Business strategies for sustainable development


*Sustainable development: a business definition*

The concept of sustainable development has received growing recognition, but it is a new idea for many business executives. For most, the concept remains abstract and theoretical.

Protecting an organization’s capital base is a well-accepted business principle. Yet organizations do not generally recognize the possibility of extending this notion to the world’s natural and human resources.

If sustainable development is to achieve its potential, it must be integrated into the planning and measurement systems of business enterprises. And for that to happen, the concept must be articulated in terms that are familiar to business leaders.

The following definition is suggested:

For the business enterprise, sustainable development means adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future.

This definition captures the spirit of the concept as originally proposed by the World Commission on Environment and Development, and recognizes that economic development must meet the needs of a business enterprise and its stakeholders. The latter include shareholders, lenders, customers, employees, suppliers and communities who are affected by the organization’s activities.

It also highlights business’s dependence on human and natural resources, in addition to physical and financial capital. It emphasizes that economic activity must not irreparably degrade or destroy these natural and human resources.

This definition is intended to help business directors apply the concept of sustainable development to their own organizations. However, it is important to emphasize that sustainable development cannot be achieved by a single enterprise (or, for that matter, by the entire business community) in isolation. Sustainable development is a pervasive philosophy to which every participant in the global economy (including consumers and government) must subscribe, if we are to meet today’s needs without compromising the ability of future generations to meet their own.
Implications for business

It has become a cliché that environmental problems are substantial, and that economic growth contributes to them. A common response is stricter environmental regulation, which often inhibits growth. The result can be a trade-off between a healthy environment on the one hand and healthy growth on the other. As a consequence, opportunities for business may be constrained.

However, there are some forms of development that are both environmentally and socially sustainable. They lead not to a trade-off but to an improved environment, together with development that does not draw down our environmental capital. This is what sustainable development is all about - a revolutionary change in the way we approach these issues.

Businesses and societies can find approaches that will move towards all three goals - environmental protection, social wellbeing and economic development - at the same time.

Sustainable development is good business in itself. It creates opportunities for suppliers of ‘green consumers’, developers of environmentally safer materials and processes, firms that invest in eco-efficiency, and those that engage themselves in social well-being. These enterprises will generally have a competitive advantage. They will earn their local community’s goodwill and see their efforts reflected in the bottom line.

Practical considerations

While business traditionally seeks precision and practicality as the basis for its planning efforts, sustainable development is a concept that is not amenable to simple and universal definition. It is fluid, and changes over time in response to increased information and society’s evolving priorities.

The role of business in contributing to sustainable development remains indefinite. While all business enterprises can make a contribution towards its attainment, the ability to make a difference varies by sector and organization size.

Some executives consider the principal objective of business to be making money. Others recognize a broader social role. There is no consensus among business leaders as to the best balance between narrow self-interest and actions taken for the good of society. Companies continually face the need to trade off what they would ‘like’ to do and what they ‘must’ do in pursuit of financial survival.

Businesses also face trade-offs when dealing with the transition to sustainable practices. For example, a chemical company whose plant has excessive effluent discharges might decide to replace it with a more effective treatment facility. But should the company close the existing plant during the two or three-year construction period and risk losing
market share? Or should it continue to operate the polluting plant despite the cost of fines and adverse public relations? Which is the better course of action in terms of economy, social wellbeing and the environment?

Moreover, many areas of sustainable development remain technically ambiguous, making it difficult to plan an effective course of action. For example, the forestry industry has had difficulty defining what constitutes sustainable forest management. Some critics believe that simply replacing trees is not enough, because harvesting destroys the biodiversity of the forest. Clearly, more research will be needed to resolve such technical issues.

From a broader perspective, however, it is clearly in the interest of business to operate within a healthy environment and economy. It is equally plain that, on a global basis, growing and sustainable economies in the developing countries will provide the best opportunities for expanding markets.

To some, sustainable development and environmental stewardship are synonymous. In the short term, sound environmental performance is probably a reasonable objective for most businesses, with sustainable development as a longer term goal. However, this can lead to confusion. In the developed world, the focus is on environmental management, while in developing countries, rapid and sustainable development is paramount.

