


Volume 39, Issue 4, October–December 2010 ISSN 0090-2616

ORGANIZATIONAL Dynamics



SPECIAL ISSUE: ORGANIZING FOR SUSTAINABILITY
Editors: Susan Albers Mohrman, Christopher G. Worley

THE ORGANIZATIONAL SUSTAINABILITY JOURNEY: Introduction to the special Issue 289
Susan Albers Mohrman, Christopher G. Worley

CLIMATE CHANGE AS A CULTURAL AND BEHAVIORAL ISSUE: Addressing barriers and implementing solutions 295
Andrew J. Hoffman

Solving the sustainability implementation challenge 306
Marc J. Epstein, Adriana Rejz-Buhovac

VISION, MISSION, VALUES: Guideposts to sustainability 316
Philip Mirvis, Bradley Gaoglis, Sylvia Kinnicutt

BUILDING A COLLABORATION CAPABILITY FOR SUSTAINABILITY: How Gap Inc. is creating and leveraging a strategic asset 325
Christopher G. Worley, Ana E. Feyerherm, Darryl Knudsen

SUSTAINABILITY BY COLLABORATION: The SEER case 335
Hilary Bradbury-Huang

GREEN IS FREE: Creating sustainable competitive advantage through green excellence 345
Dean M. Schroeder, Alan G. Robinson

Why Nike kicks butt in sustainability 353
Marc J. Epstein, Adriana Rejz-Buhovac, Kristi Yuthas

This article appeared in a journal published by Elsevier. The attached copy is furnished to the author for internal non-commercial research and education use, including for instruction at the authors institution and sharing with colleagues.

Other uses, including reproduction and distribution, or selling or licensing copies, or posting to personal, institutional or third party websites are prohibited.

In most cases authors are permitted to post their version of the article (e.g. in Word or Tex form) to their personal website or institutional repository. Authors requiring further information regarding Elsevier's archiving and manuscript policies are encouraged to visit:

<http://www.elsevier.com/copyright>

available at www.sciencedirect.comjournal homepage: www.elsevier.com/locate/orgdyn

Solving the sustainability implementation challenge

Marc J. Epstein, Adriana Rejc Buhovac

On April 20, 2010 the explosion of the *Deepwater Horizon* drilling rig in the Gulf of Mexico killed 11 platform workers and injured 17 others. It caused the *Deepwater Horizon* to burn, and started a massive ongoing offshore oil spill that has become the worst environmental disaster in U.S. history. British Petroleum has been criticized extensively and held responsible for the disaster, but also for the actions that preceded it. Much of the criticism focused on the management control systems in place to prevent the disaster and the lack of preparation for an effective response. This also follows other recent BP disasters including the Texas City Refinery explosion in Texas City (March 23, 2005) when 15 people died and the Prudhoe Bay oil spill in Alaska (March 2, 2006) when over 212,000 US gallons were spilled.

While British Petroleum often attempted to position itself externally as an environmental leader, questions persisted regarding its environmental performance. And the recurring events raised questions as to whether these were one-time events or systemic and whether sustainability was really a critical part of the fabric and operations of the company.

To effectively implement sustainability strategies, companies must have the formal (hard) and informal (soft) systems in place. Too often they do not. Companies need the processes, performance measurement, and reward systems (formal systems) to measure success and to provide internal and external accountability. But they also need the leadership, culture, and people (informal systems) to support sustainability implementation. An alignment among the formal and informal systems along with the organizational structure is critical for success.

THE CHALLENGES OF IMPLEMENTING SUSTAINABILITY

For years, some company managers were charged with the responsibility of addressing the social and environmental impacts of company operations. Even when there was little buy-in from senior management, a need was seen to respond

to community and other pressures to be good corporate citizens. Corporate social responsibility (CSR), or “sustainability” as it is now often termed, was seen as something that frequently was necessary even if not desired or included in the corporate strategy. CSR managers would often go to business unit heads and top management to do more in this area with a plea that “it is the right thing to do.” And, even when it was done, it was never long lasting. A new chief executive officer (CEO) would arrive and eliminate those activities that were not seen as core.

Those days are long gone. Sustainability is a critical part of most major corporations today. Whether the motivation is concern for society and the environment, government regulation, stakeholder pressures, or economic profit, most managers recognize the importance of developing sustainability strategies and activities. Sustainability is discussed inside most organizations as a “business case” in addition to being the right thing to do. This is the only way it can be long lasting. Most CEOs acknowledge its importance, but the challenges of implementing sustainability are still quite significant.

