CORPORATE SUSTAINABILITY IS ASCRIBED TO LEADING-EDGE COMPANIES. BUT THE RESEARCH OF KRISTIINA MAKIPERE AND GEORGE S. YIP REVEALS WHY SOME COMPANIES ARE VIEWED AS SUSTAINABLE BUSINESSES WHILE OTHERS ARE NOT. FEELING PRESSURE TO MAKE YOUR BUSINESS MORE SUSTAINABLE? THAT'S THE BEST PLACE TO START.
Corporate environmental and social scandals, government regulations and a greater consumer concern for ecological issues have heightened company and investor interest in the concept of corporate sustainability. These trends have made it more difficult for companies to overlook the necessity of achieving sustainable business operations. However, the variation in approaches that companies take to deal with sustainability issues has left many companies with more questions than answers. Is the pressure to achieve sustainability stronger for certain types of companies? Is the quest to boost corporate sustainability a source of competitive advantage for only a few organizations? Are there industry-specific factors that are advantageous to companies in that field?

Good questions – and ones that few corporate leaders can answer with confidence. In fact, despite the volumes of current research on sustainability, many questions remain unanswered. Why are some companies leaders and others laggards in corporate sustainability? To be sure, there are differences between industries. On the one hand, some industries (such as energy extraction) may inherently enhance sustainability by, for example, reducing the need for commuting. Do companies in such industries find themselves more or less sustainable? Then, there are differences between companies within the same industry. Thus, does size matter? Do larger companies find it easier or harder to operate in a sustainable way?

While we can’t address all questions here, we believe our research has found the reason why some organizations are more advanced in corporate sustainability. It’s tied directly to the pressures they are facing to become sustainable and how they choose to respond.

Defining the challenge

Corporate sustainability – what does the term mean? We like the definition put forth by Dow Jones (www.sustainability-indexes.com): “a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments”. To make this definition more operational, we sought to discover, first, which industries are taking the lead in corporate sustainability, and second, to discover how and why the best-practice sustainability industries have scored this achievement.

We have used the Dow Jones Sustainability Index (DJSI), launched in 1999, in this study for making comparisons between industries. The DJSI is based on a thorough sustainability assessment. Companies are assessed with regard to general as well as industry-specific sustainability criteria based on sustainability trends. The criteria cover economic, environmental and social issues with a clear focus on long-term shareholder value creation. Examples include criteria on corporate governance, knowledge management, environmental performance, human rights policies and other factors.

In total, the assessment comprises around 50 different criteria in each industry. The analysed companies are assigned a sustainability score and are ranked accordingly within their sector. Note that DJSI is only one way of measuring corporate sustainability; however, the scientific nature of the DJSI and the large samples involved mean that the DJSI results provided a good basis for our analysis.

Sustainability across industries

Sustainability success is very diverse across industries, and there is a great variance in the scores that the DJSI awards to different firms. The industry with the lowest level of sustainability, Real Estate, scored 39 percentage points lower against the DJSI objectives than the highest performing industry, Personal & Household, which was awarded 71 per cent. Conversely, the differences between the sector leaders were very small: the highest sustainability score went to the sustainability leader in the Chemicals industry, which was awarded only 10 percentage points more than the Utilities sector leader, which had the lowest score. From all our studies of the research, we concluded that there are minimal sector-specific issues preventing companies from achieving high sustainability. That is, we concluded that high levels of corporate sustainability can be achieved in any industry.

Yet, it’s important to note that sustainability is a term that can be measured in at least three ways:

- **Economic** A company that is sustainable economically is able to generate enough revenue not only to meet current expenses and provide profits but also to allocate funds to continue to maintain the expense of being sustainable in all other ways. Such companies have strong codes of conduct, willingly comply with government regulations, and set and keep management priorities that encourage not only sound corporate governance but also timely, effective risk and crisis management.

- **Environmental** A company that is environmentally sustainable is not only consuming resources in a responsible way (for example, avoiding pollution), but it also helps to renew resources. Such companies are deemed to be “eco-efficient”, and they excel at being aware of and reporting on their adherence to environmental standards.
A company that is socially sustainable must perform a number of things well. First, it must be seen as a good corporate citizen, one that cares about the communities in which it operates and engages in a reasonable number of philanthropic causes. Moreover, it must respect sound labour practices and human capital development—such as in talent attraction and retention. Lastly, it must be willing to report on its behaviours in these regards.

Research would seem to indicate that companies in the industries that have successful corporate sustainability schemes tend to take a holistic approach towards their sustainability activities and aim to achieve success across all three sustainability aspects.

Pressures to sustain

Why are companies today feeling an increased pressure to become a more sustainable company? Simply put, companies are striving to become sustainable to feed their desires to access new resources or markets, to meet a perceived need to enhance efficiency in production or operations, or to adhere to a new standard of performance linked to government-imposed compliance requirements. Therefore, all companies today should push towards achieving a higher level of corporate sustainability against all three sustainability aspects. Yet, the research shows what most of us suspect: some companies are doing much better at sustainability than others. And for a good reason.