The global economy is coming under growing pressure to pay for the restoration of damaged environments. But this economic engine is being asked to help solve other pressing problems at the same time. The challenge is to solve all of these problems in a sustainable manner, so as to generate continuing development.

Despite ambiguities about definitions, there is now widespread support for sustainable development principles within the business community. However, for that support to grow, it will be important to recognize and reward initiatives that are being taken to turn the concept into reality.

**Positive signs of change**

William Mulligan, environmental affairs manager at Chevron Corporation, reflects the view of many in the business community who believe that the environment is now a major issue - one which presents both challenges and opportunities.

‘Over the last decade, we have seen many polls confirming the importance of the environment to Americans,’ he says. ‘Only an irresponsible company would dismiss this trend as a passing fad or fail to recognize the need to integrate environmental considerations into every aspect of its business. Environmental excellence has to become part of strategic thinking. It is in our best economic interests to do so. In fact, whenever we are forced to change, we often find opportunities.’
This positive change in attitudes and practices is echoed by the Organization for Economic Cooperation and Development, which says: ‘There is now a realistic prospect of harmonizing environmental and economic considerations, and thus of gradually incorporating these objectives in policy.’

Many executives have demonstrated that pursuing sustainable development strategies makes good business sense. For example, a 3M manufacturing plant scaled down a wastewater treatment operation by half, simply by running cooling water through its factories repeatedly instead of discharging it after a single use. Meanwhile Dow’s ‘Waste Reduction Always Pays’ programme, which began in 1986, has fostered more than 700 projects, and saved millions of dollars a year. And in a Westinghouse metal finishing factory in Puerto Rico, the company reduced ‘dragout’ - the contamination accidentally carried from one tank to another - by 75% simply by shaking the tank to remove solids before releasing the chemical to the next tank.

Pacific Gas and Electric decided that energy conservation was a more profitable investment than nuclear power, and McDonald’s made its well-publicized move from plastics to paper the cornerstone of a much broader, but less visible, waste reduction strategy.

The managers of these businesses clearly believe that environmentalism has something to offer business.

In an interview with Tomorrow magazine, John Elkington of environmental consultancy SustainAbility says: ‘We are seeing the birth of corporate environmentalism. In fact the main impetus for sustainable development in the future will probably come from business.’

There are other significant developments too, Elkington points out. Many consumers are now prepared to pay more for environmentally responsible products. And the emergence of ethical investment funds has thrown the spotlight onto corporate environmental performance.

Also significant, says Elkington, is that companies are changing from within, rather than simply responding to external pressure from consumers and environmentalists.

**Enhancing management systems**

The concept of sustainable development needs to be incorporated into the policies and processes of a business if it is to follow sustainable development principles. This does not mean that new management methods need to be invented. Rather, it requires a new cultural orientation and extensive refinements to systems, practices and procedures.

The two main areas of the management system that must be changed are those concerned with:
• A greater accountability to non-traditional stakeholders;
• Continuous improvement of reporting practices.

Developing an effective management framework for sustainable development requires addressing both decision-making and governance. The concept of sustainable development must be integrated both into business planning and into management information and control systems. Senior management must provide reports that measure performance against these strategies.

Governance is increasingly important because of the growing accountability of the corporation and its senior management. Information and reporting systems must support this need. Decision-making at all levels must become more responsive to the issues arising from sustainable development.

Seven steps are required for managing an enterprise according to sustainable development principles. These are set out below.

1. Perform a stakeholder analysis

A stakeholder analysis is required in order to identify all the parties that are directly or indirectly affected by the enterprise’s operations. It sets out the issues, concerns and information needs of the stakeholders with respect to the organization’s sustainable development activities.

A company’s existence is directly linked to the global environment as well as to the community in which it is based. In carrying out its activities, a company must maintain respect for human dignity, and strive towards a society where the global environment is protected.

At the beginning of this century, company strategies were directed primarily towards earning the maximum return for shareholders and investors. Businesses were not expected to achieve any other social or environmental objectives. Exploitation of natural and human resources was the norm in many industries, as was a lack of regard for the wellbeing of the communities in which the enterprise operated. In short, corporations were accountable only to their owners.

