1 Setting the agenda for corporate sustainability

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Why corporate sustainability?

Since the first edition of this book was published in 2003 there has been a dramatic increase in interest in the fields of corporate sustainability and corporate social responsibility. Corporate managers, government agencies and regulators as well as academics and change practitioners are now engaged in the debate on the 'why' and 'how' of sustainability and social responsibility.[1] In 2006 we are still faced with an extraordinary situation. Never before in the history of the world has the viability of much of the life on this planet been under threat from humanity; never before have so many of the world's people experienced such material wealth and so many others lived in abject poverty; never before have so many had such interesting and fulfilling work and so many others such degrading work or no work at all. If we are to live healthy, fulfilling lives on this planet in the future, we must find new life-affirming values and forge new patterns of living and working together.

The critical situation in which we find ourselves has been brought about by multiple causes but one important contributing factor is the rise of the corporation. Corporations are the fundamental cells of modern economic life and their phenomenal success in transforming the earth's resources into wealth has shaped the physical and social world in which we live. The powerful dynamism of modern organizations has transformed nature and society. The central question to be answered in this century is whether the current model of the corporation needs to be modified to contribute to the continuing health of the planet, the survival of humans and other species, the development of a just and humane society, and the creation of work that brings dignity and self-fulfilment to those undertaking it. And if so, how?

In this book we argue that some traditional organizational values and forms are not sustainable and, unless significantly reshaped, will continue to undermine the sustainability of society and the planet. Corporations have contributed to the problems outlined above and they must therefore be part of the answer. Fortunately their transformation is already under way, driven in part by the changing demands of modern society and also by the leadership of far-sighted and responsible people within and outside corporations who see the need for change. However, for the transformation to be successful, many more change agents are needed. Some of the most important changes in history have been created by people of vision and imagination who were not content simply to react to events about them but could envisage the possibility of a different world and initiate action to bring the new reality into being. They were often regarded as deluded or heretical at the time but later celebrated for their foresight and courage.[2] Today senior executives from some of the world's largest and most profitable corporations – Ford, BP, Toyota, Honda, Du Pont, Swiss Re, Shell, Hewlett-Packard, Unilever – are actively seeking to transform their businesses to respond to sustainability issues. In their minds there is no doubt that we face serious issues such as climate change, resource scarcity, vulnerable ecosystems and poverty. These depleted services provided by nature to humankind require a shift in how corporations think about and deal with sustainability. There is a compelling business case for sustainability as well as an ethical responsibility to find ways forward on these issues.

This book is written to assist change agents to drive the necessary changes faster and farther while there is time. We discuss key issues in the debate around the nature of sustainability but not at great length. For those interested in taking this further we provide references to some of the key books and articles which are the focus of this theoretical debate. Our view is that this debate will now be most fruitfully engaged through the process of reconstructing organizations so they support a sustainable world. The current crisis is too urgent to wait for consensus; we need to start out on the path towards sustainability by generating new models of organizational action that support social relationships and the natural world. The time to debate abstract theories is past; what we need now is to embed our theories in action and to engage in dialogue around working models.

In our view, many corporations need to change significantly the way they do business. However, we are not arguing that corporations are the enemy. We are arguing that new circumstances require new responses. The crises faced by humanity can be resolved only by the use of concerted corporate action. Corporations are instruments of social purpose, formed within society to accomplish useful social objectives. If they do this, they have a right to a continued existence, a licence to use resources and a responsibility to produce socially beneficial products and services. However, if they debase human life, act with contempt for the community of which they are part, plunder and pollute the planet, and produce 'bads' as well as 'goods', they forfeit their right to exist. They become unsustainable because they are unsustaining. The single-minded pursuit of short-term profitability for shareholders or owners does not justify a 'couldn't care less' approach to people and the planet. The prevailing economic value of unlimited and unending growth is the ideology of the cancer cell. Living within the natural limits of the earth's resources and exercising responsible resource stewardship are a universal requirement for all of us, individually and collectively.

This book examines the transition to the organization of the future that functions as an instrument for the fulfilment of human needs and the renewal of the biosphere. We define key steps along the way and indicate how to make an incremental transition from step to step or, in some cases, a transformative leap to the fully sustainable and sustaining corporation. This is therefore a guidebook for corporate change agents – executives, managers and members of the work force, external consultants, community activists – who are dissatisfied with the *status quo* in organizational life and who dream of a new organizational world where individuals are cherished, the community is supported and the natural environment nourished as a matter of course as the organization goes about its core business. Nothing less than this is worthy of our humanity, our intelligence and our ingenuity.

The distinctive contribution of this book is that it concentrates on how to implement the changes that make organizations more sustainable themselves and also more sustaining of the environment and society. In doing this, we draw on leading-edge change theory from management and the social sciences. So this book is a practical and informed tool for creating sustainable corporations that are part of the solution to keeping a world fit to live in. It is an invitation to you to be part of the future solution – a responsible agent of creative change.

For those who are prepared to act with purpose and direction in reshaping the organizational world this is perhaps the most exciting period in human history. Each generation faces its challenges. But this and the next two or three generations will be decisive in determining whether more humans than have ever lived on this planet can create the collaborative institutional forms needed for our survival and the survival of those other precious life forms who share this planet with us. And beyond survival, to create innovative institutional forms to provide us all, and those who come after us, with a quality of economic, social and cultural life that nurtures and develops our human capabilities.

That is the challenge we deal with in this book. In meeting this challenge we must redesign many of our organizations. So we begin here with a short discussion of the evolution of the institution which is the focus of our book: the corporation. Because corporations share so many common features and are so pervasive, we can easily assume that the corporation is an immutable social form. But it is not – it has already undergone substantial redefinitions over time. The question we address here is how can we redesign the corporation for human and ecological sustainability?

Redesigning the corporation

Corporate scandals such as James Hardie, Enron and Anvil Mining have highlighted the extent to which powerful corporate entities can write their own rules for action regardless of the consequences for others. As a result there is increased public pressure for corporations to be made more accountable. The difficulties associated with holding organizations accountable for compliance with legal requirements and legitimate community expectations will be discussed in Chapter 3.

