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SUSTAINABLE LEADERSHIP

MASUDEM

MASTER STUDIES IN SUSTAINABLE DEVELOPMENT AND MANAGEMENT

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CONTENT

INTRODUCTION

The introduction to the comprehensive study on sustainable leadership elucidates the pivotal role of leadership in the nexus of organizational success and sustainability. It delves into the complex art and science of leadership, emphasizing its criticality not merely as a hierarchical position but as a dynamic force capable of influencing, inspiring, and mobilizing individuals toward a shared vision of improvement and innovation. Leadership, in this context, transcends conventional boundaries, encapsulating a spectrum of skills and qualities essential for steering organizations through the rapidly evolving landscapes of global business and societal challenges.

Central to this discourse is the recognition of leadership as a multifaceted endeavor, requiring a profound understanding of communication, adaptability, strategic visioning, and the nurturing of an environment conducive to creative and innovative thought processes. The text highlights the imperative for leaders to embody a balance of decisiveness and empathy, ensuring that decision-making processes are anchored in both confidence and integrity, thereby fostering a culture of trust, respect, and collective commitment to the organization's long-term sustainability goals.

Moreover, the course underscores the evolving nature of leadership in response to the shifting paradigms of the global economy, technological advancements, and societal expectations. It posits that contemporary leaders must be visionary in their approach, adept at navigating the complexities of the modern economic and social terrains, and committed to lifelong learning and self-enhancement. This adaptive leadership paradigm is essential for driving forward-thinking strategies that not only promote organizational resilience and competitiveness but also align with broader sustainability and ethical standards.

In essence, the course sets a comprehensive foundation for exploring sustainable leadership within a global context, advocating for a leadership model that integrates visionary foresight, strategic adaptability, ethical decision-making, and a commitment to fostering an organizational culture of accountability, innovation, and excellence. Through this lens, the study aims to provide a deep dive into the critical dimensions, styles, practices, and impacts of leadership on the trajectory of business sustainability, offering insights and frameworks that can guide organizations in cultivating leadership capabilities that are responsive to the demands of a rapidly changing world.

CHAPTER 1: LEADERSHIP AND ITS IMPORTANCE FOR BUSSINES SUSTAINABILITY

Leadership is the art of motivating a group of people toward achieving a common goal. It is not merely a position of power but an act of influencing and inspiring others. A true leader can see how things can be improved and rallies people to move toward that better vision. Leaders can be found and are necessary at every level of an organization, and their impact on a company's culture, direction, and success cannot be overstated (Schein, 1991).

The essence of leadership lies in the ability to communicate effectively and articulate ideas, visions, and directions in a way that resonates with others. This communication goes beyond mere dialogue; it involves active listening and the capacity to translate feedback into action. Leaders must be adept at managing their teams' operational and emotional landscapes, fostering an environment where creativity and innovation can flourish.

Leadership also involves making tough decisions with confidence and integrity, even in the face of uncertainty. It requires a balance of assertiveness and empathy, ensuring team members feel supported and valued, even when difficult changes are necessary. A leader's decisiveness encourages a culture of trust and respect, which is essential for an organization's long-term sustainability (Antonakis & Day, 2018).

Moreover, leadership is not static; it evolves with the changing tides of the business world and society. Today's leaders must be adaptable, ready to embrace change, and guide their teams through the complexities of the modern economic and social landscape. They must be visionaries, strategists, and, perhaps most importantly, lifelong learners who always seek to improve themselves and their organizations (Brown & Treviño, 2005).

In conclusion, leadership is a multifaceted endeavor that demands a blend of vision, communication, decision-making, and adaptability. It is about setting an example through actions and fostering a culture of accountability and excellence. Effective leadership is the catalyst for success in any organization (Bass & Riggio, 2006).

1.1 Dimensions of Leadership

The concept of leadership is multifaceted and can be explored through various dimensions. Here are eight commonly discussed dimensions of leadership (Fig 1.1).

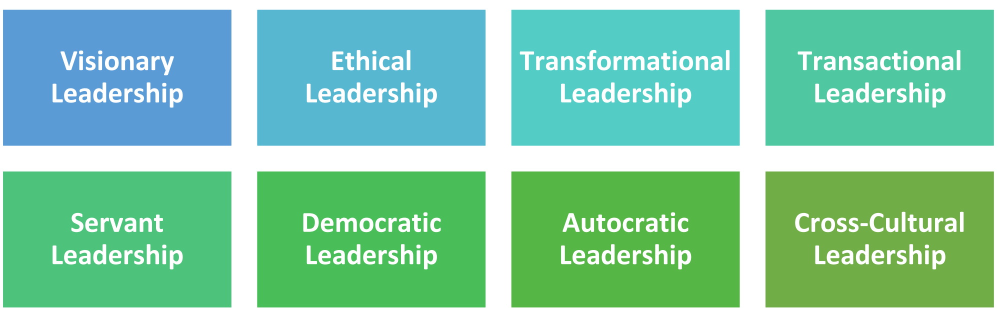

Figure 1.1 Leadership dimensions
Source: developed by author

Visionary leaders have the ability to see the bigger picture and set long-term goals. They inspire and motivate others by clearly communicating their vision and how it can be achieved (Nanus, 1992).

Ethical leaders prioritize integrity and ethical practices in both their personal actions and the culture of the organization. They are committed to fairness, honesty, and doing what is right (Ciulla, 2004).

Transformational leaders drive change by encouraging innovation and creativity. They focus on transforming the organization by improving processes, products, and strategies and developing the leadership potential of their followers (Bass & Riggio, 2006).

Transactional leaders focus on the exchange process between leaders and followers, where followers are rewarded for meeting specific goals or performance criteria. This leadership style is often characterized by clear structures and operational efficiency (Bass, 1990).

Servant leaders prioritize their team members' needs and help them develop and perform as highly as possible. They lead by example and focus on the growth and well-being of the people and the communities to which they belong (Greenleaf, 2008).

Democratic leaders encourage participation and share decision-making responsibilities with their team members. They value each team member's input and foster a sense of collaboration and consensus-building. Lewin, Lippitt, and White conducted seminal research on democratic leadership styles as early as the 1930s (Scheidlinger, 1994).

Autocratic leaders make decisions independently with little or no input from the rest of the team. This leadership style can be effective in situations where quick decision-making is critical, but it can also stifle creativity and make employees feel undervalued. Many authors have discussed this classical leadership style, but one of the early researchers was Kurt Lewin (Scheidlinger, 1994).

Cross-cultural leaders are able to lead in different cultural contexts effectively. They are culturally sensitive and can navigate and reconcile diverse perspectives and practices, which is increasingly important in our globalized world (House et al., 1997).

Each of these dimensions highlights a different approach to leadership, and leaders may exhibit characteristics from multiple dimensions. The effectiveness of a particular dimension of leadership can depend on various factors, including the organizational context, the nature of the task, the leader's personality, and the characteristics of the followers.

1.2 Leadership styles and approaches

In managing and guiding teams and organizations can be used different leadership styles (Fig. 1.2).

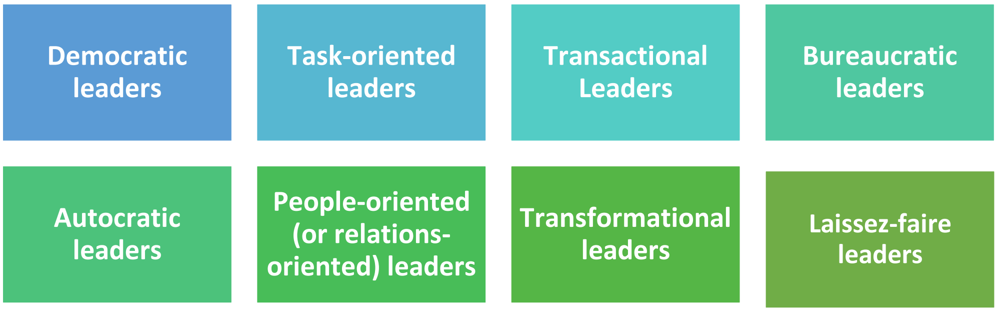

Figure 1.2 Leadership styles
Source: developed by author

Democratic leaders adopt a democratic orientation to encourage team participation in decision-making. They value the input and consensus of the group, ensuring that all members have a voice in the process. This can lead to more engaged and committed team members but may also slow down decision-making.

Task-oriented leaders focus on the jobs that need to be done. They are primarily concerned with reaching specific goals and completing tasks efficiently and effectively. This approach can be very effective in driving productivity but may overlook the personal development and well-being of team members.

Transactional leaders use rewards and penalties. Leaders set clear goals, and followers know that they will receive rewards for achieving these goals or face consequences for failing to meet them. This can be motivating in the short term but may not inspire loyalty or creativity.

Bureaucratic leaders adhere strictly to rules, policies, and procedures. They ensure that all team members follow the established guidelines precisely. This can maintain order and consistency but may stifle innovation and flexibility.

Autocratic leaders make decisions unilaterally without seeking input from team members. This can be effective in situations that require quick decision-making or when the leader has the most knowledge and experience. However, it can also lead to resentment and a lack of engagement from team members.

People-oriented (or relations-oriented) leaders prioritize their team members' welfare, motivations, and relationships. They work on building a supportive team environment, which can lead to high satisfaction and cohesion. However, an excessive focus on people can sometimes detract from task completion.

Transformational leaders aim to transform or change their organizations significantly. They inspire and motivate followers to exceed their own self-interests for the good of the group or organization and are often charismatic. They focus on long-term goals and the development of followers into leaders.

Laissez-faire leaders take a hands-off approach, allowing team members to make many decisions. This can lead to high levels of innovation and creativity, as team members feel empowered. However, if not managed properly, it can also result in a lack of direction and control.

Each of these orientations has its strengths and weaknesses, and effective leaders often adapt their style to the needs of their team and the situation at hand. They may exhibit different orientations in different contexts, combining elements from several to optimize their leadership effectiveness.

1.3 Traits and behaviors of leaders

Each one can play a vital role in different contexts and situations within an organization or team:

Figure 1.3. Traits and behaviours of leaders
Source: developed by author

Pioneering leaders are often seen as innovators and trailblazers. They will take risks to break new ground and lead their organizations into uncharted territories. This trait is particularly valuable in rapidly changing industries or when a company needs to differentiate itself from competitors.

Energizing leaders have the ability to motivate and inspire their teams. They bring enthusiasm and a positive attitude that can be contagious, driving their teams to engage with their work with passion and energy. This is crucial during challenging times or when pushing through significant projects.

Affirming leaders provide positive reinforcement. They recognize and validate their team members' contributions, which can build confidence and loyalty. This approach is important for maintaining morale and encouraging a supportive and collaborative team culture.

Inclusive leaders actively seek out and value diverse perspectives and backgrounds. They create an environment where all team members feel welcome and appreciated, which can lead to more innovative solutions and a more cohesive team. Inclusivity is key in global organizations and diverse work environments.

Humble leaders are approachable and down-to-earth. They acknowledge their own limitations and are open to feedback. This trait can foster an open culture where continuous learning and improvement are encouraged, and it can also help in building trust with stakeholders.

Deliberate leaders are thoughtful and intentional in their decision-making. They take the time to consider the implications of their actions and are strategic in their planning. This trait is essential in high-stakes environments where decisions have significant long-term impacts.

Resolute leaders are determined and steadfast. They show a strong commitment to their goals and are not easily swayed by obstacles. This leadership trait is critical when facing tough challenges or when a clear direction and unwavering focus are needed.

Commanding leaders assert authority and are clear in their expectations. They are often decisive and take charge, especially in situations that require a strong hand or during crisis management. While this style can be effective in certain scenarios, it needs to be balanced with other traits to avoid being overly authoritarian.

These leadership points can be adapted and combined depending on the needs of the organization, the specific situation at hand, and the individual leader's personality and strengths. Effective leaders often display a range of these traits, adjusting their approach as needed to guide their teams and organizations towards success.

1.4 Four Dimensions of Leadership by D. Wilson

The paper *Defining Leadership* by D. Wilson (2023) provides a critical examination of the concept of leadership as understood within the field of leadership studies. Wilson analyzes three generally accepted definitions of leadership from four dimensions: *behavioral, asymmetrical, social, and teleological*. Here's a summary of the key points from the initial sections of the paper:

Behavioral Dimension: This dimension looks at the actions of the leader—what they do or ought to do that qualifies as leadership.

Asymmetrical Dimension: This aspect considers how a leader differs from other members of the group.

Social Dimension: This dimension explores the social construct that the leader is leading.

Teleological Dimension: This involves the direction or purpose of the leadership.

Wilson identifies two main concerns in the common definitions of leadership:

Conflation of Informal and Formal Leadership: The paper argues that informal and formal leadership are often fused into a single concept, which can be problematic. Wilson suggests that they should be considered as separate concepts, each requiring its definition and analysis. Formal leadership is seen as a functional concept, whereas informal leadership is not, implying that each type of leadership is leading a different type of entity and is judged by different standards.

Bias Against Leadership: There is a tendency among scholars to de-emphasize hierarchy and focus on the dynamics of egalitarian collaboration. This can inadvertently lead to confusion when the term "leadership" is also applied to egalitarian work. Wilson proposes that leadership scholarship be sorted into three categories: formal leadership, informal leadership, and egalitarianism.

1.5 Definitions of Leadership

Here are the three generally accepted definitions of leadership (Fig. 1.4).

Northouse, P. (2015)

- *Leadership is a process whereby an individual influences a group of individuals to achieve a common goal* (Northouse, 2015, p. 6).

Antonakis, J., & Day, D. V. (2018)

- *Leadership is a formal or informal contextually rooted and goal-influencing process that occurs between a leader and a follower, groups of followers, or institutions* (Antonakis, 2018, p. 5).

Yukl, G. and Gardner, W. (2020)

- *Leadership is the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives* (Yukl & Gardner, 2020, p. 25).

Figure 1.4. Definitions of leadership
Source: combined by author

These definitions encapsulate the essence of leadership across different contexts and highlight the key elements of influence, goal achievement, and the facilitation of collective effort.

Numerous historical challenges existed in defining leadership, resulting in a lack of clarity and cohesion in leadership studies (Wilson, 2023). Alvesson and Blom (2015) echo this sentiment in contemporary assessments. Still, scholars express doubts about reaching a consensus on defining leadership. They liken the field to a mix of jigsaw puzzle pieces from different sets, making it challenging to form a cohesive picture (Antonakis and Day, 2018). The paper suggests that while there is hope for improvement, the diversity of definitions continues to complicate the field. Wilson (2023) argues for the importance of textbook definitions as they represent the most generally accepted ideas in scholarly literature. Despite the absence of a single influential definition, textbooks are seen as a proxy for prevailing assumptions within the discipline.

1.6 Understanding Leadership in the Context of Sustainability

In the evolving business landscape, leadership transcends the traditional pursuit of profitability and delves into the realm of sustainable practices, ensuring long-term success and a positive contribution to society and the environment. This paradigm shift in leadership, especially within the context of sustainability, is becoming increasingly prominent in Europe and across the globe.

The role of innovation in sustaining businesses in the post-COVID-19 era cannot be overstated. A study by Oe, Yamaoka, and Duda (2022) highlights the critical role leaders play in adopting new technologies and fostering a culture of innovation that is in line with the Sustainable Development Goals (SDGs). The electric vehicle sector is a prime example, where innovative leadership has been crucial in evolving the industry to meet these global objectives (Oe, Yamaoka, & Duda, 2022).

Niu, Park, and Jung (2022) delve into the intersection of digital leadership and environmental, social, and governance management (ESG management, ESGM). Their research posits that digital leadership has a significant impact on ESGM and organizational innovation, which are vital for organizational sustainability. This study underscores the importance of leadership in the digital age and its role in fostering sustainability within organizations (Niu, Park, & Jung, 2022).

In the healthcare sector, which has traditionally been slow to adopt sustainable practices, leadership is particularly crucial. Khan et al. (2022) examine the adoption of sustainability innovations and environmental opinion leadership in the hospital industry. They suggest that leadership traits such as trialability, innovativeness, and compatibility are essential for the adoption of sustainable innovations, highlighting the role of leadership in environmental sustainability (Khan et al., 2022).

Aung and Hallinger (2022) explore sustainability leadership within higher education, proposing a conceptual model where leadership can transform university practices through the stewardship of institutional missions and stakeholder commitment. This model emphasizes the potential of sustainability leadership to positively impact performance indicators and contribute to institutional and societal resilience (Aung & Hallinger, 2022).

These studies collectively demonstrate that leadership in the context of sustainability is inherently complex, requiring a combination of innovation, digital competence, and a commitment to sustainable practices. European research and practices offer valuable insights into how leadership can be redefined to meet the challenges of sustainability across various sectors, highlighting the necessity for leaders who can navigate the intricacies of modern business environments while ensuring their organizations contribute to a sustainable future.

Expanding on these insights, it is clear that sustainable leadership is not a static quality but a dynamic process that evolves with the changing needs of the business and the environment. Leaders who are committed to sustainability must be able to anticipate future trends and prepare their organizations to adapt to these changes. They must also be adept at engaging with stakeholders, from employees and customers to regulators and the wider community, to build a shared vision for a sustainable future.

Furthermore, sustainable leadership involves a deep understanding of the interconnectedness of global systems. Leaders must recognize the impact of their decisions on the environment, society, and the economy, both locally and globally. This requires a holistic approach to decision-making that considers the long-term consequences of business activities.

In addition to fostering innovation and digital transformation, sustainable leaders must also promote ethical practices and corporate social responsibility. They must ensure that their organizations not only comply with legal standards but also go beyond compliance to become leaders in sustainability. This includes implementing practices that reduce environmental impact, improve social equity, and create economic opportunities for all.

Sustainable leadership also requires a commitment to continuous learning and development. Leaders must stay informed about the latest developments in sustainability and be willing to invest in training and development for themselves and their teams. This commitment to learning helps to build a culture of sustainability within the organization, where all employees are empowered to contribute to sustainable outcomes.

In conclusion, understanding leadership in the context of sustainability is about recognizing leaders' multifaceted role in driving their organizations toward a more sustainable future. It is about innovation, digital competence, ethical practices, stakeholder engagement, and a commitment to continuous learning. As the world faces increasing environmental and social challenges, the need for sustainable leadership has never been greater. European research and practices provide a roadmap for leaders worldwide to follow, offering insights and strategies that can help organizations survive and thrive in the face of these challenges.

1.7 The European Perspective on Sustainable Leadership

In Europe, sustainable leadership has emerged as a pivotal force in guiding organizations towards a future where economic success is balanced with social responsibility and environmental stewardship. This perspective on leadership is deeply rooted in a strategic approach that addresses immediate business needs and aligns with broader societal values, aiming to create a legacy of positive impact and long-term viability.

The concept of sustainable leadership in Europe is not monolithic; it is a tapestry woven with diverse practices, cultural nuances, and regulatory frameworks that reflect the continent's commitment to sustainability. A study by Andreea Bianca Ene (Constantin) (2023) underscores the importance of integrating sustainability measures within European organizations. Based on a comprehensive analysis of data from the Sustainable Leadership in Europe Report, the research reveals that while European companies are proactive in identifying sustainability risks and opportunities, there is a disparity in the adoption of performance measurement and reporting. This suggests that while there is awareness and action, there is still room for growth regarding accountability and transparency. The study also found a significant correlation between managers' self-identification with sustainable behaviors and their commitment to sustainability values, indicating that personal ethos is a strong predictor of corporate sustainability practices (Ene (Constantin), 2023).

In times of crisis, the role of leadership becomes even more pronounced. The Women in Global Health (WGH) European network's engagement with the Ukrainian migrant crisis illustrates how female leadership has been instrumental in navigating through tumultuous times while maintaining a focus on sustainable human development. The WGH's efforts in promoting gender equity in health during the Ukraine conflict reveal the leadership's capacity to respond to immediate challenges and lay the groundwork for a sustainable future (Skipalska & Cuchi, 2023).

The energy sector provides another lens through which to view sustainable leadership. Andrea Clabough (2023) discusses the transatlantic energy security strategy, emphasizing the need for a sustainable approach. Leadership in this sector is tasked with the complex challenge of ensuring energy security while also committing to sustainability goals. This requires a delicate balance between leveraging current energy resources and investing in renewable and sustainable alternatives, a balance that is critical to the long-term health of the planet and the economy (Clabough, 2023).

The research by Garcìa-Blandòn, Argilés-Bosch, and Ravenda (2023) provides an empirical analysis of the impact of sustainable development leadership on firm performance across Europe. Their findings suggest a nuanced perception of sustainability leadership by stock market participants, influenced by the legal and corporate governance frameworks within which companies operate. Interestingly, the study reveals a decline in stock market sentiment towards sustainability leadership over time, possibly indicating that as sustainability becomes more mainstream, the competitive advantage it once conferred may be diminishing. This highlights the evolving nature of sustainability in business and the need for continuous innovation and adaptation in leadership practices (Garcìa-Blandòn et al., 2023).

Expanding on these insights, sustainable leadership in Europe is characterized by a forward-thinking mindset that embraces innovation and change. European leaders are increasingly recognizing the importance of embedding sustainability into the core of their business strategies. This involves not only environmental considerations but also a strong focus on social equity and economic inclusivity. Leaders are expected to be visionaries, capable of anticipating future trends and preparing their organizations to meet the challenges and opportunities that lie ahead.

Moreover, sustainable leadership in Europe is also about collaboration and partnership. The European Union's Green Deal is a testament to the collective effort towards sustainability, setting ambitious targets for reducing carbon emissions and promoting green technology. Leaders within this framework are required to work not only within their organizations but also across industries and borders to achieve these goals.

Education and continuous learning are also integral to the European perspective on sustainable leadership. Universities and business schools across Europe are increasingly incorporating sustainability into their curricula, recognizing the need to equip future leaders with the knowledge and skills necessary to navigate the complexities of sustainability. This educational focus is creating a new generation of leaders who are sustainability-literate and ready to take on the challenges of the 21st century.

In conclusion, sustainable leadership in Europe is a dynamic and multifaceted concept that is continually evolving. It is about creating value that extends beyond financial success to include social well-being and environmental health. European leaders are at the forefront of this movement, driving their organizations towards practices that not only ensure long-term success but also contribute to the creation of a sustainable and equitable society for future generations.

1.8 Case Study: EcoStore's Sustainable Leadership Initiative

Background:

EcoStore, a prominent Swedish retail chain, has been pioneering sustainable leadership within the European market. Recognizing the environmental challenges posed by the retail sector, EcoStore's leadership committed to an ambitious goal of transforming their business into a model of sustainability.

Challenge:

The retail industry is often criticized for its substantial environmental footprint, encompassing high levels of energy consumption, waste, and a complex web of supply chains that can be opaque and unregulated. EcoStore faced the daunting task of overhauling its operations to reduce its ecological impact while maintaining profitability and market competitiveness.

Action:

To address these challenges, EcoStore's leadership undertook several strategic initiatives:

- *Energy Efficiency*: EcoStore transitioned to 100% renewable energy sources across all its operations, investing in solar panels for stores and switching to a green energy provider.
- *Waste Management*: A robust zero-waste policy was enacted, emphasizing reduction, reuse, and recycling. EcoStore introduced biodegradable packaging and in-store recycling stations for customers.
- *Consumer Engagement*: The company launched a consumer education campaign, 'Green Choices', to encourage sustainable purchasing decisions. Workshops and in-store displays informed customers about the environmental impact of their shopping habits.

o *Product Innovation*: EcoStore developed a new line of sustainable products, including items made from recycled materials and goods produced with a lower carbon footprint.

o *Supplier Collaboration*: The company collaborated with suppliers to ensure transparency and adherence to environmental and social standards, incentivizing suppliers through a 'Green Partner' program.

Results:

EcoStore's sustainable leadership initiatives yielded impressive results:

A 40% reduction in carbon emissions within two years.

A 75% increase in waste recycling rates company-wide.

A significant uptick in consumer traffic, attributable to the 'Green Choices' campaign.

A stronger, more resilient supply chain with improved sustainability metrics.

Conclusion:

EcoStore's comprehensive approach to sustainable leadership has not only enhanced its environmental performance but also strengthened its brand reputation and customer loyalty. The company's success demonstrates the potential for retail businesses to lead in sustainability, influencing both supply chains and consumer behavior. EcoStore's case provides a blueprint for other European retailers seeking to integrate sustainability into their core business strategy, proving that environmental responsibility and business success can go hand in hand.

Summary

In conclusion, the exploration of leadership within the context of business sustainability has revealed its pivotal role as a catalyst for change and innovation. The chapter has underscored that sustainable leadership is not merely a trend but a fundamental shift in how businesses operate and strategize for the future. Leaders who embrace sustainability as a core value are finding that it enhances their company's resilience, fosters innovation, and drives long-term profitability.

The case studies and theoretical frameworks discussed in this chapter illustrate that sustainable leadership transcends traditional business metrics, incorporating ethical considerations, environmental stewardship, and social responsibility into the decision-making process. By doing so, leaders are able to align their organizations with the broader goals of society, ensuring that their operations contribute positively to the world while still achieving economic success.

Furthermore, sustainable leadership is shown to be a dynamic and multifaceted concept that requires leaders to be visionary yet pragmatic, innovative yet grounded in ethical principles. It demands a balance between short-term pressures and long-term goals, and between the needs of the business and the expectations of stakeholders. Leaders who manage to strike this balance are not only steering their companies towards a more sustainable future but are also setting new standards for what it means to be successful in business.

The imperative for sustainable leadership is clear: it is essential for the survival and prosperity of businesses in an increasingly complex and interconnected global landscape. As we move forward, the principles of sustainable leadership should be integrated into the fabric of business education and practice, ensuring that the leaders of tomorrow are equipped to meet the challenges of sustainability head-on. Only then can businesses hope to thrive in an era where sustainability is not just desired but demanded by consumers, employees, and society at large.