Today, business enterprises in developed countries operate in a more complicated, and more regulated, environment. Numerous laws and regulations govern their activities, and make their directors accountable to a broader range of stakeholders. Sustainable development extends the stakeholder group even further, by including future generations and natural resources.

Identifying the parties that have a vested interest in a business enterprise is a central component of the sustainable development concept, and leads to greater corporate accountability. Developing a meaningful approach to stakeholder analysis is a vital aspect
of this management system, and one of the key differences between sustainable and conventional management practices.

The stakeholder analysis begins by identifying the various groups affected by the business’s activities. These include shareholders, creditors, regulators, employees, customers, suppliers, and the community in which the enterprise operates. It must also include people who are affected, or who consider themselves affected, by the enterprise’s effect on the biosphere and on social capital.

This is not a case of altruism on the company’s part, but rather good business. Companies that understand what their stakeholders want will be able to capitalize on the opportunities presented. They will benefit from a better informed and more active workforce, and better information in the capital markets.

In identifying stakeholder groups, management should consider every business activity and operating location. Some stakeholders, such as shareholders, may be common to all activities or locations. Others, such as local communities, will vary according to business location and activity. Finally, the stakeholder analysis needs to consider the effect of the business’s activities on the environment, the public at large, and the needs of future generations.

After the stakeholders have been identified, management should prepare a description of the needs and expectations that these groups have. This should set out both current and future needs, in order to capture sustainable development concept. The key is to analyze how the organization’s activities affect each set of stakeholders, either positively or negatively.

Developing these statements of needs and expectations requires dialogue with each stakeholder group. To this end, some companies have established community advisory panels. Similar groups made up of employees, shareholders and suppliers have been used to help management better understand their needs and expectations.

Because the needs of stakeholder groups are constantly evolving, monitoring them is an ongoing process.

The stakeholder analysis may reveal conflicting expectations. For example, customers may demand new, environmentally safe products, while employees might be concerned that such a policy could threaten their jobs. Shareholders, meanwhile, may be wary about the return on their investment. A stakeholder analysis can be a useful way to identify areas of potential conflict among stakeholder groups before they materialize.

2. Set sustainable development policies and objectives

The next objective is to articulate the basic values that the enterprise expects its employees to follow with respect to sustainable development, and to set targets for operating performance.
Senior management is responsible for formulating a sustainable development policy for its organization, and for establishing specific objectives. Sustainable development means more than just ‘the environment’. It has social elements as well, such as the alleviation of poverty and distributional equity.

It also takes into account economic considerations that may be absent from a strictly ‘environmental’ viewpoint. In particular, it emphasizes maintaining or enhancing the world’s capital endowment, and highlights limits to society’s ability to substitute man-made capital for natural capital.

Nevertheless, a policy on environmental responsibility is a good first step towards the broader concerns of sustainable development.

Management should incorporate stakeholder expectations into a broad policy statement that sets out the organization’s mission with respect to sustainable development. This policy statement would guide the planning process and put forward values towards which management, employees and other groups such as suppliers are expected to strive.

Drafting a policy statement that is both inspirational and capable of influencing behaviour is a challenging task. However, the benefits justify the effort.

The following policy statement was developed by the Dow Chemical Company:

The operating units of the Dow Chemical Company are committed to continued excellence, leadership and stewardship in protecting and conserving the environment for future generations. This is a primary management responsibility as well as the responsibility of every employee worldwide. We are sensitive to the concerns of the public and accountable to them for our decisions and actions. We believe in the responsible integration of environmental and economic considerations in all decisions affecting our operations. We are continuously reducing our emissions to protect human health and the environment. Our goal is the elimination of wastes and emissions.

Policy statements like this one should be developed and implemented in a way that visibly involves directors and senior management.

A survey by DRT International of European companies found that half of the respondents have board members who are responsible for environmental issues. The report adds:

The amount of time spent on environmental issues at board level varies greatly between countries and sectors. The greatest involvement is found in the chemical and pharmaceutical industries and in utilities. These sectors devote significant resources to planning green strategies and establishing sophisticated environmental management systems. The lowest involvement is in tourism and financial services, where none of the companies surveyed had board-level appointments.