The rise of the multinational corporation and the internationalization of financial markets have taken the power of the modern corporation to the point where it can represent a formidable challenge to the authority of the nation state, let alone small groups of citizens. Global corporations operate across political boundaries and so escape overall surveillance by particular nation states. The wealth of the largest global companies exceeds that of most nations and this has given them unprecedented power. The existence of large-scale power discrepancies does not in itself guarantee that the power will be used irresponsibly but it does create the potential for the misuse of power. Throughout corporate history many corporate chieftains have used their power rapaciously and irresponsibly. For example, a coalition of oil companies and large construction firms in the United States planned and efficiently brought about the demise of the US railroad system to favour the construction of a vast network of interstate highways.

But of course, there are also plenty of instances of corporate leaders exercising social and environmental responsibility. In fact there is a growing divide between those corporate leaders who have embraced the responsibilities and opportunities of corporate citizenship and those who, through ignorance or design, continue to exploit natural and human resources. The tide is turning in favour of the former group – for instance, a recent survey of bankers carried out by the IFC found that '65 per cent reported tangible benefits from sustainable policies, including developing business in new areas and obtaining first mover advantage in areas such as energy efficiency'.[3]

Are corporations evil?

It is a naive and simplistic view that portrays corporations as evil by their very nature. Almost everything we depend on in our modern world is the product of corporations – from the food we eat, the clothes we wear to the phones and computers we use to communicate with each other. We cannot do without corporations. What is important, however, is that we exercise sufficient collective control over the way in which they operate to ensure they support rather than destroy the ecological and social fabric we depend on.

Throughout the history of corporations there has been a continuing debate over how the corporation should be defined, including its legal constitution, its social responsibilities, its role in environmental protection and the constituency to which it is accountable. The core of this debate can be summarized as the argument about whether the role of the corporation is simply to create financial wealth for its owners or to contribute to the well-being of a wider range of stakeholders, including the community, the environment and future generations.

This debate has gone on for as long as 'modern' corporations have existed and its history is too long and complex to trace here. The debate has included, for example, fierce critiques of the legitimacy of the slave trade; sabotage of the 'dark satanic mills' that blighted the lives of workers and devastated England's 'green and pleasant land'; large-scale demonstrations against nuclear power plants; experiments in 'industrial democracy'; the rise of 'green' political parties; organizational innovations such as the 'triple bottom line'; demonstrations against globalization. Since corporations came into being each generation has engaged with and continued this debate which has shaped corporations as we know them today.

Most recently a critical issue in the debate has been the relative virtues of the prevailing neo-liberal economics ('economic rationalism') versus 'stakeholder capitalism'. Neo-liberal economics, led by the economist Milton Friedman, argues that the role of the corporation is simply to maximize short-term returns to shareholders. The widespread acceptance of this point of view, especially by economic advisers to governments, has been influential in shifting considerable power from the public to the private sector, the ongoing privatization of government services, the deregulation of major industries and markets and the creation of international competitive 'free trade' markets. Critics of this viewpoint argue that these changes have had destructive consequences for other important stakeholders – employees, customers, suppliers, governments, local communities, future generations, other species of planetary life, and the environment. A shot across the bows of the neo-liberal economists was fired by Allen Kennedy in his book *The End of Shareholder Value* which argues vehemently against what he sees as the legitimation of 'pure greed'.[4] At least some of the destructive consequences of corporate activity result from the relentless drive for short-term profitability at the expense of longer-term sustainability – an issue we shall return to later in this book. Kennedy suggests reforms to create genuinely sustainable wealth for all the corporation's stakeholder groups, not only its shareholders.

The nature of the modern corporation, and the philosophy of economic neo-liberalism that supports it, has been strongly influenced by the success of the US economy and the history of leading US corporations. The culture of modern capitalism has evolved from the experiences of a multitude of corporations developing on a continent with enormous unexploited and virtually free natural resources. For example, at the time of European settlement, the number of bison on the North American continent was estimated at between 30 million and 60 million. They were the most economically valuable wild animals that ever inhabited the American continent. When a halt was called to their slaughter in the late 1800s only 600 survived. The passenger pigeon, once the most numerous bird in North America and on the planet, did not survive the

onslaught of the hunters' guns – they were completely exterminated.[5] Despite depredations of this magnitude, the size of the continent ensured that, for the formative two centuries of US capitalism, the torrent of ecological destruction and the increasing waste and pollution emitted in converting resources into wealth could be absorbed by nature. The wealth that was generated enabled the United States to become the most powerful nation on earth, with a business culture dominating the late twentieth and early twenty-first centuries.

As a result, most corporations today operate under accounting rules and cultural assumptions that reward them for disregarding many of the social and environmental consequences of their activities. They 'externalize' many costs of ongoing operations to the community, the environment and future generations. Neo-classical economics, based on the experience of environmental plenty, still assumes that many inputs from the natural and social environments, like air and parenting, are free goods because there are no financial charges for them. In addition, the goods and services produced by the firm are given value but the 'bads' and 'disservices' created at the same time are often neither identified nor costed and charged back to the corporation. The discourse of business and economics largely defines our ecological and community issues. Hence in the most significant business decisions these issues are ignored because they are invisible – the decision makers have no cultural categories for them – or, if perceived, the issues are regarded as irrelevant or of marginal importance. In fact they are of increasing importance for survival of life on this planet and for social justice and they must become central to strategic decision making. We need a new economics that redefines economic capital to include nature and people.[6]

So we face a situation where corporate decision makers, many of whom are well intentioned, community-minded citizens, make decisions which cumulatively are having a catastrophic impact on the planet and on the global community. And they are supported in this pattern of decision making by consumers (us) who reward them by purchasing goods and services they produce. We are all captives of a culture of capitalism that, over 200 years, produced enormous wealth and an increased standard of living for large numbers of people. But the costs of continuing on this path, using the same methods, are now threatening to destroy our ability to use the wealth in the creation of healthy, satisfying lives and also threatening the viability of such a life for future generations. We have become, in the words of Tim Flannery, 'future eaters'.[7] Most of us critique of it. We sense that we must, at least for the sake of our children and future generations, start to do some things differently. But the size and the complexity of the issues are daunting and we are caught in a spider web of cultural categories that constrain our effective action. Change must begin with us – but where can we begin?

