainable development.
- Characterises the nature of the practices – balanced, equitable and progressive – in pursuing the goal.
- Distinguishes between the efforts of businesses and the much broader global ‘North-South’ view of sustainable development[^9].
- Links to the Global Reporting Initiative to provide detailed guidance on the changing scope of corporate sustainable development issues.

A clear and precise definition for corporate sustainable development practices opens the way for businesses to develop tailored approaches that can take account of different contexts, preferences and opportunities, rather than take a one-size-fits-all approach.

Further, we have defined corporate sustainable development practices as particular types of business practices. This distinction is helpful as it clarifies the difference between corporate sustainable development and corporate philanthropy. By definition, we cement the connection between sustainable development practices and the business strategy and activities that support it. This paves the way for the explanation of how sustainable development practices and business success are connected.

These definitional advances resolve several problems raised by critics. First, if the goals and practices of sustainable development are viewed as synonymous, then what happens when the practices don’t suit the business - what about sustainable development? Conversely, is it sensible to suggest that because a business is not engaging in a particular practice, it is not engaging in sustainable development? By separating sustainable development goals from practices, it is easier for businesses to select and adapt the mix of practices best suited to their situation and prospects.

[^9]: See Section 2.1 for a discussion of this distinction. The “North-South” understanding on sustainable development relates to the premise, developed at the Stockholm Conference in 1972 and furthered at the Rio Conference on Environment and Development in 1992, of “common but differentiated responsibilities” between developed and developing nations. Addressing the imbalance between the richer, developed nations of the “North” and the poorer, emerging nations of the “South” is the main object of this view of sustainable development, which relies on international cooperation for its progress. It is the perceived weakening of this agenda that has been the subject of protest around more recent conferences, such as Johannesburg 2002.
Second, if a practice is undertaken that is pure philanthropy, and not selected for any strategic reason, then why should it necessarily have a positive impact on business performance? By clarifying the differences between philanthropy and business (including sustainable development) practices, businesses can understand when decisions are strategic for the business and when they are not.

Third, if socially responsible investment funds are the best way to assess corporate sustainable development, what about businesses that are not assessed in this way? By moving away from the practice-specific definition of corporate sustainable development, businesses can select sustainable development practices for their strategic value rather than purely to satisfy an external view. We believe that the current emphasis on external assessment has undermined the efforts in sustainable development made by many smaller and privately owned companies – their potential contribution to sustainable development is under-counted.

Causal Relationship

Rhetoric about corporate sustainable development that is challenged by this research includes:

- The suggestion that the motivation for sustainable development practices bears directly on their business outcomes – for example, that voluntary measures have greater value than compliance measures.
- That there is a ‘business case’ for corporate sustainable development.
- Attempts to compare specific sets of sustainable development practices with the share price.
- The implication that each sustainable development practice has a fixed, standard design.

Our research shows that none of the above relationships can ‘explain’ the connection between sustainable development practices and business success. Neither therefore, can they provide a path for executives wishing to explore and develop this connection.

However, we do find a strong link between corporate sustainable development and business success – a link that is mediated jointly by corporate strategy and the quality of practices themselves. By clarifying the real causal relationship, practitioners have the means:

- Using the definitions, to identify possible ideas for business practices and improvements suggested by the confluence of sustainable development issues and their current business activities and prospects.
- To test these ideas against the three generic strategic requirements for business success – stakeholder support, efficiency and market edge.
- To understand and improve their ideas in terms of what constitutes high quality sustainable development practices.

Taking an iterative approach to the above, practitioners can open up new opportunities for innovation, fine-tune their efforts, and seek to maximise the returns to the business and its stakeholders from these efforts in the long-term.
Rather than view sustainable development practices in fixed terms, this research shows how a business case can be built and maximised for each practice – this is where the true connection between these practices and long-term business success is made and maintained.

**Sustainability Orientation**

Measures of corporate sustainable development have tended to focus on particular practices – a set that may not match adequately the unique circumstances of each company. Measurement approaches have attempted to overcome this problem by becoming increasingly disaggregated – to the point where companies are no longer compared on the same base.