There are many benefits in actively involving the board of directors in the development of a sustainable development policy. It is the board of directors that determines overall priorities and sets the tone for management and employees. By itself, the board’s commitment will not guarantee that a sustainable development policy will be effectively
implemented. However, the absence of that commitment will certainly make it difficult to implement the policy.

While statements of broad policy on sustainable development are important, senior management and directors should supplement their policy statement with a series of specific objectives. For example, the following statement of policy and objectives, developed by Northern Telecom, illustrates the desirable scope and level of specificity:

Recognizing the critical link between a healthy environment and sustained economic growth, we are committed to leading the telecommunications industry in protecting and enhancing the environment. Such stewardship is indispensable to our continued business success. Therefore, wherever we do business, we will take the initiative in developing innovative solutions to those environmental issues that affect our business.

We will:

- Integrate environmental considerations into our business planning and decision-making processes, including product research and development, new manufacturing methods and acquisitions/divestitures;
- Identify, assess and manage environmental risks associated with our operations and products throughout their life cycle, to reduce or eliminate the likelihood of adverse consequences;
- Comply with all applicable legal and regulatory requirements and, to the extent we determine it appropriate, adopt more stringent standards for the protection of our employees and the communities in which we operate;
- Establish a formal Environmental Protection Program, and set specific, measurable goals;
- Establish assurance programs, including regular audits, to assess the success of the Environmental Protection Program in meeting regulatory requirements, program goals and good practices;
- To the extent that proven technology will allow, eliminate or reduce harmful discharges, hazardous materials and waste;
- Make reduction, reuse and recycling the guiding principles and means by which we achieve our goals;
- Prepare and make public an annual report summarizing our environmental activities;
- Work as advocates with our suppliers, customers and business partners to jointly achieve the highest possible environmental standards;
- Build relationships with other environmental stakeholders - including governments, the scientific community, educational institutions, public interest groups and the general public - to promote the development and communication of innovative solutions to industry environmental problems;
• Provide regular communications to, and training for, employees to heighten awareness of, and pride in, environmental issues.

It is important that sustainable development objectives be clear, concise and, wherever possible, expressed in measurable terms. Establishing measurable objectives is essential if management and others are to be able to assess whether their business activities have met the established objectives.

In setting these objectives, management will need to determine the appropriate level of aggregation. For example, one objective might be to set measurable performance targets for waste reduction at all operating locations. This goal would then be supported by more detailed objectives for each operating location.

After the sustainable development objectives have been established, management should compare its competitive and financial strategies against these targets. In some areas, business strategies will be consistent with the sustainable development objectives. In others, existing strategies may be incomplete or in conflict with them. Consequently, strategies may have to be modified.

It is important to ensure that the sustainable development objectives that are established complement the enterprise’s existing competitive strategies. In other words, sustainable development should provide an additional dimension to business strategy. It provides senior management with an additional benchmark against which business strategies and performance should be assessed.

An effective external monitoring system is necessary for directors and senior management, in order to ensure that sustainable development policies, objectives and management systems are appropriate for the complex and rapidly changing world in which their business operates. Information should be gathered on key subjects, including:

• New and proposed legislation;
• Industry practices and standards;
• Competitors’ strategies;
• Community and special interest group policies and activities;
• Trade union concerns;
• Technical developments, such as new process technologies.

For many enterprises, monitoring and influencing external developments means becoming more actively involved in the public policy process. A commitment to sustainable development involves helping to formulate policies that shape external developments, so that industry-wide sustainable development objectives are achieved.
To this end, responsible business enterprises are taking leadership roles in industry associations, working with government and special interest groups to achieve positive results for both the enterprise and the stakeholders.

The monitoring of external developments is particularly complex for companies selling to export markets, and even more so for those with production facilities in several countries. Many multinational corporations subscribe to the International Chamber of Commerce principles on environmental management. These include adherence to international environmental performance standards. However, monitoring all the relevant international developments can be a daunting task.

