

A Modern Definition of Corporate Sustainability

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Abstract

In the last 70 years, the topic of sustainability in business has been defined in many different ways. This chapter provides a review of the relevant concepts and frameworks, with the goal of describing the building blocks of ‘modern’ corporate sustainability and providing a comprehensive definition.

Keywords

CSR • Triple bottom line • Creating shared value • Purpose • Modern corporate • Sustainable value

4.1 Introduction

The role business could and should play in society and how firms could and should contribute to a ‘sustainable development’ has been debated for decades. As a consequence, the definition of sustainability and managerial practices associated

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with it have shifted over the years. In order to provide an overview of ‘modern’ Corporate Sustainability, this chapter summarises the evolution of the relevant literature and practice in the twentieth and twenty-first centuries. To do so, three key periods are identified and discussed in the following paragraphs:

- 1950–1990, which identifies the rise of Corporate Social Responsibility (CSR)
- 1990–2005, which identifies a remarkable evolution of CSR and the rise of the Triple Bottom Line (TBL concept)
- 2005–2020, which characterises the emerging of Modern Corporate Sustainability as a result of a number of new concepts becoming popular such as ESG (Environmental, Social and Governance) in the financial world, Shared-Value (to re-think business models and capitalism) and Purpose (to remark the important role played by business in society).

Based on the above, the concept of ‘sustainable value’ is debated and an updated definition of Corporate Sustainability provided at the end.

4.1.1 The Rise of Corporate Social Responsibility (1950–1990)

At the time when large corporations were emerging in the US, the concept of Corporate Social Responsibility (CSR) was forged in 1953 by American economist Howard Bowen in his publication ‘Social Responsibilities of the Businessman’. In his book, Bowen remarks the importance of a fundamental morality in the way a company behaves towards society and the relevance of ethical behaviour towards stakeholders. Moreover, he highlights the importance for business executives and academics to consider CSR as a subject part of strategic planning and managerial decision-making.

However, it wasn’t until the 1970s that CSR truly became widespread. This development was favoured by economist and Nobel Prize winner Milton Friedman, who is famous for his ‘Social Responsibility of Business’ theory elaborated in 1970. This theory is one of the most debated still today. Friedman argues that ‘In a free-enterprise, private-property-system, a corporate executive is an employee of the owners of the business and as such has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom’. Friedman claims that companies should not have social responsibilities per se and if individual managers follow the principle of social responsibility then, by following this principle the company does not have the interest of stockholders at heart. For example, if a manager decides not to increase product prices for the good of society (i.e. not increase inflation), this could have a negative impact on the company’s profits and employee wealth. Or a company that works towards reducing pollution beyond what is necessary for the corporation, is not

acting in the interest of stockholders, as this could have an impact on costs and productivity. Friedman asserts that in these cases, corporate executives are spending someone else's money for a societal interest, in fact these actions have a negative impact on stockholders. Stockholders should decide by themselves how to spend their money. Friedman's view, which was built on the principles of popular Agency Theory (Eisenhardt 1989), was reflecting a view of business and society which is today outdated. In fact, it mainly relied on the assumption that

- Stockholders are the most important stakeholder of a business;
- Environmental and social problems should be addressed only/mainly by Governments;
- Business should play a limited role in society.

4.1.2 Corporate Social Responsibility in the 1990s and the Triple Bottom Line Concept

As a general statement, it should be observed that very few unique contributions to the definition of CSR occurred in the 1990s, but in spite of that, the topic received great attention in this decade due to a number of corporate scandals that raised the attention of business practices, such as the one faced by NIKE in 1996. Carroll in 1979 developed a popular CSR model which is based on four categories of business performance: economic, legal, ethical and discretionary. Carroll argues that economic responsibility is first and foremost, as companies have the responsibility to produce goods and create profits. Legal responsibility relies on the concept that companies have to create profits by fulfilling society rules. While ethical responsibility represents additional behaviours that are not necessarily codified into law but that companies are supposed to fulfil. Finally, discretionary responsibilities 'are those about which society has no clear-cut message for business [...] they are left to individual judgment and choice' (Carroll 1979). In 1991, Carroll reviewed his CSR model, adjusting the definition of the discretionary element as 'philanthropic' and suggesting that it embraced 'corporate citizenship'. Therefore, the model became composed of these responsibilities: economic, legal, ethical and philanthropic (Fig. 4.1).