Discussion Questions

1. How does leadership influence the adoption of sustainable practices within organizations, and what are some examples of leadership driving significant change toward sustainability?

2. Discuss the roles of visionary and ethical leadership in shaping a company's approach to sustainability. How can leaders balance long-term goals with immediate business needs?

3. Transformational versus transactional leadership: Which is more effective in fostering innovation and creativity within the context of sustainability? Provide examples to support your argument.

4. How do servant and democratic leadership styles contribute to an organization's resilience and innovation, especially in times of crisis?

5. Consider the role of cross-cultural leadership in global organizations. How can leaders effectively manage diverse teams to achieve sustainability goals?

6. Compare task-oriented and people-oriented leadership styles. Which approach is more conducive to promoting sustainable business practices, and why?

7. Discuss the impact of digital leadership on environmental, social, and governance management (ESG management). How can digital tools and strategies enhance an organization's sustainability efforts?

8. Considering the multifaceted nature of leadership and sustainability, what are some potential challenges leaders may face in implementing sustainable practices, and how can they overcome these obstacles?

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CHAPTER 2: THE CONCEPT OF ESG AND ITS RELATIONSHIP TO SUSTAINABLE LEADERSHIP

This chapter explores the vital interplay between Environmental, Social, and Governance (ESG) principles and sustainable leadership, highlighting the shift toward integrating ESG into corporate decision-making. It underscores the role of leadership in steering organizations toward sustainability by adopting practices that consider environmental impacts, social responsibility, and ethical governance.

The chapter outlines how leaders can use ESG criteria to guide their organizations beyond traditional financial metrics, focusing on broader societal, environmental, and ethical considerations. It emphasizes the importance of environmental stewardship, illustrating how sustainable leaders work towards reducing carbon footprints and embracing renewable energy sources to mitigate climate change effects.

On the social front, the text explores how ethical leadership and social responsibility are essential in creating inclusive, fair, and engaging workplace cultures. This involves prioritizing diversity, employee well-being, and community involvement, all of which contribute to a company's long-term success and societal impact.

In terms of governance, the chapter discusses the necessity of transparent, accountable practices that align with sustainable and ethical business operations. It highlights how effective governance frameworks are crucial for maintaining trust and integrity within and outside the organization.

The chapter posits sustainable leadership as crucial for achieving ESG excellence, stressing that leaders must be visionaries, strategists, and lifelong learners. They are tasked with the continuous improvement of their organizations by embedding sustainability into their core operations and strategies, thereby driving success in today's dynamic business environment. Through this lens, the chapter aims to provide actionable insights for leaders striving to integrate ESG principles into their leadership approach for a sustainable future.

2.1 Understanding ESG

Globally, sustainable leadership—a paradigm shift in corporate governance—is becoming increasingly well-known. Understanding how corporate operations are linked to society, the environment, and governance frameworks, executives are using Environmental, Social, and Governance (ESG) principles as a guide for sustainable decision-making. In 2005, the United Nations released the "Who Cares Wins" report, which stated that companies should include "ESG" in the criteria for evaluating business operations (Andrey, 2023). Most institutional investors in a firm typically rely solely on its financial statements to determine whether or not to invest, assessing the investment's worth primarily on revenue and earnings. However, when ESG is considered, investors will see far larger projects because of a variety of "non-financial factors" that impact the company's future growth. A few examples are the environmental impact of a supply chain manufacturer's product lines, worker training, working conditions, stakeholder rights and interests, and a company's carbon emissions and energy efficiency. This text seeks to delve into the multifaceted dimensions of ESG, offering a thorough understanding applicable to leaders in diverse work environments (Andrey, 2023).

Environmental (Environmental) refers to how much the business considers and incorporates different environmental issues into every aspect of its operations to lessen its influence on the environment. Environmental protection encompasses all areas, including biodiversity, waste and pollution, greenhouse gas emissions, and climate change. Reduced operating expenses and energy savings are mutually exclusive from a business perspective. Through proactive goal-setting, waste reduction, and environmental data monitoring, firms can effectively avert pollution litigation and enhance their long-term resource efficiency (Andrey, 2023).

The imperative for sustainable leaders lies in mitigating the impacts of **climate change through proactive measures**. This involves reducing carbon emissions and embracing innovative technologies and sustainable practices to transition towards a low-carbon economy. The "carbon neutral" objective can be effectively implemented with the help of the ESG concept. Since 2020, many nations and areas have been planning to become carbon neutral in the middle. China is expected to attain carbon neutrality by 2060. After the US, other nations such as the EU, Canada, South Africa, Japan, and South Korea guaranteed carbon neutrality by 2050. In 2050, the UK, Denmark, France, Chile, New Zealand, and Hungary will all attempt to implement the carbon neutrality law. By the middle of the century, it is predicted that 75% of GDP and roughly two-thirds of world emissions would have been decarbonized. The ESG concept requires investment institutions to consider a company's governmental, social, and environmental factors. Conversely, it directs businesses to incorporate sustainable ideas into their operational procedures. Therefore, using ESG principles can help attain carbon neutrality (Chen et al., 2023).

A leader's unilateral implementation of significant climate change mitigation policies may stimulate the implementation of similar policies elsewhere in the aim to contribute a fair share to the global public good. It may indicate that education about the desire to minimize climate change and the importance of this public good is urgently needed. It might offer a useful service in the form of information that increases followers' interest in mitigation. This knowledge might be presented as data on technology, successful policy design, and policy costs (Schwerhoff, 2016).

Sustainable leaders recognize **the finite nature of resources and spearhead efforts to optimize their use**. From responsible sourcing to waste reduction, a commitment to circular economy principles becomes integral in fostering environmental sustainability.

Worldwide, the decarbonization processes that are being artificially accelerated are putting increasing pressure on the extractive industry. To lower risks, extractive industries must be safer, lessen environmental harm, and remain financially viable. Moreover, they need to show the locals how they behave and what their ethics are in the areas where they operate (Litvinenko et al., 2022).

Natural resources and ecosystems are essential to the operations and supply networks of businesses. These resources may be disrupted by biodiversity loss and environmental degradation, which could result in higher expenses, supply chain problems, and reputational hazards. Pollinator population decreases, for instance, may pose a threat to crop output and have an effect on agricultural supply chains. By preserving important natural resources and ecosystems, conservation efforts can help guarantee the long-term viability of these resources for commercial enterprises.

Organizations are realizing the importance of biodiversity in their quest for sustainable leadership. Leaders play critical roles in incorporating biodiversity issues into company plans, prioritizing responsible land use, and actively engaging in conservation activities.

The relationships an organization fosters with its stakeholders constitute its **social dimension**. Within this realm, elements like Human Capital Management (HCM) indicators, including fair compensation and employee engagement, play a crucial role in evaluating a company. Additionally, the organization's influence on the communities in which it operates is another significant factor.

Social criteria focus on the firm's connections and standing with locals and establishments in the areas it operates in. This covers inclusion, diversity, and labor relations. Every business functions in a more expansive and varied society (Gassmann et al., 2021).

One defining industry characteristic is the social impact expectations that ESG extends to supply chain partners, particularly those operating in less regulated environments, often in poorer nations. These expectations encompass labor and environmental standards, reflecting a heightened awareness of the broader social consequences of business activities (Jacob Nsiah-Sarfo et al., 2023).

Sustainable leaders champion **diversity and inclusion** as fundamental aspects of organizational success. Beyond compliance, this involves creating an inclusive workplace culture that celebrates differences, fostering innovation, and enhancing overall business performance.

To properly handle the labor crisis and create an inclusive career network and talent pipeline to address present issues that may become crises, a comprehensive strategy that prioritizes diversity and inclusion is required. A varied range of perspectives and abilities are created by inclusion, which may inspire innovation and bring about change, by ensuring equal opportunities for those with limited access to participate in the renewable energy sector (Cao & Tomski, 2023).

Since businesses and the communities they serve are inseparable; sustainable leaders place a high value on **meaningful connections**. This goes beyond support to include environmentally friendly business methods that benefit nearby communities and match organizational objectives with those of the general public.

Additionally, spending on renewable energy technologies directly contributes to expanding jobs. Many job possibilities are expected to arise from the switch to renewable energy, especially in multidisciplinary sustainability-related fields. The pressing need for a strong workforce pipeline is further reinforced by the growing demand for college graduates skilled in vital areas like carbon capture, utilization, and storage and other clean energy areas (Cao & Tomski, 2023).

Employee well-being is a strategic necessity in the field of sustainable leadership, in addition to being an ethical consideration. Effective leaders prioritize mental health, actively support a healthy work-life balance, and cultivate a positive workplace culture that raises employee satisfaction and productivity.

This research is centered on Malaysian businesses. With the introduction of the first Corporate Social Reporting (CSR) Framework by Malaysian corporations in 2006, the country has become a significant sample for ESG research. In 1987, Malaysia released its first study on sustainable development. Malaysian companies don't seem very involved in CSR; instead, they seem to be more concerned with their workers and the profitability of their products than with how these affect society and the environment (Mohammad & Wasiuzzaman, 2021).

The CSR reporting framework, which became necessary for all Malaysian companies in 2006, and the Sustainability Framework, which demanded ESG disclosures from the companies in 2015, reinforced the effort. The Malaysian government's integration of CSR into its Tenth Malaysia Plan further demonstrates the government's efforts to ensure the successful implementation of corporate social responsibility (CSR). In legal terms, the Companies Act of 2016 also made CSR disclosures mandatory, which helped Malaysian companies get exceptionally high CSR scores (Mohammad & Wasiuzzaman, 2021).

Governance considerations is the internal framework of policies, practices, and processes that the organization implements to manage itself, make wise decisions, abide by the law, and satisfy the demands of external stakeholders. Every business, which is a legal entity in and of itself, needs governance (Gassmann et al., 2019).

The concept of "corporate governance" pertains to a company's management and oversight. ESG analysts endeavor to acquire a more profound comprehension of several aspects, including the perception and protection of shareholder rights, alignment of leadership incentives with stakeholder expectations, and establishing internal controls that promote accountability and transparency.

Ethical leadership is the cornerstone of sustainable government. Leaders establish a code of conduct that penetrates the organization and sets the standard for moral decision-making. Leaders who uphold ethics build a positive reputation, build confidence, and support the company's long-term viability. Later, we shall go into greater detail about this.

A key component of sustainable governance is **transparency**. Leaders who are transparent about ESG practices give stakeholders a clear picture of the organization's effect. Strong structures for accountability and reporting ensure the company keeps its commitment to sustainability.

Although the nature of their interaction is still far from being understood, it is widely acknowledged that sustainability and governance go hand in hand. Sustainable development involves various political and social players in decision-making, spanning many policy fields and organizational borders and encompassing environmental, economic, and social challenges (Joss, 2010).

The following goals have been achieved by implementing new modes of governance. facilitating cooperation among various state, civil society, and public sphere actors; mobilizing diverse knowledge and expertise; sharing (financial) risks and responsibilities; and fostering socio-technological innovation. These modes of governance range from participatory planning and deliberative assessment to new forms of public-private relationships. Crucially, by doing so, these procedures are also meant to strengthen the legitimacy of decisions made and their results by promoting greater accountability, openness, and transparency (Joss, 2010).

Sustainability risk management, or SRM, is becoming a crucial instrument for handling the complex risks resulting from sustainability challenges (Aziz et al., 2015). Leaders who prioritize sustainability understand that bad governance can have serious consequences. Organizations can foresee and reduce potential risks by including ESG aspects into their risk management strategies. This ensures their long-term sustainability and resilience in a changing business environment.

2.2 Environmental Stewardship and Leadership

Environmental stewardship has become an essential part of corporate responsibility. Examining how sustainable leadership influences an organization's environmental policies and practices, this subchapter dives into environmental stewardship and leadership topics. We will examine important topics through a thorough analysis, including lowering carbon footprints, using resources sustainably, and incorporating renewable energy sources.

Environmental stewardship is a proactive commitment to protecting and improving the environment beyond simple legal compliance. The concept of sustainable leadership recognizes the relationship between the ecosystems in which businesses operate and their daily activities. Efforts to reduce carbon emissions, use resources wisely, and switch to renewable energy sources become critical for businesses trying to navigate the maze of environmental responsibility (Fig. 2.1).

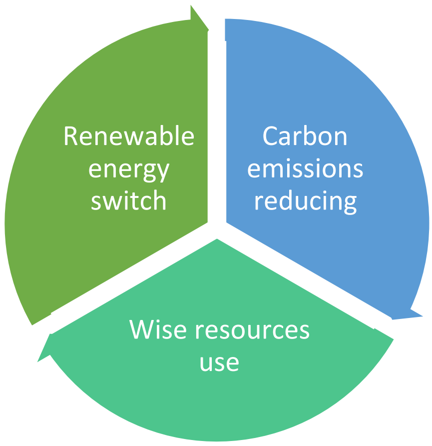

Figure 2.1. Environmental stewardship
Source: combined by author

Reducing a company's carbon footprint entails reducing the greenhouse gas emissions brought on by its operations. Leaders who practice sustainability employ tactics including offsetting, using clean energy, and energy efficiency techniques. Case studies will highlight the concrete advantages of such initiatives by demonstrating how businesses have decreased their carbon footprint. Carbon accounting must assist managers in making the "right" choices if it is to result in significant improvements in carbon reductions.

Using resources sustainably is essential to environmental stewardship. Businesses can promote the ethical use of natural resources, reduce waste output, and adopt the circular economy concepts. Case studies will illustrate situations in which leaders successfully applied sustainable resource management techniques, resulting in positive effects on the environment and the economy.

Because we live in a world with limited resources, resource reuse is therefore necessary to ensure sustainability. Because the environment and its resources also belong to future generations, it is the current generation's duty to protect them to maintain sustainability (Nidhi & Madhusudanan Pillai, 2019).

Utilizing **renewable energy** is a crucial aspect of environmental conservation. Sustainable leaders strive to explore opportunities to power their businesses through hydropower, wind, and solar energy. Real-life examples will be provided to demonstrate the strategic incorporation of renewable energy sources, emphasizing the responsibility of leaders in spearheading these initiatives.

For example, typical electrical grids are designed to send electricity in just one direction and do not recover any waste heat. Moreover, they convert only one-third of the fuel energy into electricity. About 8% of production is lost during transmission, and 20% of the grid's capacity is reserved for handling peak demand. However, controlled power networks, also known as "smart grids," offer numerous advantages, such as increased capacity and efficient use of renewable energy sources (Kataray et al., 2023).

2.3 Nurturing Social Responsibility and Ethical Leadership in Organizational Culture

Promoting social responsibility and ethical leadership is crucial for organizations. However, it's not feasible to use the same leadership style consistently in all businesses. Effective managers usually combine their managerial and leadership approaches. Human resource management practices (HRMP) and leadership styles can improve organizational employee performance (Cahyadi et al., 2022).

Leadership's role in cultivating social responsibility covers important topics such as labor standards, diversity and inclusion, and community involvement.

Ethical leaders uphold high **labor standards** that ensure workers are treated fairly, work in safe environments, and receive adequate pay. This analysis closely examines how leaders address the challenges of maintaining ethical work practices and identifies effective strategies for promoting a peaceful and just workplace.

Self-awareness and social awareness are crucial for effective leadership because they affect a leader's ability to act responsibly within the workplace. Various studies have shown that attempts to increase people's understanding of their beliefs, motivations, and aspirations are necessary to transform work teams, organizations, and societies positively. Mindfulness, a value-based contemplative practice, has become a standard component of leadership development programs and has garnered leaders' interest worldwide. Mindfulness is commonly defined as "the awareness that emerges through paying attention on purpose, in the present moment, and nonjudgmentally to the unfolding of experience moment by moment" (Urrila, 2022).

Leaders must take the initiative in creating an atmosphere that accepts and appreciates differences to promote **diversity and inclusion**. Employee cooperation, engagement, and dedication to their jobs are essential for supporting a company's CSR (Corporate Social Responsibility) initiatives. Research has shown that collaborative HRM involves hiring, training, evaluating performance, and rewarding employees to foster communication, trust, and teamwork (Andersén et al.,2021).The company's main objective is to create cross-functional teams and ensure tight coordination between its various organizational units (Hong et al.,2019). This will lead to benefits for the economy, society, and the environment through knowledge transfer, job rotation, team building, training, and communication channels.

Social responsibility goes beyond the boundaries of a company. Effective leaders **engage with the wider community** and work towards promoting social welfare. This section delves into leaders' development and implementation of community engagement programs, emphasizing the symbiotic relationship between businesses and the communities they serve.

Organizational learning can give businesses a stable competitive edge in an extremely dynamic market. It is believed that leadership, open communication, and knowledge sharing are important predictors of organizational learning. Transparency, transformational leadership, and participatory decision-making are also believed to be important indicators of organizational learning. Organizational learning can motivate employees to go beyond their regular duties in areas like resource conservation, and can enhance employee civic virtue by encouraging responsible participation (Iqbal et al., 2020).

2.4 Governance and Strategic Leadership for Sustainable Impact

In the realm of ESG governance holds significant importance as it forms a crucial element of robust and transparent organizational frameworks. This study, which primarily focuses on governance and strategic leadership, sheds light on the critical role that sustainable leadership plays in helping companies embrace open and ethical governance practices.

The meaning of "governance" has undergone a transformation over time. Originally, it referred to the process of ruling or exercising power. However, it has now come to encompass a new way of doing things that relies on collaboration between various actors in a network, rather than a hierarchical model (Marin and Mayntz, 1991). The conventional literature on hierarchical leadership in either the public or private sector may no longer be applicable, as governing bodies are now transitioning from hierarchies to collaborative frameworks.

Exploring the fundamentals of governance emphasizes the responsibility of leaders to create an environment that values transparency, accountability, and ethical decision-making.

Many leadership philosophies associated with profit-for-purpose and CSR-focused businesses share common traits such as inspirational leadership, high ethical standards, and consideration for various stakeholders. These philosophies can be categorized into three main groups; transformational leadership servant leadership, and ethical leadership (Victoravich et al., 2023).

Leaders play a crucial role in establishing and maintaining **transparent and accountable governance frameworks**. This analysis examines how executives create structures that facilitate transparent communication, fair decision-making procedures, and the establishment of a robust ethical foundation within the organization.

Profit-for-purpose businesses face two key challenges that their leadership must address, the need for an organizational mission that goes beyond profitability, and the need to create value for all stakeholders, not just shareholders. Over a decade ago, business experts noted that senior managers must work to transform contractual employees into committed members of a purposeful organization. By creating a broader organizational mission that inspires emotional attachment, these managers believed they could motivate employees to work harder and more dedicatedly, resulting in exceptional performance. Today's profit-for-purpose company leaders must shift their focus from the traditional leader-subordinate paradigm to one that emphasizes the relationship between the leader and all stakeholders (Victoravich et al., 2023).

Leadership ethics depend on leaders' capacity to make moral choices. This section examines how ethical leaders make strategic decisions that balance long-term sustainability, ethics, and integrity, even in challenging situations.

Ethical leaders treat their staff members fairly and with consideration while demonstrating integrity and high ethical standards. They hold employees accountable for ethical conduct. Research indicates that there is a positive correlation between Corporate Social Responsibility (CSR) and performance. Greater CSR activities and ethical leadership are not exclusive to profit-driven businesses. These results suggest a comparable link between social purpose fulfillment and profit, as well as ethical leadership. An Italian BC case study identified "quantum leadership" as a type of ethical leadership. Quantum leadership builds upon the principles of ethical leadership and incorporates additional traits related to pursuing a higher social goal. Similarly, responsible leadership emphasizes the leader's moral obligations, including accountability for social change (Victoravich et al., 2023).

Effective governance requires **strategic leadership that aligns** with governance principles. This article explores how leaders can match their vision strategically with governance principles to ensure that organizational tactics serve to achieve success and uphold moral standards.

The formulation of the organization's mission is solely the responsibility of the senior management group. Leaders cannot assign this task to anyone else. CEOs (Chief Executive Officers) who work closely with the top management team may need to adjust their priorities and ways of thinking to align the organization's behavior and beliefs. They also need to include a purpose in the corporate plan that fosters the dedication and drive of their workforce. For the mission statement to be effective, it must also encourage broad employee participation. By inviting involvement, leaders can improve the quality of strategy creation and execution (Victoravich et al., 2023).

2.5 Sustainable Leadership as a Driver for ESG Excellence

In today's economy, businesses are striving to achieve unprecedented levels of ESG excellence through sustainable leadership.

Leaders with visionary thinking understand the long-term impacts of their decisions on the environment and society. Sustainable leadership transcends traditional business goals of profit and shareholder value by incorporating board society and broader societal and environmental responsibilities. This approach is aligned with transformational leadership, which positively influences ESG performance. These leaders foster organizational innovation and lead to enhanced ESG outcomes.

Divers leadership in corporate sustainability has been shown to improve access to capital and enhance sustainability disclosures, thereby boosting ESG performance. This underscores the importance of inclusive and ethical decision-making in sustainable leadership. The application of ESG principles in the education sector, particularly in adapting to the digital economy, highlights the need for visionary leadership to navigate changing conditions. Similarly, in industries like oil and gas, innovative approaches such as cloud-enabled emission monitoring systems for sustainable operations require forward-thinking leadership.

Research on corporate board leadership and ESG performance reveals that board size, independence, and qualification significantly influence ESG performance. This emphasizes the role of good governance in fostering sustainable corporate practices. In marketing, the concept of transformative branding aligns with visionary leadership in ESG. This approach promotes sustainability through strategic thinking and stakeholder collaboration, challenging the dominant social paradigm.

Leadership in education, with a focus on sufficiency, critiques the economic notion of efficiency, advocating for a balance between sustainability and educational leadership.

Finally, embedding sustainability in business operations highlights the importance of understanding human and environmental systems. Companies integrating sustainability into their business strategy are likely to perform well due to enhanced stakeholder engagement and operational management.

In summary, sustainable leadership in the context of ESG requires a transformational approach, emphasizing ethical decision–making, inclusivity, transparency, and accountability. This leadership style is key to achieving long-term environmental and societal benefits across various sectors.

In the realm of sustainable leadership, **ethical decision-making** is crucial for fostering long-term success. Leaders operating within this framework recognize the interconnectedness of their decisions with the broader environment, society, and stakeholders. Ethical decision-making in sustainable leadership involves taking a holistic perspective that considers choices' environmental, social, and economic impact (Choi, 2021). Transparency and accountability are of utmost importance, with leaders actively communicating the ethical considerations behind decisions and embracing mechanisms such as reporting on environmental impact and social responsibility (Aftab et al., 2022).

Stakeholder engagement is fundamental, as leaders seek diverse perspectives to identify and address potential ethical challenges. The triple-bottom-line approach, which involves evaluating decisions based on economic, social, and environmental factors, guides leaders in achieving a balanced impact. A long-term vision underscores the commitment to sustainability, with leaders investing in initiatives that contribute to the organization's resilience over time. Continuous learning and adaptation are integral, ensuring that decisions align with evolving ethical standards and the latest sustainability insights (Tan et al., 2020).

In summary, ethical decision-making in sustainable leadership involves a commitment to transparency, accountability, stakeholder engagement, and a holistic, long-term vision for the well-being of both the organization and its broader community.

In the realm of sustainable leadership, **inclusivity** is a crucial principle that goes beyond meeting diversity quotas. It aims to create a culture where every individual feels valued and empowered. Inclusive leaders welcome and embrace diverse perspectives, fostering an environment of creativity and innovation. Decision-making processes under inclusive sustainable leadership consider the needs of all stakeholders, enhancing an organization's adaptability to complex challenges (Cavazotte et al., 2021).

Inclusivity is not only an ethical value but also a strategic advantage. Sustainable leaders understand that diverse teams are better equipped to navigate the intricate demands of modern business. Moreover, inclusivity extends to addressing systemic inequalities by providing equal opportunities for professional growth, contributing to a more just and sustainable future (Cavazotte et al., 2021). In summary, inclusivity is not just a moral imperative in sustainable leadership but a catalyst for innovation, resilience, and enduring success.

Trust and accountability must be established for sustainable leadership to be effective. Making ethical decisions requires open communication, which is especially important in social and environmental contexts. This dedication also includes praising achievements as well as obstacles and promoting an honest culture (Hoffman, A. J., Bazerman, M. H., 2021).

Social responsibility metrics and environmental impact report disclosure serve as examples of accountability. Stakeholders are encouraged to collaborate in this activity, strengthening the commitment to make moral decisions.

When it comes to decision-making procedures, transparent, sustainable leadership actively involves stakeholders in the development of policies and programs. This participative approach aligns the organization with stakeholder values and enhances decision-making (Bhat et al., 2023).

In conclusion, openness is essential to sustainable leadership because it promotes moral judgment, responsibility, and stakeholder involvement. Transparency-focused leaders build a climate of trust and accountability, strengthening the base for long-term success and advancing the larger objective of moral corporate conduct.

The core idea of responsibility is central to sustainable leadership because it catalyzes morally righteous behavior and judgment (Cavazotte et al., 2021). According to this model, accountability goes beyond a simple promise and is a concrete process that actively discloses social and environmental impact measurements. Within sustainable leadership, leaders understand the need to provide more than just lip service and embrace openness to establish credibility and promote accountability.

This dedication to accountability permeates the entire company structure, encouraging stakeholder participation and cooperation. Leaders foster an environment where stakeholders feel educated and empowered by disclosing metrics pertaining to social and environmental issues in an open and transparent manner (Choi, 2021). This two-way dialogue guarantees that different viewpoints influence decision-making while also reaffirming the organization's commitment to moral behavior.

Sustainable leaders view accountability as more than a checkbox; it is a dynamic process that actively contributes to the organization's long-term success (Choi, 2021). By prioritizing transparency and inviting stakeholder participation, leaders fortify the organization's internal culture and position it as a responsible and ethical entity within the broader business landscape. This multifaceted approach to accountability sets the stage for enduring positive impact, as organizations under sustainable leadership strive to make meaningful contributions to both their immediate communities and the larger global context (Bottery, 2012).