Our research has developed a new construct for measurement called sustainability orientation. It accounts for the link between a good long-term business prospect and attention to the balance between economic, environmental and social performance. The link is two-way – companies that start work at one end will eventually satisfy both. This answers the question posed at the start of this chapter “Do companies do well because they do good, or do they do good because they do well?” The answer of course is yes to both, because of the company’s particular approach to sustainability, its sustainability orientation.

Sustainability orientation is a set of high level, or cultural, principles common to advanced companies, regardless of their context. Common characteristics of the sustainability orientation of leading companies are their breadth of vision, their commitment to stakeholder empowerment and their progressive practices like quality, service excellence and innovation. Sustainability orientation is reinforced by sustainable development practices as well as guiding their selection. Sustainability-oriented companies are mature in their sustainable development approaches and ‘lead’ stakeholder preferences as opposed to being ‘stakeholder-led’. Since sustainability orientation is a feature of mature companies in sustainable development, it provides a promising construct to measure against business performance, since it accounts for the time lag between practice adoption and starting to realise the benefits.

Understanding sustainability orientation provides practitioners with another way to identify possible sustainable development practices – by examining this cultural overlay in the context of their business and its environment.

### 5.2 Implications for Practice: A Way Forward

Whereas other analyses of corporate sustainable development have had to delve into greater detail to cope with differences in industry, enterprise and context, our research provides a unifying approach. Other approaches emphasise reactionary stimuli for action on sustainable development – avoid exclusion from investment funds, manage
compliance, protect reputation, and so on. These reasons are valid, but a far stronger argument for corporate sustainable development rests in the creation of business advantage and the stimulation of innovation. This argument applies more uniformly across organisations and is a better basis for comparison and improvement.

This research brings the selection, implementation and review of sustainable development practices together into a single over-arching framework that:

- Will work for any business embarking on sustainable development.
- Can work in any context and at any pace.
- Complements other business improvement approaches.
- Provides a framework of opportunity creation as well as risk reduction.

**Building the House of Sustainable Development**

Building sustainable development practices into the overall set of business practices and the company’s business strategy can be likened to building a house. One needs plans that are derived from needs and objectives, and a carefully orchestrated process of approval, construction and checking. Once the house is built it can be further adapted as needs and opportunities change. Some guidelines for implementing sustainable development practices within a strategic context follow. (Refer to earlier chapters for detailed explanations of terms.)

**Step 1: Planning the House**

**Review Sustainability Orientation and Strategy**

What exactly are you trying to build and achieve?

Sustainability orientation comprises three high level principles:

- Breadth of vision
- Stakeholder empowerment
- Being progressive.

What is your company’s approach to these, in terms of:

- Guiding beliefs, principles and policies?
- Activities that put these beliefs into practice?

How do these activities support your company’s strategy in terms of:

- Stakeholder support?
- Efficiency?
- Market edge?

What could you change to make a stronger connection between your strategy and sustainability orientation?
Step 2: Building the Foundations for the House
Review Sustainable Development Issues and Business Activities

For each of the issues in sustainable development (based on the Global Reporting Initiative):

- What is the impact of your business activities on this issue?
- What is the scope for this impact to change for the better?
- How would such a change support your strategy, in terms of:
  - Stakeholder support?
  - Efficiency?
  - Market edge?

Step 3: Make Sure the House as Planned Fits the Strategic Objectives
Review Strategic Fit and Potential

Review the changes, or sustainable development practices, identified in Step 1 and Step 2, and rank them according to their attributes:

- Builds, reinforces and demonstrates sustainability orientation
  - Breadth of vision
  - Stakeholder empowerment
  - Being progressive
- Complements strategy
  - Stakeholder support
  - Efficiency
  - Market edge
- Adds value
  - Deep, genuine improvement in sustainable development terms
  - Mature, leading edge, value proposition
  - Well-integrated with other business practices, efficient, effective.

Step 4: Build and Occupy the House
Develop New/Changed Practices

Review the sustainable development practices from Step 3. Look for alternative practices that will have a higher ranking according to your criteria. Are there more creative or innovative ways to achieve your aims?

Evaluate the new/changed practices you have selected in terms of the resources and plans required to put them into place.