Setting clear and measureable goals. These challenges exist, in part, because implementing sustainability is fundamentally different from implementing other strategies in an organization. For operating goals, for example, the direct link to profit is usually clear. For innovation, though long-term and also often difficult to predict, measure, and manage, the intermediate goal is new products and processes, and the ultimate goal is increased profit. For sustainability, however, the goal is to achieve excellence in social, environmental, and financial performance simultaneously. The social and environmental impacts of corporate activities have effects that are often longer-term and more difficult to measure than most of the impacts managers typically confront.

Financial incentive pressures. The issue of integrating corporate sustainability into day-to-day management decisions is further complicated as managers at all levels have significant pressure to increase short-term earnings. When

actions improve both social and financial performance simultaneously, such as when energy consumption, waste, or toxics are reduced, this is simpler than when there is a significant financial cost associated with improving social or environmental performance. In such situations, managers are faced with a dilemma of how to make the choices and which actions to take.

Stakeholder reactions. Adding to the challenge is uncertainty about how different stakeholders will respond to various sustainability actions and performance through time. Corporate and societal priorities often change, as do the costs of implementing sustainability. All these issues make the decision-making associated with sustainability implementation particularly challenging.

One of the key ingredients to make sustainability work within any organization is to put in place formal systems that support the sustainability strategy. Formal (or “hard”) systems typically include the management control, performance measurement, and reward systems that are used to steer employee behavior toward strategic goals. New tools for managing and measuring corporate sustainability such as The Corporate Sustainability Model (see Exhibit 1, drawn from the Epstein’s book (2008)) and its associated measurements aid in implementing sustainability strategies.

The Corporate Sustainability Model provides a comprehensive approach for examining, measuring, and managing the drivers of corporate sustainability. It has been extensively tested and revised in both academic and managerial studies and implementations. Using it leads to a clear understanding of the impacts of past, pending, and future corporate decisions on the society, the environment, and corporate financial performance. Along with performance measures, closely tied to the various elements in the model, these tools help

align organizations, coordinate activities, motivate employees, and quantify the impacts of corporate activities on social and environmental performance.

THE CORPORATE SUSTAINABILITY MODEL

The Corporate Sustainability Model was developed to help managers measure and manage their success in implementing sustainability strategies. More specifically, the model enhances the understanding of:

- the role of various drivers (inputs and processes) in sustainability;
- the causal relationships among the various actions that can be taken;
- the impact of these actions on sustainability performance;
- the likely reactions of the corporation’s various stakeholders; and
- the potential and actual impacts on financial performance.

This model can be used to more successfully implement sustainability strategies and achieve superior sustainability performance.

At the core of the model is the *leadership* function. The role of committed leadership can never be overstated. Management commitment to sustainability as a core value, and management recognition that sustainability can create financial value for the organization through enhanced revenues and/or lower costs are critically important.

Jeffrey Immelt, CEO of General Electric Co. (GE), for example, has publicly committed his company to sustainability. His combination of words and actions is leading