The concept of sustainable leadership goes beyond merely following the ESG guidelines and is skillfully explained in the second-to-last subchapter. The book promotes a paradigm shift in which executives view these requirements as powerful tools for strategic innovation and competitive advantage rather than as a mere checklist. A culture of accountability and sustainability is developed when ESG factors are fully integrated into leadership tactics, leading to long-term corporate success.

Leadership that is aligned with ESG principles understands the power of sustainable practices. Such leadership explores how businesses can strategically apply ESG standards to identify and seize new business opportunities, improve operational efficiency, and strengthen their resilience against possible threats. This subchapter emphasizes the dynamic nature of ESG, presenting it as a living, breathing mechanism that can promote resilience and flexibility in a constantly changing business environment, rather than as a static set of rules.

ESG is a comprehensive report that evaluates an organization's overall health. By utilizing ESG into leadership, a company can achieve sustainable operations and conduct a thorough evaluation of its performance. As the public becomes more aware of social and environmental issues, they expect corporations to be socially responsible and make a positive impact through investments. This has led many large corporations to incorporate ESG factors into their decision-making processes. To remain competitive, organizations must understand the principles of ESG (Andrey, 2023).

Leaders are now expected to proactively shape the future and recognize the changing expectations of stakeholders, regulators, and society at large, rather than simply reacting to changes as they happen.

The discussion goes beyond the present and encourages executives to imagine a future where ESG factors are not just followed but are a fundamental part of an organization's core values. Being able to anticipate and adapt to changes in regulations, societal norms, and technological advancements will be crucial in shaping the future of the business world.

The core elements involved in this matter are widely acknowledged. Investors, lenders, and rating agencies are increasingly seeking to understand various social and environmental risks through non-financial data. Governments worldwide are making top-down commitments to reduce carbon emissions, which are supported by additional regulations and levies. Activist shareholders and other stakeholders are pushing for net-zero policies and closer links between executive remuneration packages and environmental, social, and governance objectives. Customers who prioritize social issues are more likely to make their purchasing decisions accordingly, which is driving companies to reconsider their goals and offerings, particularly with regard to diversity and active staff recruitment practices. Additionally, the global pandemic has gained significant momentum for reform.

2.6 Case Study

Patagonia, an outdoor apparel and equipment manufacturer, is renowned for its commitment to environmental, social, and governance (ESG) principles. Since its inception, Patagonia has embedded social responsibility and environmental conservation into its core values, distinguishing itself as a leader in ethical corporate conduct. The company is recognized for its initiatives, including fair wage practices, safe working conditions, the use of sustainable materials, and significant contributions to environmental causes.

Background

Founded by Yvon Chouinard, Patagonia began as a small company supplying climbers with reusable hardware. Over the years, it evolved into a global brand synonymous with outdoor apparel and equipment that stands for more than just quality — it represents an ethos. The company's mission, "We’re in business to save our home planet," reflects its dedication to being more than a clothing manufacturer but a catalyst for environmental activism (https://www.patagonia.com/company-history/).

Sustainable Practices at Patagonia

Environmental Initiatives:

Patagonia has pioneered using recycled materials and organic cotton in its products, significantly reducing its ecological footprint. It was one of the first major outdoor clothing retailers to make such a shift, setting a precedent in the industry. The company's dedication to preserving natural resources extends beyond its products. It actively engages in environmental campaigns and has established its own fund, Patagonia Action Works, to support global environmental organizations.

Social Responsibility:

Patagonia's commitment to social responsibility is evident in its supply chain. The company ensures that all workers producing its goods are paid fair wages and work under safe conditions. This commitment is part of Patagonia's broader strategy to improve workers' lives in the apparel industry worldwide.

Governance and Transparency:

Patagonia sets a high standard for corporate governance through transparency and ethical business practices. It openly shares the impact of its operations on the environment and society, including the challenges it faces in becoming more sustainable. Patagonia's governance model emphasizes accountability and strives to make decisions that align with its mission and values.

Impact and Recognition

Patagonia's unwavering commitment to ESG principles has bolstered its brand reputation and proven that businesses can thrive while positively impacting the planet and society. The company has received numerous awards for its sustainability efforts and remains a model for businesses worldwide.

Questions for Discussion

1. How does Patagonia balance profitability with its environmental and social responsibility commitment? Can this model be replicated across other industries?

2. What role do consumers play in supporting Patagonia’s mission? How does consumer behavior influence the company’s strategies?

3. Patagonia often takes bold stances on environmental issues. What are the risks and rewards of such an approach for a business?

4. How does Patagonia’s focus on ESG principles influence its supply chain management? Consider the challenges and benefits.

5. Patagonia donates a portion of its revenue to environmental causes. Discuss the impact of this strategy on the company's brand loyalty and customer base.

6. Consider Patagonia's governance practices. How do transparency and ethical business practices contribute to the company's success?

7. In what ways could Patagonia further innovate to reduce its environmental footprint while continuing to grow its business?

Summary

Leaders need to navigate the intricate landscape of ESG principles to build a sustainable future. They must realize that these principles are more than just a checklist but a guiding philosophy essential to sustainable leadership. Transparent governance, social responsibility, and environmental stewardship are critical pillars that create an organizational culture that goes beyond compliance and integrates proactive and strategic approaches.

Working in tandem, far-sighted leaders and environmental caretakers bring about a powerful collaboration that is indispensable in navigating the complexities of the modern world. Through their shared responsibility, these leaders and stewards guide the environment towards equilibrium and prosperity, with an eye towards securing a lasting legacy for both current and future generations. Simultaneously, the 'Social' aspect of ESG assumes a paramount importance, shaping a responsible corporate culture through the commitment of executives to diversity, community involvement, and ethical work practices. Real-life examples of leaders achieving social impact throw light on the transformational potential of ethical leadership and offer crucial insights for businesses hoping to make a meaningful impact on society.

A crucial aspect of a successful business is the beneficial relationship between strategic leadership and governance. Sustainable leadership can bring about positive change through transparent governance systems, ethical decision-making, and alignment with governance principles. The effectiveness of governance-led success stories is evident in real-world case studies that showcase how principled leadership improves organizational performance and enhances stakeholder trust and social impact.

As the study progresses, it becomes increasingly clear that ESG is not just a static checklist but a dynamic compass. Adopting ESG principles proactively positions CEOs as creators of a future where businesses thrive financially, socially, and environmentally. It is not a reactionary measure. The need for ESG-aware sustainable leadership is becoming more and more important, pushing executives to go above and beyond what is expected of them. By doing this, leaders usher in a new era where ESG is a duty and a new necessity for leadership. This promotes proactive tactics that create trustworthy, accountable, and resilient firms capable of navigating the challenges of a constantly changing global environment.

Discussion Questions

1. How can leaders effectively integrate ESG principles into their organization's core strategies without compromising financial performance?

2. In what ways can sustainable leadership influence an organization's approach to environmental stewardship, and what are the potential challenges?

3. Discuss the role of ethical leadership in promoting social responsibility within organizations. How can leaders ensure their policies genuinely benefit employees and communities?

4. How does transparent governance contribute to an organization's sustainability efforts, and what barriers might leaders face in implementing it?

5. Reflect on the balance between short-term financial goals and long-term ESG objectives. How can leaders navigate these often competing priorities?

6. What strategies can organizations employ to enhance their adaptability and resilience to evolving ESG standards and societal expectations?

7. Consider the impact of leadership styles on ESG implementation. Which styles are most effective, and why?

8. How can organizations measure the success of their ESG initiatives, and what role do leaders play in this evaluation process?

9. Discuss the importance of stakeholder engagement in shaping an organization's ESG agenda. How can leaders foster meaningful collaborations?

10. Explore the potential of technology and innovation in advancing ESG goals. What responsibilities do leaders have in driving technological adoption for sustainability?

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CHAPTER 3: PRINCIPLES OF SUSTAINABLE DEVOLEPMENT AND THEIR APPLICATION WITHIN LEADERSHIP

In this chapter, we delve into the intricate relationship between leadership and sustainable development, exploring how contemporary leaders can foster economic growth, environmental stewardship, and social equity within their organizations and communities. As the world grapples with unprecedented global challenges, including climate change, resource depletion, and social inequality, the need for a transformative approach to leadership has never been more critical. This chapter aims to unpack the evolving role of leadership in navigating the complexities of sustainable development, highlighting the shift from traditional, profit-centric models towards a more holistic, future-oriented perspective.

We begin by examining the core principles of sustainable development: environmental protection, social equity, and economic viability. Each of these pillars serves as a foundation for creating a balanced and sustainable future, requiring leaders to adopt innovative strategies that integrate these principles into their decision-making processes. Through a series of examples from various sectors, including the Islamic banking sector, the textile industry, and ecotourism, we illustrate the practical applications of these principles and the positive impacts of sustainable leadership practices.

Furthermore, this chapter introduces systems thinking as a critical tool for understanding and addressing the interconnected challenges of sustainable development. Contrasting with traditional linear thinking, systems thinking offers a holistic framework that emphasizes the relationships, patterns, and dynamics within and between different systems. By applying systems thinking, leaders can identify leverage points where strategic interventions can have the most significant and enduring impacts.

Through a comprehensive exploration of these topics, the chapter aims to provide readers with insights into the multifaceted role of leadership in promoting sustainable development. It underscores the importance of professional competencies, ethical practices, and a commitment to continuous learning in driving systemic change. By highlighting the need for a paradigm shift in leadership practices, this chapter seeks to inspire current and future leaders to embrace the challenges and opportunities of sustainable development, paving the way for a more resilient and equitable world.

3.1 Introduction to Sustainable Development in Leadership

Sustainable development has evolved significantly over the years and has become a key focus in various sectors, including business and leadership. At its core, sustainable development involves meeting the needs of the present without compromising the ability of future generations to meet their own needs. This concept encompasses three main pillars: environmental protection, social equity, and economic viability.

Environmental protection involves conserving natural resources and minimizing the ecological footprint of human activities. Social equity addresses issues of fairness and justice within and between generations, ensuring that development benefits are shared equitably. Economic viability, on the other hand, focuses on fostering economic growth while ensuring long-term sustainability.

The role of leadership in the context of sustainability has undergone a significant transformation. Traditional leadership models primarily focused on profitability and short-term gains.

However, the increasing awareness of environmental issues and social responsibilities has led to a paradigm shift. Modern leaders are now expected to integrate sustainable development principles into their decision-making processes.

Professional competencies play a vital role in system innovation for sustainable development. The Climate-KIC Professional Competence Framework they present is based on system thinking and the need for human capital to address long-term sustainability challenges. This framework highlights the evolving competencies leaders need to implement sustainable transformations effectively (Peiró et al., 2021).

In the context of global challenges like the COVID-19 pandemic, the role of leadership in sustainability has become even more critical. Leaders are required to adopt new technologies and foster a culture of innovation that aligns with the Sustainable Development Goals (SDGs). The electric vehicle sector, for example, demonstrates how innovative leadership is crucial in evolving industries to meet global sustainability objectives (Oe, Yamaoka, & Duda, 2022).

Furthermore, the intersection of digital leadership and environmental, social, and governance management (ESG management, ESGM) is becoming increasingly important. Digital leadership significantly impacts ESGM and organizational innovation, which are vital for sustainability. This underscores the importance of leadership in the digital age and its role in promoting sustainability within organizations (Niu, Park, & Jung, 2022).

Leadership plays a pivotal role in sectors traditionally slow to adopt sustainable practices, such as healthcare. The adoption of sustainability innovations in the hospital industry, suggesting that leadership traits like trialability, innovativeness, and compatibility are crucial for sustainable innovation. This highlights the role of leadership in environmental sustainability within various sectors (Khan et al., 2022). The concept of sustainable leadership extends beyond organizational boundaries.

In conclusion, understanding leadership in the context of sustainability involves recognizing leaders' multifaceted role in driving their organizations toward a sustainable future. It encompasses innovation, digital competence, ethical practices, stakeholder engagement, and a commitment to continuous learning. As the world faces increasing environmental and social challenges, the need for sustainable leadership has never been greater. European research and practices provide valuable insights into redefining leadership to meet sustainability challenges across various sectors.

3.2 Core Principles of Sustainable Development

Environmental protection and conservation are key tenets of sustainable development. They emphasize the imperative of safeguarding our planet's natural resources and ecosystems for the benefit of future generations. This principle extends beyond mere conservation efforts; it necessitates the integration of environmental health into every facet of societal development, including economic and social decision-making processes. It's about fostering a harmonious relationship between human activities and the natural world, ensuring that development today does not compromise the health and viability of tomorrow's environment.

The importance of protecting the environment for sustainable development cannot be overstated. Looking at the Sustainable Development Goals (SDGs) and their implementation in the Islamic banking sector, we see the critical role financial institutions can have in encouraging care for the environment. This discussion introduces a method to assess how well Islamic banks report on sustainability, especially in their efforts to safeguard and preserve the environment. It shows the increasing acknowledgment of the financial industry's duty to help achieve sustainable development objectives, with a particular focus on environmental protection (Jan et al., 2022).

Beyond the financial sector, various industries, including textiles, are acknowledging the crucial role of environmental protection in sustainable growth. A study by Diyaolu (2022) examines the textile industry's impact and contribution to sustainability, particularly in developing nations.

Historically, this industry faced criticism for its environmental and social shortcomings. However, there's a notable trend towards embracing sustainability, incorporating eco-friendly technologies, and adopting practices that adhere to sustainable development ideals. This transformation aims to support economic advancement, social fairness, and environmental conservation, highlighting the textile industry's evolving commitment to sustainability.

Furthermore, sustainable land management (SLM) is another critical area where environmental protection and conservation are essential. SLM requires the integration of technologies, policies, and activities, particularly in agriculture, to enhance economic performance while maintaining the quality and environmental functions of the natural resource base. This approach is founded on principles such as productivity, security, protection, viability, and acceptability, all of which are integral to sustainable development. The concept of SLM, like sustainable development, is gaining momentum due to its psychological appeal and the flexibility of its definition, making it increasingly relevant in both rural and urban settings (Dumanski, 1997).

In summary, environmental protection and conservation are not just about preserving nature; they are about ensuring that all aspects of human development—be it in banking, manufacturing, agriculture, or any other sector—proceed in a way that is sustainable, responsible, and mindful of the delicate balance of our natural ecosystems. This holistic approach is essential for achieving the broader goals of sustainable development.

Social equity stands as a fundamental pillar of sustainable development, advocating for all individuals, regardless of their background or societal position, to have equal access to resources and opportunities. This concept plays a crucial role in diminishing disparities and ensuring the equitable distribution of developmental benefits across various social strata. A key component in achieving social equity is community involvement, where community members actively partake in decisions that affect their lives and surroundings.

The importance of social equity in the realm of agricultural sustainability is highlighted by Barbier and Lopez-Ridaura (2010), who argue that true sustainable development within agriculture requires a harmonious blend of economic feasibility, environmental preservation, and social fairness. Their work calls for the development of methods to assess how farms and agriculturalists contribute towards these sustainability pillars, showcasing social equity's vital role in sustainable agricultural practices.

Building upon this foundation, Shigetomi et al. (2020) tackle the task of securing equitable social results within national sustainability policies. Their investigation in Japan reveals that aligning environmental efforts with household preferences can lead to more socially equitable outcomes, effectively narrowing the divide between wealthier and less affluent populations. The findings suggest that inclusivity in participation, beyond financial distinctions, fosters more balanced outcomes than interventions limited to specific sectors.

Furthermore, Ota et al. (2022) delve into sustainable development within marine environments, examining various logic models that prioritize sustainable development's diverse facets, including social equity. Their research emphasizes the imperative to discern which models most effectively achieve equity advancements in sustainable development, especially concerning marine ecosystems (Fig. 3.1).

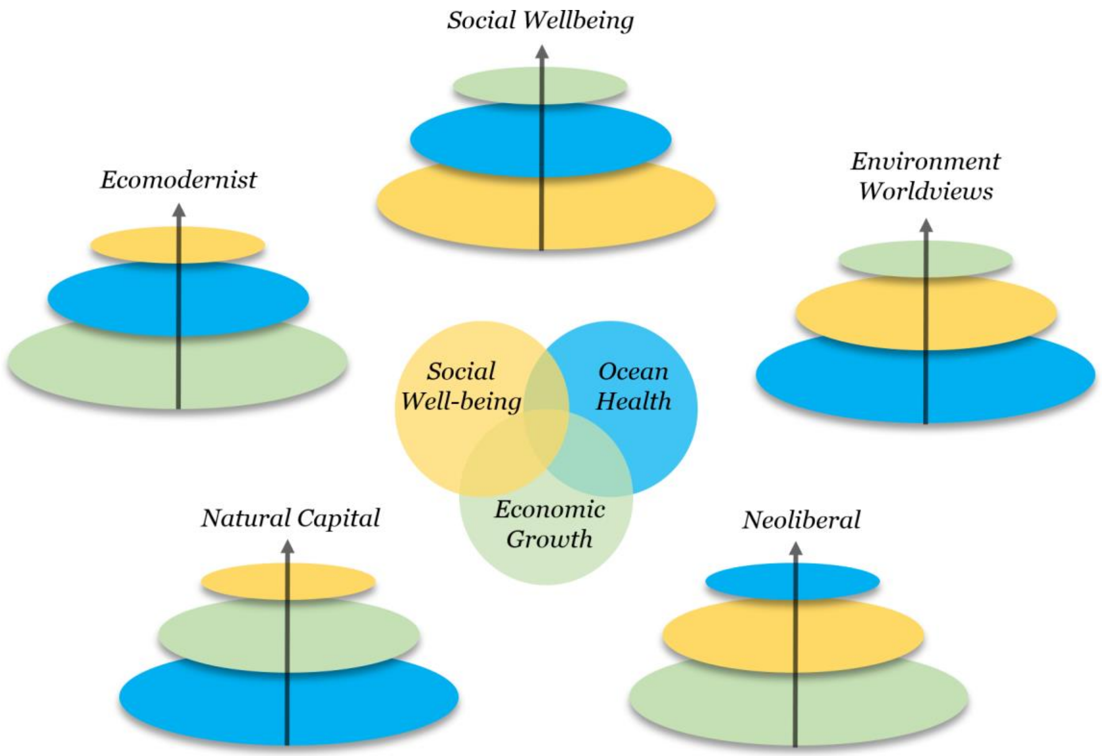

Figure 3.1 Five logic models for sustainable ocean development.
Source: Ota et al. (2022)

Three dimensions of sustainable ocean development—social well-being, economic growth, and ocean health—and proposals for how to prioritize them according to 5 key development approaches and related ocean frameworks. The arrows represent the procedural dynamics of the logic models, and the pyramid-like structure of the assemblage of dimensions represent the logic that later dimensions depend on foundations of the earlier dimensions. Smaller and later dimensions in any logic model depend on the larger and more foundational dimensions that precede them. The names of 3 logic models mostly follow established terminology (Neoliberal, Natural Capital, Ecomodernist), and we chose to elect names for the final 2 with less of a history in the marine literature. Environment Worldviews represents a logic model that is primarily focused on natural resource conservation and management through leveraging the different worldviews of people around the world, and the Social Well-being model prioritizes redressing historical injustices and promoting diverse voices in development decisions (Ota et al., 2022).

The study on sustainable urban development highlights projects that effectively integrate social equity into their development practices. It provides critical insights into the processes and environments conducive to incorporating social equity into sustainable development frameworks. The research emphasizes the crucial roles of institutional dedication and the strategic application of patient capital in achieving these aims, underscoring their significance in the context of urban development projects aimed at fostering social equity (Trudeau, 2018).

In summary, social equity in sustainable development is about creating a fair and inclusive society where everyone has access to resources and opportunities. It requires the active involvement of all stakeholders, including communities, industries, and financial institutions, to ensure that development is equitable and benefits all sections of society.

Economic viability is a fundamental pillar of sustainable development. It emphasizes creating economic growth and development that is sustainable over the long term. This principle extends beyond maximizing short-term profits, encompassing the long-term impacts of economic activities on the environment and society. Long-term planning is crucial in this context, as it involves developing strategies that balance immediate economic needs with the long-term sustainability of resources and ecosystems.

Manufacturing industries, particularly the clothing and textile industry, are interesting research topics for achieving Sustainable Development Goals through economic viability. The study underscores the importance of adopting sustainability principles in textile manufacturing, emphasizing the need for technology transfer and sustainability policies to promote economic growth while protecting the environment and ensuring social equity (Diyaolu, 2022).

Picard (2015) discusses the economic viability of ecotourism, particularly in the Western Indian Ocean region. The study focuses on the "Regional Strategic Action Plan for Coastal Ecotourism Development in the South Western Indian Ocean," demonstrating the importance of fostering criteria for ensuring medium and long-term economic viability in sustainable ecotourism development. The research presents lessons learned from this case study, emphasizing the need for economic viability at micro- and macro-economic levels in sustainable development.

Akinyele, Rayudu, and Blanchard (2016) explore the planning dimensions for sustainable microgrids in energy-poor communities. Their study underscores the framework necessary to design, develop, manage, and ensure the long-term viability of these systems, integrating social, technical, economic, environmental, and policy perspectives. This comprehensive approach provides a sound understanding of the processes and stakeholders over the life cycle of the systems' development.

Rutledge et al. (2008) discuss the challenges and choices in building integrated models to support long-term regional planning in New Zealand. Their project, "Choosing Regional Futures," co-developed a spatial decision support system (SDSS) to assist in long-term integrated planning. The SDSS integrates aspects of the economy, environment, and society, addressing biodiversity, economics, demography, land use change, and water resources, among others. This study highlights the importance of considering economic viability in long-term sustainable development planning.

Boljevic (2014) presents a planning algorithm for optimal Combined Heat & Power (CHP) generation plant connection in urban distribution networks. The study focuses on the Least Cost Technically Acceptable (LCTA) principle and long-term network planning policy, demonstrating the need for careful planning and integration of sustainable energy solutions in urban areas. This research contributes to the understanding of economic viability in the context of sustainable urban development.

In conclusion, the core principles of sustainable development—environmental protection and conservation, social equity and community engagement, and economic viability and long-term planning—are interconnected and essential for achieving a sustainable future. These principles require a holistic approach that integrates environmental, social, and economic considerations into all aspects of development and decision-making. Systems thinking emerges as another crucial tool in this context, offering a framework for understanding the complex and dynamic interactions between these diverse elements. By applying systems thinking, we can identify and address the underlying causes of sustainability challenges, rather than merely responding to their symptoms. This approach enables us to anticipate unintended consequences and design solutions that are both effective and sustainable over the long term. By adhering to these principles and employing systems thinking, societies can ensure that development meets the needs of the present without compromising the ability of future generations to meet their own needs. This integrated approach is key to navigating the complexities of sustainable development and achieving a balance that benefits both our current society and future generations.

3.3 Systems Thinking in Sustainable Development

As we delve into the intricate realm of sustainable development, it becomes increasingly clear that traditional linear approaches are insufficient to address the complex challenges we face. This subchapter introduces "Systems Thinking" as a pivotal tool in the context of sustainable development. Systems thinking is a holistic approach that views problems and solutions in the context of the whole system rather than in isolated parts. It recognizes that the various elements of a system, such as environmental, social, and economic factors, are interconnected and interdependent.

In sustainable development, systems thinking enables us to understand how individual actions can have far-reaching and sometimes unexpected consequences on the entire system. This approach helps identify leverage points in systems where interventions can yield the most significant impact. By applying systems thinking, we can better anticipate the long-term outcomes of our actions, ensuring that today's solutions do not become tomorrow's problems.

This subchapter will explore the principles of systems thinking, its relevance in sustainable development, and how it can be applied to create effective and resilient strategies for addressing global challenges. We will examine case studies and models demonstrating the successful application of systems thinking in various aspects of sustainable development, highlighting its potential to transform our approach to creating a sustainable future.

First of all, a **system** is an abstract model in general. We can apply a systemic view to explain a variety of phenomena or things. We have social systems such as families or firms, biological systems such as living organisms, etc.

Systems typically exhibit several **key features**, which include (Koskinen, 2013):

- A defined structure constituted by its components and their interactions.
- Representations or abstractions of real-world phenomena.
- A consistent mode of operation characterized by the intake and output of resources, undergoing processing that results in transformation.
- Interconnected parts that maintain both functional and structural interrelations.

We can identify systems of **different types** (Koskinen, 2013):

- Physical such as river systém, solar systems, bodily systems,
- Biological as ekosystém e.g. living organisms,
- Designed, e.g. automobiles,
- Abstract, such as philosophical systems,
- Social, such as families, variaty of organization, e.g. firms,
- Human acitvity, such a systém to ensure the quality of product (Koskinen, 2013).

A system comprises interlinked elements like individuals, cells, or molecules, showcasing distinct behavior patterns over time. While reacting to external influences, such systems primarily manifest behaviors intrinsic to their nature, thus adding complexity to real-world scenarios. Essentially, the system plays a significant role in shaping its behavior, with external factors acting as catalysts rather than direct influencers.

For example:

- Political leaders do not solely drive economic fluctuations; these fluctuations are embedded within the market economy's structure.
- A company's market share decline isn't caused only by competitors; the company's own business strategies significantly contribute to its downturn.
- The responsibility for rising oil prices doesn't fall on oil-exporting countries alone; the economic vulnerabilities of oil-importing countries are also key factors.
- Regarding health, the spread of the flu virus is not just a matter of exposure; the conditions that individuals create within themselves can facilitate the virus's proliferation.

Likewise, drug addiction is not an individual's failure, and its resolution requires understanding it as part of a broader set of influences and societal issues. Curing addiction goes beyond the efforts of any single person, emphasizing the need for a comprehensive understanding (Meadows, 2009).