Allocate resources and develop an implementation plan, including a means of monitoring effectiveness if appropriate.
Step 5: Maintain and Renovate the House as Needed
Review and Extend

Incorporate the thinking in steps 1 through 4 through:

- A regular repeat of the process
- Including the process in other strategic planning and decision-making processes, eg capital allocation
- Use of the various tools and methods available in corporate sustainable development.
6. CONCLUSIONS

This research has explored the question “Why and under what circumstances, do sustainable development practices contribute to business success?”

The recent prominence of socially responsible investment surveys and rankings might suggest that companies should pursue sustainable development practices because that is what investors want. Yet publicly listed companies know that their investors also want returns, and privately held companies struggle to see the relevance of a reporting effort that has no external audience.

Our work helps to resolve this dilemma by clarifying the nature of the connection between sustainable development practices and long-term business success. It consists of two main attributes: the quality of the sustainable development practices themselves, and their alignment with specific strategies of the business.

The motivations for companies’ adoption of sustainable development practices are many and varied; they are both practice and context specific. The leading companies don’t simply adopt sustainable development practices, they continue to refine and extend their efforts to achieve a better balance between the economic, environmental and social consequences of their business activities, and to complement their strategies. The leading companies in sustainable development share a set of high-level principles called ‘sustainability orientation’ that guides their strategic preferences and decisions.

Perhaps the most exciting finding from our research is that companies do not require an external incentive or provocation to embark on sustainable development practices that will generate a long-term performance premium. However, the most successful efforts will result for companies that have a strong framework for the sustainable development considerations, such as strong leadership and a robust strategic planning process.

Sustainable development practices cannot fix an ailing strategy, but they can complement a promising one by stimulating innovation and change that will deliver a premium on long-term business success.
7. REFERENCES


APPENDIX

INDUSTRY GROUPS INTERVIEWED
Australian Bankers Association
Australian Information Industry Association
Australian Local Government Association
Australian Trucking Association
Cement Industry Federation
Federal Chamber of Automotive Industries
Food and Grocery Council of Australia
Master Builders Australia
Minerals Council of Australia
National Association of Forest Industries
Printing Industries Association of Australia
Property Council of Australia

COMPANIES INTERVIEWED

BHP Billiton   www.bhpbilliton.com.au
BHP Billiton is the world’s largest diversified resources company, employing 35,000 in
more than 100 operations and approximately 20 countries. The company occupies
industry leader or near industry leader positions in major commodity businesses,
including aluminium, energy, coal and metallurgical coal, copper, ferro-alloys, iron ore
and titanium minerals, and has substantial interests in oil, gas, liquefied natural gas,
nickel, diamonds and silver. Company turnover in 2004 was US$24.9 billion.
BHP Billiton was created through the Dual Listed Companies (DLC) merger of BHP
Limited (now BHP Billiton Limited) and Billiton Plc (now BHP Billiton Plc), which was
concluded on 29 June 2001.

The resources industry as a whole has also moved over the past thirty years to maintain
and extend its ‘licence to operate’ by attending more closely to the needs and desires of
its key stakeholders in the community at large and the local communities in which its
operations are based. The industry has worked to lift its game environmentally, and more
recently socially, in the communities in which it operates. As a whole, the Australian
resources industry has been dubbed at the forefront of sustainable development practice
globally, according to a huge study of the industry globally carried out under the auspices

Blackmores   www.blackmores.com.au
Blackmores develops, manufactures and distributes natural health products and
complementary medicines. The company was founded in the 1930’s and remained an
Australian family company until listing in 1985.
Blackmores employs about 250 staff with a turnover of $90m. About $12m of that turnover relates to overseas operations, in New Zealand, Thailand, Malaysia and Singapore. The ownership structure is unusual in that Blackmores is a public company, where most employees are shareholders. The current Chairman is one of the original family members and he is the majority shareholder, holding 30% of the shares. The Chairman is passionate about the culture of the company.

**Eli Lilly**  www.lilly.com
Eli Lilly develops, manufactures and distributes pharmaceuticals. The company was founded in the United States in 1876, and is now a global organisation. Eli Lilly employs 41,000 people. The company has major operations in 9 countries, undertakes trials in 60 countries and markets to 158 countries.