Carroll's work has made an impact in this field as firms in different industries in the 1990s started engaging with philanthropic activities and CSR initiatives with the goal of being recognised as 'good corporate citizens'. Firms and a variety of industry stakeholders also started valuing the importance of ethical approaches in business and the positive role firms can play. However, very often, the driver of this commitment was the desire to improve the reputation of the business (hence no surprise that this approach led to many scandals and cases of greenwashing), and not the real objective of minimising the negative impacts of business activities on society and/or the environment. The main limitations of Carroll's CSR framework can be today identified as



Fig. 4.1 Carroll’s CSR pyramid (Source Carroll 1979)

- The logic of ‘giving back’ is not enough. For large corporations that are highly profitable, it is relatively easy to engage in philanthropic actions (e.g. by supporting social and/or environmental projects with a percentage of revenue or profit). While this type of CSR creates a positive impact on the environment/society, it doesn’t help organisations to change their mindset and to re-think their business strategies and value creation processes. This explains why, still today, many firms look at CSR/sustainability as ‘another cost’ of doing business or a ‘another tax’.

The framework is not explicit in that the CSR initiatives developed by corporations should be fully aligned with their business strategies. As a result of this, many corporations engaged for years with CSR projects that were small scale, focused on specific activities and often disconnected from the strategy of the business.

In 1994, the concept of ‘triple bottom line’ (TBL) coined by John Elkington started changing the narrative on CSR. In fact, at the core of his thinking was the idea that ‘A sustainable development involves the simultaneous pursuit of economic prosperity, environmental quality, and social equity’ (Elkington 1998). The triple bottom line approach argues that a company has to take simultaneous account of profit, planet and people which represent the economic, environmental and social dimensions of responsibility. Only, if a company truly manages all these dimensions of performance can it be considered sustainable. First and foremost, profit is the precondition for a healthy company and, therefore, an enabler of the positive impact a business can have on society and the environment. Secondly, the social dimension of the TBL covers the health and safety of customers, the well-being of employees and the protection of society at large. Finally, the third dimension of

TBL, the environment, is related to the protection of the planet. The planet is host to both people and companies. If companies do not learn to focus their attention more on the planet and prevent the pollution of the environment, they will damage not merely the earth, but also themselves. The environmental dimension of TBL addresses not only the problem of pollution, but additionally the consumption of materials, limited natural resources and energy.

The TBL framework undoubtedly represents the foundation of what we describe as ‘Modern Corporate in this chapter. In fact, Elkington’s work made a dent in the business world, changing the narrative on sustainability, emphasising the importance of long-term economic, environmental and societal goals rather than a short-term view of business. Moreover, the TBL framework created an important stimulus for the practice of sustainability reporting that started emerging in those years (Fig. 4.2).

However, the TBL received criticism too, the main limitation being that the three dimensions are very broadly defined, hard to measure and perceived as disconnected dimensions of performance rather than the result of an integrated approach. Moreover, the TBL framework wasn’t clearly connecting or disconnecting from the CSR theories previously developed, therefore, creating confusion in terms of positioning and taxonomy.

4.1.3 The Building Blocks of Corporate Sustainability

What we define in this book as ‘modern’ Corporate Sustainability is the result of a number of concepts/practices that have emerged since the early 2000s and dominate the latest thinking today. In particular, we refer to three concepts: the ‘ESG’ (Environmental, Social and Governance) concept, largely popular in the financial world; the ‘Shared-Value’ concept proposed by Porter and Kramer and the concept of ‘Purpose’ lately promoted by several leaders in business and society.

