

PETER A. SOYKA

CREATING A SUSTAINABLE ORGANIZATION

APPROACHES FOR
ENHANCING CORPORATE VALUE
THROUGH SUSTAINABILITY



Praise for Creating a Sustainable Organization

“Peter brings together the wide-ranging aspects of present and future organizations to bolster environmental, social, and governance (ES&G) performance, presenting a clean and clear understanding of *organizational sustainability*. There are two ways to take over the world in business within the income statement and balance sheet—cash and profits! Peter presents anecdotal and factual evidence for translating typical ES&G data into financial knowledge, ultimately to decrease bad costs, optimize use of assets, and increase the profitability of revenue streams.”

—**Michael R. Pisarcik**, Director, Environment & Safety Management Systems,
Sara Lee Corporation

“Peter Soyka’s book *Creating a Sustainable Organization* offers an informative, comprehensive look at many foundational issues for the emerging field of sustainable business management.”

—**Carol Singer Neuvelt**, Executive Director, National Association for
Environmental Management (NAEM)

“Peter Soyka is a master at bringing clarity to concepts, deconstructing the labels in vogue, and offering a multidisciplinary, grounded perspective that links socially responsible investing to corporate sustainability. He also diagnoses the changes, challenges, demands, and expectations of the paradigm shift involving the EHS/sustainability and financial communities. This book is for organizations seeking to catalyze sustainability thinking and practice, develop a sustainability DNA, and stimulate the right conditions for value creation.”

—**Donna Vincent Roa**, PhD, ABC, CSR-P, Managing Partner & Chief Strategist,
Water Sector Communication Expert, Vincent Roa Group, LLC

“Peter’s message is clear: Sustainability leadership is now synonymous with business leadership. The book is a clear roadmap to leverage sustainability thinking to create shareholder value.”

—**Tim Mohin**, Corporate Responsibility Director, Advanced Micro Devices;
author of *Changing Business from the Inside Out:
A Treehugger’s Guide to Working in Corporations*

“I’ve worked with Peter for more than 25 years. This is exactly the kind of work I’d expect from him. It’s a book for current and aspiring sustainability professionals, and moves the discussion from the emotional, green, crunchy granola appeal of sustainability to the argument that appeals to the brain. *Creating a Sustainable Organization* presents the theory, the evidence, and the organizational case underpinning the argument for green; it shows why caring about sustainability is good for the bottom line and the economy as well as the earth.”

—**Lawrence G. Buc**, President, SLS Consulting, Inc.

credibility, and trust, they are unlikely to go wrong (or very wrong) as they consider how best to address the concerns of their stakeholders. They must do this in the context of both long-range and day-to-day business opportunities and challenges.

The next section describes each of the major stakeholder constituencies that collectively determine whether and to what extent a company has earned and maintained its implicit social license to operate, and their unique roles and interests in defining and tracking important firm-level sustainability issues.

Major Company Stakeholders

Companies of even moderate size have a substantial number of different stakeholders who require attention and may have an interest in ES&G issues. Each of these constituencies brings a different perspective, has one or more primary roles in or relationships with the company, and has unique obligations and/or expectations. Although every firm and its influences are unique, most firms should be mindful of at least the constituencies described in the following sections.

Employees

Experience and a good deal of management literature support the idea that a firm's employees and their talents are among its most valuable assets. Unlike most other corporate assets, however, the firm does not own its employees. With certain exceptions,⁶ they are free to take their talents elsewhere whenever they choose. Accordingly, it is reasonable and appropriate to be mindful of employee concerns in the ES&G arena, particularly as such issues receive more public scrutiny and senior management attention. Some firms, as a matter of principle, don't consider their employees to be "stakeholders" in the conventional sense. Instead, these companies prefer to send the message that all members of the organization are responsible for understanding and addressing all important business issues, including those pertaining to sustainability. In other words, they are an integral part of interpreting and responding to the concerns of stakeholders and

are not stakeholders themselves. Regardless of what conventions are adopted for internal messaging and management, the fact remains that addressing sustainability in an effective and coherent manner begins with dialog with the members of the organization. They are the people closest to the issues that may pose environmental, health and safety, social, and even governance issues. They often can identify subtleties in the competitive landscape that may affect the firm's ideal approach to managing these issues. And they are the ones who in the final analysis will need to carry out the indicated actions and live with their outcomes and consequences. As suggested in the next chapter, I view active, inclusive engagement with the firm's employees as a crucial enabler of an approach to sustainability that will be responsive to all important factors and effective in the long run.