Nearly everything can be considered a system, with the exception of a conglomeration lacking specific interconnections or functions. For example, scattered sand on a road without a discernible structure or purpose is not a system. ***The critical idea is that a system is more than the sum of its parts; it possesses a particular integrity and wholeness.*** The removal or addition of elements can fundamentally alter a system, illustrating that its identity is dependent on the relationships and interconnections among its components.

The healthcare system is an intricate network comprised of hospitals, clinics, patients, doctors, nurses, healthcare administrators, medical equipment, pharmaceuticals, and more. But beyond these tangible elements, intangible aspects such as patient trust, healthcare policies, and the reputation of medical institutions play a significant role in the system's functionality. Identifying the components of this system reveals a complex web that extends infinitely into smaller and smaller sub-components. For instance, a hospital is not just a building but a host to various specialized departments, technologies, and human resources. However, delving too deeply into these sub-elements might distract from the broader system's operations.

Interconnections within the healthcare system are crucial, including patient referral processes, medical records sharing, healthcare financing, and the doctor-patient relationship. These connections can be seen in the direct care provided to patients, the flow of medical information across different healthcare providers, and the impact of healthcare policies on patient care and institutional operations. Patients move through the healthcare system, influenced by tangible and intangible information flows. Often less visible, these dynamics are essential for understanding how the healthcare system functions, emphasizing the importance of looking beyond individual components to the relationships that bind the system.

Systems are not static entities; they can self-organize, self-repair to some extent, and demonstrate resilience. Moreover, systems can be evolutionary, giving rise to entirely new and unprecedented systems.

However, functions or purposes in a system are not always explicitly expressed but deduced through observation of system behavior.

What are systems thinking - how do we observe reality / how do we approach it? As **system thinkers**, we consider a procedure, process, method, or course of action designed to achieve a specific result. In other words, we consider how component parts and interrelated steps work together for the good of the whole.

The system approach advocates for a holistic view, emphasizing strategic thinking and a comprehensive understanding of problems (Miles, 2022). It represents a paradigm shift, fostering interdisciplinary approaches to navigate the complexities of global challenges, and is increasingly recognized for its importance in sustainable development (Barile & Saviano, 2021; OECD & International Institute for Applied Systems Analysis, 2020). Rather than a mere set of tools or methods, systems thinking is a philosophical lens that encourages consideration of the world's interconnected and cyclical nature. It highlights:

- The significance of structures in shaping our experiences, even when systemic laws aren't immediately apparent.
- The transition from focusing on individual events or data to recognizing behavior or patterns.
- The importance of understanding the broader context or the "big picture."

Adopting a systems perspective enables individuals to:

- Grasp the complexity of phenomena through circular rather than linear causal reasoning.

○ View real-world phenomena or issues from multiple angles, acknowledging the multifaceted nature of solutions and the interconnected impact of decisions.

○ Prioritize the entirety over isolated details, akin to "seeing the forest for the trees."

○ Define problems and their solutions before taking action, ensuring a more thorough approach.

○ Always consider the individual in the context of their relationships with others.

○ Focus on fundamental principles over basic components, recognizing systems' dynamic, complex, and interdependent nature.

○ Balance immediate concerns with long-term outcomes.

○ Consider both measurable and not-measurable factors.

Systems thinking proves particularly valuable in scenarios where:

○ Problems are substantial and impactful.

○ Persistent issues lack clear solutions.

○ The history and context of the problem are well-documented, offering insights for informed decision-making (Goodman, 2018).

3.4 Linear Thinking vs. Systems Thinking

The systemic view is different from conventional linear thinking models, which are often characterized by a rational thinking style (Fig. 3.2).

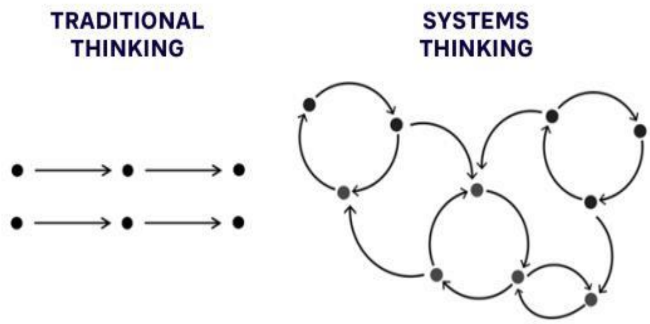

Figure 3.1 Traditional thinking vs. systems thinking.
Source: Bansal et al., 2022, p. 38

In linear thinking, one centres on individuals, structures, departments, and units, separate from the whole. This view is often characterized by a rational style of thinking. People believe they can predict and control outcomes through their actions. They tend to see the sequences of cause and effect that are limited in time and space (Monat & Gannon, 2015).

In the systemic view, we can recognize the interdependence of groups of individuals, structures, and processes that enable a system such as a firm to function. One recognizes that things act and interact, so outcomes are difficult to predict and control. But he or she can see everything as part of a system, which extends even to themselves. Thus, anything that one does has implications for others, and others' actions have implications for them (Arnold & Wade, 2015; Monat & Gannon, 2015). In this respect, we must switch to non-linear thinking or decision-making (Plous, 2007).

This duality arises from two fundamental human experiences that shape our understanding of the world.

The rational view emphasizes analytical thinking, tracing direct cause-and-effect relationships, and solving problems through controlled actions. This approach, ingrained in our education, empowers individuals to attribute issues to identifiable causes such as political leaders, competitors, or external factors like OPEC, the flu, or drugs. The rational view thrives on breaking down problems into manageable components, providing a sense of personal and societal power.

Conversely, the systems view recognizes that long before formal education in rational analysis, individuals intuitively navigated complex systems. The world, including our own bodies, is comprised of interconnected, self-maintaining complexity. Every encounter, organization, living entity, and natural system is inherently complex, however despite lacking formal analysis, individuals have developed a practical understanding of these systems, learning how to operate within them (Meadows, 2009).

The implications of this systemic view challenge traditional attributions of causality, urging a shift from a reductionist mindset to one that considers interconnected elements and their dynamic interactions. It prompts a reevaluation of approaches in various domains, emphasizing the importance of systemic thinking for effective problem-solving. This understanding, developed over time through research and practical application, forms the basis of a new paradigm that recognizes the complexity and interdependence inherent in systems across different scales.

3.5 Characteristics of system thinking more deeple

All the pieces of an organization connect, interact and play a part in outcomes. So, systems thinking requires an understanding of **interconnectedness. and interdependencies within and between systems.**

Sustainable development necessitates viewing environmental issues, social dynamics, and economic structures not as isolated entities but as components of a larger, integrated whole. This approach is crucial in recognizing that actions taken in one part of the system can have far-reaching effects on other parts, often in ways that are not immediately apparent.

After mapping out the systems for the problem, you should try to figure out how the systems are connected. However, these connections may not be immediately recognizable, and it is necessary to think more deeply about the problem at hand (Monat & Gannon, 2015).

Let's consider the impact of urban development on local ecosystems. The process of urbanization, marked by increased construction and land development, showcases the intricate interplay between human settlement growth and environmental sustainability. For instance, urban sprawl often leads to habitat destruction, changes in local climate patterns, and increased pollution levels. However, adopting green urban planning principles—like incorporating green spaces, promoting public transportation, and utilizing eco-friendly construction materials—can mitigate these impacts. This approach underlines the connections between urban planning systems and natural ecosystems, emphasizing the need for integrated strategies that foster both urban growth and environmental preservation.

Another example is the integration of renewable energy into existing power grids. Transitioning from traditional fossil fuels to renewable energy sources, such as solar and wind, involves understanding the complexities and dependencies within the energy system. For instance, the variability of renewable energy production requires innovations in energy storage and grid management to ensure reliable power supply. Implementing smart grid technologies and demand response programs can enhance grid flexibility, allowing for a more seamless integration of renewables. This shift addresses the challenges of energy security and climate change and underscores the interconnectedness of technological innovation, energy policy, and consumer behavior in shaping a sustainable energy future.

One of the key strengths of systems thinking in sustainable development is its ability to identify leverage points – places within a complex system where a small change could lead to significant changes.

For instance, in addressing climate change, systems thinking helps identify how energy consumption, transportation, industrial processes, and consumer behavior are interlinked, enabling policymakers to devise strategies that target these interconnections for more effective outcomes (Miles, 2022; Munro, 2023; Meadows, 2009).

Very important for system thinking is identifying consistent behavior patterns that serve **as indicators of feedback loops.**

Positive feedback loops can lead to exponential growth or decline, while negative feedback loops help in maintaining system stability. In sustainable development, recognizing these feedback loops is essential for predicting and managing the impacts of environmental policies and practices. A feedback loop is established when changes in a system's structure called stock influence systém's dynamic processes called the flows (will be explained in more detail below) into or out of that same stock.

Feedback loops can lead to various outcomes, such as maintaining stock levels within a range or causing growth or decline. The adjustments in flows are triggered by changes in the size of the stock, and the system, through monitoring the stock's level, initiates a corrective process by adjusting rates flow or outflow. This self-regulating mechanism, occurring through a chain of signals and actions, demonstrates how the stock level feeds back to control itself within the system (Meadows, 2009).

One common kind of feedback loop stabilizes the stock level, as in the checking-account example. The stock level may not remain completely fixed, but it does stay within an acceptable range. What follows are some more stabilizing feedback loops that may be familiar to you. These examples start to detail some of the steps within a feedback loop (Medows, 2009). This kind of stabilizing, goal-seeking, regulating loop is called a **balancing feedback loop.** In other words, these elements could be imagined as structures in systems and are both sources of stability and sources of resistance to change. If you push a stock too far up, a balancing loop will try to pull it back down. If you shove it too far down, a balancing loop will try to bring it back up.

However, the presence of a feedback mechanism doesn't necessarily mean that the mechanism works well. For example, the feedback mechanism may not be strong enough to bring the stock to the desired level. It can also be unclear, incomplete, or hard to interpret (Meadows, 2009).

For example, in waste management, in a community striving for sustainable waste management, a balancing feedback loop can be established to reduce waste generation and promote recycling. If waste production is high and landfill space is limited, the community might implement recycling programs, waste-to-energy initiatives, and policies encouraging the use of eco-friendly products. As recycling rates increase, the loop helps decrease the volume of waste sent to landfills, contributing to a more sustainable waste management system. Take dieting for example: if we manage to lose a few pounds, the sense of achievement can make us complacent, and then we put the weight all back on again.

The second kind of feedback loop is amplifying, **reinforcing feedback**, self-multiplying, snowballing—a vicious or virtuous circle that can cause healthy growth. Reinforcing feedback loops are self-enhancing, leading to exponential growth or to runaway collapses over time. They are found whenever a stock has the capacity to reinforce or reproduce itself (Meadows, 2009).

Reinforcing and balancing loops could be called '**positive'** and **'negative' feedback loops.** Both types of loop can be good or bad, depending on what you think the system ought to be doing. As Easterbrook mentioned in his blog, a reinforcing loop is good when you want to achieve a change (e.g. your protest movement goes viral), but is certainly not good when it's driving a change you don't want (a forest fire spreading towards your town, for example). Similarly, a balancing loop is good when it keeps a system stable that you depend on (prices in the marketplace, perhaps), but is bad when it defeats your attempts to bring about change (as in the dieting example above). Of course, what's good to one person might be bad to someone else, so we'll set aside such value judgements for the moment, and just focus on how the loops work in the climate systém (Easterbrook, 2013; Meadows, 2009).

It helps to draw pictures. Here's an example of how both types of loop affect a tech company trying to sell a new product (Fig. 3.3).

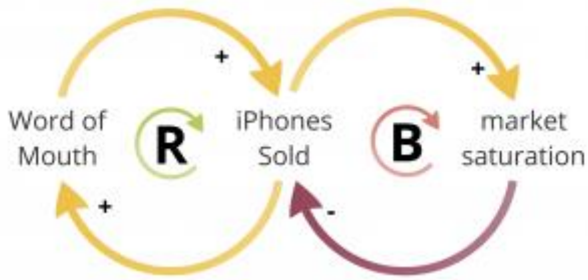

Figure 3.3. The action of reinforcing and balancing feedback loops in selling iPhones
Source: Easterbrook, 2013

You can understand the scheme as follows (but also differently. The arrows labelled "-" mean "more of A tends to cause less of B, and less of A tends to cause more of B".

On the left, we have a reinforcing loop (labelled with an 'R'): the effect of word of mouth. The more iPhones we sell, the more people there are to spread the word, which in turn means more get sold. This tends to create an exponential growth in sales figures. However, this cannot go on forever. Sooner or later, the balancing loop on the right starts to matter (labelled with a 'B'). The more iPhones sold, the fewer there are people left without one – we start to saturate the market. The more the market is saturated, the fewer iPhones we can sell. The growth in sales slows, and may even stop altogether. The resulting graph of sales over time might look like this: When the reinforcing loop dominates, sales grow exponentially. When the balancing loop dominates, sales stagnate. In this case, the natural limit is when everyone who might ever want an iPhone has one. Of course, in real life, the curves are never this smooth – other feedback loops (that we haven't mentioned yet) kick in, and temporarily push sales up or down (Easterbrook, 2013).

Another critical aspect is **the emphasis on long-term thinking.** Systems thinking encourages looking beyond immediate outcomes to understand the long-term implications of development strategies. This perspective is vital for sustainable development, which inherently focuses on meeting the needs of the present without compromising the ability of future generations to meet their own needs (Sterman, 2009).

In this respect, identifying stocks and flows is important for understanding the behaviour of complex systems through time. **Stocks** represent visible, tangible elements within a system that can be observed, felt, counted, or measured at a specific moment. Stocks representing accumulations of material or information, possess a notable inertia, taking considerable time to grow, change, or deplete. The gradual nature of these changes is evident in various examples, such as population growth, forest accumulation, reservoir filling, and the depletion of resources like mines (Meadows, 2009). **Flows,** on the other hand, are the dynamic processes influencing stocks—activities such as filling and draining, births and deaths, purchases and sales, growth and decay, and various other actions that contribute to the accumulation or depletion of stocks. Flows are the driving forces shaping the present state of stocks, and the relationship between stocks and flows reflects the system's history and dynamics.

The human mind tends to focus more easily on stocks than on flows, and when considering flows, there's a tendency to prioritize inflows over outflows. This bias can lead to overlooking the fact that altering outflow rates can be as effective as changing inflow rates in affecting the stock.

For instance, prolonging the life of an oil-based economy doesn't only depend on discovering new oil deposits but can also be achieved by burning less oil through energy efficiency breakthroughs. This perspective highlights the importance of recognizing the dual influence of inflows and outflows on stocks.

Another example is a company building a larger workforce through increased hiring or by reducing the rates of quitting and firing. Both strategies affect the stock of the workforce but may have different costs. Similarly, a nation's wealth can be enhanced by investing in building more factories and machines or by decreasing the rate at which existing ones wear out or break down. This insight underscores the versatility of strategies in influencing stocks within systems.

In conclusion, for understanding of the dynamics within complex systems is needed to consider both inflows and outflows when analyzing and influencing stocks (Meadows, 2009).

The pace of system dynamics is set by changes in stocks, illustrating that processes like industrialization or environmental pollution cannot occur more rapidly than the rates at which factories are constructed, machines are produced, or pollutants accumulate. This recognition of time lags resulting from slowly changing stocks is crucial for understanding system behavior. While these time lags may pose challenges, they also contribute to system stability. For instance, soil erosion or skill loss in a population doesn't happen suddenly, providing room for maneuvering, experimentation, and policy adjustments.

Stocks are constantly monitored, and decisions made to raise, lower, or maintain them within acceptable ranges contribute to the overall dynamics of systems. Systems thinkers view the world as a collection of stocks and the mechanisms regulating their levels through the manipulation of flows. This approach emphasizes the interconnectedness of stocks and flows, showcasing how decisions and actions influence the ebbs and flows, successes, and problems within diverse systems (Sterman, 2000).

So the world should be seen as a network of interconnected stocks, and the mechanisms regulating these stocks involve feedback loops. This recognition underlines the importance of understanding how changes in stocks influence future behaviors, creating a continuous feedback cycle within systems.

The functions and purposes of systems are not aligned with human intentions and may result in unintended consequences. However, the complexity arises when examining larger systems, like a national economy, where the behavior suggests a purpose of continual growth. Importantly, systems aim for their own perpetuation, and system purposes can diverge from individual human intentions. The frustration within systems lies in the fact that the combined purposes of subunits may lead to overall behaviors that no one desires. Systems can be nested, with purposes within purposes.

3.6 System thinking in sustainable development

Systems thinking in sustainable development represents a paradigm shift, akin to historical revolutions in scientific thought. This approach challenges existing paradigms, highlighting the necessity to confront anomalies, empower change agents, and focus efforts on engaging those open to new ideas (Voulvoulis et al., 2022). It fosters collaborative problem structuring, engaging a variety of stakeholders in defining a shared vision for action (Giakoumis & Voulvoulis, 2018).

The relevance of systems thinking to sustainable development lies in its ability to navigate the complexity, interdependence, and unpredictability inherent in sustainability challenges. It resonates with the integrated nature of the Sustainable Development Goals (SDGs), promoting a comprehensive understanding of the synergies and trade-offs among different objectives. Moving away from narrow, sector-specific interventions, sustainable development requires a shift towards more systemic and interconnected strategies (Voulvoulis et al., 2022).

Furthermore, systems thinking enables the identification of root causes rather than just symptoms of sustainability issues. This deeper understanding leads to more effective and enduring solutions. Considering the whole system allows for the anticipation of unintended consequences and the design of adaptable and resilient interventions over time.

In practice, systems thinking in sustainable development involves a continuous learning, adaptation, and co-creation process with stakeholders. It requires thinking in terms of relationships, patterns, and context. This approach is about solving existing problems and creating new opportunities and pathways for sustainable growth and development.

In conclusion, systems thinking is not just a theoretical concept but a practical tool for achieving sustainable development. It requires a shift in mindset from linear to holistic thinking, from isolation to interconnectedness, and short-term fixes to long-term sustainability. As we face increasingly complex global challenges, applying systems thinking in sustainable development becomes beneficial and essential for the well-being of our planet and future generations.

Summary

This chapter elucidates the critical importance of leadership in fostering sustainable development, integrating the core principles of environmental stewardship, social justice, and economic resilience. It marks a departure from conventional leadership models that prioritize short-term profits, advocating instead for a leadership paradigm deeply ingrained with sustainable development objectives. The exigency for such a transformation has been starkly highlighted by the global challenges posed by the COVID-19 pandemic, underscoring the necessity for leaders to champion innovation and sustainability. The electric vehicle industry is showcased as a prime example of how leadership can drive sectoral evolution towards global sustainability goals.

The discussion extends to environmental conservation as a cornerstone of sustainable development. It illustrates the increasing commitment across sectors, such as Islamic banking and the textile industry, to adopt environmentally sustainable practices. These sectors recognize the imperative of minimizing their ecological footprint, thereby contributing to the overarching goal of sustainable development. The chapter emphasizes sustainable land management (SLM) as pivotal in balancing economic development with ecological preservation.

Social equity emerges as another fundamental aspect of sustainable development, advocating for inclusive access to resources and opportunities. The narrative presents agricultural sustainability and equitable social outcomes as illustrative examples where social equity plays a central role. Through community engagement and equitable practices, these examples underline the necessity of ensuring that development benefits are equitably distributed.

Economic viability is highlighted as indispensable for achieving long-term sustainable development. The text explores how industries, particularly textiles, and ecotourism, are embracing sustainable practices to ensure economic growth without sacrificing environmental and social values. These examples serve as testaments to the feasibility of integrating economic viability with sustainability principles.

Central to this chapter is the concept of systems thinking as an essential tool for sustainable development. Contrasting sharply with linear thinking, systems thinking offers a holistic view that acknowledges the complex interconnections and interdependencies within and across systems. This approach enables the identification of strategic intervention points and fosters a deeper understanding of the dynamics at play, facilitating more effective and resilient strategies for tackling global challenges.

In summarizing, the chapter calls for a paradigm shift towards systems thinking in sustainable development. It advocates for a holistic, interconnected approach to decision-making and strategy development across various sectors. By embracing this shift, leaders can better navigate the complexities of the modern world, ensuring a sustainable future for generations to come.

Discussion Questions

1. How has the concept of leadership evolved in the context of sustainable development, and what implications does this evolution have for future leaders?
2. Discuss the role of environmental protection in sustainable development. How do various sectors contribute to this goal, and what challenges do they face?
3. Why is social equity considered a fundamental pillar of sustainable development, and how can communities actively contribute to achieving equitable outcomes?
4. Examine the importance of economic viability in sustainable development. What strategies can industries adopt to balance economic growth with environmental and social considerations?
5. How do systems thinking differ from traditional linear thinking in addressing sustainability challenges? Provide examples where systems thinking has led to effective sustainable development strategies.
6. Reflect on the interdependencies between the pillars of sustainable development (environmental protection, social equity, economic viability). How can leaders ensure these pillars are integrated into their strategies?

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CHAPTER 4: CREATING A SUSTAINABLE CORPORATE CULTURE AND ENGAGEMENT

In many businesses and economies, sustainability is still considered a novelty. This may require a massive change process, especially for those which yet have the approach in place. One can stretegically begin from how corporate culture is designed, adapted and strengthened, which ultimately lead to transforming human behavior.

Corporate culture is one of the key elements for organizations embarking toward sustainable businesses. The effectiveness of culture requires the intervention of the top leaders. As such, leaders should take a serious effort in creating sustainability-powered corporate culture and ensuring its internalisation.

The extent to which a new culture is well intact, a close monitoring on how employees internalise this notion is therefore crucial. For one thing, Likert (1967) has long claimed that needs to constantly engage organizations' human capital, including during difficult times. As a result, the extent to which corporate culture is effectual, organizations need to play a close attention to how engage their employees.

This chapter explores several crucial issues on corporate culture. It begins with the concept of corporate culture in order to lay the basic understanding on the issue. It is followed with the discussion on the function of culture. Given that culture will affect individuals, their readiness for cultural adopton deserves some attention and therefore is presented and followed by a brief review on resistance to change. To view the strategic impact of corporate culture, the framework on the culture-firm performance is discussed consecutively. The crucial roles of the leaders are explored and followed by sections on culture measurement and assessment as well as recent issues on corporate culture. The chapter is then concluded with a chapter summary.

4.1 What is Corporate Culture

Corporate culture has been studied for more than 50 years with Edgar Schein as one of the prominent proponents. Having said so, the issue is nowhere close to saturate research interest. Similarly, where sustainability attracts an increasing attention, so does corporate culture within this spesific context.

Almost 40 years ago, Schein (1986) highlighted the crucial roles of culture where it could turn the need and urgency for a culture to managing, creating 'excellent' and in turn leveraging culture for achieving strategic goals. In the later work, Schein (1997) admits that culture has two unique features. First, culture can manifest itself into many forms and hence considered a complex phenomenon. Second, the importance of cultural dimensions which are interrelated. If culture is such a complex phenomenon, then the extent to which it cascades down to human behavior shall be carefully examined.

To understand the concept and practice of culture, Kinicki (2021) provides a useful and practical framework. As seen on Figure 4.1, the first box oulines the drivers of change. Five factors may come to play, from individual elemens (e.g. founders' values and leaders' behavior) to organizational level (e.g. industry and business environment, national culture). Organizational culture is then affect how the structure and internal processes are designed. It will unarguably lead to unique group and social processes. Once these processes are effectual, specific work attitudes and behaviors will emerge. It will ultimately lead to organizational outcomes.

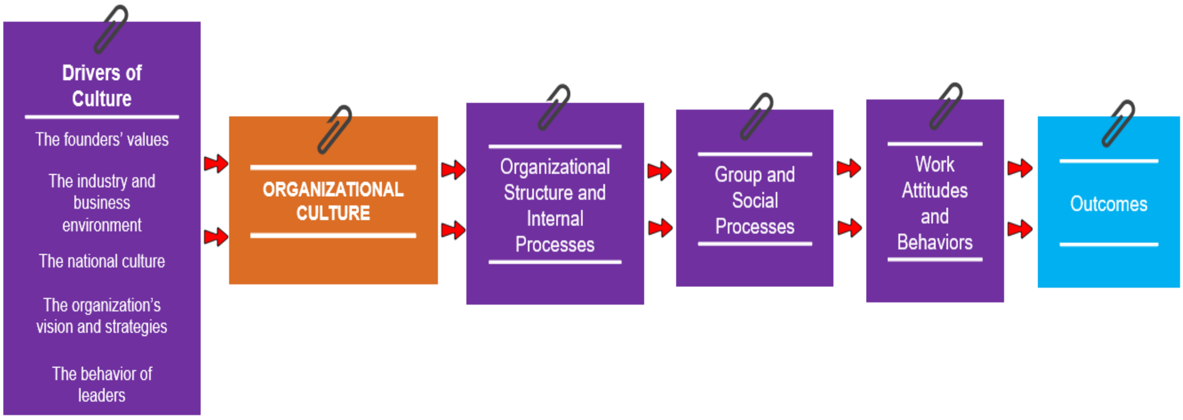

Figure 4.1. Drivers and Flow of Organizational Culture
Source: Adopted from Kinicki (2021)

To have a more full grasp on the situation, a more recent research portrays organizational culture as 'a *network of cultural elements and decompose individuals' cultural adoption into two conceptually and empirically distinct dimensions*' (Choi et al., 2023). It is supposed to emerge from pure and genuine set of organizational values, beliefs, and norms.

Schein (1986) navigate further some steps to avoid the pitfalls.

Cultural embeddedness, which reflects whether individuals have adopted the core values, beliefs, and norms entrenched in the organization's culture, helps an individual generate ideas that others will view as useful.

As a way of life, culture penetrates individual behavior and in the context of novelty in sustainability practices, creativity is paramount. Choi et al. (2023) argues more specifically that '*Culture shapes how individuals interpret, understand, and respond to events and information: what they pay attention to, what they ignore, how they define problems, and how they ultimately respond to problems*' (p.430). As a collective mindset and approach, creativity may flourish if the culture allows. Hereby, the authors offer a four types of cultural adoption of cultural embeddedness and cultural breath dimensions (See Figure 4.1).