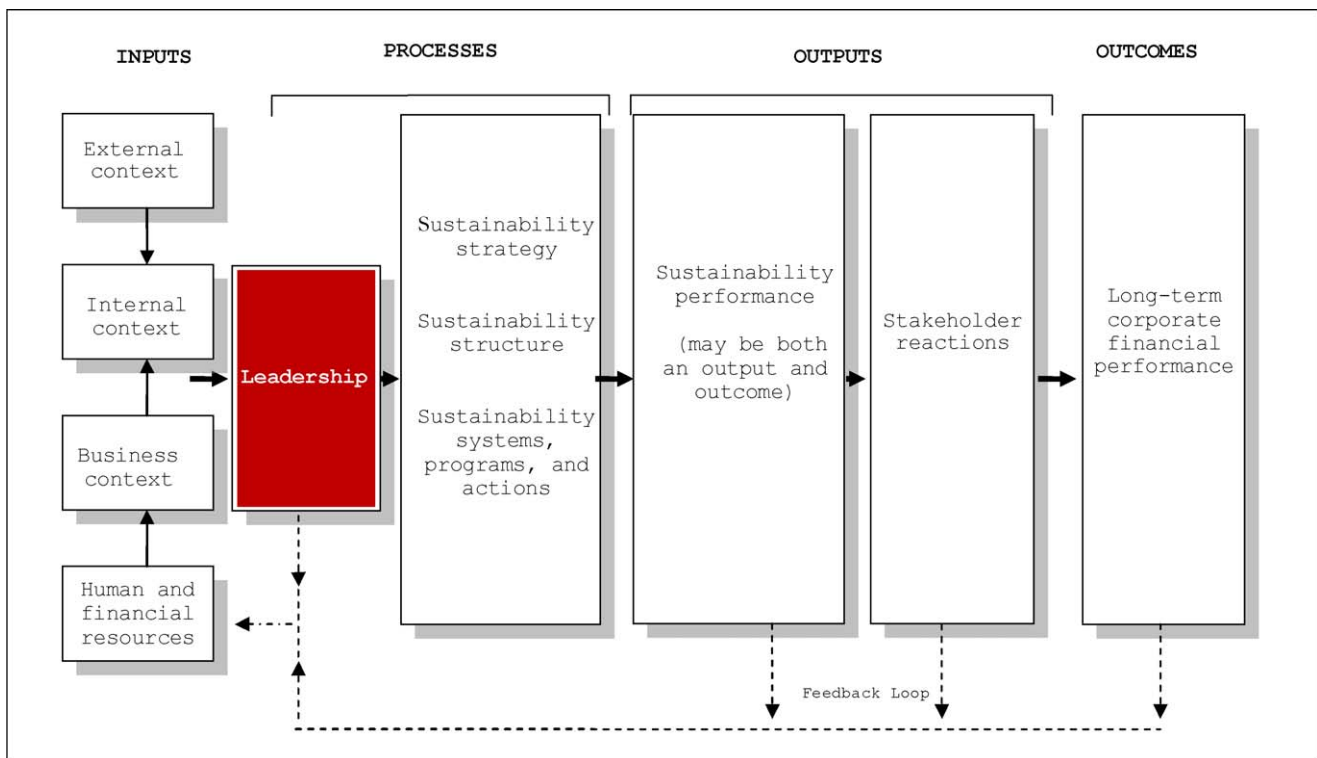


Exhibit 1 The Epstein Corporate Sustainability Model.

change at GE and has moved the company to the top of many global sustainability rankings and indices. Leaders are responsible for the identification and analysis of the inputs and, accordingly, for designing processes (sustainability strategy, sustainability structure, and sustainability systems) needed to accomplish the desired sustainability outputs and outcomes. Vice presidents of sustainability, in particular, take the lead in considering inputs, developing a sustainability strategy, and using the formal and informal systems to make sustainability strategy work well.

Inputs include the external context (regulatory and geographical), the internal context (company mission, strategy, structure, and systems), the business context (industry sector, customers, and products), and the human and financial resources available to the corporation for sustainability purposes.

The local and global external contexts significantly affect the choices a corporation makes regarding the formulation and implementation of sustainability actions. Additional important considerations are industry sector, and customer and product characteristics. For example, manufacturing companies may focus more on environmental and health issues, while service-oriented companies may emphasize the social aspects of sustainability. Current internal context with the corporate and business unit strategies, organizational structure, and systems will also impact issues such as environmental protection and employee rights. Another important input is the resources constraint of the corporation. The amount of financial and human resources allocated to sustainability will significantly impact the ability to implement sustainability programs.

After carefully evaluating the inputs and their likely effects on sustainability and financial performance, leaders develop the appropriate *processes* to improve sustainability. These include sustainability strategy, structure, systems, programs, and actions.

Many companies go beyond a minimum-compliance sustainability strategy. For example, prior to any industry standards, toy manufacturer Mattel Inc. established its own global manufacturing principles for company-owned, contracted, and licensed facilities. These principles provide a framework for its worldwide manufacturing practices, requiring fair treatment of employees and protection of the environment.

Structurally, best-practice companies leverage sustainability concerns throughout the organization. For example, at United Parcel Service of America, Inc. (UPS), a global shipping company, health and safety managers are placed in each business unit to implement strategic safety initiatives.

Leaders can also focus the organization on sustainability through various management systems, such as life-cycle costing, full cost accounting, risk-integrated capital budgeting, comprehensive performance measurement systems, and incentive systems, as well as through specific programs and actions.

Sony Corp., for example, uses an intranet-based data system to collect sustainability information from its sites worldwide. Managers at each site input data on energy, water, waste, and other environmental costs, which allows Sony to track its impact on the environment. Corporate incentive and reward systems sometimes tie individual performance reviews and compensation explicitly to sustain-

ability performance to align the interests of the corporation, senior managers, and all employees. Wal-Mart Stores, following in the path of many large U.S. companies, has linked executive bonuses to diversity in its hiring practices. Bonuses will be reduced by as much as 15% if the company does not promote women and minorities in proportion to the number that apply for management positions.

Managerial actions lead to sustainability performance and to stakeholder reactions that can be either positive or negative. These are the intermediate results – called *outputs* – that ultimately affect long-term corporate financial performance (*outcomes*).

In recent years, many companies have substantially increased the quality and quantity of interactions they have with various stakeholder groups. The purpose is to better understand stakeholders, their needs, and their likely reactions to sustainability performance, but also to build trust. As informed managers make better decisions and improve sustainability performance, there are many positive impacts – as stakeholders decide what products to buy and what companies to work for, and as legislators make decisions about regulations.

Dow Chemical Co. has established community advisory panels (CAP) in most of the communities in which it has facilities. The goal was initially to build trust and gain mutual respect. But CAPs actually led to a number of efforts such as emergency response education for residents, community projects, and local hiring that significantly improved company reputation. GlaxoSmithKline, the global pharmaceutical company, is involved in a stakeholder network to improve hospice care in Canada. The company held a forum, which included caregivers, physicians, nurses, the clergy, media, activists, and other associations, to share information and develop strategies to better address hospice care.

The Corporate Sustainability Model also includes the feedback process that generates timely information on actual and potential social and environmental impacts, stakeholder reactions, and their effects on financial performance. This process often challenges assumptions and modifies future sustainability strategy formulation and implementation.

For example, based on feedback information on sustainability performance and stakeholder reactions, Nike Inc. redesigned shoes that contained a greenhouse gas (sulfur hexafluoride or SF₆). In 2006, Nike developed a technology that uses nitrogen instead of SF₆ to create the air pocket in its Nike Air sneakers. The nitrogen breaks up more easily and is not harmful to the environment. The feedback process can also help companies find new ways to meet customer needs by rethinking their markets.

Interface, the leading carpet manufacturer, changed its strategy with a shift from selling products to selling services. The company traditionally sold its carpets to clients who would then need to purchase new carpet when replacement was required. Now, Interface leases carpets, and monthly inspections detect worn carpet tiles. The company replaces them as needed. This method is better for the environment, saves Interface money, and saves its customers money, too.

Managers can customize the Corporate Sustainability Model to reflect their specific concerns and interests in sustainability performance. The critical question then becomes: how can managers design and use formal systems, such as performance measurement systems, to align employ-

ees and improve the implementation of corporate sustainability?

ALIGNING MANAGEMENT, MEASUREMENT, AND PERFORMANCE

The Corporate Sustainability Model can guide the development of metrics to better measure and manage sustainability success. To design a comprehensive control system, every component of the framework should be associated with specific performance indicators (see Exhibits 2–5 for sample metrics).

Performance measures of inputs are primarily used to help leaders assess the impact that the four inputs might have on sustainability processes. Knowing the external requirements, expectations and industry standards, as well as what resources are available internally for sustainability processes, is necessary to design appropriate sustainability strategies, structures, and systems. Indicators such as dollars available for employee training are examples of metrics that permit corporate and functional leadership to assess the resources available and tailor sustainability actions accordingly. Moreover, performance measures on inputs enable a more objective ex-post evaluation of the actual social, environmental, and financial achievements.

Performance measures on processes and outputs (sustainability performance and stakeholder reactions), on the other hand, are primarily used to measure the efforts of sustainability actions (e.g., strategy development, reorganization, investments in new technologies, employee training, additional products inspections, certifications). Ideally, most of these measures will be converted into monetary terms to enable a summarized calculation of the financial impacts (costs and benefits) of sustainability performance.

Each element of sustainability processes must be translated into a metric to monitor and assess the value of these sustainability actions. For example, leadership commitment

to sustainability may be measured through a clearly articulated vision around sustainability issues or through the number of hours of management time for volunteer work. Measures of performance around strategy, structure, management systems, programs, and actions should also be monitored. Percentage of suppliers certified or number of functions with sustainability responsibilities are examples of metrics that permit managers to assess or predict the impact of these initiatives on sustainability performance.

As companies implement new initiatives or invest in new technologies to improve their sustainability performance, they should measure actual performance. Investments made in recycling equipment are expected to lead to a decrease in hazardous waste. Actual change in the volume of hazardous waste reflects sustainability performance; when converted into monetary terms, it links directly to improving profitability. Similarly, volume and cost of energy use, vehicle fuel use, and packaging volume, are examples of indicators of sustainability performance that are clearly linked to financial performance.

Alternatively, companies may have goals of improving society or the environment, with no direct link to corporate financial performance. Percent and number of women and minorities in managerial positions may be an example of a measure reflecting such a goal. For such goals, stakeholder reactions typically significantly affect short-term revenues and costs and long-term corporate performance.

For example, percent of women and minorities in managerial positions (sustainability performance) may lead to favorable press mentions (stakeholder reaction), which, in turn, impacts on company reputation (stakeholder reaction) and its stock price (financial performance). Similarly, the volume of company’s emissions to air and water (sustainability performance) may lead to community complaints (stakeholder reaction) that may affect unfavorable press mentions (stakeholder reaction) or even lead to fines thus affecting financial performance.