> Like it or not, the responsibility for ensuring a sustainable world falls largely on the shoulders of the world's enterprises, the economic engines of the future.
>
> (Stuart Hart, Kenan Flagler Business School)[8]

Making a start

Wherever we are in society and the world of work, we can engage in the debate about the social role of the corporation. All of us can contribute to a redefinition of corporations to ensure they become major contributors to sustainability rather than social and environmental predators undermining a world fit to live in. There is a huge opportunity here to ensure that all corporations are instruments of a broader social purpose than the generation of short-term wealth for shareholders. Of course shareholders deserve a return on their investment. As we shall show, in most cases this return is enhanced rather than reduced by sustainable practices. We think it is vital that corporations make profits – but not at the cost of destroying the future viability of society and the planet.

Many well informed scientists and social philosophers are warning that humanity is facing a potential environmental catastrophe of our own making and that we cannot continue to use up the earth's resources at an ever increasing rate. Three examples:

> because we are advancing along this non sustainable course, the world's environmental problems *will* get resolved, in one way or another within the lifetimes of the children and young adults today. The only question is whether they will become resolved in pleasant ways of our own choice, or in the unpleasant ways not of our choice, such as warfare, genocide, starvation, disease epidemics, and the collapse of societies.[9]
>
> The life of nature demands a revolution in the way we live. And we have no time to lose.[10]
>
> Now is our last chance to get the future right.[11]

There is an urgent need to act intelligently now to protect ourselves and the unique ecology of this planet that supports us.

The sustainability debate is currently being engaged in three ways: first, at the intellectual level as the immensity of current unsustainable practices is documented and we all become aware of the considerable challenges of changing these practices; second, at the level of corporate action as hundreds of thousands of members of boards of management, executives, managers, supervisors, members of the work force, external consultants, non-government organizations and community groups take a multitude of actions on a daily basis that impact on issues of social and environmental sustainability; third, at the level of consumption, as we collectively create the powerful patterns of financial rewards that shape the economy. If we continue to purchase products that strew our world with waste and poison our environment we cannot blame the captains of industry for the resulting destruction. If we are to make corporations instruments of renewal the debate must be engaged at these three levels: through forging a powerful new ideology that creates a compelling vision of a future world fit to live in, and implementing the practical actions in the workplace and in our consumption patterns that will bring the vision into being.

A new approach to economics has developed in recent years to deal with the fact that traditional economics has largely taken the ecological and social environment for granted. This approach recognizes that economics must take 'natural capital' (ecosystems) and 'social capital' (relations between people) into account. Neoclassical economics treats the economy as a closed system, with negative results, such as pollution, treated as 'externalities' which can be ignored in economic terms. Similarly some of the world's most critical resources are treated as 'free' inputs and accorded no value unless they acquire economic worth in the process of production. Ecological economics, by contrast, makes such externalities an integral part of the economic system. Ecological economics is a new field of study which integrates principles from ecology and economics. As a result of the increasing importance of these new approaches, economists are recognizing the implications of ecological functioning and resilience for human welfare. For instance, biological resources such as trees and fish and ecological services such as erosion control and climate stabilization depend on maintaining certain levels of ecosystem functioning.[12]

The depletion of natural and social resources and the accumulation of toxic wastes or rising crime rates can be consequences of economic decisions that seem 'rational' in traditional economic terms. But in the new economic models their social and economic effects are included rather than excluded. It is fair to say that in these new models some 'rational' decisions begin to look insane. For instance, the decision to build bigger, more technologically efficient fishing fleets to maximize harvests of fish from the world's oceans looks rational – but only on the assumption that the supply of fish is inexhaustible.

This book makes a contribution at all three levels: to the intellectual agenda for change; to the strategies for corporate action; and to changing consumption patterns. We outline the need for sustainability, identifying the gap between where we are now and where we need to be, and then we provide a detailed discussion of the kinds of strategic actions that are needed to carry us forward.

In accomplishing this, we outline developmental phases that lead to the fully sustainable organization, that is, an organization that is itself sustainable because its stakeholders including its employees will continue to support it. But it is also a sustaining organization because it is sustaining the wider society and the ecological environment. Since 1992, when the leaders of the world's governments gathered in Rio to endorse the principles of sustainable development, they have struggled with the challenge of integrating the social, environmental and economic principles that sustainability requires. Corporations which develop according to our integrated model will make a major contribution to ensuring that the world progresses along this path.

Phase models of sustainability

Various authors have described the historical processes by which corporations have moved towards supporting ecological sustainability.[13] Studies of historical stages underlying moves towards corporate social responsibility (or, as we refer to it here, human sustainability) are more rare. An exception is a model proposed by Austin. Austin proposed that corporations develop relationships with other non-profit organizations according to a 'collaboration continuum'. In this continuum the relationship can develop from the philanthropic phase through a transactional relationship, such as sponsorship, to an integrated phase. In this stage profit and non-profit share a common aim.[14] Our interest in phase theories such as this is not primarily to develop historical understanding, although that is useful, but more important to understand the paths corporations must travel to reach a full commitment to a comprehensive model of sustainability that covers both human and ecological issues. If we are to move corporations towards full sustainability we must be able to identify the stage where they are now so we can determine how to move forward.

Much can be learned by examining the history of moves towards sustainability in particular industries. For example, Hoffman has made a detailed analysis of the movement towards ecological sustainability in the chemical industry in the United States.[15] He distinguishes four stages, from 1962, when environmental issues were rarely discussed, to 1993, when the chemical industry and its key stakeholders increasingly adopted a proactive stance, viewing the environment as offering a set of strategic opportunities. In between, the chemical corporations reacted defensively and were met by tough governmental regulations; the initiative then moved from government to environmental activists. Finally the leading US chemical companies absorbed what they had seen as 'heretical' ideas, acted more responsibly and found that the result was actually beneficial in business terms.