4.2 Functions of Culture

Culture has several roles curicial for the organization. Kinicki (2021) outlines four important roles of culture. To ease the understanding on the conception, an examplary case of The Body Shop is used. These roles are:

- Establishes organizational identity

Culture provides employees with an organizational identity that is shared by all organizational members. Kouame et al. (2022) interprets organizational identity as what the organization is which may endure and sustained over time. Companies are now incorporating sustainability as part of their identity. When it is resonated externally, it may consolidate the organization with its stakeholders. The Body Shop is one of the successful global companies which consistently espoused its organizational sustainability identity and engaged with its wider stakeholders in this endeavor. The founder, Dame Anita Roddick, laid compelling values on societal and environmental dimensions since the company's establishment in 1976. Almost fifty years on, every outlet and employee of The Body Shop reflect strongly this notion. Identity does not exclusively bind the organizational members. One prominent quote from the founder is: "*Social and environmental dimensions are woven into the fabric of the company itself. They are neither first not last among our objectives, but an ongoing part of everything we do*."

Figure 4.2 Functions of Organizational Culture
Source: Kinicki (2021)

- Encourages collective commitment

Collective commitment is the foundation for a persistent energy and effort to achieve certain goals. This is particularly essential within dynamic and constantly changing environment. Referring back to The Body Shop case, having such strong collective commitment, the company could stand tall despite being unconventional amongst other big players in the beauty cosmetics industry. It remains persistent with its products being "*ethically sourced and naturally-based ingredients from around the world*".[1]

- Ensures social system stability

Organizational life is naturally faced with tensions and conflicts. Social system stability, therefore, reflects the stability and certainty of the work organization in managing conflict and change in a constructive and reinforcing manner. Unarguably, company like The Body Shop has faced with numerous challenges, and yet its strong culture has allowed the company not only to remain afloat but also become a game changer. The Body Shop displays a vivid example of how the company has become a global player without shifting its orientation.

- Acts as sense-making device

Sense-making device regulates members to make sense of any environmental stimuli. When a new or novel stimuli arises, employees could better comprehend and act upon it. At the organizational level, this will allow employees to also understand the organization's standpoint in achieving its goals. Before the arrival of environmental pressures upon business, The Body Shop has managed to pioneer a significant social change.

> Over 40 years ago, this kind of approach was ahead of the curve. With Anita's passion for the planet and campaigning for causes, The Body Shop was always more than just a beauty brand. It had purpose – profit and principles working in harmony. Our products were never tested on animals and didn't exploit anyone in making them. We worked fairly with farmers and suppliers, and helped communities thrive through our Community Fair Trade programme. Today, there are more and more brands following in our footsteps, and we're glad to welcome them aboard. The world needs it. (The Body Shop, 2024)

[1] See https://www.thebodyshop.com/en-gb/about-us/our-story for further information.

The “Stop the Burning Campaign“ in 1989 that was groundbreaking and supported by almost a million petition signatures. The campaign aims to stop the burning of protecting rainforests, particularly in Brazil. This belief and principle have been nurtured until recent time as it remain its significan legacy (see the website). More importantly, this campaign also marked a stronger organizational identity and standpoint of The Body Shop.

Figure 4.3 “Stop the Burning Campaign“ in 1989
Source: www.thebodyshop.com

4.3 Individual Culture Adoption

Once a corporate culture is designed or redesigned, the members are expected to smoothly submit to it. Individuals, however, have different degree of culture adoption. Shifting toward sustainability orientation may fall into this circumstance. As such, leaders need to take into account individual culture adoption seriously.

A recent study by Choi et al. (2023) oulines two distinct dimensions that determine culture adoption, namely cultural breadth and cultural embeddedness. The model is originally aimed at explaining how creativity, which is essential in a novel situation, could emerge under which situation. Cultural breadth shows the level of which ‘individuals have adopted a broad range of values, beliefs, and norms that span the organization’s culture‘ (p.539). Meanwhile, cultural embeddedness shows whether ‘individuals have adopted the core values, beliefs, and norms entrenched in the organization’s culture‘ (p.539). The intersection of these two dimensions results in a four types/quadrants culture adoption model as seen on Figure 3.

The four quadrants are as follows. Quadrant I (Integrated Cultural Brokers) consists of individuals with high cultural breadth and high cultural embeddedness. Individuals of this type is predicted to be having creative iniatives. Their integrated comprehension and attachment on the culture will enable them not only to come up with novelty, but also more successfully bring this new culture to the fore. Quadrant II (Localized Insiders) consists of individuals with high cultural embeddedness, but low cultural breath. Their attachment on the culture may be noticable, but given their limited possession on the different elements of organizational culture, their outreach for making creative ideas is rather localized. Quadrant III (Cultural Outsiders) consists of individuals with low in both cultural breath and cultural embeddedness. These individuals are often become or felt alienated as they only adopt peripheral cultural aspects an more over, within a limited range of the organization’s culture. Quadrant IV (Marginalized Cultural Brokers) consists of individuals with high culture breath, but low cultural embeddedness. This group may adopt peripheral cultural aspect but in a comprehensive range of the culture.

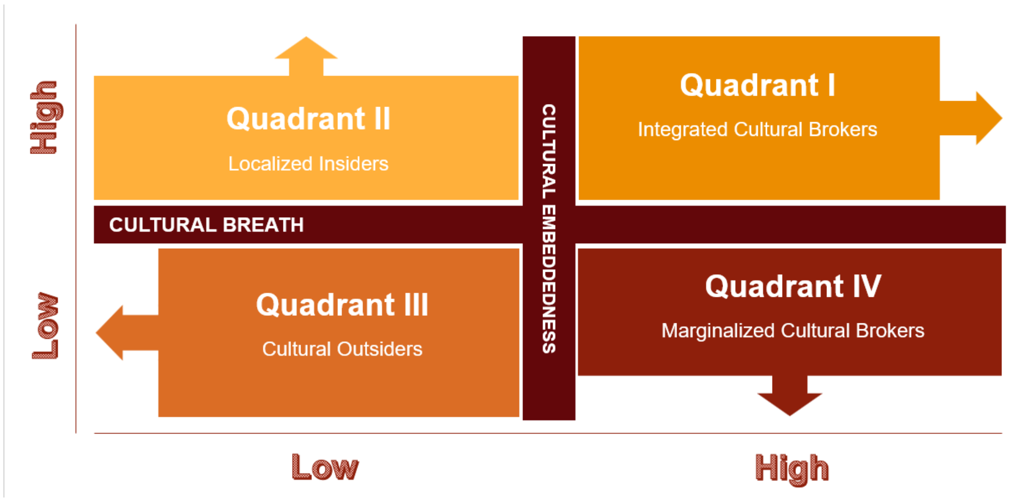

Figure 4.4 Four Type of Culture Adoption
Source: Choi, Ingram & Han (2023)

This model teaches us that leaders may need to categorise employees' readiness for cultural adoption. Individuals in the Quadrant 1 may be good candidates to become the cultural change agent. As of invididuals with Quadrant II characteristics require a serious attention as they would be struggling to embark on the new cultural state and at the same time experience resistance to change.

4.4 Resistance to Change

Any change often involves cultural change and this may lead to three different employee reactions, namely commitment, compliance, or resistance. The expected impact would be commitment. Commitment is a situation where employees believe and buy-in the process and have willingness to collectively achieve the change goals. Compliance is a type of reaction which aiming at fulfulling the requirement. Nothing more, nothing else. Meanwhile, the least expected reaction is resistance to change. This last issue is considered crucial in discussing cultural change as it usually involves questioning the deeply rooted beliefs. Having their mindset, routines and habits being challenged, individuals may find it difficult.

Addressing or mitigating resistance to change is prominent during transformational period. Nevertheless, many organizations are struggling either to identify, mitigate or solve it. Failure in addressing this issue may lead to organizational malfunction, such as increase turnover, increase dissatisfaction, and ultimately losing competitiveness.

Many scholars have definition of resistance to change. One simple yet rich definition is provided by Kinicki (2021) where resistance to change is 'any thought, emotion, or behavior that does not align with actual or potential changes to existing routines'.

4.5 Corporate Culture and Firm Performance

Leaders need to pay a serious attention on culture and cultural change as their dynamics potentially impact on firm performance. Using directly sustainable business orientation as the backdrop to reshape employee involvement and ultimately firm performance, clearly shows the prerequisite to acknolwedge the roels of institutional framework. Institutions are defined as stable patterns of behavior that define, govern, and constrain action (Scott, 2008). As such, culture can be seen from an institutional perspective where it create some pressures for organization to comply.

Introducing this lens is relevant as many sustainability initiatives, especially in developing countries, are the result of external demands (global or domestic). A more contemporary research argues that culture that nurtures employee flexibility may be able to address dynamic and novel targeted performance.

As seen on Figure 4.5, Zhang et al. (2022), two variables play important roles in determining firm performance, namely flexibility-oriented culture and employee green involvement. Firm performance entails financial, environmental and social performance and is directly affected by employee green involvement. This involvement, however, is affected by perceived institutional force, but moderated by flexibility-oriented culture. In other words, high flexibility-oriented culture strengthens the influence of both perceived business and social forces on employee green involvement. In turn, high employee green involvement will increase firm performance.

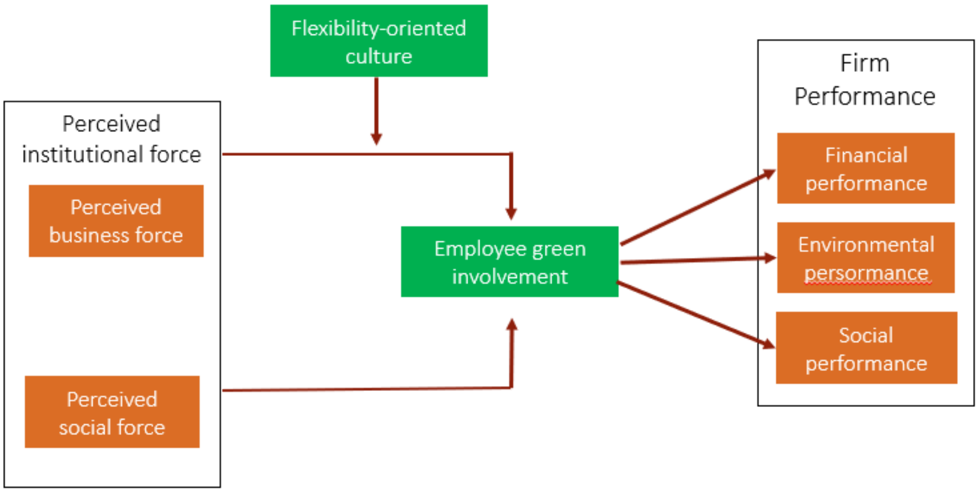

Figure 4.5 Roles of Flexibility-oriented Culture and Employee Green Involvement on Firm Performance

Source: Zhang et al. (2022)

4.6 Roles of the Leaders

Cultural change toward sustainability shall lay the foundation for cultural fit and the rate at which it happens (Corritore et al., 2020). Cultural fit requires congruence between organizational value with individual values of the employees. However, as culture evolves over time, the rate of the change matters. Stability is hence considered as a temporary state.

Strategic Leadership Qualities

Leadership is the art of motivating a group of people towards achieving a common goal. It is not merely a position of power but an act of influencing and inspiring others. The essence of leadership lies in the ability to communicate effectively, to articulate ideas, visions, and directions in a way that resonates with others. This communication goes beyond mere dialogue; it involves active listening and the capacity to translate feedback into action. Leaders must be adept at managing both the operational and the emotional landscapes of their teams, fostering an environment where creativity and innovation can flourish.

As such, leaders at every level are expected to navigate company's culture, direction, and ultimately company success (Schein, 1991), a full grasp of how a sustainable culture and employee participation, more specifically engagement, is a prerequisite. This chapter provides the basic concept of corporate culture, how it links with organizational values, the mechanism of how a new culture can be introduced and strengthen, and employee engagement.

Building and maintaining culture to meet the increasing demand for sustainability requires leaders to take strategic roles. Published in Harvard Business Review, Lorsch and McTague (2016) interviewed some current and former CEOs who had successfully led major transformations. It was found that 'culture is not something you fix'. It is actually a continuous process involving live experience while 'reworking an outdated strategy or business model'. As culture involves transformation of human beings, the process might be painstaking. It may not follow predetermined design, but deviates from it. As culture is an evolving phenomenon, strategic leaders should be presence at every step.

Building Stories for Change

It is unequivocal that introducing or strengthening culture requires the roles of leaders. When leaders have to make both direct and indirect communication with their employees, the message have to be perceived as genuine and empathetic. Jay Barney, a prominent strategic management professor, with his colleagues (Barney et al., 2023), argue that corporate strategy and culture must be well aligned. Nevertheless, many organizations face the opposite where the two are loosely-coupled. The crux, they believe, rest in the approach used by top leaders who simultaneously play as change leaders. This approach is to create a story in cultural change that employees need to share. In doing so, six building blocks are recommended.

Figure 4.6 Building Blocks of Story Creation by the Leaders in Cultural Change Effort
Source: Barney et al. (2023)

As depicted on Figure 4.6, the first building block is leaders shall be authentic. Leaders shall genuinely have stories to share that reflect their values and beliefs. In doing so, leaders shall open and expose themselves. These ways, honestly and transparency will be seen and followers will more convinced that their leaders are into the change effort.

The second building block is leaders shall put themselves in the story. As a result, the story is not merely talking about someone abstract, but a situation where the main actors are the leaders. This will enable followers to project that their leaders will always navigate the process.

The third building block is leaders shall attempt to break with the past and lay a path into the future. When cultural change is introduced, it can be perceived that the old one no longer relevant. As culture is usually a deeply rooted belief and practice, breaking away from this situation is a big challenge for many people. Therefore, leaders must be able to convince employees and co-create the new culture.

The fourth building block is stories created by the leaders shall be appealing to hearts and minds. Given that change might be perceived differently by different people, a strong business case will be useful to consolidate the perception that the change effort is far from personal ego trip.

The fifth building block is leaders shall be a bit theatrical in creating stories. Stories are built upon episodes and each one of them needs some story line to be memorable. Being theatrical does not mean dramatic, but to be more alive and yet natural.

The last building block is leaders shall empower others to create their own stories. Although cultural change is a collective effort, however individuals go through their own journey to arrive at the expected state. This personal story of usually is usually unique yet profound for the relevant individual and therefore shall be celebrated.

Leaders Moving Norms

In the context of change toward sustainability culture, leaders might be struggling if this norms are considered new. Another useful framework that could transform the old to the new norm is offerred by Spinosa et al. (2023). As depicted on Figure 4.7, the journey in changing norms is quite uneasy which involves frequent incident of moral risk. Along this process, leaders play unreplaceable roles.

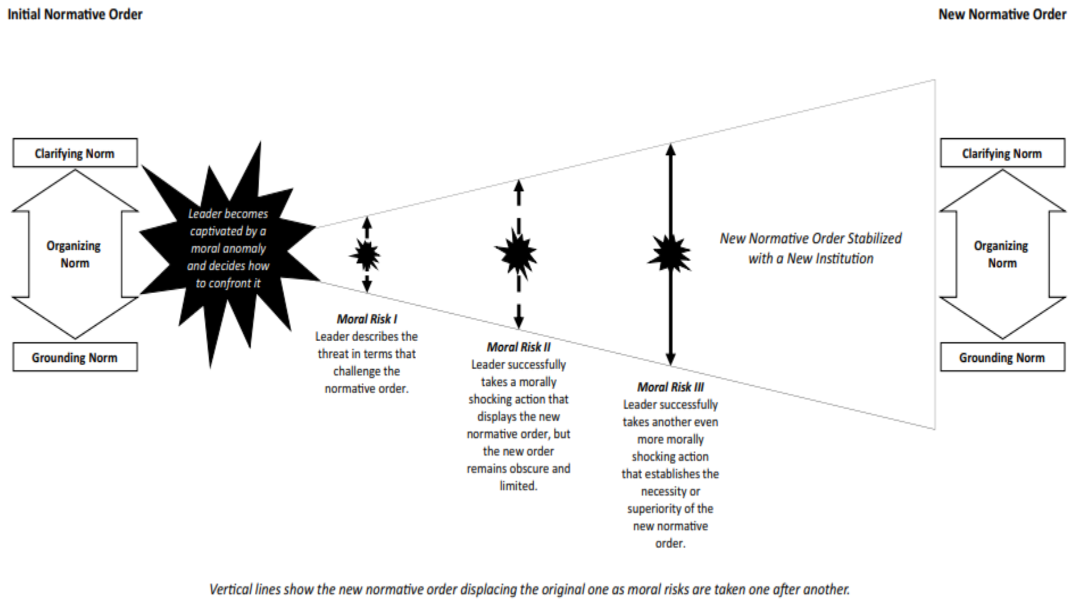

Figure 4.7 Framework Showing How Leaders Change Normative Orders
Source: Spinosa et al. (2023)

4.7 Culture Measurement and Assessment

Many organizations undertake cultural change, yet not all of them consistently measure and assess the progress toward the dream culture. The issues may range from dificult to measure to the percieved unrealible measurement tools (Corritore et al., 2020). Meanwhile, the benefits in doing so actually outweigh the hassle and costs. This section addresses why and how culture shall be measured and assessed. When the change process deviates from the expected outcomes, what course of action shall be initiated.

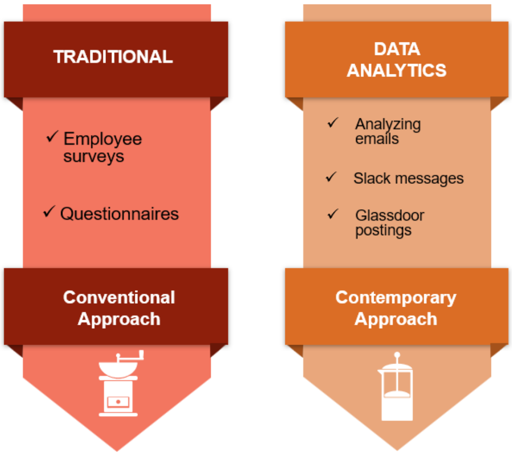

Figure 4.8 Traditional vs Data Analytics Culture Measurement
Source: Corritore et al. (2020)

In the era of technology where internet of things, articificial intelligence and robotics, culture measurement can be more assisted. Corritore et al. (2020) argue that companies shall shift from traditional approach to data analytics. As seen on Figure 7, employee surveys and questionnaires may need to give ways to email analysis, slack messages and glassdoor postings. Results from data analytics can be richer, real time and elaborative that portray the real situation compared to that of the traditional means.

In the times of cultural change, cultural measurement should unravel the real process experienced by organizations and the individuals they employ. Information is preferrably real time and comprehensive. This way, the real progress of cultural change and the challenges can be monitored and mitigated once problems arise.

4.8 Recent Issue: Culture and Employee Engagement

As organizational culture is introduced and assessment is caried out, it is crucial to ensure that employees are internalizing it. This is when employee engagement become a handy face validity of such process. What is employee engagement how this is associaed with organizational culture?.

Despite the seemingly direct relationship between the two, this notion does attract much a research attention. Abduraimi et al. (2023) are a group of scholars who introduce how organizational culture is associated with the elements of employee engagement.

Interestingly, engagement is not solely characteristics of employees. Leaders also experience similar psychological journey. In fact, leaders engagement may resonate it toward their subordinates and ultimately the entire organization. Using leader-member exchange (LMX) theory, Gutterman et al. (2017) highlights that leaders‘ engagement could improve subordinates engagement which in turn lead to higher performance and lower turnover intention.

Summary

This chapter provides students with concepts, frameworks, examples and case illustration on corporate culture and employee engagement in the sustainability business context. As businesses are faced with pressure to advance their sustainability effort, corporate culture is required to be more adaptive and allow employees to become more flexible, yet at the same time moving toward more green orientation.

As the basic concept on corporate culture is comprehended, it becomes clear that culture change has to carried out carefully and systematically. The risks of failing to address potential resistance from some group of employees may be serious, not only for the individual but also for the organization. Indeed, firm performance may be comprimised.

Discussion Questions

Questions for further discussion:

1. To what extent novel sustainability goals could shaken a deeply rooted organizational culture?
2. Does individual adoption framework also apply in small medium enterprises or start ups? What unique complexity that may arrise?
3. Are there any difference on institutional forces faced by multinational companies and state-owned enterprises?
4. What roles the leader should play in the dilemmatic institutional conflict?
5. What strategies leaders should take in mitigating resistance to change of massive number of employees?

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CHAPTER 5: STAKEHOLDER MANAGEMENT AND BUILDING SUSTAINABLE RELATIONSHIP WITH STAKEHOLDERS

Stakeholders management is one of key issues in the strategic management literature. The utilization and development of stakeholder perspective initially in the area of corporate governance. The increasing importance of sustainability also posibly paves new stakeholders to enter the corporate domain. In turn, new challenges emerge. As such, corporations are currently dealing with much broader audiences and complex environment where managing stakeholders is essential for organizations and businesses.

Organizations embarking on achieving its goals will always encounter challenges from its surrounding environment. The percieved challenges, however, can be better understood if organizations take a standing position on where they are, what they believe in and what they want to achieve. These are translated into a series of company statement, from corporate values, culture, as well as mission and mission. As outlined in the earlier chapters, organizations shall unearth the deeply-rooted belief. In turn, leaders must able to conceptualise, draw and meet various and perhaps conflicting stakeholders‘ interest. This ultimately will determine the survivability and prosperity of the organizations.

To fully comprehend this concern, this chapter consists of sections that dvelve stakeholder management in the sustainability context. The first section lays the general concept of stakeholder management which attempt to fulfill the call for a broader party involvement. The strategic view of stakeholders management also deserves some discussion due to its relevance to the sustainability endeavour. Given that stakeholders expectation is often hidden and laten, the recent issues of this chapter attempt to address this issue. The chapter is then concluded with a chapter summary and discussion questions.

5.1 Stakeholder Management and the Call for A Broader Parties Involvement

Stockholders vs Stakeholders

Stakeholders theory gained momentum since a breakthrough article entitled ’Stockholders and Stakeholders‘ by Freeman and Reed (1983). Previously and perhaps still occur until recently, the sole focus of the company is to satisfy the stockholders‘ interests. This logical way of thinking predominates leaders‘ decision. Several reasons emerge, for example, the presence of representation of the owners in the board member with authority to dismiss and appoint the executives and the seemingly moral obligation of the owner to come to rescue in the case of company financial downturn. In short, the future of the organizations seem to be highly depended on the hand of this particular stakeholder. Nevertheless, leaders‘ attention began to be wider as they witness that many companies are struggling to response to various needs and interests from many parties outside the stockholders.

The idea encourages the shift from stockholders to a larger stakeholders focus, initially in the context of good corporate governance. Freeman (1984) highlights that organizations need to pay a serious attention to all parties is which deemed important to organizational goals, so called stakeholders,. First, their discussion opened a wider perspective on the factors which may affect the achievement of the firm's objectives. Second, the stakeholder conception began to be associated with some emerging issues, such as corporate social responsibility and sustainability.

Stakeholders Mapping

As emphasised by Phillips et al. (2003), stakeholders have many definitions, understanding, and desription. It means ‘different things for different people‘. Organizations must decide their standing position and map the key stakeholders and what their expectations are. Having this map in conjuction with the identification of business problems, organizations may be able to set up a better strategy (Ulrich et al., 2009).

Stakeholders can be groupped into internal and external stakeholders. Internal stakeholders are employees (including their representative organization), management and owners. Meanwhile, external group involves for example government, supplier, employers association, customers, non-government organizations, and indutry level labour unions/federation.

Following a framework proposed by Ulrich et al. (2009), stakeholders mapping shall begin by identifying business problems, followed by pinpointing the relevant stakeholders and their expectations. This tool is very useful particularly when the organizations are in the need of transformation. Table 5.1 below can be used to systematically draw the situation. As can be seen from the example (Table 5.1), a single business condition may be relevant for several key stakeholders which has differing needs and expectations. The expectations of the owners, for example, are logical and normative. However, given that a single profitability pool will be fought between paying dividend to the owners or reinvesting it for employee development and technology infrastructure. The next challenge is to decide whether which expectation to fullfill and which one to delay or even sacrificed. Analysing this situation will require a full understanding on the weight of each stakeholders and the risk for not meeting their expectations.

The stakeholder map, however, becomes complicated as internal organizational group participates in the external group, and vice versa. Meanwhile, organizations are expected to strike ‘a balance‘ amongst these many stakeholders.

Table 5.1 Stakeholders Mapping (An Example)

Business Conditions	Key Stakeholders	Expectations
Global demand on sustainable product	Owners	Need to keep up with global trend, but make sure does hurt profitability and hence dividend
	Employees/Unions	Need to be better equipped with relevant knowledge and competencies to serve green customers
	Management	Need to immediately respond to the new demand, expand the market, if necessary.
	Government	Support the idea, but make sure to comply with regulations, including avoiding import materials and lay off employees.
	Supplier	A bit reluctant and remain serving the existing markets. This due to unavailabiity of the needed technology and materials.
	Domestic customer	Uninterested and still demand for the existing product.

The Act of Unattended Stakeholders

The wider stakeholders the companies are worth paying attention to is largely intrigued by the increasing demand the stakeholders make on businesses and organizations. As for businesses, there are increasingly formidable pressures for them to take significant part and make changes. In the incident of forest burning in Amazone, for example, it was not the government, but the businesses that the public put trust more on. As reported by Time in 2021 (see Figure 5.1), the public was quite sceptical with the government efforts to solve problems.

