Table of Contents

Expand

Table of Contents

- 3 Pillars of Corporate Sustainability
- Understanding Sustainability
- Environmental Pillar
- Social Pillar
- Economic Pillar
- The Impact of Sustainability
- How to Implement Sustainability
- FAQs
- The Bottom Line

- Sustainable Investing
- Socially Responsible Investing

The 3 Pillars of Corporate Sustainability

By
Andrew Beattie

[Full Bio]

Andrew Beattie was part of the original editorial team at Investopedia and has spent twenty years writing on a diverse range of financial topics including business, investing, personal finance, and trading.

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Updated February 29, 2024

Reviewed by

[Gordon Scott]

Reviewed by Gordon Scott

Full Bio

-
-

Gordon Scott has been an active investor and technical analyst or 20+ years. He is a Chartered Market Technician (CMT).

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Fact checked by

Katrina Munichiello

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Katrina Ãvila Munichiello is an experienced editor, writer, fact-checker, and proofreader with more than fourteen years of experience working with print and online publications.

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1. Green Economics
2. Green Fund
3. Green Bond
4. Green Tech
5. Carbon Trade
6. Carbon Credit
7. Climate Finance

What Are the 3 Pillars of Corporate Sustainability?

Corporate sustainability is to an approach to conducting business that creates sustainable, long-term shareholder, employee, consumer, and societal value by pursuing responsible environmental, social, and economic (or governance) strategies.

Corporate sustainability has become a buzzword in companies big and small. Walmart Stores, Inc. (WMT), McDonaldâ€™s Corporation (MCD), and other large corporations have named sustainability as a key priority moving forward.

Read on to learn about the three pillars of a corporate sustainability strategy: the environmental pillar, the social responsibility pillar, and the economic pillar. They are referred to as pillars because, together, they support sustainable goals.

Key Takeaways

- Corporate sustainability is a growing concern among investors who seek not only economic profit but also social good.
- There are three pillars of corporate sustainability: the environmental, the socially responsible, and the economic.
- Companies can improve their environmental sustainability by, for example, reducing their carbon footprint or

wasteful practices.
- The social responsibility pillar represents practices that benefit the company's employees, consumers, and the wider community.
- The economic (or governance) pillar refers to maintaining honest and transparent accounting practices and regulatory compliance.

Understanding Corporate Sustainability

Corporate sustainability practices typically fall under the umbrella of ESG, or environment, social, and governance practices (essentially, the three pillars). Corporations implement ESG in order to reduce their environmental footprint or to accomplish other objectives that can benefit society. From the investor's point of view, this relates to SRI, or socially responsible investing.

Sustainability is often defined as meeting the needs of the present without compromising the ability of future generations to meet theirs. Broadly speaking, a company implements sustainable practices by reducing its consumption of limited resources, or finding alternative resources with, for example, fewer environmental consequences.

Sustainability's three main pillars represent environmental concerns, socially responsible practices, and economic cooperation. These three pillars are also informally referred to as people, planet, purpose, and profits.

It's useful to understand the terms sometimes used in place of the three pillars. **People** refers to being aware of the impact of operations and products on employees, customers, and the community at large. **Planet** refers to protecting the world that supports us and, if possible, improving the shape that it's in. **Purpose** relates to the reasons why a company operates as it does and whether the mission continues to make sense given new, three pillar priorities. **Profit** encourages companies to assess the feasibility of their direction, operations, and projects.

The Environmental Pillar

The environmental pillar often gets the most attention. Many companies are focused on reducing their carbon footprints, packaging waste, water usage, and other damage to the environment. Besides helping the planet, these practices can have a positive financial impact. For example, reducing the use of packaging materials can reduce spending and improve fuel efficiency.

For example, Walmart keyed in on packaging through its zero-waste initiative. It pushed for less packaging throughout its supply chain and for more of that packaging to be sourced from recycled or reused materials.

One of the challenges with environmental issues is that a business's impact is not always clearly discernible. It may not be fully accounted for if all externalities aren't considered, but even if they are there is often dispute about the cost and impact of such items. This could mean that there are externalities that are not reflected in consumer prices. The all-in costs of wastewater, carbon dioxide, land reclamation, and waste, in general, are not easy to calculate because companies are not always the ones on the hook for the waste they produce. The practice of benchmarking tries to quantify those externalities so that progress in reducing them can be tracked and reported in a meaningful way.

According to the U.S. Forum for Sustainable and Responsible Investment (US SIF), between 2020Â and 2022, assets in sustainable investments dropped from $17.1 trillion to $8.4 trillion, a 51% plunge. This was due in part to regulatory proposals intended to deal with some companies' deceptive claims about their environmental efforts/results (otherwise known as greenwashing).

The Social Pillar

The social pillar ties to the concept ofÂ social license. A sustainable business should have the support and approval of its employees, stakeholders, and the community it operates in. How such support is secured and maintained varies, but it comes down to treating employees fairly and being a good neighbor and community member, both locally and globally.

On the employee end, businesses can refocus on retention and engagement strategies. These can include more responsive benefits such as better maternity and family benefits, flexible scheduling, and education and development opportunities.

For community engagement, companies have come up with many ways to give back, including fundraising, sponsorship, scholarships, and investment in local public projects.

On a global social scale, a business needs to be aware of how its supply chain functions. Is child labor involved in manufacturing products? Are people being paid fairly? Is the work environment safe? Many large retailers have struggled with this in the face of public outrage over work-related tragedies (such as the Bangladesh factory collapse in 2013) that can reveal unaccounted-for risks.