There is a great deal of overlap in models such as this, despite differences in the names given to the various phases and different numbers of phases. Clearly any generalized phase model is a high-level abstraction from the bewildering diversity of corporate life. Nevertheless, ideal type models of this kind have a long history in the sciences – without such a model it is difficult to compare and contrast individuals, organizations, communities.[16]

In writing this book we reviewed current models in the ecological and management literature and also drew on our own organizational experience and research. We also reviewed the parallel but unrelated literature on the developmental phases of the movement towards human sustainability in corporations.[17] The result is a comprehensive model of the developmental phases through which corporations progress towards both human and ecological sustainability. This model is central to the approach to change outlined in this book; we summarize it here and explain it in more detail in subsequent chapters.

The sustainability phase model

The phase model is designed as a tool for making meaningful comparisons between organizations to assess their current commitment to and practice of behaviours relevant to two kinds of sustainability: human and ecological. The phases outline a set of distinct steps organizations take in progressing to sustainability. There is a progression from active antagonism,[18] through indifference, to a strong commitment to actively furthering sustainability values, not only within the organization but within industry and society as a whole.

We can use the phases to characterize an organization's characteristic way of treating the human and natural resources it employs. We can also use them to trace the historical trajectory that the organization has taken in getting to where it is and to chart possible paths forward. The phases we distinguish are:

- Rejection.
- Non-responsiveness.
- Compliance.
- Efficiency.
- Strategic proactivity.
- The sustaining corporation.

We do not assume that a firm necessarily progresses through the phases step by step on an 'improving' trajectory. To the contrary, an organization may leapfrog phases or regress by abandoning previously established sustainability practices. Significant shifts are often triggered by changes such as the appointment of a new CEO, stakeholder pressure, new legislation, economic fluctuations or the loss of committed enthusiasts.

What are the distinguishing characteristics of each of these phases?

Rejection involves an attitude on the part of the corporation's dominant elite that all resources – employees, community infrastructure and the ecological environment – are there to be exploited by the firm for immediate economic gain. On the human side, employees are regarded simply as industrial 'cannon fodder': there is no commitment to developing them, and health and safety measures are ignored or paid 'lip service'. There is a strong belief that the firm simply exists to maximize profit and any other claims by the community are dismissed as illegitimate. The firm disregards the destructive environmental impacts of its activities and actively opposes any attempts by governments and 'green' activists to place constraints on its activities.

Non-responsiveness usually results from lack of awareness or ignorance rather than from active opposition to a corporate ethic broader than financial gain. Many of the corporations in this category embody the culture of the past century, concentrating on 'business as usual', operating in conventional ways that do not incorporate sustainability issues into corporate decision making. The firm's human resource strategies, if they exist, are focused mainly on creating and maintaining a compliant workforce. Community issues are ignored where possible and the environmental consequences of the firm's activities are taken for granted and, if negative, disregarded.

Compliance focuses on reducing the risk of sanctions for failing to meet minimum standards as an employer or producer. In organizations at this stage the dominant elite emphasizes being a 'decent employer and corporate citizen' by ensuring a safe, healthy workplace and avoiding environmental abuses that could lead to litigation or strong community action directed towards the firm. However, they are primarily reactive to growing legal requirements and community expectations for more sustainable practices. A recent shift has seen the development of co-regulatory practices. Instead of the traditional 'command and control' approach of governmental regulation, industry, NGOs and governments are collaborating to develop new systems of voluntary compliance. This shift represents a transition from compliance towards later phases.

Efficiency reflects a growing awareness on the part of the dominant elite in the corporation that there are real advantages to be gained by proactively instituting sustainable practices. In particular, human resource and environmental policies and practices are used to reduce costs and increase efficiency. There is, for example, growing awareness in many firms that what is defined as 'waste' derived from the production process may be a valuable resource to another firm. (For example, the spent hops from a brewery may be valuable as cattle feed and therefore sold rather than dumped.) Similarly, investment in training may involve expense but result in compensating added value through increased quality of products and services. While moves towards sustainability may involve additional expense, they can also have significant pay-offs in terms of generating income directly or indirectly. This is the beginning of the process of incorporating sustainability as an integral part of the business.

Strategic proactivity moves the firm further along the sustainability path by making sustainability an important part of the firm's business strategy. The firm's strategic elite views sustainability as providing a potential competitive advantage. Consequently they try to position the organization as a leader in sustainable business practices: with advanced human resource strategies that help make the organization an 'employer of choice', with 'corporate citizenship' initiatives that build stakeholder support and with innovative, quality products that are environmentally safe and healthy. The commitment to sustainability, however, is strongly embedded in the quest for maximizing longer-term corporate profitability, that is, it is motivated by intelligent corporate self-interest.

The sustaining corporation, the final phase, is one where the strategic elite has strongly internalized the ideology of working for a sustainable world. If it is a 'for profit' company the organization still pursues the traditional business objective of providing an excellent return to investors, but voluntarily goes beyond this by actively promoting ecological sustainability values and practices in the industry and society generally. Its fundamental commitment is to facilitate the emergence of a society that supports the ecological viability of the planet and its species and contributes to just, equitable social practices and human fulfilment.

These are only broad summaries of these categories. For the sake of simplicity of presentation our summaries assume consistency in an organization's sustainability stance across the human and ecological areas. This is an oversimplification. In reality an organization can have quite different philosophies in each area. The organization as a whole, for instance, may have relatively enlightened human resource and social responsibility strategies that place it in Phase 5 for human sustainability (HS5) yet be simultaneously pursuing an unsustainable ecological strategy and so be in Phase 2 in ecological sustainability (ES2). For example a mining company may invest strongly in the training and development of its employees and subcontractors and also in local community development (HS5) but it may operate environmentally polluting mining operations (ES2).

A fuller version of the model, which allows for differences of this kind, is given in the appendix at the end of this chapter. We suggest that, on finishing this chapter, you skim-read this, and identify where the organization you are involved in would be appropriately placed on these two important dimensions. As we mentioned above, we shall be dealing with each of these phases in much more detail later in the book and you can check out the specific implications of our argument for your particular organizational situation.

We have categorized the phases of sustainability according to three waves. These waves are set out in relation to the six phases of our phase model in Figure 1.1.[19] Figure 1.1, modified from Kemp *et al.*'s diagrammatic version of our original phase model, shows an 'ideal type' model of the

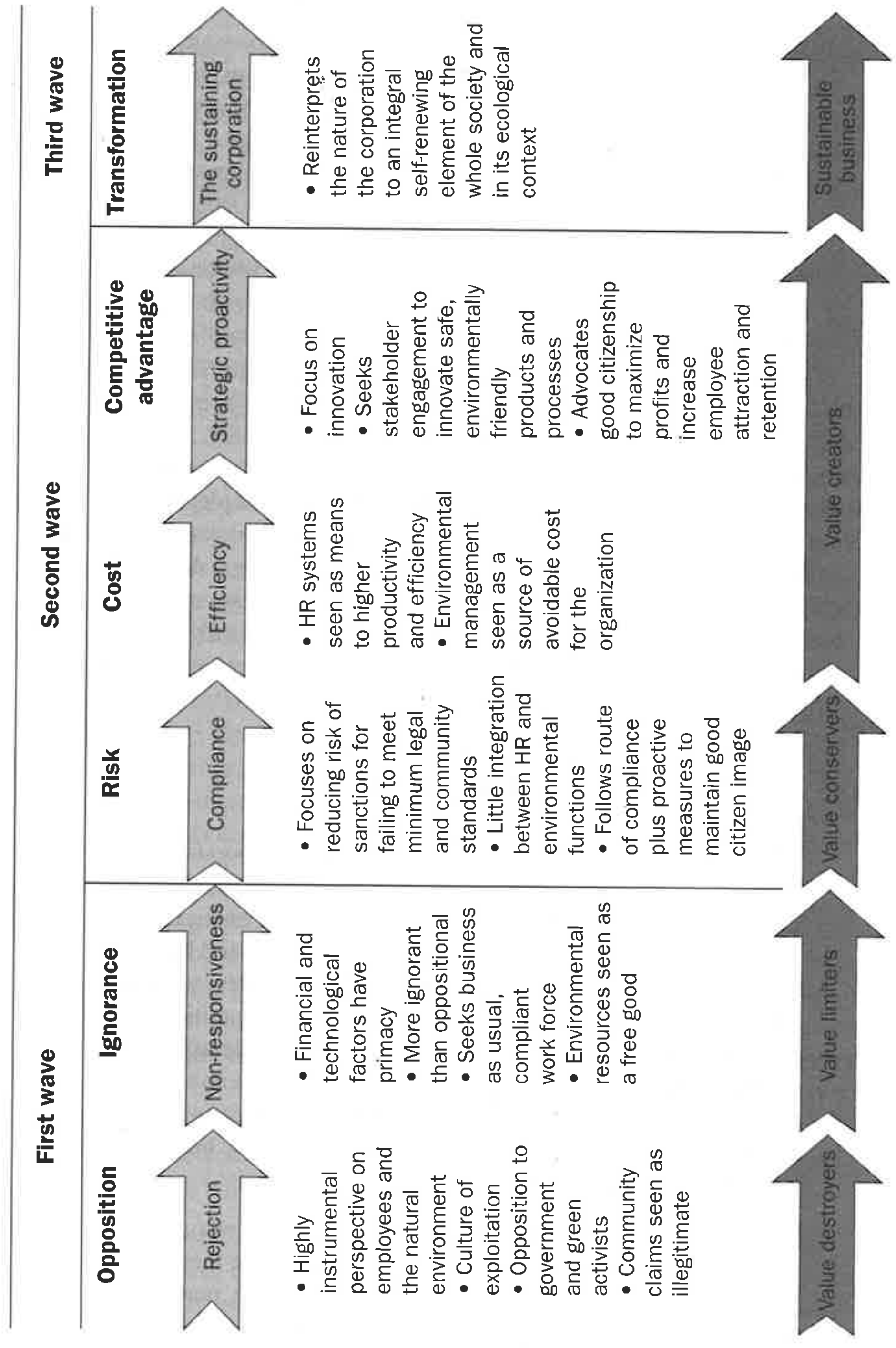

Figure 1.1 ***Waves of sustainability (modified from Kemp, Stark and Tantrum, 2004. See note 19)***

phases through which an organization that begins by exploiting the ecological and social environment might progress to eventually become a sustaining organization. The phases of our model are shown in the top line of arrows. The diagram shows (above the arrows) how the various phases fit into each of the 'waves' of corporate change. (The first wave, for example, is made up of organizations still in the phases of rejection and non-responsiveness.) The second line provides a single word which characterizes the predominant attitudinal focus of senior executives at each phase. So, for example, in the rejection phase senior executives are focused on rejection of the relevance of sustainability attitudes to their business while, by contrast, at the strategic proactivity phase their predominant focus is on achieving strategic advantage. The dot points summarize some key characteristics of organizations at each phase – more detail is given in the relevant chapters in this book. Finally the arrows at the foot of the diagram how each phase affects the value of the organization. Rejection of sustainability, for example, actually destroys the value of the firm, as it increases risk; non-responsiveness limits value; compliance conserves value by reducing risk, and efficiency and strategic proactivity create value; finally the sustaining corporation represents a transformation of the corporation into a truly sustainable business that is adding value for the business itself and also adding value to society as a whole and for the environment.

Change agent roles and the phase model

The phase model represents the path forward to corporate sustainability. Progress on that path can take place only through the action of various change agents. In Chapter 9 we review the kinds of change agents who can impel the corporation forward on this trajectory and briefly outline their particular roles in the process. In that final chapter we discuss these roles in more detail. Different change agent roles are critical in different phases. Nevertheless at this point you may wish to identify which kind of change agent you are so that, as you read on, you can take particular note of how you can contribute to the progressive redefinition of those organizations you can influence. This will help clarify how you can contribute to creating a more sustainable world.

The range of potential change agents includes those who work in corporations and those outside who wish to influence them. Internal change agents are board members, CEOs, executives, managers, supervisors, professionals in staff roles and other members of the work

force. External change agents include politicians and bureaucrats, investors, consultants, suppliers and subcontractors, financial analysts, social and ecological activists and other key stakeholders such as community groups, regulators and consumers. Throughout this book we shall argue that all have legitimate roles to play and that concerted action among different kinds of change agents will be needed to create the significant changes we are advocating.