“At first, this finding sounds odd. Businesses are unelected and do not have a legitimate mandate to solve problems. They are interested in making money, which can come from creating problems as well as solving them — from climate change to inequality. Communities, societies and civil society have understandably been outraged by the egregious salaries paid to executives, the massive accumulation of wealth in the hands of the owners of business, and the failure of business to pay its fair share of taxes. Many have called for the imposition and enforcement of more stringent and onerous regulation and taxation.
Nevertheless, surveys regularly report that trust in business is greater than that in government. Edelman also found more people trust businesses than they do NGOs, and business leaders are held in higher esteem than political leaders“. (Mayer, 2021 in TIME)

Figure 5.1 Illegally lit fire in Amazon rainforest reserve on Aug. 15, 2020
Source: Getty images taken by Time magazine

The standpoint of a business has to be clear and this is most of teh time problematic. On the one hand, businesses espouse certain set of idealistic mission and vision. On the other hand, the reality sometimes drives them away from this stance. In other words, conflicting interest among stakeholders could leave organization in dilemma and unless is well tackled, it could in turn decrease company legitimacy.

Dilmah Tea Company, a global tea brand, for example. It strongly stands to promote people power. It takes into account a very broad stakeholders which is translated from its tagline: “*A Focus on the Power of the People for Genuine Partnerships and a Sustainable Planet“*. Its services toward such broad partners are also supported by the equal position it places on people, planet and partners in its official statement. As seen on Figure 5.2, the statement on ‘Our Partners‘ highlight how its stakeholders shape its brand even amidst the Covid-19 pandemi where the a contact with the surrounding was limited.

Our People

The true essence of what makes our brand, is people. The pandemic has posed a challenge to all businesses, but it has also shown us the true power of people; it is their strength, compassion and resilience that has created a future inspired by it. Therefore, aiming to create an impact beyond the realm of business and finance, we worked tirelessly to ensure the wellbeing and safety of all our people amidst striving to adapt to a new normal.

Our Partners

As a Global Citizen, we attribute our reputation to the many Stakeholders that make up our Brand. As a family company, we understand the importance of relationships and human connections. In this new world of 'quarantine, isolation and social distancing', we have taken steps to foster and nurture our brand ecosystem and our network of Partners.

Our Planet

As a company that values sustainability and advocates change for the better, all our initiatives collectively contribute towards the UN 2030 Sustainable Development Agenda. Here, it is the power of the people that enables collaborations and partnerships that, inevitably, strengthen our efforts towards a sustainable planet.

Figure 5.2 Dilmah Official Statements
Source: Dilmah Annual Report 2020-2021 (2021)

The company's position behind the People was put to test when the country sufferred economic downturn in Sri Lanka. The company leaders took the central stage to demand for a immediate recovery strategy. As can be seen on Figure 5.3, the CEO gave a strong statement on how the company views the national economic situation. Despite the company close partnership with the government, but the company remain clear in upholding their belief even during the conflict between different stakeholders, namely the public and the government.

> Protests in Sri Lanka that have arisen from a dire economic situation are a strong statement from the people of the country, Mr Dilhan Fernando, chief executive of tea company Dilmah, told The Straits Times on Wednesday (April 6).
>
> People have taken to the streets amid shortages of essential items like fuel, food and drugs that have lasted for weeks, and the crisis has led to the mass resignation of the country's Cabinet ministers.
>
> Said Mr Fernando: "No matter who comes in next, there has been a line drawn - that the people are united. Politics in the past has focused on disunity for political advantage. But here, the people are making a very clear statement."

Figure 5.3 CEO of Dilmah Tea in Defending the People of Sri Lanka
Source: posted by Dilmah Press Room from the Straits Times, April 6, 2022

Not only public at large, customers group may also have impact on businesses. Businesses have to fully aware that even a marketing strategy as specific as a brand campaign could also jeopardize company reputation and result in a large amount of financial and social cost.

CMO, a community of practice of Chief Marketing Officers, highlight 10 marketing campaigns that backlash and invited public outrages. It was thought as a simple marketing campaign which involves public figures sending a message to the target customers visually through vivid video and some conversation. Although the public is yet their customer and not even close as their owner, the wrong campaign can damage company reputation and drive away investors and potential customers. Nivea 'White is Purity' product campaign has created racism blunder (see Figure 5.4). Although this

German-based company pursuasively claimed that the ad was directed to the Middle Easter market, but it was forced to take it down after some global outrage in the media.

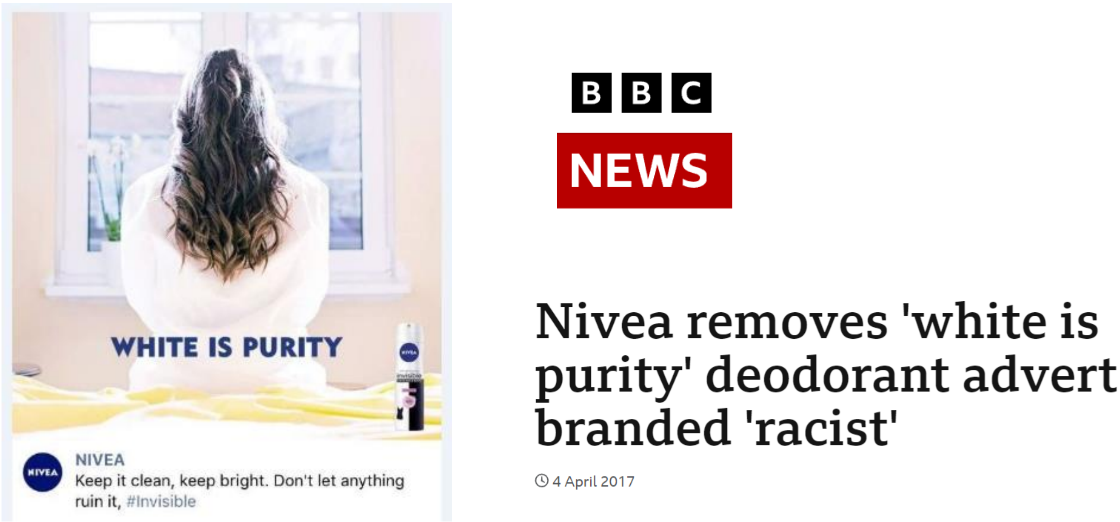

Figure 5.4 Nivea Backlash Marketing Campaign
Source: BBC News (2017)

5.2 Strategic View of Stakeholder Management

Stakeholders are taken into account by corporate leaders due to their potentially strategic roles and impact. First, research finds that stakeholders management may lead to better firm performance (e.g. Zhang et al., 2022). Second, stakeholders management may play as a buy-in process (e.g. Wu & Liu, 2022). By having these parties engaged in the process, they may ultimately support difficult decisions. Neverthelesss, there is also evidence that the notion of balancing interest of different interest in managing stakeholders is non linier. What and when is the tipping point deserves a carefull examination.

A further essential issue to link stakeholders management and firm performance is by exploring the need to strike ’a balance‘ among stakeholders and their interests. Reviewing earlier research comprehensively, Laplume et al. (2022) emphasises that a balance is not only necessary, but could avoid potential negative impact. The authors use the term stakeholders management performance which recommend for variations or imbalance treatment as this is more related with higher performance.

Business embarking on sustainability management may lead to change in goals, orientation, and even business process. Hampel et al. (2020) use the term ‘pivot‘ to illustrate radical tranformation from the previously ineffectual enacted practices. This pivot is seen in a need of new venturing.

Hampel et al. (2020) conducted a thorough qualitative study to uncover the process underlying the process of new venturing that involves a wide range of stakeholders. They believe that any new ventures will encounter stakeholders with their unique psychological process which lead them to support or against the initiative. As seen on Figure 5.5, enacting pivot consist of making bold, new identity claims and creating radical new strategy. These could be perceived as a betrayal or irritating by the some stakeholders. In turn, they would attact or doubt the venture, two unfavorable conditions faced by the company. Once this phase completes, the process continues to tackling indentificaiton crisis. However, the process may still end up in continuing the attack or even stakeholders decide to disengage form venture. This framework is, theferore, useful to draw the pathway a company can make to create engagement and support of the stakeholders amidst the pivotal situation.

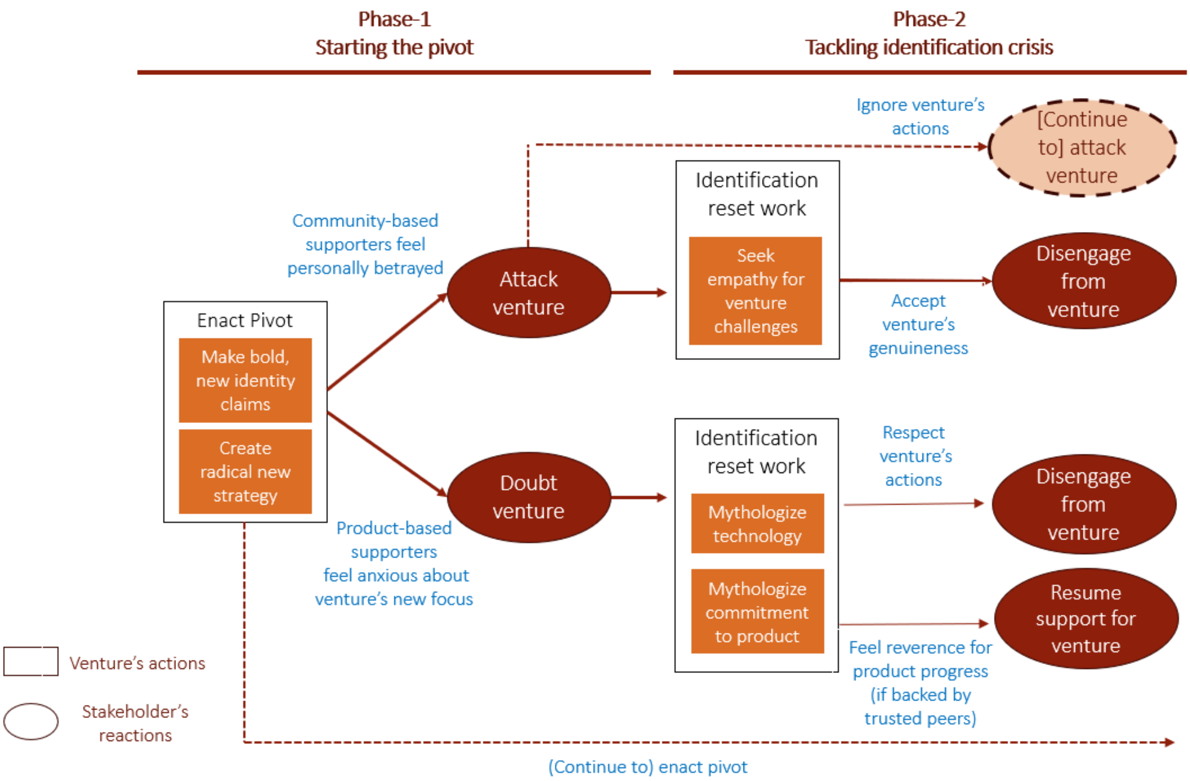

Figure 5.5 Model of Stakeholder Identification Management during New Venture Pivots
Source: Hampel et al. (2020, p.452)

Inviting stakeholders into the corporate business inevitably opens up some new terrain. Westermann-Behaylo et al. (2016) proposes a useful framework which appreciate the pontential of upgrading the stakeholders capability (see Figure 5.6). The first element is enterprise strategy which covers the clarification on the mission and core values, and how strategic priorities are made. The extent to which organizations affect stakeholder capabilities and functionings are usually stated in their mission. For example a firm wishes to embark on environmentally-oriented business and yet the community is not prepared in doing so, it may put in its mission in how to educate and involve not only the community but also the broader stakeholders. The word of caution is the possibility of the inverse impact, for example when companies decide to engage in greenwashing. Instead of improving capability for the goodness of all, yet the stakeholders are driven to be fulfulling short-term gains yet destroying long-term benefits.

The second elements are policies, practices, and processes. Their influence on stakholders capability and functioning is clear, either directly or indirectly. Companies can improve employees as one of stakeholders group by providing sustainability training and development. The policies may also encourage them to involve other stakeholder groups, for instance, customers and suppliers. This brings the company to the third element, products and services. Again, sustainaiblity value which is originally stemming the company may now extended to the stakeholders. If the initiative is done properly, these stakeholders may become a boundary spanner which further influence then occur. The last element is inadvertant externalities. Action upon the above elements may have either positive or negative externalities. This is the last element at the firm level. The example of positive externalities is the extent to which company sustainability values resonate and positively impactful to the society. Meanwhile, negative externalities is for example the green washing initially campaign by the company is adopted by other companies in the industry or even by the customers.

Moving to the next process is the interaction stakeholder capabilities and functioning with stakeholder network effect. At this stage, stakeholders are evolving and creating further improvement of the stakeholder capabilities. Ultimately, this interaction will create firm and stakeholder cooperative advantage. Appling this framework into the sustainability management is useful. It could be used as a guidane to extend and resonate sustainability issues

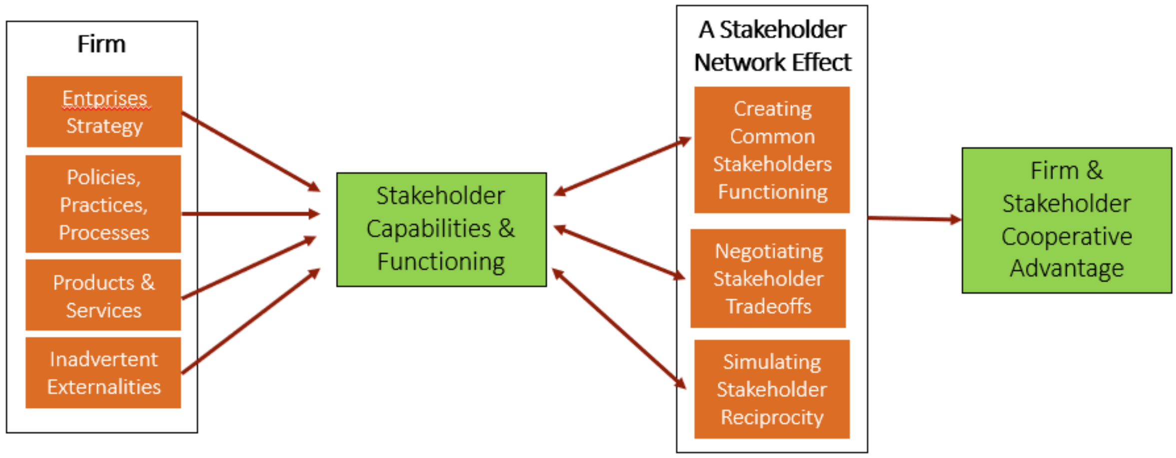

Figure 5.6. Model of Cooperative Advantage through Stakeholder Capability Enhancement. Source: Westermann-Behaylo et al. (2016, p.538)

As organizations venture toward addressing heightened global trend and public preference toward sustainability, they might face resistance from their existing stakeholders. This new venture might be considered a novelty which requires change of mindset. As a result, organizations are forced to renegotiate the terms. Under this situation, which Hampel et al. (2020) portrays as pivot, may drive away some stakeholders particularly with different values. Meanwhile, new stakeholders may yet aware of this new venture. This indeed can result in some serious disruption in the business. Clearly, the roles of stakeholders are important and hence organizational capability in managing them is prerequisite.

5.3 Recent Issue: Strategy to Estimate Stakeholders Expectation

Business realities do not always provide situation which are easily identified and hence, defined. To begin with, leaders may not have comprehensive information on which are the most powerful stakeholders and what their interests. Therefore, the discretion exercised by the leaders are often based on rough data and estimation. It sometimes follow a trial-and-error mechanism. Only when the estimate misaligns with those of the powerful stakeholders that impose penalty to the company (Finkelstein et al., 2009).

As sustainability may be considered as new or novelty where the leaders may need to take unconventional role as an entrepeneur when dealing with the stakeholders. One of the strategies is building narratives as the close parameter to estimate the hidden stakeholders espectation. Naratives are considered a powerful means that allow stakeholders not to only make sense out of the situation, but unite perspectives of different stakeholers (Suddaby et al., 2023).

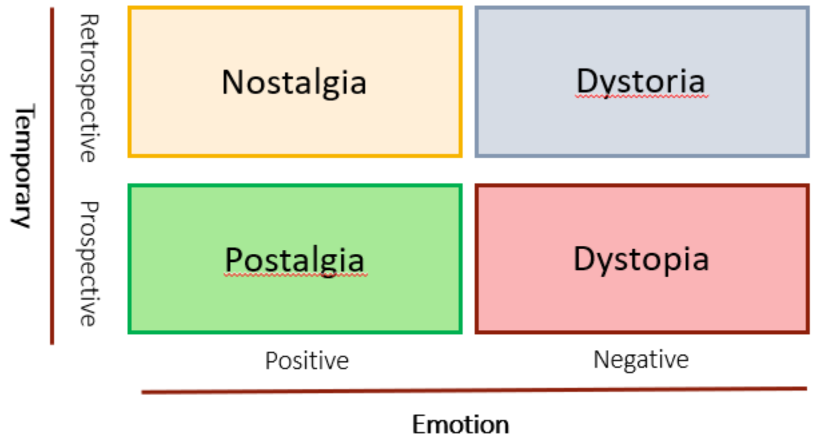

Figure 5.7. A Typology of Historical Tropes
Source: Suddaby et al. (2023)

Narative building can be used to capture the real expectation (Suddaby et al., 2023). The attention, should be given to the content of the narratives. If mission and objectives are usually explicitely stated, expectations are instead hidden and latent. When it comes to a novel expectation, for example, a company which just recently embarks on sustainable movement, both internal and external stakeholders may still be struggling to grasp the ideas.

In building the narratives of this new movement, the vision and goals shall be used as the guiding principles. The informants might be struggling to recollect their scattered past memories. It is important to note that the ultimate goal is to have a kind of 'coherent and collectively held narrative of the past' (p.220). The primary construct in building narratives is rhetorical history. In order to be appealing to the stakeholders, the visions employ historical tropes at the intradiegetic level. Meanwhile, community has its own collective memory, meta-narratives or myths, which join the emerging perception. Together they create 'broad, extradiegetic appeal to broader categories of potential stakeholders with heterogeneous temporal orientation'.

Summary

This chapter provides students with basic concepts, frameworks, tool and real business illustration on stakeholders management. Stakeholders management is related to how organizations view themselves and having a firm standing position. Stakeholders mapping is then the next crucial exercise, where different expectation and relative power can be better understood. Nevetheless, the reality may deviate from this ideal conception. As a result, many organizations are struggling to mitigate the risks of failing to address key stakeholders. This brings a further discussion on the strategic imperative of stakeholders management. Given that identifying the expectations are considered problematic, this chapter also provides a framework to address this concern.

Discussion Questions

Questions for further discussion:

1. Who are your organization's stakeholders and their expectations?
2. What would be the most challenging sustainability business situation? Explain the reason behind your choice!

3. What are the possible conflicting expectations and what roles the company leader should play?

4. What if the interests of the majority stakeholdes are against a single but powerful party?

5. What specific strategy would you pursue to unearth the expectations using the narrative building strategy? (Choose one problematic stakeholder and follow the framework)

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CHAPTER 6: ETHICAL DECISION MAKING AND RESPONSIBILITY WITHIN BUSINESS MANAGEMENT

Decision making is a daily crucial activity performed by all leaders. Making decision is quite simple, but making the right decision is a big challenge. Why leaders are either reluctant to make decision or even not making decision at all, especially when it comes to ethically related matters? The reason is usually they are unsure with the consequences and perhaps how to handle them. Leaving or delaying the decision may be intentional, but may create another unanticapted problems. Making decisions that uphold ethical standards involve some delicate elements and impact. Unless, the concept of ethics and ethical situation is fully understood, leaders may not be making an effective decision.

This chapter is designed to discuss the basic concept, followed with the incorporation of ethical notion and equipped with a case. It begins with the concept and types of decision making. Ethics and ethical decision making will follow. Next is a section on improving ethical decision. An integrated case for discussion is presented at the end of the chapter.

6.1 Concept and Types of Decision Making

Leaders face situations that need decision making on a constant basis. The spectrum of decision making can be from setting up office hours to acquiring a new firm. From operational handling to strategic undertaking. Kinicki (2021) defines decision making as 'a process for identifying and choosing alternative solutions that lead to a desired state of affairs'.

Rational vs Non-Rational Decision Making

There are two main types of decision making, rational and non-rational. Rational decision making is a problem-solving approach with emphasizes on the use of logic and objectivity. It assumes that information is readily available and easily captured to make decision. When it involves capturing information possessed by other people, the same logic is held. It believes that information will be of symmetrical and sufficient.

Rational decision making usually follows a four-step process (Kinicki, 2019):

1. Identify problem or opportunity

It is a crucial initial step as it will shape the consecutive steps. It is an act of determining 'the actual' versus 'the desirable'. Unfortunately, problems are sometimes hidden underneath. What obvious at the surface was the symptoms. Failing to correctly capture the problem or opportunity may lead to unintended consequences and opportunity lost.

2. Generate alternative solutions

At this stage, leaders may pause the process, slow down and start generating alternative solutions. Decision makers must able to come up with as many logical alternatives as possible. Investing reasonable yet efficient time in this stage is therefore important.

3. Evaluate alternatives and select solution

At this stage, decision makers need a reference point against which the alternative solution is evaluated. Determining the reference requires complete information from many perspectives and sources. They may get overwhelm with the amount of information which some or even most of it is irrelevant.

4. Implement and evaluate solution chosen

Solution to identified problem and opportunity is then implemented. The decision makers need to set up the time frame to evaluate the solution. Some may invite the stakeholders to be involved in the process. Some other may conduct a rather informal and internal evaluation. What will be used as a benchmark is the desirable situation identified at step-1. If this cycle fails, then the leader needs to repeat the process for the first step.

The rational decision-making model has several benefits:

1. Given the systematic process, the quality is more enhanced
2. Given the explicit step-by-step process, transparency is more prevalent
3. Given the higher engagement to the process, a sense of responsibility is more evident

In reality, however, a decision maker may not encounter neatly laid out information. In fact, the situation may be more complex and latent, and hence less idealistic and less objective. As a result, rational model is unable to address the real issue, which calls for an alternative model, so called non rational decision making.

Non rational decision making assumes that 'a series of constraints' (Kinicki, 2019) hinder people to obtain all the information needed. These constraints may due to two factors. First, individuals may be incapacity to properly obtain, sort and process the information. Second, the amount of available information is too much or too small.

Inquiry vs Advocacy Decision Making

Quite different to the previous model, the next model is inquiry vs advocacy approach. Following Garvin and Roberto (2023), this approach perceives decision making as either collaborative or self-centered. The two approaches possess some distinctiveness from several dimensions. As seen on Table 1, there are six dimensions – concept of decision making, purpose of discussion, participants' role, patterns of behavior, minority views and outcome.

Table 6.1 Two Approaches to Decision Making

	Inquiry	Advocacy
Concept of decision making	Collaborative problem-solving	A contest
Purpose of discussion	Testing and evaluation	Persuasion and lobbying
Participants' role	Critical thinkers	Spokespeople
Pattern of behavior	• Present balanced arguments • Remain open to alternatives • Accept constructive criticism	• Strive to persuade others • Defend your position • Downplay weakness
Minority views	Cultivated and valued	Discouraged or dismissed
Outcome	Collective ownership	Winners and losers

Source: Garvin and Roberto (2023)

The first approach is inquiry. It allows open flow of communication, promotes idea exchanges, and stimulates variety of alternatives. Decision making is a collaborative effort. Discussion is initiated for testing and evaluating ideas. Consequently, participants are required to get engaged in the topic as critical thinkers and present open-minded behavior. If there is a case of minority group, its ideas are not dismissed, but cultivated and valued. Clearly, decision is not a closed and inclusive process. Hereby, not only the decision makers, but the members involved in the process could gain some learning and be committed to the process and output.

The second approach is advocacy. Under this approach, decision making is conceptualized as a contest. Different party proposes their own interests and agendas. Although not necessarily become an overt disagreement, but the mindset in making decision is about winning over the other party. Therefore, the discussion is rather filled with persuasion and lobbying. The participants may not have a critical idea as they are more driven to speak out, regardless of the process and possible outcome. The behavior is more toward defending position and downplay weakness. This approach also tends to discourage and dismiss minority views. As a result, winning is paramount as the outcome.

It is important for leaders to practice an effective decision-making process as it leads to various positive outcomes. The outcomes at the individual level are for example, higher commitment, creativity and citizenship behavior. At the group level, stronger leaders-member relationship and team commitment. Meanwhile, at the organizational level, organizational performance, such as innovation may emerge. Firm innovation is built upon innovative behavior, creativity and teams' capability.

Hill et al (2023) emphasizes the need 'to strengthen and speed up their creative decision-making process'. Several factors need to be in existence. First diverse perspectives, which are from the customer, local, data-informed and outside perspectives. Second, clarifying decision rights. Third, matching the cadence of decisions to the pace of learning. Last encouraging candid, robust conflict in service of a better experience for the end customer.

6.2 Ethics and Ethical Decision Making

Ethical decision making is part of an ethical behavior and an integral part within the organizational processes. It is built on ethical standards which are associated with the organizational culture, values and norms (Thompson et al., 2022). While Chapter IV discusses culture in particular, this chapter dwelves more on the relevance of ethics in shaping decision making.

The definiton of ethical decision making is quite straight forward. O'Fallon and Butterfield (2005) describe it as the extent to which "individuals actually think and act when faced with ethical situations." The prerequisite is therefor an understanding on what ethics and ethical sitautions are. People may understand the concept of ethics and even worse, they also espouse ethical code in their companies. The reality, however, may not that neatly presented.

Figure 6.1 depicts that core values and ethical principles have a fundamental position. Failure to address ethical business practices could lead to the downfall of a company. They are the key determinants in determining corporate culture. The first direct impact of these two elements is the createn of work climate where shared understanding amongst members on where the business is carried out. Second is the extent to which the elements shape the individuals by providing guidance on how have the work done.