INPUTS	Performance Measures
<i>External context</i>	- Pollution standards - Non-discrimination standards, etc.
<i>Internal context</i>	- Existence of corporate code of conduct and management system - Environmental/social benchmarking of competitors, etc.
<i>Business context</i>	- Competitive position within industry - Geographic diversity of production, etc.
<i>Human and financial resources</i>	- \$ available for employee training - \$ committed for R&D on more effective energy conservation efforts, etc.

Exhibit 2 Examples of Performance Measures for Sustainability Success – Inputs.

PROCESSES	Performance Measures
Leadership	<ul style="list-style-type: none"> - Clearly articulated vision around sustainability issues - Number of hours of management time for volunteer work, etc.
Strategy	<ul style="list-style-type: none"> - % of suppliers certified for sustainability standards - % of overall budget set aside for sustainability initiatives, etc.
Structure	<ul style="list-style-type: none"> - Number of levels of management with specific environmental responsibilities - Number of functions with sustainability responsibilities, etc.
Systems programs, and actions	<ul style="list-style-type: none"> - Social performance evaluation systems in place (number of facilities) - Number of hours of ethics training per employee, etc.

Exhibit 3 Examples of Performance Measures for Sustainability Success – Processes.

OUTPUTS	Performance Measures
Sustainability performance	<ul style="list-style-type: none"> - % change in volume of hazardous waste - % change in volume and cost of energy use - % of a product's content that can be reused or recycled - Money contributed through philanthropy and cause-related marketing - Percent and number of women and minorities in senior positions - Number of human rights and labor violations - Number of local jobs created, etc.
Stakeholder reactions	<ul style="list-style-type: none"> - Number of community complaints - Employee turnover - % of favorable versus unfavorable press mentions - % of return customers - Improved image (survey score), etc.

Exhibit 4 Examples of Performance Measures for Sustainability Performance and Stakeholder Reactions.

OUTCOMES	Performance Measures
<i>Long-term corporate financial performance</i>	- % of sales from 'green' products
	- Revenue from recycled waste materials
	- Revenue from cause-related marketing
	- Increased sales from improved reputation
	- Cost savings from employee turnover reduction
	- Reduced cost of environmental cleanup
	- Reduced cost of fines/penalties
- ROI on sustainability projects, etc.	

Exhibit 5 Examples of Performance Measures for Corporate Financial Performance.

Stakeholders' reactions to sustainability performance constitute an integral part of the Corporate Sustainability Model. Among the important stakeholder groups are employees who choose whether to work for the company, customers who choose whether to buy the products, investors who choose whether to invest in the company, or government officials who choose whether to increase or decrease regulation and enforcement.

Corporate financial performance can therefore be an outcome of sustainability performance directly or a result of stakeholder reactions to sustainability performance. In either case, costs and benefits associated with sustainability strategy must be measured and incorporated into management decisions. Benefits of sustainability actions often come from cost reductions related to new manufacturing technologies, "green" products, reduced material storage and handling costs, reduced waste disposal, decreased employee turnover, etc. In addition, benefits can be related to positive and improved relations with stakeholders. For example, favorable press mentions or cause-related marketing may contribute positively to a company's reputation for excellent sustainability performance and send a positive message to customers, financial analysts and investors. Examples of costs are the cost of compliance with legislation, investment costs, and various operating costs related to sustainability actions.

Baseline information forms the basis for all subsequent measurements, so that the system can measure improvement from the starting point on various elements of the framework. Collecting initial baseline information may be hard work, especially for those elements that have not been previously measured (such as measuring the impact of a company on society). But such initial efforts are critical to the success of sustainability initiatives.

Fortunately, various tools and techniques are available to measure the different aspects of sustainability performance. For example, available measurements, including the cost-of-control approach and the damage-costing approach, can help monetize social and environmental externalities. The cost-of-control approach is the cost of reducing or avoiding damage before it occurs, while damage-costing focuses on

attempting to assess actual cost incurred from social and environmental damage. The market-pricing approach directly measures the market value of resources damaged or lost as a result of social and environmental impacts.

Other methods are also available. Customer surveys are powerful tools that help companies better understand the benefit of sustainability investments for increasing revenue or decreasing costs related to their customers. They provide valuable information regarding opportunities to improve overall profitability. Internally, surveys, focus groups, and other techniques are increasingly being used to measure and monitor employee and other stakeholder reactions and provide feedback.

APPLYING PERFORMANCE MEASURES

Performance measures can be used for various purposes in sustainability implementation including:

- costing and capital investment decisions,
- risk management systems,
- performance evaluations and reward systems,
- measurement systems,
- feedback systems, and
- reporting and verification systems.