This external monitoring can be integrated into a firm’s strategic management process, or else carried out as a separate exercise. Some corporations have social policy committees whose scope covers sustainable development issues. Others have environmental committees with a narrower focus.

3. Design and execute an implementation plan

It is important to draw up a plan for the management system changes that are needed in order to achieve sustainable development objectives.

Translating sustainable development policies into operational terms is a major undertaking that will affect the entire organization. It involves changing the corporate culture and employee attitudes, defining responsibilities and accountability, and establishing organizational structures, information reporting systems and operational practices.

These changes are normally so substantial that a three-to-five-year plan with one year milestones will be needed.

Managing this type of organizational change requires leadership from senior management. The board of directors, the chief executive officer and other senior executives must be actively involved in the process. They need to lead by example, and to set the tone for the rest of the organization.

As a starting point, after the board and senior management have established their sustainable development objectives, these should be communicated to the various stakeholder groups. Some organizations have ongoing consultation arrangements with stakeholders which facilitates this process. There is little point in embarking on a programme to meet stakeholders’ needs without first consulting stakeholders to ascertain what those needs are.

It is also important to determine any modifications that should be made to the organization’s systems and processes in order to ensure that day-to-day activities are performed in a manner that is consistent with these objectives.
The enterprise’s organizational structure should then be reviewed to determine who should take specific responsibility for the sustainable development objectives. In some cases, environmental management committees have been established; in others, a specific department has been established under the leadership of a senior environmental executive.

Some organizations incorporate statements of environmental responsibility into the job descriptions of managers and staff. Clearly defining accountability is essential to successful implementation.

Cultural change and retraining should complement the new goals. Reward systems and incentives reflecting the new corporate values should also be considered.

Business planning processes should be modified to reflect the sustainable development priorities, the expanded stakeholder consultation process, and external monitoring needs. Management information systems should be enhanced, in order to ensure that management and employees receive the information they need to assess their performance against the objectives.

Marketing activities should consider customers’ needs regarding sustainability. This will require changes to the organization’s market research efforts. This feedback can affect the way products are designed, produced, packaged, marketed and promoted. In some cases, new markets may be added or existing markets redefined.

Meanwhile production processes and operating procedures must be assessed against regulations, industry practices or internal standards, in order to determine areas for improvement. This represents an opportunity for the company to develop innovative production processes.

Regulatory requirements are easily identifiable, although they continually evolve. Sustainable development criteria are less precise, and are generally not yet clearly manifested in regulations. The use of industry practices as performance norms is expanding rapidly, and in some cases these standards exceed regulatory requirements.

The chemical industry’s ‘Responsible Care’ programme is one example of industry standards that companies can use to foster improvements in their processes and practices. Another popular tool is benchmarking.

At the same time, managers responsible for procurement must reassess their choice of suppliers, in terms of their products and the way in which they are produced, to ensure that the company’s sustainable development objectives are fostered through its purchasing activities.

Financial planning should consider the capital requirements for process changes, as well as possible tax incentives and the financial effect of new mechanisms such as credits for waste recovery.
A successful implementation plan depends on ‘rethinking the corporation’ if it is to respond to the paradigm shift associated with sustainable development. It is important to address not only the positive forces for change but also barriers and sources of resistance.

While the basic management framework may remain intact, substantial changes will probably be needed in the culture, the organization and its systems. The plan must have full ‘buy-in’ if it is to be effective. This in turn requires broad consultation and cultural change.

**4. Develop a supportive corporate culture**

In order to ensure that the organization and its people give their backing to the sustainable development policies, an appropriate corporate culture is essential.

In the process of implementing sustainable development or environmental management policies, many companies have experienced a kind of organizational renewal. The increased participation of employees not only generates practical ideas, but also increases enthusiasm for the programme itself. Most customers and employees enjoy being part of an organization that is committed to operating in a socially responsible manner.

Implementing sustainable development objectives will probably require managers to change their attitudes. This may be accomplished only after retraining. For example, some executives may feel that their sole responsibility is to maximize the wealth of the enterprise’s owners. As a result, they may have difficulty understanding the sustainable development concept and in accepting it as a legitimate business objective.

Meanwhile some managers may not be accustomed to identifying the need for eco-efficient practices such as energy efficiency and recycling. Some may never have explicitly considered the effect of their actions on any stakeholder group other than shareholders. Others may resist changing the way in which their performance is measured.

Managers of multinational corporations may not think it appropriate to redesign their programmes in order to ensure that contribute to sustainable development in poorer countries.

Effective communication is essential. Internally, all levels of management, and all employees, must understand the policies and objectives that have been established. For business enterprises, this means broadening the outlook of many people, including some senior executives. Dr Frank Frantisak of Noranda Inc. emphasizes the importance of communication:

The fundamental need in Canadian corporations is the promotion of environmental consciousness throughout the whole organization, from senior management down to the plant floor. Environmental concerns need to be part of everyday communications and decision-making at all levels. Executives need to be regularly asking division managers: Is your operation in compliance? What progress is being made with your action plan?
Division managers need to be putting these questions, in turn, to the plant and facility staff.

Employees can have a strong influence on corporate culture and on a company's environmental performance. The DRT International survey of European companies reports that:

Just over half of the companies surveyed invite direct suggestions from employees on environmental issues. About 80% of the companies that invite suggestions have changed their products or processes as a result, while only 54% of all respondents have made such changes. This happens not only in environmentally advanced countries such as Switzerland and Norway, but also in Hungary, where employees are keen to tackle the country’s considerable environmental problems.

The concept of sustainable development requires organizations to develop a culture that emphasizes employee participation, continuous learning and improvement. The International Chamber of Commerce explains the process of continual improvement thus:

…To continue to improve corporate policies, programmes and environmental performance, taking into account technical developments, scientific understanding, consumer needs and community expectations, with legal regulations as a starting point and to apply the same environmental criteria internationally.

Internal reporting systems can have a significant effect on corporate culture. They must be designed to reinforce positive behaviour with respect to sustainable development. They also need to be linked to the enterprise’s recognition and promotion systems,

The active and visible involvement of senior executives and directors can be a powerful force in forming attitudes, and in creating a supportive culture in which sustainable business practices can flourish. Executives are the people who set the policies and the norms by which business is done.

Equally, it is important that the board provide an oversight in the allocation of responsibilities for sustainable development objectives. This umbrella role should include ensuring that responsibilities are assigned in a manner that holds key executives accountable. It also means ensuring that reward and promotion systems recognize those people who achieve, or help to achieve, sustainable development objectives.

5. Develop measures and standards of performance

The implementation of sustainable development objectives, and the preparation of meaningful reports on performance, require appropriate means of measuring performance.

Management control, as well as external reporting, depends in part on the availability of timely information about company operations. This is needed in order to allow management to assess performance against external and internal performance standards,
using appropriate performance measures. Information systems will therefore need to be reviewed, to enable the necessary reports to be provided to management.

The measures used to assess and report on performance will be influenced by the company’s sustainable development objectives, and by standards that have been established by government and other public agencies. For example, performance targets may be set in terms of emission levels and energy usage per tonne of output, or perhaps working hours lost due to accident or illness. The information generated must be in the right units if actual performance is to be compared with the set targets. This might require new measuring procedures to be introduced.

In many cases, companies are ahead of governments in establishing sustainable development performance criteria. However, as society becomes more aware of environmental issues and exerts more pressure for action, government can be expected to take on a more influential role.

There is a significant opportunity for the business sector to work with governments in establishing performance measures and standards, and to help develop reporting and monitoring systems that are cost-effective and which meet the needs of both the public and business.

While external standards, measures and reporting systems are needed, they take time to develop and implement, especially if consultation is required. Businesses should not wait for such standards to be developed before setting sustainable development objectives and measuring the sustainability of their activities.

6. Prepare reports

The next step in the process is to develop meaningful reports for internal management and stakeholders, outlining the enterprise’s sustainable development objectives and comparing performance against them.

Directors and senior executives use internal reports to measure performance, make decisions and monitor the implementation of their policies and strategies. Shareholders, creditors, employees and customers, as well as the public at large, use external corporate reports to evaluate the performance of a corporation, and to hold the directors and senior executives accountable for achieving financial, social and environmental objectives.

Regulators and government officials add to the task by requiring an ever-expanding degree of disclosure, in order to ensure compliance with their regulations.

While financial reports continue to be a fundamental component of corporate reporting, they are now only one of many types of report issued annually by a corporation.

It is important to narrow the gap between the way economic activity is measured and the way in which the use of natural resources is evaluated. For example, financial statements
do not illustrate the degree to which an enterprise invests in pollution control and conserves resources. As a result, companies that do not invest in environmental protection may present financial statements with lower costs and higher earnings than those which do.

The system needs incentives, and reliable information, in order to ensure that there are rewards for positive actions. It is ironic that business activity which destroys habitats and pollutes air, land and water produces ‘income’ and contributes to gross national product. Decision-makers within businesses and governments need a more relevant reporting system.

A system that provides a meaningful picture of a company’s sustainability achievements is essential for strengthening accountability. This is necessary if an effective relationship is to be maintained with stakeholder groups.

Internally, several companies now ask their line managers to include in their regular reporting procedures a statement on whether they have achieved the environmental and sustainable development targets. Similarly, the board of directors should receive periodic reports from senior management on whether these objectives have been achieved.

External reporting on sustainable development issues can take a number of different formats. Some organizations are experimenting with special reports for particular stakeholder groups, such as employees. Others provide a general-purpose report on environmental activities. Still others include the subject of environmental and social issues in a separate section of their annual reports.

Every business enterprise should publish, at least once a year, an external ‘sustainable development report’. Ultimately, a universal format for such reports will be desirable. In the meantime, managers and boards of directors should decide on the organization and content of reports.

7. Enhance internal monitoring processes

On an ongoing basis it will be important to develop mechanisms to help directors and senior managers ensure that the sustainable development policies are being implemented.

Performance monitoring is well established as an important element of the management process. In many areas, it is directly linked to reporting. The key to any system’s effectiveness is whether the management monitors operations and outputs on an ongoing basis.

Monitoring can take many forms, such as:

- Reviewing reports submitted by middle managers;
- Touring operating sites and observing employees performing their duties;
• Holding regular meetings with subordinates to review reports and to seek input on how the procedures and reporting systems might be improved;

• Implementing an environmental auditing programme.

Organizing internal environmental audits is a practical way to monitor the implementation of management policies. For example, many organizations now perform internal audits to monitor compliance with environmental policies and legislation. These normally require multidisciplinary teams of experts (for example engineers, auditors and scientists) who possess the necessary knowledge and experience, both in auditing and in the areas being audited.

The following definition of environmental auditing was developed in 1989 by the International Chamber of Commerce’s working party on environmental auditing:

A management tool comprising a systematic, documented, periodic and objective evaluation of how well environmental organization, management and equipment are performing, with the aim of helping to safeguard the environment by:

(i) Facilitating management control of environmental practices;

(ii) Assessing compliance with company policies, which would include meeting regulatory requirements.

In Europe, the Commission of the European Community has adopted guidelines on environmental auditing of industrial activities. Such audits are voluntary but must follow EU guidelines, including the publication of a statement on the audit results by the company, verified by an accredited auditor. The objective is to give companies more control over their environmental performance, and to increase public awareness.

Management leadership

Establishing sustainable development objectives, systems and monitoring mechanisms requires leadership on the part of senior management, and a commitment to continuous improvement.

The role of the board

Without the active involvement of the board of directors, it will be difficult for an organization to implement sustainable business practices. Corporations are encouraged to establish a ‘social responsibility committee’, responsible for setting corporate policies on sustainable development and for dealing with issues such as health and safety, personnel policies, environmental protection, and codes of business conduct.
This list is not all-encompassing. The committee’s exact responsibilities should be dictated by individual business circumstances. Nevertheless, there may be a need to establish a ‘minimum’ set of responsibilities.