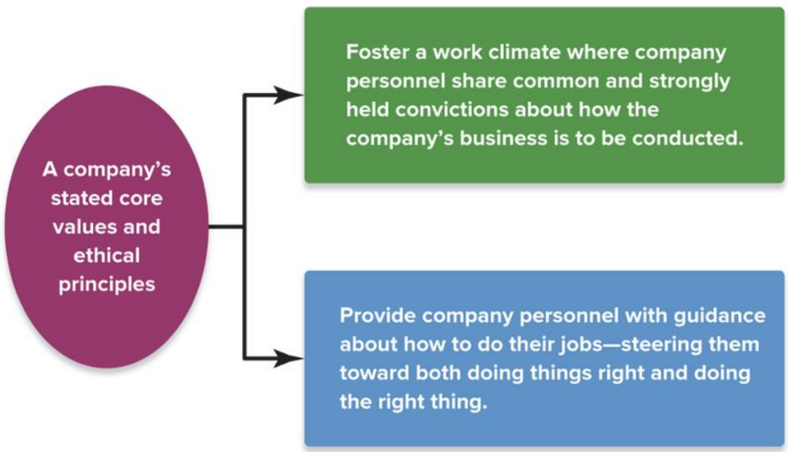

Figure 6.1 The Impact of Core Values and Ethical Principles on Work Climate and Individual quality
Source: Thompson et al. (2022)

Increasing global attention on ethics cannot dismiss the fact that many leading companies are decoupling their sophisticated image with universal ethical business conducts. The case illustration-1 shows how Amazon, for example, has been accused of not paying enough attention to prevent and eradicate bullying at the workplace. Even worse, petitions made by the employees perceived that the organizatonal culture and business practices protect such misbehavior and status quo. The management decision and strategy to combat the case was not received well by the public. In turn, it even tarnished its social legitimacy.

Understanding why and how individuals and groups make ethical decisions in a business context should improve the ethical decisions made in the organizational context. There is a difference between studying ethics in the personal lives of individuals and the ethical decisions made in organizations. People in organizations are influenced by the corporate culture and role relationships. While there is great difficulty in describing precisely how or why individuals in the work group make

Case Illustration 1

Amazone hires outside investigators after employee petition alleges discrimination and harassment

Sarah Ashley O'Brien.

CNN Business, July 23, 2021

Amazon (AMZN) has hired outside investigators to probe the internal culture of part of its cloud computing operations after employees circulated a petition alleging "systemic discrimination, harassment, bullying and bias against women and under-represented groups."

The petition, viewed by CNN Business, specifically addresses concerns among staffers within an Amazon Web Services (AWS) unit known as ProServe, which assists enterprise customers with adopting its cloud computing products.

It alleges that "many staffers have expressed concerns that the internal processes relied upon to investigate and defend AWS's handling of these matters are not fair, objective or transparent." The petition claims that "the system is set up to protect the company and the status quo, rather than the employees filing the complaints."

The Washington Post, which first reported the news Friday, said the petition was signed by more than 550 employees.

It's just the latest example of a Big Tech company facing backlash from its own employees over workplace culture. Employees at Google, Facebook, and Apple have in recent years banded together to vocalize concerns about internal issues in an effort to incite change.

Video Ad Feedback

Figure 6.2 Amazone factory

Source: https://edition.cnn.com/2021/07/23/tech the decisions they do, ethical decision models attempt to generalize about the average or typical behavior patterns within organizations

A more notorious example can be drawn from the Enron case which erupted in 2002. The series of incidents were not only ultimately bringing the company to closure, but it was called as 'a human tragedy'. Forbes reported that Enron made an incredible jump in sales between 1996 and 2000, from $13.3 billion to $100.8 billion. An eye-opening documentary video on Enron (Gibney et al., 2005) shows that the company with net worth $63.4 billion in 2001 suddently declared a bancruptcy and its globally prominent partners, such as Arthur Anderson and Merryll Lynch went down all together. This left 20.000 employees lost their medical insurance, retirement money and children's education fund. The average severance pay was only $4.500. This was in a stark contrast where the total top management bonus was at the stagerring amount of $55 million. Referring to Figure 6.2, both work climate and individual behaviors collectively were dysfunctionally created by the extremely unethical company culture and practices. Until now, the Enron case has made one of the popular business.

In relation to ethical decision making, Sadler (1986) suggests secreening questions related to universality, publicity, and justice. The three questions are as follows:

1. Would I recommend this course of action to another social worker in a similar situation? Would I condone my behaviour in anyone else? (Universality).
2. Would I tell other social workers what I intend to do? (Publicity)
3. Would I treat another service user in the same situation differently (Justice).

6.3 Improving Ethical Decision Making

Provided with many company situations where deviation from ethical decision may exist, some literatures suggest to improve ethical decision. One pratical means is through the provision of ethical training. Nevertheless, given that ethical decision involves cognitive and moral standard processing, a training shall not be treated as sole panacea. Training is externally-induced intervention, yet change in behavior also requires change in the mindset. As such, organizations need to also explore individual characteristics and reshape them if necessary. This logical mechanism is used by Parks-Leduc et al. (2021) in developing a framework for ethical decisions improvement.

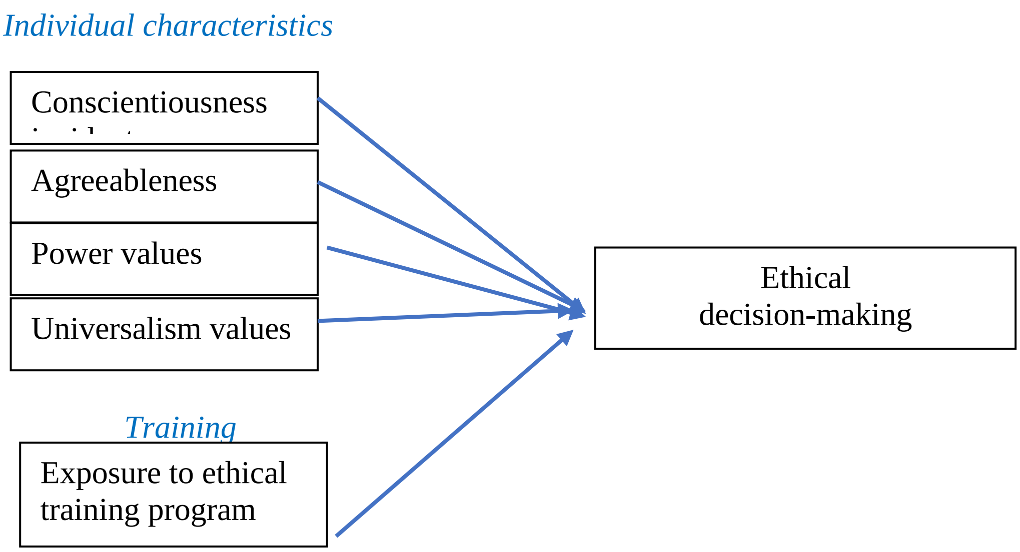

Figure 6.3 Factors Shaping Ethical Decision-Making
Source: Parks-Leduc et al. (2021)

Figure 6.3 displays that ethical decision making is determined by two main factors, dispositional and situational. Dispositional factors are situation or pressure that come from internal individual, for instance personality and core self-evaluation. Several personality traits emerge as determining factors, namely conscientiousness, agreeableness, power values and universalisme values. Meanwhile, situational factors are represented by training program initiated externally (by the company). In this context, exposure to ethical training program is imperative.

In order to prepare the improvement agenda, the issues of measurement is vital. First, measuring individual characteristics. It is quite common and can be obtained quite easily, both online and through offline means. The result then can be used to project the individual inclination toward meeting ethical standards. Universal ethical standards may be uphold by most organizations, hence an individual has to be at least meet this minimum requirement. Specific ethical standards may apply in some establishments and these could be treated as additional standards. Second, measuring the training results. Training does not always have effective results and enduring impact. Training shall therefore be carefullly crafted to meet the goals. Designing training program shall include how the output and outcome will be measured.

In relation to measuring ethical decision making, a set of instruments from Parks-Leduc et al. (2021) can be used. Users need to follow the sequence which commence from evaluating strategic situations to technical matters. Eight aspects are used, namely fairness, outcomes, responsibilities, character, liberty, empathy, authority and rights (see Table 2). These aspects are translated into eight key questions. Participants need to answer them according to their situation. Once the key questions are determined, participants are asked about their familiarity and exposure to them (see Table 6.2)

Table 6.2 The 8 Key Questions Framework

Fairness	How can I act equitably and balance legitimate interests?
Outcomes	What achieves the best short- and long-term outcomes for me and all others?
Responsibilities	What duties or obligations apply?
Character	What actions best reflect who I am and the person I want to become?
Liberty	How does respect for freedom, personal autonomy, or consent apply?
Empathy	What would I do if I cared deeply about those involved?
Authority	What do legitimate authorities (e.g., experts, law, my religion or god) expect of me?
Rights	What rights (e.g., innate, legal, social) apply?

Source: Parks-Leduc et al. (2021)

Table 6.3 Questions on the Trainees Exposure to the Ethics Training

1.	How familiary are you with the eight Key Questions?
2.	How have you learned about the eight Key Questions?
3.	In how many classes have you learned aobut the eight Key Questions?

Source: Parks-Leduc et al. (2021)

6.4 Case Study – Jakarta Air Pollution

Discussion Questions

Read the following news report from two differing perspectives.

1. What roles does the government should take in this incident? (pay attention to the recurring incidents and worsening impact)
2. If you were the respective government official, would you consider taking another course of action than to instruct the building management (owned by private parties) to share some of the responsibilities for Jakarta air pollution?

3. If the activities of coal-fired energy plants were so pervasive destroying the environment and damaging health, is freezing the permission considered sufficient? Why cannot they impose more penalty? What might be the constraint?

4. If you were the building management, how would you respond to this instruction?

Perspective from the Government

The Short Term Solution is "Water Mist Generator" Worth IDR 50 million

Efforts to reduce air pollution levels in Jakarta now include installing "water mist generators" in tall buildings. The building management had to spend IDR 50 million to obtain the equipment.

By: **Atiek Ishlahiyah Al Hamasy**

30 August 2023 18:55 WIB

Sprinkling water from the top of the capital's tall buildings using a high-pressure pump or water mist, according to the DKI Jakarta Provincial Government, is more effective in reducing air pollution in the capital. Managers of high-rise buildings were asked to install water mist generators at their own expense for Rp50 million.

Professor of Environmental Engineering from the Bandung Institute of Technology, Puji Lestari, warns that such efforts are only a short-term solution and do not solve the root cause of air pollution.

Head of the DKI Jakarta Provincial Environmental Service, Asep Kuswanto, said that spraying water on the streets to deal with air pollution may no longer be carried out. This is because a number of groups believe that sprinkling water with a water cannon can lift dust on the streets into the air and actually has the potential to increase particulate matter pollutant levels of 2.5 (PM 2,5).

"We are currently trying in the near future. The hope is that the trial will be conducted before the ASEAN High-Level Conference (KTT)," said Asep when interviewed in Central Jakarta, Wednesday (30/8/2023).

Water spraying from tall buildings in the Capital City is also one of the short-term efforts to reduce air pollution ahead of the 43rd ASEAN Summit in Jakarta. The DKI Provincial Government is concerned that the issue of air pollution will disrupt many guests from other countries who are present at the event, which will take place on September 5-7, 2023. Asep stated that water spraying from the top of building is quite effective in reducing air pollution in Jakarta. The method has been tested at the Pertamina Building located near the Istiqlal Mosque, Gambir, Central Jakarta, on Sunday (27/8/2023). As a result, the PM 2.5 pollutant score decreased.

The spraying requires approximately 500 liters of water per generator. The tool, which requires 2,000 watts of electricity, was created by the National Research and Innovation Agency (BRIN) team. Water spraying from tall buildings will target government-owned buildings in DKI first, then private buildings afterwards. Asep said that his party was coordinating with BRIN regarding the procurement of water mist equipment for privately owned office buildings.

Acting (Pj) Governor of DKI Jakarta Heru Budi Hartono will require hundreds of tall buildings in Jakarta to install high pressure pumps or water mist generators to overcome poor air quality in the capital city. There are 300 companies that have been recorded and socialization will be carried out to install the Rp. 50 million equipment.

According to Asep, the cost of installation and purchase of the equipment will be fully covered by the building management and will not be funded by the government. Currently, there has been no discussion regarding government assistance in financing the purchase of the equipment.

Professor of Environmental Engineering from the Bandung Institute of Technology Puji Lestari said, water mist could reduce air pollution, but it was only a short-term solution. The use of water mist has not been able to overcome the root problem of pollution in Jakarta.

Puji also highlights the use of water for this method. Because, the watering requires a considerable amount of water.

"There are also other problems caused by the use of the water mist method to suppress pollution, such as increasing air humidity at the bottom of the building," he said.

Puji said this step needed to be re-evaluated by the government. According to him, there is still much to be studied in the use of this method, including how long the water mist can clean the air.

Source: https://www.kompas.id/baca/english/2023/08/30/

Perspective from the NGO

What causes Jakarta's air to be so bad?

by Sherina Redjo

July 1, 2022

Jakarta's sky looks cloudy every day, indicating that the air in Jakarta is not fine. On June 26 2022, IQ Air measured the concentration of particulate matter PM 2.5 in Jakarta air, six times worse than the safe limit. Very dangerous, especially for vulnerable groups such as children and the elderly. The concentration of pollution also disrupts people's daily activities.

This is also not unprecedented that pollution has become the major issue in the city of Jakarta. Reporting from World Air Quality Report data, Jakarta was ranked 5th as the city with the worst air quality in the world in 2019. So, what makes the air in Jakarta unfit to breathe?

Jakarta is being surrounded by coal-fired power plants

Amongst many factors, one is beyond public eyes. Air quality in Jakarta is getting worse due to massive coal smoke. Based on the Vital Strategies study, burning coal is one of the causes which makes up almost one fifth of pollution. Not surprisingly, Jakarta is surrounded by 8 coal-fired power plants within a radius of 100 km. In addition to it, A report by the Center for Research on Energy and Clean Air (CREA) research institute casts that the city is also surrounded by 118 industrial facilities which also contribute to air pollution in Jakarta.

Before this air pollution case emerged, the Jakarta Provincial Government has long been dealing with coal-fired power plants. It just recently revoked the environmental permit of PT Karya Citra Nusantara (KCN) which operated at Marunda Harbor. Their violation to the environmental pollution regulation is coal dust in the Marunda area that the plant created.

Coal's bad footprint in Jakarta

Coal mining is susceptible to environmental problems. Coal mines generally use explosives illegally. Such processes have negative impacts on the environment and health. This can cause erosion and destroy the habitat of living creatures.

The impact on human being, particularly within the proximate are, is real. The blasting and drilling process in the mining process produces fine minerals mixed with dust that can be inhaled and cause pneumoconiosis. This dust was taken to Marunda, where the haphazard loading and unloading process threatened the lives of the capital's residents.

It is clear that even before it is burned, coal is already a dangerous cause of pollution. After being burned in the PLTU steam furnace, the spread of pollution becomes wider. It is true that private vehicle fumes are indeed one of the big causes of air pollution in Jakarta and weather conditions influence the intensity of pollution. However, it can no longer be avoided that coal industry activities are an important factor causing the persistence of air pollution in Jakarta. This can be seen clearly from the impacts resulting from the coal industry.

Report by the Air Pollution Standards Index (ISPU) quoting data from the Ministry of Environment and Forestry (KLHK) shows unhealthy figures related to air pollution in Jakarta. Danger warning signs for sensitive groups, such as the elderly, pregnant women, children, toddlers, people with respiratory diseases and Covid-19 survivors have also been raised.

Pollution is a serious problem, don't mismanage it

The government must work extra hard in order to tackle air pollution problems in Jakarta. Several things can be done by strengthening and providing adequate and smoke-free public transportation, including incentives for those who use environmentally friendly vehicles, such as bicycles. Simultaneously, promoting energy transition from coal to clean energy. As long as remains to be used, pollution will continue to exist.

Source: https://www-greenpeace-org.

Summary

This chapter provides students with basic concepts, frameworks, tool and real business illustration on ethical decision making. The discussion begins with the common decision making concept, including the two types of it. Two frameworks with differing point of view were explored. The explanation was then enriched to include the notion of ethics in decision making. The understanding on ethical situation was also presented as this provides foundation for making such decision.

Upon learning from several illustrative cases, the chapter provides a conceptual framework and useful tools to improve the quality of ethical decision making. Two elements deserve a careful attention, which are dispositional and situational factors. The section is closed with two measurement instruments for improvement purposes.

Discussion Questions

1. How does the rational versus non-rational decision-making model affect ethical decision making in organizations?
2. Discuss the significance of inquiry versus advocacy decision-making approaches in promoting ethical practices within businesses.
3. Evaluate the impact of organizational culture on ethical decision making. How can leaders foster an ethical culture?
4. Explore the role of ethical training in improving decision-making processes. What are the limitations of such training?
5. Analyze the case study of Jakarta's air pollution from both the government and NGO perspectives. What ethical considerations arise, and how should they be addressed?
6. How can businesses balance economic growth and environmental protection in their decision-making processes to ensure ethical responsibility?

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CHAPTER 7: SUSTAINABLE BUSINESS AND ITS BENEFITS FOR BUSINESS

Global trend and campaign toward business sustainability is increasingly massive. However, these pose some dilemmas for businesses. On the one hand, sustainability orientation is often considered voluntary and limited direct impact. No clear penalty for incompliances, especially in many developing economies. On the other hand, businesses are expected to serve beyond financial performance purposes. As discussed in Chapter V, the roles of key stakeholders cannot be denied and their voice cannot be easily dismissed. From the strategic management literature, every strategic initiative needs to be systematically measured. In the context of sustainability, the issues of the benefits package, beneficiaries, output and impact. More importantly, whether they achieve the predetermined goals.

This chapter focuses on ensuring the benefits received by stakeholders. This step is the final stage of the sustainability business process. The first section discusses the concept and mechanism that link sustainability and performance. Not only using commonly financial measures, it expands to the importance of non-financial indicators. It commences with asking six ‘how to‘ questions. The target beneficiaries are the key stakeholders. The chapter is concluded with several alternative measurement approaches. All of the approaches have stategic choice as the background.

7.1 Sustainability-Performance Relationship

The link between sustainability and performance is conceptually understood, but not easily implemented. Paying attention to sustainability is normatively a necessity. Nevertheless, some businesses aim at avoiding this, even at the presence of government regulations and global pressures. This put the test the relations between business and environment. Payne and Raiborn, (2001) formulate several screening questions to stimulate some thoughts on the importance of the link.

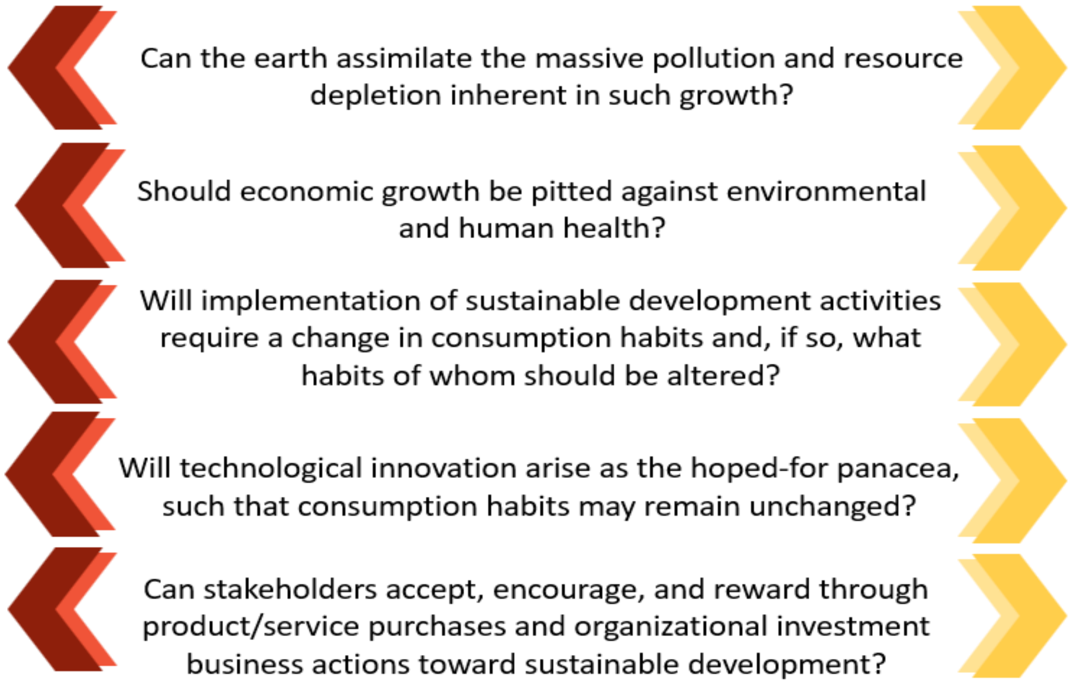


Figure 7.1 The Questions about the Relationship between Business and the Environment
Source: Payne and Raiborn (2001)

First, the quest on how our earth can handle environmental damage. Without human' recognition, the earth may lose its capability to protect human being against disasters, such as drought, hunger, massive pollution, and flood. Second, the quest on economic growth vs environmental protection. Shall it be a win-lose situation? Despite the effort to balance the two, many companies are still struggling. Third, the quest on the impact of sustainability on change of habits, mindsets and culture of the stakeholders. The introduction of sustainability-oriented practices may be considered a novelty. As discussed in Chapter IV, unless properly done, such situation may meet some resistance. Fourth, the quest on the role of technology within the sustainability terrain. Technology can leverage the introduction of sustainability approach. However, it needs to be chosen and implemented carefully. Fifth, the quest on the role of the stakeholders. This point is related to the earlier point. Stakeholders are the ultimate target, yet businesses need to anticipate that not all stakeholders would automatically display positive response. It shall be ensured that they have congruent sustainability perspective. More specifically, priority shall be given to the key stakeholders. Support shall be initially secured from this particular group. If this group is predicted to reject the idea, business have to initially

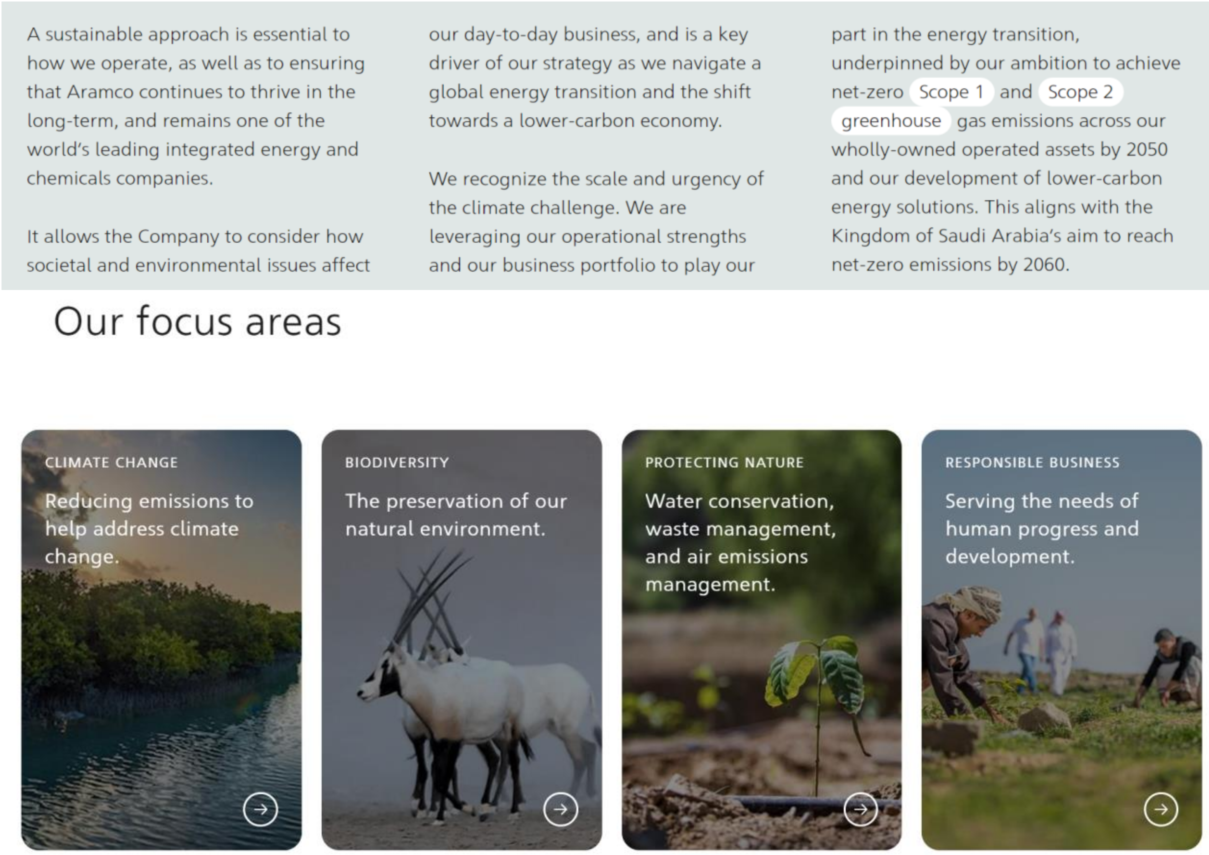
Aramco, a state-owned Saudi Arabian oil and gas company, aggressively campaigns dan claims its mission dan solid business practices toward sustainability (see www.aramco.com). Evidence and data on its achievement has been continuously provided to the public.
However, a leading green NGO loudly claims that Aramco's actions are regarded as 'greenwashing' (see www.clientearth.com). The company is accused to be responsible for over 4% of GHG emissions globally since 1965. This is in stark contrast with the long history the government has made to tackle climate change.

invest significant resources to convince them.