Customers

In today's globally connected and competitive economy, the need to keep customers satisfied with what they receive from a firm is of paramount importance. Quite simply, a lack of customers means no revenue and therefore no business. Conversely, attracting new customers, retaining existing ones, and selling more goods and services to both is the clearest and surest pathway to revenue growth, opportunity, and a thriving enterprise. As discussed at length in Chapter 3, a substantial number of large and influential customers are now becoming more demanding and more vocal in establishing ES&G expectations of their business partners and vendors. This is particularly true in consumer-facing businesses. For this reason alone, one could likely justify establishing a new program or initiative to pursue sustainability at the corporate level. It would be short-sighted and possibly self-defeating to build a company's approach to sustainability solely on customer desires and expectations. But for virtually any type of business, the customer's voice is an important influence.

Suppliers

The other side of the value chain is made up of the enterprises that supply goods and services to the firm. They may number from a

few to many hundreds or thousands, depending on the firm's nature and scale. Suppliers can influence the company's ES&G posture and public perception. This is particularly true if they supply manufactured goods (such as garments, footwear, and other low-technology products that have been more or less entirely offshored to developing countries in the Pacific Rim); conduct facility or major equipment design, construction, and/or operating and maintenance (O&M) services; or provide extensive transportation services. The consequences of inadequate attention paid to supplier capability and operating practices can be severe (as attested to by the experience of companies such as Nike and BP). Therefore, vigilance toward and active management of supplier ES&G posture and performance are certainly warranted as part of any comprehensive approach to corporate sustainability.⁷ Moreover, suppliers and their ES&G impacts will almost certainly become more publicly prominent as the shift toward a more expansive examination of these impacts, through life-cycle analysis, becomes more established during the next few years. Companies, and the executives and managers who run them, would be well-advised to invest in developing a greater understanding of the current status and capability of their suppliers relative to ES&G issues, if they have not done so already.

Communities

Local communities provide much of the supporting infrastructure used by the companies that choose to locate within them and, often, many of their employees. These companies, in turn, provide employment opportunities to people within the host community as well as tax revenue, and may provide philanthropic and other support as well. Consequently, a symbiotic relationship exists (or should) between the firm and its host community, with both receiving benefits from the relationship that they would not enjoy otherwise. The nature and terms of these company-community relationships have been tested over the past few decades, as issues such as safe and reasonable working conditions, environmental issues such as pollutant emissions and waste management, participation in community affairs, and financial issues (such as tax relief in exchange for locating/maintaining a plant, or payment for new infrastructure) have become more prominent.

These issues have made the relationships more complex and multifaceted and have often broadened the continuing discussion between elected officials and company representatives. In addition, the rate of formation and activity level of community-based groups appears to have increased significantly in recent years. It has been powered by a combination of the public access provisions of major laws (environmental laws in particular), the availability of information, and the emergence and recognition of environmental justice as an appropriate element of public policy in many jurisdictions across the U.S., as well as at the federal level.⁸ These trends, taken as a whole, mean that the days in which companies could wield substantial power and achieve their ends simply by virtue of their size and/or by cultivating good relationships with a few elected officials are over in many places. Today, and increasingly in the future, firms will need to develop and maintain relationships with a broader array of actors in the communities of which they are a part. They also must recognize that the discussion around any particular ES&G issue or set of issues is likely to be broader, and that reaching a conclusive outcome may be more time-consuming and difficult than in the past. Finally, and importantly, the community level is where a firm's social license to operate is obtained and where it can most easily be lost.