The reason why some organizations are more advanced in corporate sustainability stems largely from the different levels of pressure that entire industry sectors are facing to achieve a sustainable business. The four principal factors contributing to this pressure are: (1) the nature of an industry’s product, (2) the level of an industry’s energy and resource consumption, (3) the criticality of human capital for an industry’s success and (4) the size of the company within an industry. Each factor can present companies with enormous pressures (or is that incentives?) to become more sustainable. Let’s examine each of the four in turn.

The nature of an industry’s product

In some industries, the nature of a company’s product creates a strong demand for developing a more sustainable product. For instance, companies in the fields of energy, utilities and chemicals are linked to environmentally-conscious customers shifting away from consuming these products. To attract and retain customers, and to respond to the growing pressure of stakeholders, companies have started to research more eco-efficient alternatives for their products, thereby improving their environmental, and thus, long-term economic sustainability.

In some instances, the principal product may indirectly improve the company’s ability to become more sustainable. The telecom industry scores high against environmental sustainability because it can significantly transform working practices and lifestyles of people: by offering opportunities to communicate electronically, the telecom industry can reduce the need for company travel and transport. As an indirect result, the demand for energy and release of atmospheric emissions may decrease.

The likelihood for a company to engage in sustainable product development is further strengthened if sustainability is considered essential in product branding or differentiation. The rail company, Eurostar, is using the slogan “Greener than flying” to differentiate itself from the airlines and appeal to customers that appreciate environmental values. The retail sector is another example of an industry that uses sustainability branding to attract customers and, hence, to generate stronger product profitability.

The level of an industry’s energy and resource consumption

More volatile and higher energy prices as well as a requirement to achieve more with fewer resources have prompted renewed progress to reconcile expanded energy services with the protection of the environment. Many companies are striving to discover more efficient ways of consuming energy and other resources, subsequently achieving more environmentally friendly products or business operations at a profit.

The founder of Interface, which is the worldwide leader in design, production and sales of modular carpets, challenged its employees to consider ways for Interface to become a sustainable operation that takes nothing out of the earth that cannot be recycled or quickly regenerated and that does no harm to the biosphere. The challenge was triggered by the high use of petroleum and petroleum derivatives both as components of synthetic carpet and to power the firm’s production. As a result of becoming more sustainable, Interface reported in 2007 a 49 per cent increase in sales and £163 million of savings since 1995.
In 2007 British Telecom (BT), ranked as the top telecom company in the DJSI for six successive years, extended this year its Green Energy Contract, which is one of the biggest in the world and includes plans for using innovative communications products to reduce an organization’s energy consumption and, subsequently, its carbon footprint. The company is saving 54,000 tons of CO2 each year by using 100 per cent renewable energy in its data centres as well as by reducing emissions from its fleet through more efficient driving, utilizing hybrids and bio-fuels, and reducing travel emissions through smarter travel and through greater use of technology.

In contrast, companies do not necessarily need to engage in large-scale projects in order to cut energy consumption and enhance their operational sustainability. Bottom-up, eco-friendly practices, such as utilizing online customer service offerings, are living-proof of this. Veolia, a French water utility company, which has a 70 per cent DJSI sustainability score, uses online water meters to more effectively track leakages and prevent water loss. This initiative improved the organization’s environmental sustainability and customer service; it also reduced transportation costs because it needed fewer customer visits.

The criticality of human capital to an industry’s success Managing human capital effectively is an important business issue in many industries because a company may find it increasingly difficult to survive stiff competition in recruiting top talent or it may be facing strict employee standard requirements. Embracing sustainability is one way to attract and retain the talent a company needs, both to survive as a business and to make the kind of positive contribution to society that remains purely an aspiration for most firms.

This is an approach adopted, for example, by KPMG, which has been awarded several employer of the year awards. KPMG’s success has partly resulted from the positive impact that its corporate social responsibility programmes have had in both the community and the environment. These types of programmes distinguish KPMG from its competitors, which are all competing for the same talent.

Kesko, a Finnish retailer, is subject to high regulatory employee health and safety standards. Far from being a burden, these regulations are being used by Kesko to achieve unforeseen benefits, such as enhancing employee satisfaction and the retention of best employees. These required performance measures are now improving Kesko’s employee well-being, absenteeism and satisfaction, thereby having a direct, positive effect on the company’s overall performance.

The size of the company The size of the company in terms of its revenue and employees may have an effect on its sustainability success. However, the research indicates that this is true only in certain industries. Only in the pharmaceuticals and automobile sectors do we find a correlation between the size of the company and its success in environmental and social sustainability.

Therefore, success in corporate sustainability should be achievable in most industries for companies of all sizes. Sadly, what often happens in practice is that economic sustainability manifests itself as an issue for companies of all sizes but matters related to environmental and social sustainability become important only if the company sees tangible economic benefit from them or if the company is sufficiently large to face sustainability pressure from large numbers of stakeholders, investors and government. Obviously, in such cases, the overall strength of a company’s sustainability is not nearly what it could be.

As with the other three factors, corporate leaders are more inclined to focus upon corporate sustainability when they feel pressure to do so. Although different industries are under different levels of pressure to achieve sustainability, it is important to note that the research indicates that it is possible for every company to become a leader in sustainability, even in the most unfavourable industries (such as energy and oil sectors). To enhance their corporate sustainability, however, leaders need to learn to understand and manage the sustainability drivers and barriers that impact both their sectors and their companies. ■