Figure 7.2 The challenge on Aramco's endeavor toward sustainability

Following the several quests to sustainability impact on business, one indusrty placed under public scrutiny may be a good example, the mining industry. Mining industry is dealing with natural resources and hence has a close encounter with the environment and society. When it comes to sustainability, the industry faces an uneasy insection. On the one hand, its roles are highly recognized as it contributes to the economy and development of a country. It also has a significant roles on other sectors. It plays as an enabling sector which allows other sector to grow. On the other hand, its operation may be sensitive to the public due to its risk of destroying the environment. This double edge-sword situation forces all mining businesses to take a real action and are able to send the right message to the public and yet susceptible for greenwashing as well. Public nowadays is well aware on greenwashing that increasingly common in the business of sustainability. Despite the sizable effort made by the company toward protecting the environment, it may still meet significant criticism from the public. Figure 7.2 shows briefly how this situation may occur.

Aramco is one of the global players in the oil and gas industry. It claims to be '*the world's largest producer of hydrocarbons (oil and gas), with the lowest upstream carbon intensity of any major producer*'. It declares to uphold the responsibility to deliver high value to the society and the economy. Figure 7.3 depicted from the company website shows the detailed public information on the endeavour. Four areas of focus are climate change, biodiversity, protecting nature and responsible business.



Despite the aggressive campaign and public socialization on sustainability, Aramco is still heavily criticized by the public, particularly the green NGO. ClientEarth, one of leading NGOs publishes the findings on the front page of its website. It emphasizes key sustainability indicators and the specific violation made by the company. Such campaign that contradicts with the company's claims can have a detrimental impact. The public may perceive the company of practicing greenwashing.

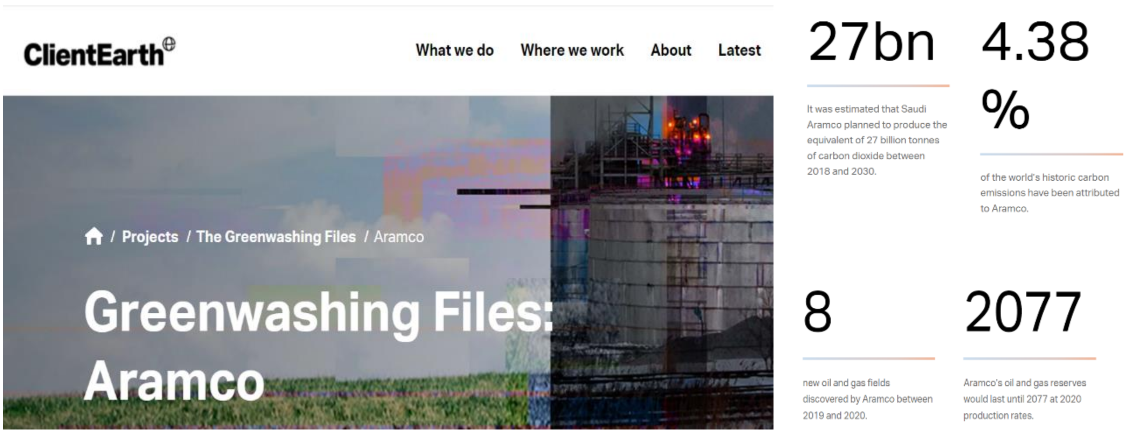


Figure 7.3 Greenwashing Accusation on Aramco
Source: ClientEarth (www.clientearth.org)

7.2 Sustainability-Outcome Linkage Framework

A business exists in order to serve to its mission and achieve its goals. In doing so, a company strategy needs to be carefully crafted and executed. A company strategy is the set of actions that its managers take to outperform the company's competitors and achieve superior profitability (Thompson et al., 2021).

Linking sustainability with performance requires companies to exercise their freedom of strategic choices in seven 'how to' (Thompson, 2022):

1. How to attract and please customers.
2. How to compete against rivals-and, ideally, gain a competitive advantage as opposed to being hamstrung by competitive disadvantage.
3. How to position the company in the marketplace vis-à-vis rivals.
4. How to capitalize on opportunities to grow the business.
5. How to best to respond to changing economic and market conditions.
6. How to manage each functional piece of the business (e.g., R&D, supply chain activities, production, sales and marketing, distribution, finance, and human resources).
7. How to achieve the company's performance targets.

If strategy is done effectively, company may obtain several outcomes. These outcomes are for instance operational efficiency, innovation, employee engagement, supply-chain resilience, risk mitigation, improved sales (Whelan, 2022). This principle also apply in the case of sustainability business. The potential outcomes are as follows:

1. Customer satisfaction

Customer satisfaction is actually a recent of quite a long process. Gabler et al. (2023) draw a framework on how sustainability and customer satisfaction is linked. Environmental stewardship is believed to increase work meaningfulness. Once this psychological state is fulfilled, it could lead to brand advocacy and or to customer satisfaction. Eco-capabilities (in the areas of human, business and technology resources) are moderating the influence of environmental stewardship on work meaningfulness. The higher the eco-capabilities then the impact of environmental stewardship on work meaningfulness will be stronger. Once work meaningfulness increases, it will increase both brand advocacy and ultimately customer satisfaction. Both the group of employees and of customers shall be involved to determine the nature of influence.

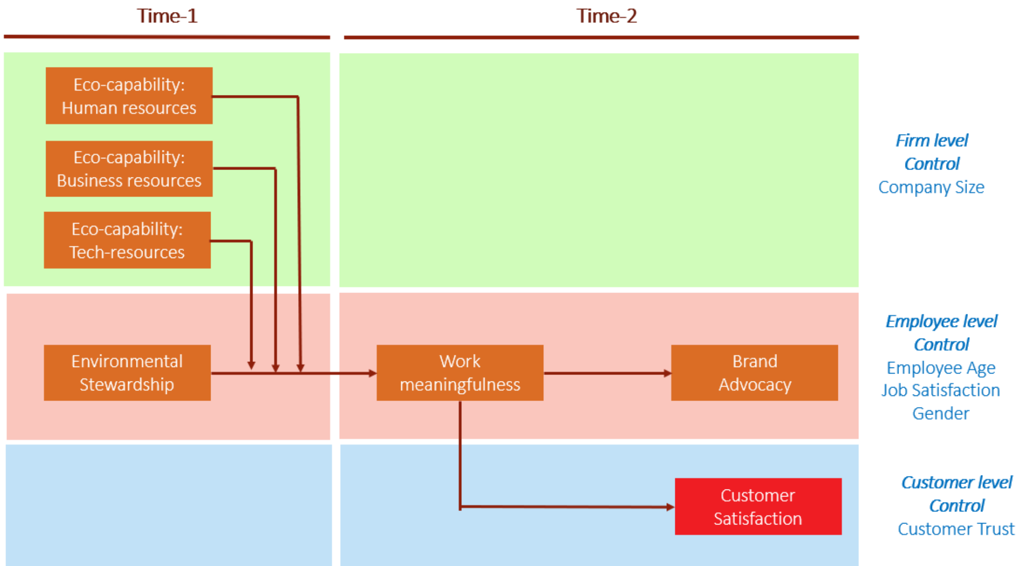


Figure 7.4 Sustainability and Customer Satisfacton Linkage
Source: Gabler et al. (2023, p.65)

2. Higher credibility for stakeholders

Stakeholders are increasingly aware and demand for more environmentally friendly business practices. Elijido-Ten and Clarkson (2019) highlight how investors pay close attention to this issue. In the fast moving consumer goods, Unilever is one of the champion in sustainability and is highly recognized by stakeholders. Inversely, their green practices penetrate the stakeholder within the supply chain. They demand similar approaches and values (see Figure 7.5).

Climate change: These companies are leading the fight | CNN Business

Unilever (UL) is the global corporate leader in environmental sustainability, according to a survey of experts conducted by GlobeScan and SustainAbility.

The owner of brands including Ben & Jerry's and Dove will ensure that all of its agricultural materials come from sustainable sources by 2020. It says it will do so by working with farmers to reduce environmental harm.

It has also agreed to eliminate single use plastic packaging in the United Kingdom, where possible, by 2025.

The consumer goods giant wants to become carbon positive by 2030. That means it will eliminate the use of fossil fuels, and support the generation of more renewable energy than it consumes.

"They created a very strategic plan that still is in many ways the best in class. They created these ambitious, clear plans that focus on what they really need to do — on packaging, chemical production, food production," said Chris Coulter, co-CEO of GlobeScan.

Unilever has found itself under pressure over plastic. Earlier this year, the company was named by "the Break Free From Plastic" campaign as one of the firms most responsible for plastic pollution in India, the Philippines and Indonesia. Unilever has acknowledged it must "go much further, much faster, in addressing the challenge" of plastic waste.

Source: Kottasova, I. (2018, Oct 9)

Figure 7.5 Climate change: These companies are leading the fight | CNN Business

3. Better financial performance

In an article in Harvard Business Review, Kramer and Pfizer (2022) emphasise that sustainability has positive impact on financial performance. It requires the leaders to change their mindset and that the seemingly contradictory purposes are indeed possible. It is stated that "*If companies are to move beyond mere posturing, leaders must confront the contradictions—and embrace the synergies—between profit and societal benefits*" (p.132).

4. Sustainable competitive advantage

Competitive advantage can be defined in a narrow and broad term. In the narrow term, the concept is often associated with financial outcome. Peteraf and Barney (2003) defines it as a position where a company could secure a larger economic profit than other players in the industry. In the broad term, competitive advantage is associated with the capability to fulfill 'customer needs either more effectively (with products or services that customers value more highly) or more efficiently (by providing products or services at a lower cost to customers)' (Thompson et al., 2021).

CORE CONCEPT
Competitive Advantage a position where a company could secure a larger economic profit than other players in the industry (Peteraf & Barney, 2003)

The more advanced form is sustained competitive advantage. This advantage reflects the capability of the organization to sustain the position competitive in the long run. In other words, no competitors are within a close distance even with similar strategies. In doing so, Barney (1995) outlines a VRIO acronym which stands for 'valuable, rare, inimitable and organization'. Figure 7.3 depicts how the fulfillment of VRIO can lead to different level of competitiveness. If sustainable competitive advantage is to be achieve, then resources shall be valuable, rare, inimitable and well organized.

Table 7.1 The VRIO Framework. Is the resource capability

Valuable	Rart	Costly-to-imitate	Organized	Competitive Implications
No	-	-	No	Competitive disadvantage (economic loss)
Yes	No	-		Competitive parity (zero economic profit)
Yes	Yes	No		Temporary competitive advantage (economic profit)
Yes	Yes	Yes	Yes	Sustained competitive advantage (economic profit)

Source: Barney & Mackay (2018, p.364)

Following resource based view of the firm theory above, Hart (1995) remodel the framework to include sustainability. The framework is so called natural resource based view of the firm.

Table 7.2 A Natural-Resource-Based View: Conceptual Framework

Strategic Capability	Environmental Driving Force	Key Resource	Competitive Advantage
Pollution prevention	Minimize emissions, effluents, & waste	Continuous improvement	Lower costs
Product	Minimize life-cycle cost of products	Stakeholder integration	Preempat competitors
Sustainable development	Minimize environmental burden of firm growth and development	Shared vision	Future position

Source: Hart (1995)

In line with the framework, Walsch and Dodds (2017) state that environmental sustainability has often been seen as a means to generate competitive advantage. Indeed, sustainability which was previously associated merely with corporate environmental ethics within business strategy now have started to view it as a source of competitive advantage (Gabler et al., 2023). It is believed that sustainability business encourage efficiencies, attract customers and obtain business (Walsh & Dodds, 2017).

7.3 What and How to Measure Sustainability Performance

Sustainability performance can be measured both quantitively and qualitatively. This section provides three alternative measurement frameworks. The first framework takes broad view by using ecosystem performance as the target goal. Meanwhile the second and third perspective allow for the alignment between sustainability and competitive advantage.

Take technological innovation from Figure 1 as an example. Its influence is concrete and has taken place in some economies. As reported by the European Commission (2023), the tightly coupled among science, technology, and innovation (STI) for ecosystem performance has accelerated sustainability transition. This fulfills its main purpose of STI to radically improve ecosystem performance. As such, a progressive movement and shifts compared to some 20 years ago are recognized. Using this conception, ecosystem performance can be assessed from three perspectives as depicted on Table 7.3.

Table 7.3 Three Perspectives in Ecosystem Performance

Perspective 1: Protecting & Restoring	
Notion of ecosystems	Distinctive nature sphere interacting with the human sphere (natural capital)
Motivation to promote ecosystem performance performance	Costs and benefits of (in-)action regarding limiting effects on the environment
Proposed attitude towards ecosystems	Manage the impact of human activities to reach a desired target
Perspective 2: Co-shaping Socio-ecological Systems	
Notion of ecosystems	Complex adaptive socio-ecological systems with no clear boundaries
Motivation to promote ecosystem performance performance	Steer system dynamics towards long term survival
Proposed attitude towards ecosystems	Move specific socio- ecological systems towards more beneficial dynamics
Perspective 3: Immersing & Caring within hybrid collectives	
Notion of ecosystems	Pluriverse of hybrid entities with agency emerging out of relations to each other
Motivation to promote ecosystem performance performance	No other choice for humans, ethics of care
Proposed attitude towards ecosystems	Negotiate with other inhabitants of critical zones to allow all to flourish on their own terms

Source: S&T&I FOR 2050 Science, Technology and Innovation for Ecosystem Performance (European Commission, 2023)

Corporate strategy can exploit the alignment sustainability with firm performance. Payne and Raiborn (2001) highlight five strategies to respond to sustainability challenges faced by corporations:

1. Corporations must fully aware of sustainable development issue and that they need to take action in educating their stakeholders;
2. Corporations need to convince the stakeholders on the ultimate benefit of foucsing on longevity and hence long-run profitability although it may hurt their short-term profits;

3. Corporations are encouraged to embark on sustainable development;

4. Corporations need to orchestrate new behavior in consumer behavior which orient toward sustainable development;

5. Corporates may use method by which businesses can strive toward sustainable development is to join with others to form organizations focused on this goal.

The third alternative approach emphasizes the closely link between sustainability (which is interchangeable called with acronym ESG/environment, society and governance) and company profitability and how this can lead to competitive advantage. Kramer and Pfitzer (2022) offer a six-steps framework to do just this.

1. Identify material ESG issues and associated stakeholder perspectives.

In order to identify what material ESG are, corporations can consult one of global ESG standards, namely the International Sustainability Standards Board. The report defines the standard as“those governance, sustainability, or societal factors likely to affect the financial condition or operating performance of businesses within a specific sector.”

2. Focus on strategy, not on reporting

Corporotion has a crucial task to decide its strategic choices. This corporate action is believed to lead to company performance. As such, sustainability-related strategic determines social and environmental impact. Strategic choices are considered fundamental and much more fundametal compare to operational refinement. This process evolve that drive the development of new business model. Instead of focusing on the preparation of report on modest improvement, businesses shall explore fundamentally new opportunities.

3. Optimise the impact intensity of profits

Businesses are expected to always measure their effectiveness. One of the measurement is evaluating its societal and environmental impact. Nevertheless, despite the sustainability campaign run by corporations, conventional cost/benefit analysis and financial indicators are still widely used. Quite recently, a new indicator - “impact intensity of profits” can be seen in some companies. It incorporates company’s profits vis-a-vis its most important positive or negative effect on society and environment. Three possible focuses of the new strategy are:

a. Product design
b. Product access
c. Operational footprint

4. Collaborate to avoid trade-offs between profit and societal impact

Business would not be in a dilemmatic situation if the profit and sustainability practices is of a win-win. However, in many business realities, trade-offs between the two may be evident. In order to avoid such trade-offs, companies are suggested to collaborate with key relevant stakeholders.

5. Redesign organizational roles

If sustainability orientation is expected to a permanent approach and has long-lasting impact, businesses shall revisit their roles and structures. In some cases, effort toward new direction is often stiffled by the unsupporting such organizational infrastructures. This may include the revitalization of the CSR Unit and the upgrading of employees on specific sustainability competencies.

6. Bring investors along

One of the key stakeholders which deserve full attention is the investors. Unless, the business specifically explains its sustainability purposes, business model, and practices, investors could easily deny their support. It is therefore important to keep investors in the loop.

Summary

Measuring the benefits of sustainable business is a crucial activity for companies. Conventional financial performance is no longer sufficient. As a result, to evaluate sustainability – performance linkage, additional measures related social and environmental impact shall be incorporated. Related to this point, several questions emerge on the earth's capability to handle disasters, the habits and mindsets of the society, the roles of stakeholders, and the relevance of technology. One theory that for examining this further is resource-based view (RBV) of the firm. RBV has a particular attention on internal resources that as a source of sustained competitive advantage. More specifically, resources must be valuable, rare, inimitable and well organized. A revised RBV model that takes into account sustainability is Natural-RBV.

Ultimately, effectiveness of strategic initiatives shall be measured. Companies can used one of the frameworks on offer. The first model adopts a broad-macro ecosystem performance. Meanwhile, the second and third models are more organizational-level. In line with RBV, they are driven toward achieving sustainable competitive advantage.

Discussion Questions

1. Discuss the relationship between sustainability practices and corporate performance. How do sustainable initiatives contribute to competitive advantage?
2. Evaluate the role of strategic environmental assessment in enhancing business sustainability. How does it differ from traditional EIA?
3. How can businesses effectively measure the impact of their sustainability initiatives on both financial and non-financial performance indicators?
4. Explore the challenges and opportunities presented by the mining industry in implementing sustainable business practices. How can these businesses navigate the dual pressures of economic contribution and environmental conservation?
5. Analyze the concept of sustainable competitive advantage. How can businesses achieve this through sustainability-oriented strategies?
6. Discuss the importance of stakeholder engagement in developing and implementing sustainable business practices. How can businesses ensure stakeholder alignment with their sustainability goals?

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CHAPTER 8: IMPACT ASSESSMENT AND IDENTIFICATHION OF SUSTAINABLE BUSINESS OPPORTUNITIES

In the dynamic landscape of modern business, the concept of sustainability has become a cornerstone for companies striving to align their operations with environmental stewardship and social responsibility. Impact assessment plays a pivotal role in this endeavor, providing a systematic and comprehensive approach to understanding and measuring the environmental and social effects of business activities. This process is not just about compliance with regulations; it's about integrating sustainable practices into the core of business strategies, thereby ensuring long-term viability and ethical operations.

Environmental Impact Assessment (EIA) and Social Impact Assessment (SIA) are two critical components of this process. EIA focuses on evaluating and mitigating the environmental consequences of business operations, examining factors such as air and water quality, biodiversity, and ecological systems. Its goal is to minimize negative environmental impacts while enhancing positive contributions to the ecosystem. On the other hand, SIA delves into the social dimensions of business activities, assessing the impact on communities, employees, and other stakeholders. It encompasses key areas like labor practices, community relations, and human rights, aiming to manage the social effects associated with business operations constructively.

Life Cycle Assessment (LCA) complements these assessments by offering a holistic view of a product's environmental impact throughout its life cycle, from raw material extraction to disposal or recycling. This approach helps businesses understand the full spectrum of environmental impacts associated with their products and services, enabling more informed and sustainable decision-making.

Together, EIA, SIA, and LCA form a robust framework for impact assessment in sustainable business. They provide businesses with the tools to not only assess and manage their environmental and social risks but also to identify opportunities for innovation and improvement. This comprehensive approach to impact assessment is crucial for businesses committed to sustainable development, ensuring that their operations contribute positively to both the environment and society.

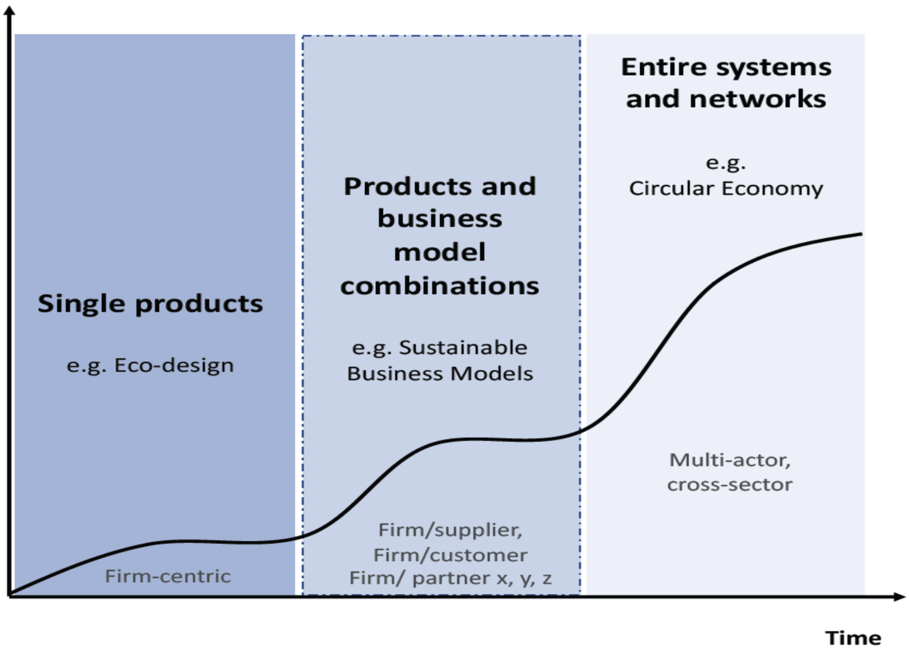

Figure 8.1. Business models within the sustainable innovation spectrum.
Source: Developed from Bocken et al. (2021), Konietzko et al. (2018) based on Ceschin & Gaziulusoy (2016)

Building on the foundation of sustainable business practices, it's crucial to delve into the methodologies for impact assessment and the identification of sustainable business opportunities. This segment of the essay focuses on how businesses can assess their sustainability impacts and identify opportunities that align with sustainable development goals.

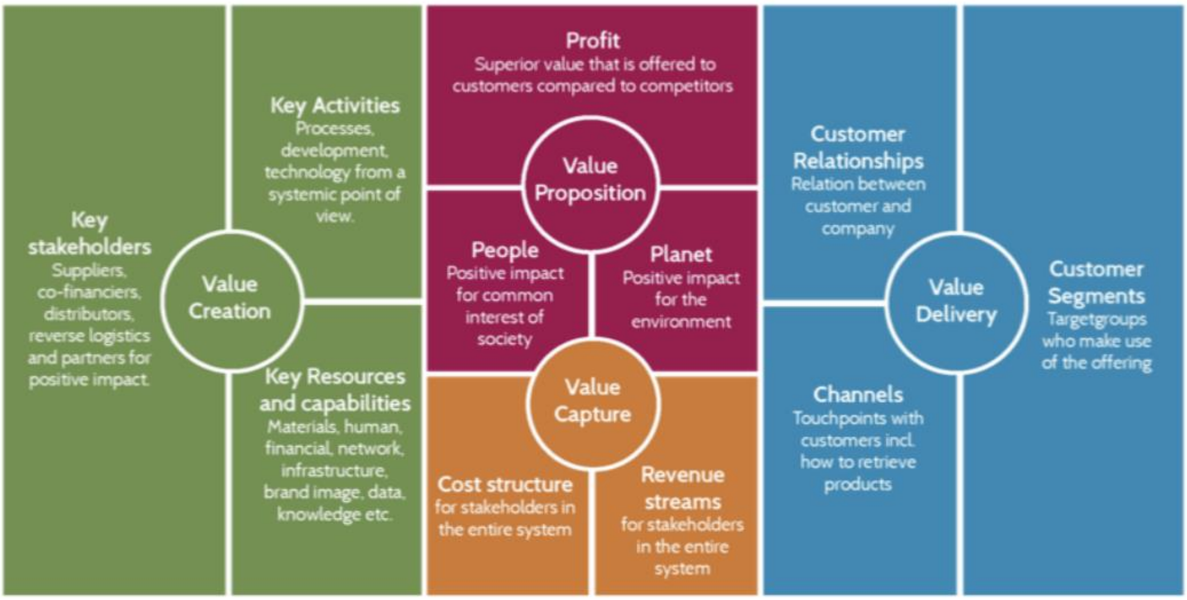

Figure 8.2 Sustainable business model canvas. Source: Bocken et al. (2021) based on Osterwalder & Pigneur (2010) and Richardson (2008).

Building on the foundation of sustainable business practices, it's crucial to delve into the specifics of impact assessment and the identification of sustainable business opportunities. This segment of the essay will explore how businesses can assess their environmental and social impacts and identify opportunities for sustainable growth.

8.1 Impact Assessment in Sustainable Business

Impact assessment is a critical tool for understanding and measuring the environmental and social effects of business activities. It involves a systematic evaluation of potential or actual impacts to guide decision-making and improve sustainability practices.

Environmental Impact Assessment (EIA) is a crucial process in sustainable business, serving as a tool to evaluate and mitigate the environmental consequences of proposed projects or business operations. It involves a comprehensive examination of factors such as air and water quality, biodiversity, and ecological systems, with the overarching goal of minimizing negative environmental impacts while enhancing positive ones.

EIA as a Management Tool: Messias, Cateli, and Teixeira (2022) discuss the role of EIA within corporate governance as an environmental risk management instrument. They argue that EIA is essential for companies to fulfill their duty to protect the environmental balance and contribute to sustainable development. The study points out the need for effective EIA to manage environmental risks efficiently (Messias, Cateli, & Teixeira, 2022).

Green Technology in EIA: Singh (2023) emphasizes the importance of green technology in EIA processes, highlighting how businesses can ensure efficient use of natural resources while minimizing environmental and social damage. The paper discusses the implications of not incorporating sustainable practices in business, including the potential loss of business and conflicts with environmental groups. Early consideration of environmental issues is crucial for firms to mitigate adverse effects and promote sustainable growth (Singh, 2023).

Ethical Considerations in EIA: Rode, Menestrel, