

The value of a truly sustainable business strategy

When organisations embrace sustainability as a core – rather than peripheral – value, they create competitive advantage and a wealth of goodwill. At least two Australian companies have proved it, writes Sean Rooney.



Businesses committing to corporate social responsibility need to ensure that their purpose, objectives and activities are aligned with sustainability principles. Viorika Prikhodo

While corporate social responsibility (CSR) is now a part of the corporate vernacular, in many Australian companies the responsibility for CSR remains the domain of the corporate affairs department.

Unfortunately, this practice positions CSR in the corporate psyche as a communication function, unrelated to core

business. Rather than being viewed as an 'add-on' to operations handled by the corporate office, CSR should be seen as an embodiment of the organisation's culture and values and be embedded in all operations.

Some Australian companies have, in fact, moved beyond the public affairs version

of CSR detailed above. These organisations have adopted a broader value set¹ – interdependence, empathy, equity, personal responsibility and intergenerational justice – to underpin sustainability as the basis of their business strategy.

Within such companies, the term CSR is rarely used and annual triple bottom line reporting is simply one of the many seamless feedback loops enabling the organisation to monitor performance, business health and continual improvement.

Sustainability and competitive advantage

Many forces influence the way businesses think and act. Globalised markets, climate change, rapidly urbanising landscapes, social and economic disadvantage, the rise of developing economies, regulatory pressures, informed consumers and activist movements, for example, are all forcing businesses to think more systemically and acknowledge the connection between themselves and the communities in which they operate.

Embracing this complexity provides a fresh perspective and prospects for those corporate leaders willing to challenge conventional thinking. In this paradigm, 'sustainability' recognises the links and interdependencies between business and society, which

create new opportunities to deliver enduring value and mutual benefit.

This intent is captured in the Dow Jones Sustainability Index (DJSI) where it states that 'corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments'.

In this context, real opportunities for business and society reside in basing sustainability at the heart of the business and integrating long-term economic, environmental and social perspectives with strategy formulation and implementation.

This compels organisations to ensure that their purpose, objectives and activities are aligned with sustainability principles. Known as Sustainability Business Strategy (SBS), this approach is a major source of innovation and competitive advantage.

The four business fundamentals

Bjorn Stigson, President of the World Business Council for Sustainable Development² said that 'business cannot succeed in societies that fail'. SBS acknowledges this truism and aligns organisational goals with broader societal issues.

Companies seeking to apply SBS need to understand their

¹ In his book *Capitalism as if the World Matters* (Earthscan: London, 2005), Jonathon Porritt advocates a set of 'sustainability values' that underpin sustainable societies (see p. 284).

² <http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?MenuID=1>



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operations in a much broader context than that traditionally used to formulate corporate strategy. They need to explore in detail all their relationships – across business, society and the environment – to appreciate the impacts these have throughout the corporate value chain.

Many case studies are available to assist companies in developing business strategy underpinned by sustainability.³ Common to most of these are four fundamental business elements that maintain the focus on mutual benefit: efficiency, risk, relationships and innovation.

Efficiency: Most often this is in the form of eco-efficiency – 'doing more with less'. For example, cost savings can be created by reducing inputs (e.g. energy, materials and water) while maintaining/increasing outputs and/or reducing non-value producing outputs (e.g. waste and packaging).

Risk: The focus here is on managing risk in all areas of the business including reputation, labour, regulation, supply chain and operations.

Relationships: Understanding and valuing relationships

(internally and externally) from the perspective that they deliver business outcomes.

Innovation: Seeking to innovate across all areas of operations, most notably by focusing on efficiency, risk and relationships. For example:

- innovation in production processes leading to savings from efficiencies or new revenue opportunities from waste streams;
- mitigating risk through design, process or technological innovation by developing new programs to address risk from a sustainability perspective; and
- enhancing existing and/or creating new relationships underpinned by the notions of sustainability and mutual benefit.

Australian early adopters

In Australia, two notable early adopters of business strategies underpinned by sustainability are Westpac Banking Corporation and Insurance Australia Group (IAG).

Both have been able to successfully differentiate themselves from their competitors in

their respective markets in ways that deliver both business and social benefits.⁴

Each has evolved SBS initiatives to create a 'sustainability' attribute in their individual value propositions that is attractive to consumers and difficult for competitors to replicate.

Both organisations have become leaders in SBS development and application and have compelled other players in their sectors to reconsider CSR in a more strategic context.

Listed below are some ways in which Westpac and IAG have applied SBS to the four fundamental business elements. These activities inherently involve innovation in process, planning, design and technology.

- Efficiency**
- IAG: organisational goal for all operations to be carbon-neutral within five years with operational efficiency measures and innovations contributing to reducing greenhouse gas emissions.
 - Westpac: demonstrable performance improvements in greenhouse gas emissions, energy usage, paper usage, recycling and car fleet performance over the past nine years.

Risk

- IAG: risk-reduction community programs relevant to core business, targeting road and home safety, crime prevention, workplace safety, emergency services and climate change.
- Westpac: leading the adoption of the Equator Principles with nine other global banks to ensure social and environmental issues are considered in project financing.

Relationships

- IAG: Australian Business Roundtable on Climate

Change multi-stakeholder partnership producing 'The Business Case for Early Action' report.

- Westpac: Participant in Indigenous Enterprise Partnership in Cape York, building financial independence for communities through programs like Family Income Management and Business Hubs with local indigenous organisations.

'Walk the talk'

SBS is not about the company's performance last quarter, or the next quarter's forecast. Rather, it is about a company's resilience in dynamic, competitive environments, and its connection to the communities in which it operates.

Actions speak louder than words, and if there are inconsistencies between a company's sustainability message and its actual operations, the organisation's reputation will suffer.

To derive competitive advantage from SBS, corporations need to measure and report performance and communicate its impact. Reporting performance should not be viewed as an end in itself. Rather, it should provide a feedback loop from which to measure the impact of strategic decisions, update targets and identify areas for improvement.

Placing sustainability at the centre of business strategy requires leadership and innovation. SBS is not a collection of uncoordinated CSR activities communicated for cosmetic effect – it is business strategy well executed and communicated, driving enduring value creation.

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³ Two notable examples are Forum for the Future: Five Capitals model, http://www.forumforthefuture.org.uk/aboutus/sdtools_page398.aspx#FCM; and inside-out/outside-in social opportunity mapping described in Porter ME and Kramer MR (2006). Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. *Harvard Business Review* December.

⁴ For further information see the following links: Westpac – <http://www.westpac.com.au/internet/publish.nsf/Content/WI+HomePage>, IAG – <http://www.iag.com.au/sustainable/index.shtml>