SUSTAINABLE VALUE MANAGEMENT – LEADING ORGANIZATIONS TOWARDS AN INTEGRATED BOTTOM LINE

Summary. An organization without an integrated bottom line approach is not designed to last. Value management is the organizational glue which makes it possible to integrate financial sustainability with social responsibility and environmental concerns. This paper suggests sustainable value management in the context of recent developments in corporate social responsibility, sustainability and the triple bottom line. The author argues that economic, social, and environmental sustainability needs to be integrated into value-centered management. Sustainable value creation with leaders and managers leads to sustainable growth for 21st century managerial practices aiming to benefit both shareholders and stakeholders.

Keywords: social responsibility, integrated bottom line, triple bottom line, sustainability

ZARZĄDZANIE POPRZEZ WARTOŚCI – W KIERUNKU ROZWOJU ORGANIZACJI

Streszczenie. Organizacja pozbawiona podejścia zintegrowanej linii przewodniej nie została zaprojektowana, by przetrwać. Zarządzanie wartością jest klejem organizacyjnym, który stwarza możliwości dla integracji równowagi finansowej ze społeczną odpowiedzialnością i troską o środowisko. Niniejszy artykuł wskazuje na zarządzanie wartością zrównoważoną w kontekście współczesnego rozwoju w zakresie społecznej odpowiedzialności przedsiębiorstw, zrównoważonego rozwoju oraz potrójnej linii przewodniej. Autor dowodzi, iż równowaga gospodarcza, społeczna i środowiskowa wymaga zintegrowania wokół zarządzania skupionego na wartości. Tworzenie zrównoważonej wartości przez liderów i menadżerów prowadzi do zrównoważonego wzrostu praktyk menadżerskich ukierunkowanych na przynoszenie korzyści zarówno udziałowcom, jak i interesariuszom.
Managers in triple-bottom-line (TBL) organizations aren’t just in it for the money. Their work aims at satisfying social and environmental bottom lines as well. An integrated bottom line goes a step further by suggesting that all three topics (environment, society, and economy) should be considered together as a single bottom line. The term “sustainability” is fast becoming an essential buzzword in business and management discussions. Today numerous organizations welcome sustainability concepts into their value statements but struggle to integrate its meanings into their managerial operations. Managers and leaders struggle to integrate economic, environmental and social dimension of sustainability. This article argues that the translations of sustainability concepts into practices and the integration of triple bottom line passes through an authentic effort to create and rediscover sustainable values in managerial education and practices.

The 2008-2009 global economic crises have vividly illustrated both the flaws and dire consequences of an unregulated and greedy financial market which focuses exclusively on the financial bottom line without appropriate consideration of our common future and shared interests. Adam Smith himself based all his arguments for the Wealth of Nations (1776) on the assumption that people are born with a moral sense, as highlighted in his previous publication Theory of Moral Sentiments (1759). Recuperating the moral values in our economic and managerial activities is the first step for understanding the wisdom behind sustainable practices. ¹ If in the past ethics in business and integrity in management were merely “good recommendations,” today’s compelling crisis and fragility of our economic and eco-social systems requires us to commit our values and practices to sustainability. The success of a few and the failure of many as driven by the political economic ideologies of the last 30 years have seriously undermined the moral responsibility, social nature and ecological dependency of humankind. Chilean economist Dr. Alfredo Sfeir-Younis, the first environmental economist hired by the World Bank 28 years ago recognizes the centrality of values and self-realization in the pursuit of a sustainable society:

“In essence, the future of Sustainable Development lies in a major revolution in values. This is to say, to move from a system of purely individualistic values (those of competition, hoarding, consumerism, individual welfare only), to collective values (interdependence, interconnectedness, sharing, caring, stewardship). And, it is here where we must introduce ethical and spiritual values. Economic and financial values will not bring us to a sustainable

society. This is not an ideological debate. It is an empirical one. Just focus on where we are now in terms of ecological destruction, economic inequities and social instability”.

What is needed is a cultural change in the current managerial values. Today’s companies and organizations, even those who preach sustainability, often reward competitiveness more than collaboration, individual achievements more than the common good, rational pragmatism more than relational inclusivity. The current economic, financial and global crisis should be the occasion to accelerate such cultural organizational and managerial change. While undesirable for the many personal crisis, jobless situations, foreclosures, bankruptcy and bailouts, the 2008-2009 financial crisis has generated a momentum to redirect our economy toward a more environmentally sustainable and socially responsible future. Our Common Future, published in 1987 by the United Nations’ Brundtland Commission defined sustainability as meeting the needs of the present without compromising the ability of future generations to meet their own.