The Economic Pillar

The economic pillar of sustainability is where most businesses feel they are on firmer ground. To be sustainable, a business must be profitable. That said, profit cannot trump the other two pillars. In fact, profit at any cost is not what the economic pillar concerns. It's about compliance, proper governance, and risk management. While most North American companies typically incorporate such activities, they are not the global standard.

Sometimes, this pillar is called the governance pillar (as in the ESG acronym). This refers to boards of directors and management aligning with shareholders' interests as well as those of the company's community, value chains, and customers.

For example, investors may want to feel certain that a company uses accurate and transparent accounting methods, and that stockholders are given an opportunity to vote on important issues.

They may also want assurances that companies avoidÂ conflicts of interestÂ in their choice of board members, don't use political contributions to obtain unduly favorable treatment and, of course, don't engage in illegal practices.

It is the inclusion of the economic pillar (and the acceptance of profit), that makes it possible for corporations to consider and agree to sustainability strategies. The economic pillar provides a counterweight to extreme measures that corporations are sometimes pushed to adopt, such as abandoning fossil fuels or chemical fertilizers instantly rather than in phases.Â

The Impact of Sustainability

The main question for investors and executives is whether or not sustainability is an advantage for a company. Properly implemented, it certainly can be. Sustainability strategies have been borrowed from other successful business movements, such as *Kaizen*, community engagement, the BHAG (Big Hairy Audacious Goal), talent acquisition, and more.

Sustainability provides a larger purpose and some new deliverables for companies to strive for. It can help them renew their commitments to basic goals such as efficiency, sustainable growth, and shareholder value.

Perhaps more importantly, a sustainability strategy that is publicly shared can deliver hard-to-quantify benefits such as public goodwill and a better reputation. If it helps a company get credit for things they are already doing, then why not?

For some companies, sustainability represents an opportunity to organize diverse efforts under one umbrella concept and gain public credit for it. For other companies, sustainability means facing business practices that ultimately could have a negative impact on their operations.

For the companies that cannot point to an overall vision to improve themselves vis-a-vis the three pillars, there was no real market consequence through 2023. During 2024 and thereafter, government regulations are anticipated to take effect, first in the European Union, and later in the U.S.

However, sustainability and a public commitment to its essential business practices may grow to equal the importance of compliance for publicly traded companies.

The US SIF determined that in 2022, 349 money managers and 1,359 community investment institutes in the U.S. used ESG criteria in their investment decision-making.

How to Implement Corporate Sustainability

In today's complex and challenging world, corporate sustainability can be a worthwhile goal given the potential benefits for a company, its employees and customers, its shareholders, the greater community, and the planet.

As you consider the topic, reflect on the aforementioned four Psâ€”people, planet, purpose, and profit. These have become interchangeable with the three pillars. In fact, they may prove more useful when explaining sustainability because they break down the pillars' overarching categories into more descriptive and meaningful watchwords.

The original three Ps of people, planet, and profit were created by corporate sustainability advocate John Elkington in the 1990s. They were a way to underscore the growing importance of a triple bottom line, rather than the conventional, single bottom line of profit.

"Purpose" has been added in recent years to reflect the interest of a growing number of consumers in a company's organizational purpose and the difference it desires to make in its community (or the larger global community) where social and environmental impacts are concerned.

The general points below can serve as a guide as you plan a corporate sustainability program or project.

- Become familiar with the fundamental principles of people, planet, purpose, and profit, and prepare to incorporate them into your company culture.
- Assess the current state of your business needs, goals, and opportunities. Review business priorities and decide what sustainability goals are appropriate.
- A mission statement that aligns with sustainability goals can help underscore the direction a company should take.
- Be sure to get buy-in from top leadership and management.
- Invite feedback from stakeholders. Shareholders, employees, suppliers, other partners, customers, and even the greater community should understand the potential benefits of a more socially aware way of doing business.
- Establish strategies that will help you achieve your sustainability goals.
- Select a tracking method (and the personnel who will manage it) to measure change and results. Consider performance incentives for outcomes that relate to the four principles.

What Is Corporate Sustainability Reporting?

Corporate sustainability reporting is a process whereby companies regularly publish sustainability goals and their progress in achieving them. This helps the public understand how a company contributes to a sustainable global economy. Sustainability reports may include information about the company's use of resources, the positive and negative effects of its operations on the environment, and its strategies to become more sustainable.

How Does Sustainability Affect Corporate Governance?

The economic, or governance, pillar of sustainability involves practices such as honest accounting, transparency, and regulatory compliance. These practices can keep a company's values in line with those of society at large. It can be important for a company to align with the values of the community, value chains, and end-users.

What Are Some Benefits of Corporate Sustainability?

In addition to the social benefits of serving the community and environment, sustainable practices can also advance corporate profits in the long term. For example, adopting policies that benefit their employees and the community can generate goodwill for a company. They may also increase the disposable income of potential customers. This can result in more new customers buying the company's products.

What Is the Goal of Corporate Sustainability?

Its goal is to change business practices from those that may damage the environment (locally and globally), negatively affect aspects of society, and obscure a company's financial data and methods of operating into business practices that have positive, long-lasting effects for all concerned in all three areas.

The Bottom Line

Sustainability encompasses the entire supply chain of a business, requiring accountability at the primary level, through the suppliers, all the way to the retailers.

If producing something sustainably becomes a competitiveÂ edge for supplying multinational corporations and end-users, this could reconfigure some of the global supply lines that have developed based solely on low-cost production.

Of course, that scenario depends on how strongly corporations embrace sustainability and whether it is a true change of direction or just lip service.

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