Eli Lilly was owned by the founding family and their descendants from its founding in 1876 until its public listing in the 1970’s. The company structure has changed little since listing, in that there has been little merger and acquisition activity.

The Australian company is a wholly owned subsidiary of the US parent. Many policies are designated by the US parent company. While the industry is highly regulated, Eli Lilly maintains a strong value set which it attributes to its 125 year history.

**Multiplex**  www.multiplex.biz
Multiplex owns, builds and manages property. At the time of interview, Multiplex was a privately owned company with subsidiaries. It has since been publicly listed.

The company was founded in 1962 and owned by one family. The company founder is the current Chairman and the family retains a 26% interest in the company. The company has grown from a Perth base to a national company, employing 1800 directly, and many more as sub-contractors. More recently, operations have also been established in New Zealand, Dubai, SE Asia and the UK. The company’s growth to new locations has been underpinned by flexibility in how each location responds to market requirements, within the framework of the company’s ethos, standards expected and style.

**OneHarvest/Vegco**  www.oneharvest.com.au
OneHarvest/Vegco develops, sources, manufactures and distributes fresh and ready to eat herbs and vegetables. At the time of interview, the company was called Vegco, and was a wholly owned subsidiary of a similar business, called Harvest Freshcuts. These companies have both now merged with a third, The Harvest Company, and are now known as OneHarvest.

Harvest Freshcuts and Vegco both commenced operations at a similar time, following the trend in Europe and the US towards cool chain – fresh cut ready to eat produce for
supermarkets, food service/catering and export. Vegco commenced in 1994 as an unlisted public company, based in premises which had previously been closed in 1991 as part of a rationalisation for the Foods Division of a major Australian company. In 1997, the company merged with Harvest Freshcuts, becoming a wholly owned subsidiary of that privately owned company. The holding company and subsidiary traded as separate companies. The CEO was the majority shareholder.

The genesis of the company has been in producing new products to market, and achieving this by careful management and planning in the supply chain. Each of the later merged companies licensed cutting edge technology from France, and commenced operations with this technology in place. Innovation, adoption and adaptation of new technology and processes have therefore been considered essential to the company’s success and continued growth. Growth is currently about 30% per year. While these principles are not enunciated in company publications, they are clearly understood by employees, buyers and suppliers. The CEO’s dominant position as owner/decision-maker carries through the founding vision – of creating new market opportunities by doing the business differently.

**VicSuper**  

VicSuper is corporate trustee for one of Australia’s largest regulated superannuation funds, based in Victoria. It employs 121 staff and manages about $2.9 billion in assets on behalf of 4500 participating employers and 190,000 individual members (at end 2004). The fund took over the responsibility of the former Victorian Superannuation Board in 1999.

VicSuper operates on a not-for-profit basis, and this creates a different relationship with its members than applies for other cases studied. Half of the fund’s directors are appointed by employers and half are elected by members. Board decisions require a two-thirds majority agreement by directors, so that a degree of consensus must have been reached with both participating interests.

Although sustainability concerns are not commonly associated with the finance industry, there has been considerable emphasis on this area in Australia. Westpac has achieved the top position on the Dow Jones Sustainability Index for the financial sector internationally, and a working group from the financial services sector has been working on these considerations for some time under the auspices of the United Nations Environment Program. VicSuper has been making its own changes within this context, and has entered into a Sustainability Covenant with the Victorian Environment Protection Authority.
The Australian Business Foundation is sponsored by:
JOIN NOW!

Become a member of the Australian Business Foundation and have your say on the critical issues emerging for Australian businesses.

Together with other like-minded individuals, and our founder, Australian Business Limited, you can help us advance knowledge about what makes Australia competitive, creates jobs and enhances living standards.

And, you can keep in touch with all our latest research findings via our website at www.abfoundation.com.au.

For details, contact:

Australian Business Foundation
140 Arthur Street, North Sydney, NSW 2060

Ph:  61 2 9458 7553
Fax:  61 2 9929 0193
Email: foundation@australianbusiness.com.au

Strengthening Australian enterprise through research and policy innovation