Although having many different definitions and conceptions, CSR has increasingly become an integral part of the debate surrounding sustainability, as well as a central component of business management. Corporate and organizational CSR reports and global citizenship reports increasingly represent a new trend in green investing and social accountability. Contrary to conservative predictions, the current economic crisis does not slow down the sustainability trend in corporate management. Instead the crisis invites corporate boards and CEOs to revise their plans and reinvent their trajectory toward innovative sustainable solutions that would bring economic benefits by investing in the base of the pyramid (BOP), social entrepreneurs and green technologies.

1. Beyond Corporate Social Responsibility

With the shift from shareholder to stakeholder management, today’s multinational corporations (MNCs) and an increasingly larger number of small and medium enterprises (SMEs) have been directing their practices toward sustainable values. Multi-sector partnerships, along with the participation and leadership of the private sector in the field of poverty reduction, have become a common and essential reality for implementing international sustainable development. The public sector, often inspired by intergovernmental

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organizations is today operating in partnership with the private sector and in dialogue with the third sector.\(^5\) An important member of the global society, corporations are in a unique position of power to further the cause for sustainability. In spite of nongovernmental organizations’ (NGOs) skepticism on the true intentions of corporations, numerous for-profits have been engaging in very important development projects in collaboration with the United Nations Global Compact (UNGC), the UN Development Program (UNDP) and other inter-governmental coalitions to make multi-sector collaboration a channel for implementing sustainable international development projects. Key achievements toward Millennium Development Goals (MDGs) and targets for halving poverty, increasing basic education, improving health services and making cities more sustainable have been possible thanks to direct investments of corporations. These examples are indicative of a new trend that includes and transforms the concepts and practices of CSR toward a more inclusive, integrated and sustainable approach. Organizations that view CSR as a task separated from the larger policies and practices of business are a past phenomenon soon to be transformed and integrated into the management of the corporation at every level. This change in the development and acceptance of CSR as a core business and management strategy signals the recognition of the important leadership role that corporations will have to play as part of the movement towards global sustainability.

In the last half century or so, the conception of CSR has undergone what Lee\(^6\) calls “a progressive rationalization.” He describes the conceptual change in the theory of CSR as the transformation from an idea that was once frowned upon, to one that has become widely accepted as a fundamental part of doing business.\(^7\) This transformation of the conception of CSR can also be seen as the movement from a focus on shareholder approaches to business and management to one that increasingly incorporates and recognizes the key role that stakeholder approaches play.\(^8\)

One of the most notable critics of CSR was Milton Friedman, who argued that the corporation’s only responsibility is to create profit for its shareholders.\(^9\) Friedman further

\(^7\) Ibidem.
\(^8\) Ibidem.
argued that a corporate manager or executive’s use of company funds for any such “social responsibility,” was a misuse of shareholder money. This highly controversial position draws from two assumptions: that 1) CSR is not integrated into the main directives and scope of the organization and that 2) For-profits benefit society by focusing on their primary role as profit maker and therefore responding to society’s needs through Adam Smith’s “invisible hand”. While Friedman and others did not conceive of CSR as having a place in business, other conceptions of CSR in the context of shareholder approaches to business and management view CSR as a purely economic pursuit of the corporation, either as a way of maximizing shareholder wealth or achieving economic competitive advantages for the corporation. The growing global inequalities and the market crisis have deeply challenged Milton Friedman and the Chicago School’s neoliberal ideology favoring deregulated free markets and the international privatizations mantra. The 2009 Nobel Prizes in Economics, given to Elinor Ostrom and Oliver E. Williamson, two scholars who emphasize the centrality of social interaction and responsibility of corporations in conflict resolution, are indicative of a new chapter in economics.

As the 20th century has progressed, a change in the conception of CSR has occurred under the heading of what many scholars have called stakeholder approaches to business and management. According to the stakeholder approach, shareholders are no longer the only individuals who have an interest in a corporation’s business decisions. Instead there exists a broader group of individuals at all levels within society (stakeholders) who are affected by the corporation and therefore have a vested interest in its policies and practices.

More recently, efforts have been made to more fully develop the link between sustainability and corporate social responsibility. This relationship has best been described in terms of the idea of the “triple bottom line” (TBL) in business (also known as “people, planet, profit”), a concept which highlights the need for integration of economic, social, and environmental factors into sustainable business management. First coined by John Elkington in 1994, the TBL agenda seeks to address how corporations can focus “not just on

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the economic value that they add, but also on the environmental and social value that they add – or destroy”.

2. An Integrated Bottom Line

Expanding on the idea of TBL, Chris Laszlo has taken the concept of sustainable business management even further, calling for the integration of shareholder and stakeholder value into what he calls “sustainable value”. In The Sustainable Company: How to Create Lasting Value Through Social and Environmental Performance and Sustainable Value: How the World’s Leading Companies are Doing Well by Doing Good, Laszlo advocates for a new business paradigm, one in which the drive for sustainability has necessitated that corporations take on a new role in society. No longer is the corporation the “unit of consciousness”. Instead, corporations must turn away from a single-minded focus on the economic dimension of their business and must develop a broader and deeper understanding of their impact and connectedness with the social and environmental dimensions as well.