Fig. 4.2 Elkington’s triple bottom line framework



4.1.3.1 Environmental, Social and Governance (ESG)

The concept of ESG refers to the integration of environmental, social and governance factors into investment processes and more widely into decision-making. This might include how corporations respond to climate change, how efficient they are with water management, how effective their health and safety policies are in the protection against accidents, how they manage their supply chains, how they treat their workers and whether they have a corporate culture that builds trust and fosters innovation (Kell 2018).

The ESG concept was heavily promoted by the late UN secretary general Kofi Annan, who pushed environmental, social and governance issues to the forefront of the investment industry with the publication of the UN study ‘Who Cares Wins’ (Brigandi et al. 2018) back in 2004 and, soon after, the launch of the UN Principles for Responsible Investment (PRI).

The PRI is today, the world’s leading proponent of responsible investment, with over 2000 members representing over \$80 trillion assets under management (Fig. 4.3).

The ESG framework and the PRI movement has transformed the world of finance. Today, more and more evidence indicates that asset owners who integrate ESG considerations into investment decisions, not only promote environmental protection, healthier societies and good governance, but have a positive and recognisable impact on their beneficiaries’ bottom lines too (Brigandi et al. 2018).

Indeed, the popularity of the ESG framework is built on the Socially Responsible Investment (SRI) movement that has been around much longer. But unlike SRI, which is based on ethical and moral criteria and uses mostly negative screens, such as not investing in alcohol, tobacco or firearms, ESG investing is based on the assumption that ESG factors have financial relevance and, therefore, should be integrated in all investment decisions, used in the design of strategies and a quality criterion to assess the management of a company.

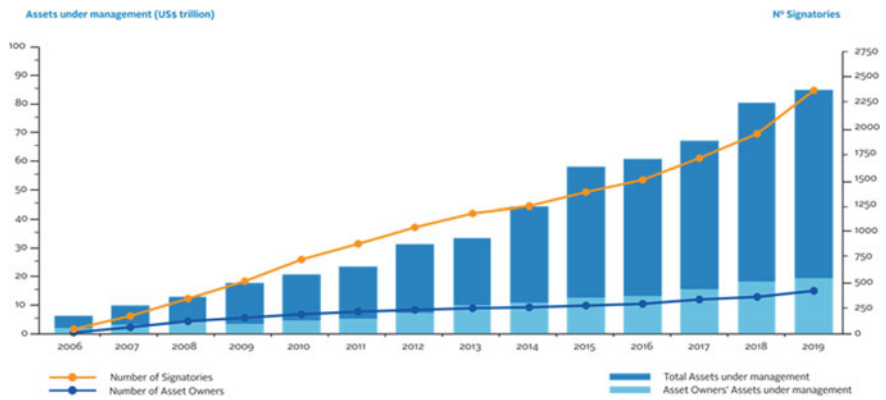


Fig. 4.3 PRI signatory growth (Source PRI)

The growth of ESG has resulted in the creation of specific ESG rating indexes such as the Dow Jones Sustainability Index, the FTSE4Good Index, Bloomberg ESG data, the MSCI ESG Indices and the GRESB benchmarks.

All this has pushed corporations to integrate sustainability and ESG factors into their decision-making processes, business strategies and business models.

4.1.3.2 The Concept of Creating Shared Value

Still in the 2000s, the concept of ‘Creating Shared Value’ (CSV) introduced by Porter and Kramer (Porter and Kramer 2006, 2011) gained credibility, legitimacy and momentum as a new way of doing business. The two academics argue that companies should look at sustainability based on the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. (Porter and Kramer 2011). Shared value is not social responsibility, philanthropy or even TBL sustainability, but a new way to achieve economic success by reconnecting business to social progress. Hence, the difference with CSR is clear: while CSR initiatives focus mainly on ‘giving back’ to society and reputation, CSV pushes organisations to re-think managerial practices and business models so as to create a competitive advantage and ultimately profitability. CSR is usually felt as a cost, not as a value, while, CSV lies at the core of new business opportunities (e.g. establishing new markets, improving profitability, increasing brand reputation and enhancing competitive positioning). With the concept of CSV, sustainability is fully integrated into business strategy as companies aim to create economic value by creating social value. Moreover, Porter and Kramer (2011) also argue that capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs and building wealth, but a narrow conception of capitalism has prevented business from harnessing its full potential to meet society’s broader challenges.