Costing and capital investment decisions. Companies can use available techniques to tie measurement and reporting of social and environmental impacts into day-to-day management decisions. These impacts should be measured and reported in financial terms and then integrated into traditional investment models.

A number of companies have begun the transition to improve social and environmental cost accounting by clarifying the understanding of internal social and environmental costs through activity-based costing, and placing a value on significant external costs through life-cycle costing or other approaches. Other companies have chosen to use full cost accounting to include a broader set of external costs along with future costs into management decision-making.

While life-cycle costing translates social and environmental performance into financial currency, full cost accounting integrates these values into the framework of accounting.

For example, Baxter International calculates and reports its positive and negative sustainability impacts as subsets of traditional accounts, allowing sustainability items to be easily identified. The combination enables managers to integrate sustainability impacts into decisions such as product costing, product pricing, and capital investments.

At Canon Inc., each department bears the financial burden of its own waste processing through a fee for the waste it produces, which improves the cost accounting of social and environmental impacts.

An evaluation of the cash flows associated with the costs, benefits, and risks related to alternative investment decisions made from the perspective of sustainability performance is also required. The capital investment decision-making process is more complete with measures on sustainability, since the full range of social, environmental, and economic costs, benefits, and risks is considered.

For example, a company should inventory its natural resources and environmental assets – including all the land and water owned, and the pollution or other environmental impacts for which it is responsible. It should determine the goods and services potentially available with these assets, and then specify the potential value of these environmental assets. It also should be examining the effect on cash flows of the social and the environmental impacts of all current and projected operating and capital investments. Often the cash flow effects come from manufacturing processes, but increasingly they arise from customers' use of the company's products and services. In some companies, large capital investment decisions are reviewed and are often subject to approval by sustainability managers before a final decision is reached, to ensure that the sustainability performance effects on cash flows are included.

Risk management systems. Performance measures on sustainability processes, outputs, and outcomes can also be used for integrating social, political, and environmental risks into the evaluation of product, process, and project decisions.

Before investing in a new location, Royal Dutch Shell employs a human rights institute to conduct Country Risk Assessments, highlighting any human rights managers should consider when making a decision as to whether to enter the country. The assessments compare over 80 human rights treaties with the laws and regulations of the country. Managers are then able to proactively develop actions to reduce the likelihood of human rights or other violations that could potentially lead to fines and reputation damage.

Measurement systems. The identification and measurement of the costs and benefits from corporate sustainability activities are critical to the evaluation of projects within the company and externally.

Nike has an advanced system for measuring the company's footprint. Nike's Considered Index is a tool for evaluating the predicted environmental footprint of a product prior to commercialization. This system examines solvent use, waste, materials, and innovation for footwear. Apparel products are evaluated on waste, materials, garment treatments, and innovation. Products are assigned a "Considered" score, using the Index framework, based on Nike's known footprint

in these areas. Nike has also developed a Material Analysis Tool (MAT), based on lifecycle thinking, to quantitatively evaluate and rank material choices, giving definition to Nike environmentally preferred materials (EPM's).

Numerous other companies have designed performance measurement systems that permit measuring and managing sustainability performance.

Linking to accountability. Systems that measure performance and provide feedback on corporate sustainability improve social, environmental, and financial performance by holding employees accountable for their contributions to the sustainability strategy. Measuring and reporting sustainability performance gets employees into the discussion of its importance and their role in its improvement. Even when measurements are not precise, it is clear that the measurements and impacts are relevant. They are usually directionally correct, and they get people focused and aligned on an important element in organizational performance.

At Procter&Gamble Co. (P&G), for example, managers have performance measures on conservation and environmental protection on their personal scorecards. Though not tied to the reward system, this technical review and report on sustainability progress holds employees accountable for their actions.

Eastman Kodak Company, a leading photography and imaging company, has established 29 performance standards in four categories: environmental, health, medical, and safety. To provide accountability at all levels of management, health, safety, and environmental (HSE) targets are included in individual performance goals, and operating units establish their own metrics to drive improvement appropriate to the business objective. HSE performance is assessed against Kodak's HSE performance standards through the worldwide corporate audit program. By using these performance standards, Kodak has far exceeded all of its manufacturing-focused HSE goals. When performance evaluation is supported by reward systems, employees often focus even more on what they can do to improve sustainability.

Linking to reward systems. Implementing sustainability strategies is particularly challenging because business unit and facility managers are pressured to deliver profits, and their performance is typically measured based on sales and profit goals. This significant incentive pressure can make it difficult to obtain alignment of strategy, structure, systems, performance measures, and rewards to facilitate effective implementation. It is important for companies to align their reward systems with their strategies.

Increasingly, companies are integrating sustainability performance measurement and rewards into existing systems. The systems are aimed at counterbalancing the incentive pressures, helping employees make the required trade-offs, and rewarding performance that is consistent with corporate sustainability and profitability strategies.

Shell, for example, has a corporate incentive and reward system in which environmental and social aspects represent a 20% component of performance measurement and bonuses.

Alcoa Inc. has also linked environmental accountability with performance and compensation. Its Primary Metals Group links compensation with reductions in emissions of perfluorocarbon, a greenhouse gas. Swedish-based Scandic Hotels initiated a program called Resource Hunt, which rewards employees for improving resource efficiency. The

program encourages employees to reduce consumption of energy, water, and waste. Employees at each hotel receive a percentage of the savings. This program saves money for the company and motivates employees to consider sustainability in their day-to-day decisions.

THE IMPORTANCE OF INFORMAL SYSTEMS: LEADERSHIP, CULTURE, AND PEOPLE

Formal systems are important for embedding the focus on sustainability in the functioning of the organization. Yet, many companies that are committed to improve sustainability and have developed formal systems to support their sustainability strategies have remained unsuccessful in implementation. Why?

To answer this question, we have just completed new field research in this area with four leading global companies that have superior sustainability performance. It turns out that to implement sustainability successfully, companies need the informal (soft) systems in addition to the formal (hard) systems. Formal systems are usually a part of a broader set of systems aiming to motivate and coordinate employee actions and corporate culture, but are not enough. Informal systems supplement the formal systems of the organization, and our research finds that the informal systems are more important than previously thought by either managers or researchers.

Informal systems can include the mission, leadership, culture and people needed for organizational success. A strong mission statement emphasizing the need for sustainability can convey to employees the importance of sustainability as a core corporate value. To integrate sustainability into day-to-day decision-making, companies must make sustainability a central tenet of their strategy, and then exercise leadership to reinforce these objectives throughout the organization. Leaders can show their commitment to sustainability by articulating trade-offs to managers and by leading by example. Organizational culture that builds on sustainable innovation, creativity, entrepreneurship, and volunteerism can also be used to offset the pressures and drawbacks of incentive systems that focus primarily on short-term financial performance. These soft systems can be critical in supporting sustainability implementation.

Recent research findings from four leading corporations. Nike, P&G, The Home Depot Inc., and Nissan Motor Co. are successful in implementing their sustainability primarily because of committed leadership, organizational culture, and people. And, though sensitive to stakeholder concerns and impacts, these leading companies are internally committed to improve corporate sustainability performance. All four companies incorporate sustainability issues in their corporate strategies; they have specific sustainability strategies and aligned organizational structures; performance measurement systems with some social and environmental metrics are also in place. But, leadership and organizational culture have been found to be the critical determinants of successful management of the various trade-offs middle managers face when they try to simultaneously manage social, environmental, and financial performance.

In the four companies, for example, there is less conflict for senior and middle managers in balancing social, environ-

mental, and financial performance, because these conflicts are resolved higher up in the organization and are well integrated into the informal systems. Upper management in these organizations has bought into the benefits relating to sustainability. People are thus able to make certain trade-offs because they know they will be supported.

In P&G, for example, the leaders are responsible for the successful integration of sustainability into the rhythm of P&G's business. They aim to make sustainability something the business units want to do because it helps build the business. One senior manager said, "Once people understand what the goal is, creativity and innovation follow immediately."

A common overall organizational culture that builds on sustainability can further help managers and other decision-makers deal with the trade-offs that the simultaneous management of social, environmental, and financial goals often causes. At Nike, P&G, The Home Depot, and Nissan, the corporate culture is broadly shared and emphasizes norms critical for innovation such as openness, autonomy, initiative, and in many cases risk taking.

The Home Depot's culture, for example, is marked by an entrepreneurial high-spiritedness and a willingness to take risks. It is so strong that it has been labeled as "orange blood" [the color of The Home Depot's stores] running through associates' (employees') veins. When challenged to meet more stringent regulatory or company-set environmental or social standards would require additional costs, the culture of openness and innovativeness helps employees work together to identify areas where other costs could be reduced or revenues could be increased by new approaches to sustainability.

In addition, CSR or sustainability departments play an important role in educating other business units about why the company should engage in sustainability efforts through educational and other efforts to influence the organizational culture and values. These sustainability managers influence how the company integrates sustainability in decisions through both formal and informal systems.

In Nike, one of the vice presidents stated, "I want to give guidance to subordinates because I don't want to have them struggle with it [the trade-offs related to making social, environmental, and financial decisions]. And, we need to teach them because all these decisions cannot be done by me alone." This training takes place through information sharing and collaboration. People learn as they are made part of the process where leaders make decisions.