The way these change agents exert influence varies – we shall take these up in more detail in Chapter 9, but some examples are useful here. Executives may exert influence through the exercise of authority: for example, through interpersonal influence in informal networks or through ensuring that their organization markets only sustainable products. Consumers may help dramatize a key environmental issue or organize a boycott of company goods if they do not meet acceptable environmental standards. Concerted action between internal and external change agents can be particularly powerful in bringing about significant change and we shall be illustrating how this can be orchestrated. Leadership in corporate change is not exercised only by senior executives; in our final chapter we show how the most powerful force for shaping the sustainable corporation of the future will be the collaborative initiatives of a variety of change agents. We emphasize the importance of employees as change agents for sustainability and the importance of leadership which encourages diversity as a way not only to develop human sustainability but to increase the innovative capacity of the organization to progress towards ecological sustainability.

We hope that you now have an understanding of the exciting task we have set ourselves in this book and have begun to see where you can contribute to the significant social shift on which our collective future depends. The rest of the book will help you deepen your understanding of your potential role and maximize your influence in this change process. To guide your path through the book, we give below a brief overview of the contents of each chapter. You may wish to read the chapters in a linear fashion or identify where you think your organization lies on the path to sustainability and leap ahead to read that first. This chapter outline will help assist you to decide which way to go.

However, we do suggest that you start by reading Chapter 2, 'The drivers of change'. Chapter 2 develops a broad overview of the political, economic and social environment in which we as change agents will be operating. We all need a realistic description and assessment of the *forces that will restrain our attempts to influence corporate strategic action as well as those drivers of change that we can draw on to support what we are doing.*

The story is told of a young emperor in ancient China who was exploring the labyrinthine interior of his palace. In his wanderings he came upon a room in which the palace butcher was carving carcasses. He watched the butcher at work for some time and was surprised to find that he didn't stop to sharpen his carving knife. The emperor enquired: 'My good man, I am surprised to see that you do not sharpen your knife. Surely with such work it must frequently become blunt?' The butcher replied: 'Your Highness is correct in perceiving that for this work the sharpest of knives is necessary. However, I seldom need to resharpen my knife as I cut where there is least resistance.' As change agents we too need to learn how to work with the grain rather than against it, to act with skill and sure timing to ensure that our limited energy has maximum impact in bringing about movement towards the fully sustainable corporation.

Chapter 2 is designed to provide a basis for understanding the context of political and social forces in which our action is a small but potentially powerful part. If we understand the major forces that are transforming the world, we can align our energy with those forces already moving society in the direction we support. In this way even small actions may be amplified to create transformational change rather than neutralized and dissipated by countervailing forces. Chapter 2 presents the context for change while later chapters describe the goals for change and the means for achieving these goals. In Chapter 2 we highlight some of the major shifts that have occurred in the appreciation of the importance of sustainability and intangible value by individual organizations and across industry sectors since the first edition.

Chapters 3–6 then discuss the major steps organizations typically take as they move beyond the phases of rejection and non-responsiveness. Organizations in the first two phases are what we refer to as 'first wave corporations' in contrast to what we have termed the more progressive and forward-thinking 'second' and 'third wave' organizations. Their attitudes of antagonism or indifference to the compelling need to create a more sustainable world reflect the lingering persistence of a collapsing corporate model. In this 'first wave' model the corporation simply exists to exploit human and natural resources for profit, regardless of the impact on the current world or the world of the future.

Chapter 3 deals with Phase 3 of our sustainability development model – compliance. In this phase, organizations seek to minimize the risk of ignoring the increasing demand, from governments, communities and activist organizations, for environmental protection and social justice. The chapter outlines the issues to be addressed at this stage in complying with relevant environmental and social legislation and in meeting the demands of key stakeholders. It places particular emphasis on the values, culture and learning characteristics that can enable organizations to move towards and beyond compliance. The chapter also points to the benefits for the corporation in going to 'compliance-plus', that is, voluntarily exceeding legislative requirements and stakeholder expectations by playing a more proactive role in launching further sustainability initiatives.

This sets the scene for Chapter 4, 'Achieving sustainable efficiencies', which deals with Phase 4 of our model, efficiency. In this stage, organizations start to reap the positive rewards of concerted action on environmental and social issues. Chapter 4 discusses the nature of efficiency, enlarging the concept well beyond cost-cutting exercises. In particular it shows how the sustainability perspective creates a new mind set that can reveal three successive and cumulative cycles of efficiency-oriented measures. Each of these cycles brings important business benefits as well as contributing to the well-being of the community and the natural environment. At this point organizations often discover how wasteful are many of the traditional production or service processes they have used. Redesign of products, production flows and service systems generates significant returns. For example, recycling carpets (Interface) or remanufacturing office machine components (Xerox; Fuji-Xerox) can save millions of dollars as well as benefiting the community and environment by eliminating toxic waste from landfill.

Chapter 5, 'The strategic advantage', moves on to Phase 5: strategic proactivity. At this phase, sustainability becomes important in the organization's strategic repositioning. New competitive advantages can be gained, for example, by moving into rapidly expanding markets for alternative energy (BP) or becoming involved in projects designed to help regenerate communities. An example of the latter was Lend Lease Corporation's successful Bluewater retail shopping complex near the UK end of the Channel tunnel. This massive infrastructure project took place in a community with high unemployment. Lend Lease built a training centre on site to train local unemployed people for jobs in building and, later, as the completed complex came on line, in retail skills. Its effective example of contributing to community renewal led to further substantial construction projects for Lend Lease in Europe – its development arm, Bovis, was selected as the preferred tenderer to build a £200 million hospital at Romford on the outskirts of London.[20]

Strategic proactivity is an exercise in enlightened self-interest on the part of the corporation. However, Phase 6, the sustaining corporation, represents a move beyond enlightened self-interest to a reinterpretation of the nature of the corporation itself – its redefinition as an integral, self-renewing element of the whole society in its ecological context which also actively seeks to sustain and renew the context in which it operates.

Chapters 4 and 5 deal with what we regard as 'second wave' corporations. Second wave corporations represent the dominant business ideology in today's world, particularly the world of large corporations. Second wave corporations at least accept the rhetoric of adopting a view of enlightened self-interest, that is, promising policies that bring wider benefits than short-term financial returns to shareholders. Second wave corporations often fall short of these ideals for various reasons which we shall discuss later. What we are seeking in this book is to assist the transition of first wave corporations into second wave corporations; to find ways to turn the rhetoric of second wave corporations into the reality of realistic action and, where possible, to support the move of more second wave organizations into third wave organizations that are truly sustainable and sustaining.

The characteristics of our ideal organization of the future – the Sustaining Corporation – are discussed in Chapter 6. The sustaining corporation goes beyond self interest to work actively for a fully sustainable world. If we are to lead change, we must have a view of what the ideal organization will be like. Sustaining corporations represent the third wave – the organizations of the future that act as constituent cells in a fully self-renewing world.

The final part of the book takes up the issue of the implementation of change. Corporate change is a theme that permeates the entire book but in Part IV we concentrate on defining pathways towards sustainability, that is, on making corporate change that moves organizations towards sustainability.

Many organizations will prefer to make changes slowly, systematically building on the achievements of one phase as they move into the next. So

in Chapter 7 we discuss how to progress incremental change. For example, BP spent most of the 1990s transforming the global company from a rigid, slow-moving, hierarchical organization to a networked, fast-moving, agile company. This was a long-term, substantial and sustained investment in the work force worldwide. This significant investment in renewing the corporate culture and building corporate capabilities proved its worth, for example, in meeting the crisis of the terrorist attack on the United States of 11 September 2001. Within hours of the attack the global executive team knew exactly how each country BP operates in was reacting to the unfolding crisis. Within days they had formulated and launched a comprehensive response. According to Greg Bourne, then regional president, BP Asia/Pacific Holdings, this would have been impossible in the old BP. The change programme did transform the organization 'but in an incremental fashion over a nine-year period'.[21]

Other organizations will want to make widespread, rapid and quite radical alterations to the business they are in, the way they do business, their structure, their corporate culture (or all of these). The choice of a transformative path is often driven by a desire to seize new strategic opportunities or it may come from the organization facing a major threat to its viability. Chapter 8 outlines how this can be done and provides examples such as DuPont which has had several periods of transformative change, its most recent being in search of sustainability practices.

Finally, Chapter 9 takes up the issue of how corporate change can be led. We discuss how a variety of change agents, occupying different kinds of roles and acting individually or collectively, can create the momentum needed to create more sustainable organizations. All of us can exercise leadership where we are. If you already are or wish to be a leader in creating this new social reality, the sustainable and sustaining organization, we dedicate this book to you. You will find it useful in the challenging task that lies ahead.

Appendix 1.1

Phases in the development of corporate sustainability

Phase 1: rejection

Human sustainability (HS1)

Employees and subcontractors are regarded as a resource to be exploited Health and safety features are ignored or paid 'lip service'. Disadvantages stemming from ethnicity, gender, social class, intellectual ability and language proficiency are systematically exploited to advantage the organization and further disadvantage employees and sub-contractors. Force, threats of force and abuse are used to maintain compliance and workforce subjection. Training costs are kept to a minimum necessary to operate the business; expenditure on personal and professional development is avoided. The organization does not take responsibility for the health, welfare and future career prospects of its employees nor for the community of which it is a part. Community concerns are rejected outright.

Ecological sustainability (ES1)

The environment is regarded as a 'free good' to be exploited. Owners/managers are hostile to environmental activists and to pressures from government, other corporations, or community groups aimed at achieving ecological sustainability. Pro-environmental action is seen as a threat to the organization. Physical resource extraction and production processes are used which directly destroy future productive capacity and/or damage the ecosystem. Polluting by-products are discharged into the biosphere, causing damage and threatening living processes. The organization does not take responsibility for the environmental impact of its ongoing operations nor does it modify its operations to lessen future ecological degradation.

Phase 2: non-responsiveness

Human sustainability (HS2)

Financial and technological factors dominate business strategies to the exclusion of most aspects of human resource management. 'Industrial relations' (IR) or 'employee relations' (ER) strategies dominate the human agenda, with 'labour' viewed as a cost to be minimized. Apart from cost minimization, IR/ER strategies are directed at developing a compliant work force responsive to managerial control. The training agenda, if there is one, centres on technical and supervisory training. Broader human resource strategies and policies are ignored, as are issues of wider social responsibility and community concern.

Ecological sustainability (ES2)

The ecological environment is not considered to be a relevant factor in strategic or operational decisions. Financial and technological factors dominate business strategies to the exclusion of environmental concerns. Traditional approaches to efficiency dominate the production process and the environment is taken for granted. Environmental resources which are free or subsidized (air, water and so on) are wasted and little regard is given to environmental degradation resulting from the organization's activities. Environmental risks, costs, opportunities and imperatives are seen as irrelevant or are not perceived at all.

Phase 3: compliance

Human sustainability (HS3)

Financial and technological factors still dominate business strategies but senior management views the firm as a 'decent employer'. The emphasis is on compliance with legal requirements in industrial relations, safety, workplace standards and so on. Human resource functions such as training, IR, organization development, total quality management (TQM) are instituted but there is little integration between them. Basically the organization pursues a policy of benevolent paternalism with the expectation of employee loyalty in response. Community concerns are addressed only when the company faces the risk of prosecution or where negative publicity may have a damaging impact on the company's financial bottom line. Compliance is undertaken mainly as a risk-reduction exercise.

Ecological sustainability (ES3)

Financial and technological factors still dominate business strategies but senior management seeks to comply with environmental laws and to minimize the firm's potential liabilities from actions that might have an adverse impact on the environment. The most obvious environmental abuses are eliminated, particularly those which could lead to litigation or strong community action directed against the firm. Other environmental issues, which are unlikely to attract litigation or strong community action, are ignored.

Phase 4: efficiency

Human sustainability (HS4)

There is a systematic attempt to integrate human resource functions into a coherent HR system to reduce costs and increase efficiency. People are viewed as a significant source of expenditure to be used as productively as possible. Technical and supervisory training is augmented with human relations (interpersonal skills) training. The organization may institute programmes of teamwork around significant business functions and generally pursues a value-adding rather than an exclusively cost reduction strategy. There is careful calculation of cost–benefit ratios for human resource expenditure to ensure that efficiencies are achieved. Community projects are undertaken where funds are available and where a cost benefit to the company can be demonstrated.