4.1.3.3 A Sense of Purpose in Business

The need for purpose is one of the defining characteristics of human beings and today there is a movement towards employees seeking a job that gives them a sense of purpose and customers looking to buy from companies whose brands are based on values they can identify with. Whether viewed from the employee or consumer perspective, purpose has become a powerful force giving companies a competitive advantage (Castrillon 2019):

- Purpose attracts, motivates and retains employees;
- Purpose-led brands have the potential to forge stronger customer relationships which translates into more sales and greater customer loyalty;
- Purpose-led companies have a superior financial performance.

Indeed, in the last five years, a sense of urgent purpose related to sustainability has emerged both in companies and people. In this context, a particular loud voice is the one of millennials (or Generation Y—which identifies people born approximately between the years 1981–1996) often referred to by the media as the

‘purpose generation’. A recent survey by Deloitte highlights that 63 % of millennial workers believe that the primary purpose of businesses should be improving society as opposed to generating profit (Lazarus 2018). Regarding the context of business leaders, a note of reference should be made to the letter sent to Global CEOs by Larry Fink, CEO of BlackRock in 2018. In this letter, Fink remarks that companies should focus on making a positive contribution to society as well as on generating financial profitability: ‘to benefit all stakeholders, which includes shareholders, employees, clients and the communities in which the company operates’. Among other issues, he maintains that they should be working on a new corporate governance model based on interaction between the company and its stakeholders and, specifically, between shareholders and investors. A model in which company directors focus on the long term rather than just the quick wins, without losing their focus on social ends. On this issue, Fink reflects on the role of BlackRock and, in general, on that of investors to move this conversation forward and prevent governance bodies from returning to the short-term approach; he offers to help companies re-think their role in society and to build a long-term vision.

4.1.4 Defining Sustainable Value and ‘Modern’ Corporate Sustainability

As highlighted in 4.1.3, our ‘modern’ understanding of ‘Corporate Sustainability’ is the result of the diffusion and acceptance of a number of principles that describe sustainability in business and the role played by companies in society. Indeed, the need for a better definition of ‘value’ in the modern world is becoming increasingly critical (Freeman et al. 2018). Today, attention has turned towards sustainable value creation, or co-creation with stakeholders over a longer period of time (Chandler 2016). In a recent literature review, Cardoni et al. (2020) identify the most popular definitions of ‘sustainable value’. The one from Hart and Milstein (2003) stands out in the list:

‘The global challenge associated with sustainable development, viewed through the appropriate set of business lenses, can help to identify strategies and practices that contribute to a more sustainable world while simultaneously driving shareholder value: this we define as the creation of sustainable value for the firm’. Also, relevant is the work of Bocken et al. (2014) who developed a popular framework to link the topic of sustainable value creation to business models and proposed the so-called “value mapping tool”, which aims at supporting companies in the exercise of creating sustainable value.

Building on the latest thinking of corporate sustainability, and the emerging literature on sustainable value creation, we propose, therefore, the following definition of Corporate Sustainability.

Corporate Sustainability

Corporate sustainability is an integral approach to business aimed at enhancing competitive positioning and profitability through the sustained creation of shared value, co-creation practices with stakeholders and the integration of ESG factors in decision-making.

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4.2 Conclusions

This chapter has provided a review of the relevant sustainability concepts and frameworks developed in the last 70 years, with the goal of describing the building blocks of ‘modern’ corporate sustainability and providing a comprehensive definition. Indeed, a clear understanding of Corporate Sustainability is essential to discuss practice and the integration into business strategy.

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