Further recognizing the important role that corporations must play in the movement towards an integrated approach to global sustainability, major international organizations like the United Nations Global Compact (UNGC) have called on businesses to voluntarily commit themselves to aligning their business operations and strategies with the Global Compact’s ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption. Today, the Global compact has 6,500 signatories based in over 135 countries.

A number of outstanding examples have made the business case for this integrated approach to sustainability and the TBL agenda, showing how sustainability can be successfully incorporated into all facets of a corporation’s management. Two such informative cases can be found in the experiences of the outerwear company, Patagonia, Inc., and the flooring company, Interface, Inc. Both of these companies have demonstrated how an understanding of and commitment to the social and environmental aspects of sustainability have been successfully integrated with the economic aspect of their business practices and policies.

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15 Elkington J.: op.cit., p. 3.
17 Ibidem.
Patagonia has long been committed to the health and safety of those working in the factories that produce their products, and in 1990 began asking their contract managers and quality assurance staff to review the factories they visited for both product quality and working conditions. Then, in 1994 Patagonia decided to drastically change the way they conducted business by taking their cotton sportswear 100% organic by 1996. This decision came after the company commissioned an environmental impact assessment of four major fibers used in Patagonia’s clothing. The assessment found cotton to be a major environmental polluter, and after several trips by company executives to the San Joaquin Valley to experience firsthand the environmental devastation caused by the conventional methods used to grow their cotton, the company made the move to procure only organic cotton.

In the same way, the carpet company Interface made the conscious choice to integrate sustainability into its business practices. Interface CEO Ray Anderson has described this as a process in which he began to make the connection between Interface and its various stakeholders, leading to the creation of the company’s “Seven Fronts of Mount Sustainability,” a metaphor for its journey towards sustainability. Anderson has discussed how making the switch to a more sustainable organization has been good business for Interface: “Sustainability doesn’t cost; it pays”.

While these examples paint a portrait of successful integration of sustainability into a triple bottom line approach for these companies, the question still remains, what is the best way to integrate sustainability into business practices and policies?

3. Sustainability Values Creation

The answer to this question begins with a discussion about values. Values are the foundation for economic, ecologic, social and moral development. To be sure financial resources are essential, but they alone do not guarantee a more human or sustainable outcome in communities or organizations. This point was illustrated to me when I started working with impoverished community organizations in Metro Manila. The first thing they told me was, “Please do not bring us micro-finance. We need to work on our people’s value and moral formation first.” I was surprised by that comment as many of my colleagues in the

21 Laszlo C.: The sustainable..., op.cit.
business school interpreted the micro-credit work of Mohamed Younis, the charismatic founder of Grameen Bank in Bangladesh, as a clear example of community transformation through cash flow. Yet, many researchers have shown that true sustainable development is attainable only by combining and applying an integrated plan for increasing economic, social and organizational capacity. The ineffectiveness of numerous international development plans are often explained by a sector-divided approach that does not consider economic capital as integrated to social capital, environmental capital and moral capital. Hernando de Soto identifies this materialistic view of capital and western approach to development as the main cause behind “underdevelopment” and social exclusion.

The field of management has traditionally focused on the “how” and “efficiency” practices but tended to put very little focus on the “why” and “sustainability” practices. We need to recognize that management and leadership practices are systems for the definition and transmission of values. Yet the individualistic, competitiveness and opportunistic values of often praised managerial practices are rarely questioned, nor are the economic mechanisms, structure of laws and regulations that govern these mechanisms. We need to remember that these systems and practices are a powerful vehicle for the transmission of values. The basic values that guide our mainstream managerial practices follow an economic ideology that, with the exception of Malthus and Marx, did not pay much attention to its environmental and social consequences. As we need a re-examination of the values that are represented by our economic systems, so we need to look into the values and responsibility of management operations. We need to re-focus on the values and directions organizational leadership practices behind the goals and objectives of managers and teams. As indicative in recent integrated value chain of management strategies like Six Sigma, Balanced Score Card, Total Quality or Cycle-time reduction, the trend in integration should also include also the environmental and social aspects of management. Emotional intelligence (EQ), for example, which has gained popularity in leadership and management studies, is not enough. The IQ needs to be integrated in a multiple intelligence model that includes emotional (EQ), social, cultural (CQ) environmental and moral intelligence or spiritual intelligence (SQ). The management intelligence needs to do more than identify smart strategies for survivorship in the workplace. It needs to find its role and responsibility toward authentic collective changes and transformational sustainable practices.