Ecological sustainability (ES4)

Poor environmental practice is seen as an important source of avoidable cost. Ecological issues that generate costs are systematically reviewed in an attempt to reduce costs and increase efficiencies by eliminating waste and by reviewing the procurement, production and distribution process. There may be active involvement in some systematic approach such as Total Quality Environmental Management (ISO 14001). Environmental issues are ignored if they are not seen as generating avoidable costs or increasing efficiencies.

Phase 5: strategic proactivity

Human sustainability (HS5)

The workforce skills mix and diversity are seen as integral and vitally important aspects of corporate and business strategies. Intellectual and social capital are used to develop strategic advantage through innovation in products/services. Programmes are instituted to recruit the best talent to the organization and to develop high levels of competence in individuals and groups. In addition, skills are systematized to form the basis of corporate competences so that the organization is less vulnerable to the loss of key individuals. Emphasis is placed on product and service innovation and speed of response to emerging market demands. Flexible workplace practices are strong features of workplace culture and contribute to the work force leading more balanced lives. Communities affected by the organization's operations are taken into account and initiatives to address adverse impacts on communities are integrated into corporate strategy. Furthermore, the corporation views itself as a member of the community and as a result contributes to community betterment by offering sponsorship or employee time to participate in projects aimed at promoting community cohesion and well-being.

Ecological sustainability (ES5)

Proactive environmental strategies supporting ecological sustainability are seen as a source of strategic business opportunities to provide competitive advantage. Product redesign is used to reduce material throughput and to use materials that can be recycled. New products and processes are developed that substitute for or displace existing environmentally damaging products and processes or satisfy emerging community needs around sustainable issues (reforestation; treatment of toxic waste). The organization seeks competitive leadership through spearheading environmentally friendly products and processes.

Phase 6: the sustaining corporation

Human sustainability (HS6)

The organization accepts responsibility for contributing to the process of renewing and upgrading human knowledge and skill formation in the community and society generally and is a strong promoter of equal opportunity, workplace diversity and work–life balance as workplace principles. It adopts a strong and clearly defined corporate ethical position based on multiple stakeholder perspectives and seeks to exert influence on the key participants in the industry and in

Ecological sustainability (ES6)

The organization becomes an active promoter of ecological sustainability values and seeks to influence key participants in the industry and society in general. Environmental best practice is espoused and enacted because it is the responsible thing to do. The organization tries to assist society to be ecologically sustainable and uses its entire range of products and services to this end. The organization is prepared to use its influence to promote positive sustainability policies on the part

society in general to pursue human welfare, equitable and just social practices and the fulfilment of human potential of all. People are seen as valuable in their own right.	of governments, the restructuring of markets and the development of community values to facilitate the emergence of a sustainable society. Nature is valued for its own sake.

Notes

1 We note for instance that the number of abstracts for refereed journal articles that refer to corporate social responsibility has increased by 280 per cent since 2002, while the total number of refereed articles has increased by 120 per cent.

2 D. Dunphy and A. Griffiths, *The Sustainable Corporation: Organizational Renewal in Australia*, Sydney: Allen & Unwin, 1998.

3 Quoted in *Financial Times* Special Report 'FT Sustainable Banking', Monday 12 June 2006, pp. 1–2, this quote p. 1.

4 A. Kennedy, *The End of Shareholder Value: Corporations at the Crossroads*, London: Orion Business, 2000.

5 T. Flannery, 'The lonesome prairie', *Good Weekend, Saturday Herald*, Sydney, 3 March 2001, 35–41; T. Flannery, *The Eternal Frontier: An Ecological History of North America and its Peoples*, Melbourne: Text Publishing Company, 2001.

6 P. Hawkins, A. Lovins and H. Lovins, *Natural Capitalism: Creating the Next Industrial Revolution*, London: Earthscan, 1999.

7 T. F. Flannery, *The Future Eaters: An Ecological History of the Australasian Lands and People*, Port Melbourne: Reed Books, 1994.

8 S. Hart, 'Beyond greening: strategies for a sustainable world', *Harvard Business Review*, January–February 1997, 67–76. This quote p. 76.

9 J. Diamond, *Collapse: How Societies Choose to Fail or Survive*, New York: Allen Lane Penguin, 2005, p. 499.

10 R. Sheldrake, *The Rebirth of Nature*, London: Random Century Group, 1990, p. xv.

11 R. Wright, *A Short History of Progress*, Melbourne: Text Publishing, 2004, p. 132.

12 D. Pearce and E. Barbier, *Blueprint for a Sustainable Economy*, London: Earthscan, 2000.

13 C. B. Hunt and E. R. Auster, 'Proactive environmental management: avoiding the toxic trap', *Sloan Management Review*, 1990, 31, 7–18.

14 J. Austin, 'Strategic Collaboration between Non-profits and Businesses', Working Paper, Harvard University, 1999.

15 A. J. Hoffman, 'Institutional evolution and change: environmentalism and the US chemical industry', *Academy of Management Journal*, 1999, 42(4), 351–7.

16 For a recent discussion and analysis of the stage model approach, see A. Kolk and A. Mauser, 'The evolution of environmental management: from stage models to performance evaluation', *Business, Strategy and the Environment*, 2002, 11, 14–31.

17 Dunphy and Griffiths, *The Sustainable Corporation*.

18 We do not imply here, of course, that all organizations start the journey from a position of active antagonism to sustainability. Some organizations are actually founded on strong ethical commitments (Phase 6) – they are, however, the exception, rather than the rule.

19 Our original phase model has been represented diagrammatically in V. Kemp, A. Stark and J. Tantrum, *To whose Profit: Evolution*, London: WWF-UK, 2004. We have modified this diagram.

20 C. Cummins, *Sydney Morning Herald*, 1 March 2002, Business Section, 23; 'Case example 12: Lend Lease Bluewater', in B. Hirsch and P. Sheldrake, *Inclusive Leadership*, Melbourne: Information Australia, 2000, pp. 141–2.

21 Personal communication in an interview with Dexter Dunphy undertaken as part of PriceWaterhouseCooper's CEO *Snapshot on Culture*, Sydney, January 2002.