CONCLUSION

As we see, for improved sustainability performance, sustainability strategy is only a minimum enabler. Companies must support it with appropriate organizational structure, develop systems for measuring and reporting, and exercise leadership to reinforce these objectives throughout the organization. In addition, for heightened awareness of sustainability goals and performance and a long-lasting focus on sustainability issues, companies must build an organizational culture that motivates sustainable decision-making and behavior.

Much of this is unclear at BP. The company likely had a sustainability strategy. They were explicit about their

commitment to sustainability in extensive communications. But, it does not appear to have been successfully integrated throughout the fabric of the company. It does not appear that the company built an organizational culture that motivated decisions that were appropriately sensitive to potential social and environmental impacts. The lack of consideration and integration of these potential impacts can clearly lead to disaster.

Companies have progressed significantly in corporate sustainability over the last decade. Most CEOs acknowledge the importance of improving sustainability performance in addition to financial performance. However, they often struggle with the challenges of how to do this.

To integrate sustainability into day-to-day decision-making, best-practice companies make sustainability a central component of their strategy and exercise leadership to reinforce these objectives throughout the organization. Leaders

show their commitment to sustainability by articulating trade-offs to managers and aligning the organization's strategy, structure, systems, people, and culture. The Corporate Sustainability Model and the associated measurements can be used to help companies prove the business case for sustainability and provide accountability. Incentive systems that include a broader set of performance metrics than financial performance alone will further encourage employees to include sustainability in their day-to-day decision-making. Thus, it is through a mix of leadership, strategy, structure, as well as hard and soft management systems, that sustainability can be implemented and measured successfully.



To order reprints of this article, please
e-mail reprints@elsevier.com



SELECTED BIBLIOGRAPHY

For some recent books on implementing sustainability see Marc J. Epstein, *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts* (Greenleaf Publishing/Berrett-Koehler Publishers, Inc., 2008); Daniel C. Esty and Andrew S. Winston, *Green to Gold* (Yale University Press, 2006); Michael V. Russo, *Companies on a Mission: Entrepreneurial Strategies for Growing Sustainably, Responsibly, and Profitably*, Stanford University Press, 2010); Chris Laszlo, *Sustainable Value* (Greenleaf Publishing Ltd./Stanford University Press, 2008); and Stuart L. Hart, *Capitalism at the Crossroads* (Wharton School Publishing, 2007).

For selected works on the formal systems for implementing sustainability, see Simon Bell and Stephen Morse, *Measuring Sustainability: Learning from Doing* (Earthscan Publications, 2003); Marc J. Epstein, "Implementing Corporate Sustainability: Measuring and Managing Social

and Environmental Impacts," *Strategic Finance*, 2008, January, 25–31; Tamara Bekefi and Marc J. Epstein, "Measuring and Managing Social and Political Risk," *Strategic Finance*, 2008, February, 33–41; and Tamara Bekefi and Marc J. Epstein, "Transforming Social and Environmental Risks into Opportunities," *Strategic Finance*, 2008, March, 42–47.

For selected works on the informal systems for implementing sustainability, see Marc J. Epstein, Adriana Rejc Buhovac, and Kristi Yuthas, "Implementing Sustainability: The Role of Leadership and Organizational Culture," *Strategic Finance*, 2010, April, 41–47; Jennifer A. Chatman and Sandra Eunyoung Cha, "Leading by Leveraging Culture," *California Management Review*, 2003, 45(4), 20–34; and Bob Doppelt, *Leading Change toward Sustainability: A Change-Management Guide for Business, Government and Civil Society* (Greenleaf Publishing, 2003).

Marc J. Epstein, Ph.D., is Distinguished Research Professor of Management at the Jones Graduate School of Business at Rice University. Prior to joining Rice, Epstein was a professor at Stanford Business School, Harvard Business School, and INSEAD (European Institute of Business Administration). He has written 20 books and over 100 articles, including his most recent book *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts*. Epstein has focused extensively on sustainability and corporate social responsibility for most of his career. In both academic research and managerial practice, he is considered one of the global luminaries in the areas of corporate sustainability, governance, and accountability (Jones Graduate School of Management, Rice University, 6100 Main Street, Houston, TX, USA. Tel.: +1 713 348 6140; e-mail: epstein@rice.edu).

Adriana Rejc Buhovac, Ph.D., is presently an assistant professor of management in the faculty of economics at the University of Ljubljana. As part of her academic career, she focuses on the design and implementation of strategic performance measurement and evaluation systems, as well as on sustainability implementation (Faculty of Economics, University of Ljubljana, Kardeljeva ploščad 17, 1000 Ljubljana, Slovenia. E-mail: adriana.rejcbuhovac@ef.uni-lj.si).