Regulators

As discussed in Chapter 3, regulatory agencies are charged with interpreting and carrying out legislative intent; establishing specific requirements; and overseeing and, where necessary, enforcing compliance. As a matter of course, they also provide technical assistance, training, and other services to the regulated community, and collect, analyze, and report information to the public. Thus, regulators and other public sector entities have ongoing relationships with representatives of many companies. As a practical matter, virtually all firms of substantial size must regularly interact with regulators at some level. The primary responsibility of regulatory agency personnel is ensuring that every firm and facility that is subject to a given regulatory requirement is in compliance, so the nature of the relationship is necessarily somewhat adversarial.

With that said, a great many executives and staff within these agencies recognize that regulation has practical limits. They also understand that if you truly care about improving environmental, health and safety, and/or social performance, finding ways to bring this about through nonregulatory means (such as through voluntary, beyond-compliance actions) is a practical necessity. Indeed, as discussed in Chapters 5 and 6, a substantial number of voluntary partnership programs have been established by the EPA, OSHA, the DOT, and other federal agencies and their state-level counterparts that target and involve both regulated and largely unregulated companies and industries. Although their record of accomplishments varies, there can be no doubt that well-designed voluntary programs can yield substantial benefits for all participants. One collateral benefit of the experience gained from operating these programs over the past 15 years or so is that for many companies, the level of mutual understanding, credibility, and trust between the firm and the regulator has increased markedly. This type of enhanced relationship is an asset that some companies have employed very effectively. It probably could be developed and used productively by many more firms and their leaders. We should always remember, however, that such relationships are based and contingent upon maintaining an effective program of full and continuous compliance with the law and all regulatory requirements.

The Media

There was a time in the not-so-distant past when the news media was focused on just that—reporting news and current events. This was accomplished through the work of large networks of correspondents posted in different locations around the world, supplemented by reporters with specialized knowledge of important topics. Generally, the expectation on all sides was that the media's job was to unearth facts, perform some limited analysis, and report the results of these activities to their readers or viewers without embellishment or reshaping to fit any particular ideology or agenda. I believe that most people would agree that this situation no longer exists in the U.S. The media today, which is increasingly dominated on the commercial side by an oligopoly of large media companies, is as much

about entertaining audiences as informing them. Today's media is segmented so that a person at any given point on the ideological and political spectrum can find "news" that is tailored to his or her view of the world.

Irrespective of what you think about the state of today's news media, it is important to understand what the media does and how it works. For an issue or event to be considered "news" and therefore worthy of coverage, it must be recent, or "new," and offer one of the "three Cs"—crisis, conflict, or controversy.⁹ Stories not meeting any of these criteria might occasionally be pursued and published/broadcast (such as human-interest items). But the news agenda always will be dominated by events meeting one, or preferably more than one, of the three Cs.¹⁰ Traditionally, this orientation has placed environmental and safety issues in the spotlight every so often. It is fair to say that media attention during the formative years of the environmental movement was enormously helpful in spreading public awareness of these issues and indirectly building public support and pressure for new laws. Unfortunately, however, many or most of our remaining problems are complex and cannot be easily reduced to a short television spot or newspaper article. Also, they do not involve an immediate crisis that can be captured visually (by a film crew or photographer), and they require some existing level of knowledge to fully understand and/or appreciate. Therefore, they tend not to make very compelling news items. Typically, the best we can expect is a general description of the issue or problem, preceded by the requisite story of a person and his or her experience with the issue. These are accompanied by two generally opposed points of view about what the issue or problem really is, its root cause, and what needs to be done about it and by whom. This serves the important function of bringing the issue to the attention of the public, but you could reasonably question whether it is enough for the reader/viewer to fully understand the issue. Moreover, as discussed in Chapter 2, the level of literacy in this country regarding ES&G issues and, more fundamentally, scientific principles, is quite low. This imposes some severe limitations on the extent to which the means of communication and the business model used by conventional media are or ever will be adequate to relay all relevant facts and perspectives to the American public.