It is important that corporate sustainable development policies be implemented consistently throughout an organization. Too many business enterprises observe variable levels of corporate ethics and integrity, depending on the country in which they are operating. This double standard is inconsistent with the concept of sustainable development, and ensuring that it does not prevail is an important role of the directors.

The board also has a role in monitoring the implementation of its policies. It should receive regular reports on how the policies are implemented, and should be accountable to its stakeholders on the company’s performance against these policies.

**Self-assessment**

The first step for businesses in adopting sustainable development principles is to assess their current position. Management should know the degree to which the company’s activities line up with sustainable development principles. This requires evaluating the company’s overall strategy, the performance of specific operations, and the effect of particular activities.

This process should compare the company’s current performance with the expectations of the stakeholders. Management philosophies and systems should be reviewed; the scope of public disclosures on sustainability topics should be analyzed; and the ability of current information systems to produce the required data should be evaluated.

Various self-assessment devices are available to help this process, such as the GEMI and CERES questionnaires, as well as material tailored to specific industries – for example, the North American chemical industry’s ‘Responsible Care’ programme.

**Deciding on a strategy**

Once managers have gained an understanding of how its own operations shape up, they should gauge the performance of other, comparable organizations. Comparisons against the standards set by other industries and environmental groups can be instructive.

This task should be relatively easy if there is reasonable public disclosure, organized industry associations and co-operative sustainable development programmes. However, if these structures do not exist, management could approach other businesses to discuss sharing information and possibly establishing an industry group.

Management should then consider ways to narrow the gap between the current state of the corporation’s performance and its objectives for the future. A strategy will need to be
developed, outlining where the company hopes to position itself relative to its competitors and its stakeholders’ expectations.

A general plan is needed to describe how and when management expects to achieve that goal, together with the various milestones it will reach along the way.

Senior management should review and approve the strategy and the plan before submitting them to the board of directors for final approval. Because of the pervasiveness of sustainable development, it is essential that members of the senior management team (representing all facets of the company's activities) ‘buy in’ to the project. Anything less than full commitment may doom the plan to failure.

**Strategy implementation**

Once the strategy and the general plan have been approved, detailed plans should be prepared indicating how the new strategy will affect operations, management systems, information systems and reporting. These should set out measurable goals to be achieved in each area, and explain how progress will be monitored. They should also specify spending and training requirements.

These plans should be developed through consultation with employees throughout the organization, possibly with the assistance of outside specialists. It will be a time-consuming and dynamic process, which will entail frequent modifications as input is obtained from several sources.

Once finalized, the plans should be approved by senior management and, ideally, by the board of directors as well.

**Small business and private company considerations**

Applying the proposed framework will be a challenge for all enterprises, but smaller businesses may encounter additional challenges. Besides sustainability reporting, smaller businesses will have to adapt to the new corporate climate with less in-house expertise, fewer resources and less formal management structures than larger corporations. It will be difficult for them to keep abreast of ever-changing regulatory requirements.

Fortunately, small businesses can find much of the expertise they require through industry associations, chambers of commerce, corporate environmental groups (such as GEMI in the USA), national and international business-government groups (such as the European Green Table), management consultants and universities.

There is also a growing body of literature, some of which deals with the experiences of companies that have integrated sustainable development into their operations.
The limited resources of small businesses can be offset by co-operative ventures with other companies. These may, for example, take the form of committees which monitor developments and serve as a forum for exchanging ideas. To the extent that different companies have similar stakeholders, they can compare notes on their stakeholders’ needs and expectations and how they plan to address them.

These cooperative ventures could be more complex, and include formal industry programmes dealing with matters such as performance standards, monitoring and technological research.

Once the expertise and resource issues have been addressed, the generally less formal management structures found in small businesses can be a positive advantage. There will be fewer people to educate within the enterprise, and there will usually be less resistance to change. In addition, there are usually no formal committees to whom the new strategies must be ‘sold’, and no lengthy review and approval procedures to slow the process down. The ‘hands on’ management style common to smaller businesses can also aid the monitoring function: management will be well positioned to spot problems and to make the necessary adjustments.

The road to implementing a sustainable development philosophy will be different for smaller businesses, but with ingenuity, perseverance and cooperation, they can achieve the desired result.