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26 Laszlo C.: The sustainable…, op.cit.
4. Towards Sustainable Value Management

Laszlo points to “mental models” as a key barrier to overcome in effectively managing for sustainable value, stemming in particular from the leader’s mind-set. Others have also issued a call for a change in management thinking. Waddock & McIntosh argue for a change in management education in order for businesses to make the shift towards more integrated approaches to managing for corporate social responsibility and sustainability. In *Management for a Small Planet*, Stead & Stead echo this call for a new mind-set in business, one in which business managers recognize the need for integration of both society and nature in managerial decision making. Business managers must also have the ability to be multi-dimensional leaders, drawing upon the tenets of various leadership style’s including transformational leadership, servant leadership, and even spiritual leadership.

Important lessons in management, however, may also be drawn from the success of businesses in other ways. In their book, *Built to Last: Successful Habits of Visionary Companies*, James Collins and Jerry Porras profile a number of America’s most successful companies in an attempt to pinpoint the reasons for their success. One of the most compelling conclusions they reach in the success of these companies is that contrary to the classic business concept of maximizing shareholder wealth and corporate profits, for visionary companies “business has historically been more than an economic activity, more than just a way to make money,” or what they call a “core ideology that transcends purely economic considerations”.

Transforming business for an integrated approach to sustainability will require a major overhaul in business and management practices, but as many companies have demonstrated, it can be done in a way that maximizes both shareholder and stakeholder value. The emphasis on sustainability and social responsibility begin with innovative ideas and practices of courageous and visionary leaders like Ray Anderson at Interface, Inc. However, a true transformation can happen only with a renewed managerial education centered on the values of sustainability and social responsibility. The United Nations Global Compact has pushed this effort and convened prominent business ethicists to develop the Principles of Responsible Management Education (PRME). This important initiative recognizes how the

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32 www.unprme.org.
values of environment, corporate responsibility and sustainability have entered but not yet become embedded in the mainstream of business-related education. Like other academic institutions partnering with the UNGC, DePaul University’s Institute for Business and Professional Ethics has been on the forefront of the PRME. Academic institutions have a primary responsibility to educate capable managers with a value-centered trajectory to face the complex business, societal and environmental challenges of the 21st century. The PRME are inspired by internationally accepted environmental, human rights, labor rights and integrity values which ground the sustainable development, peace and justice works of the United Nations Global Compact. International organizations cannot do much to transform the culture of “greed” on Wall Street and corporations unless academic institutions do their part in educating a new generation of managers and leaders capable of effectively working for the promotion of a sustainable, inclusive and prosperous future for all. The PRME are therefore an essential call to universities and business schools worldwide to adapt their teaching, research and services toward sustainability values and practices.

While the term of “sustainability” is increasingly becoming an integral part of the mission, vision and value statements of organizations, management practices still do not focus on sustainable values. In spite of the recognition of our global awareness of social interconnectedness and environmental interdependence, we still operate our organizational and financial plans without considering universal or collective values. Values like integrity, respect, compassion, solidarity, equity, sharing, caring, peace, security, respect for nature, justice, inclusion, etc. must be translated beyond fancy brochures or policy declarations to actual strategies and true investments for attaining them. Higher and continuing education has the primary responsibility for fostering these transformations.

Green-washing initiatives are obviously not enough in management or educational management. Academic institutions have the possibility and challenge to make sustainability an integral and “core” value in their curricula, operations, research and engagement with the community. Leaders and administrators often do not fully recognize how sustainability investments are more than “green” investments. They are and should include economic, societal and global benefits. An organization focused on sustainable values gain not only in their marketing strategies, but also primary mission of educating socially responsible leaders for the 21st century. DePaul, the largest American Catholic University, is driven by its Vincentian values to make a difference in the society, especially for the poor and socially excluded. These social concerns are its mission and values. They are the “glue” that sustains its institutional commitments and engagement for an economically sustainable, socially

responsible and environmentally friendly educational service. Other organizations need to identify their “glue” that would make the triple bottom line stick together and better integrate with their mission.

Sustainability is more than big business – it is our educational, social and global responsibility for us and future generations. To educate sustainable value managers capable and concerned with the implementation of an integrated triple bottom line, we need to start with the fourth-bottom line: our moral values and deepest motivations in the workplace. If it is true that one of the distinguishing characteristic of homo-sapiens is its moral value and sense for higher purpose in life, we need to re-discover our true needs and work as homo-economicus in integration with our identity as homo-sociologicus and our destiny as homo-biologicus.

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Reviewers: Dr hab. Agata Stachowicz-Stanusch, Prof. nzw. w Pol. Śl. Prof. dr hab. Wojciech Dyduch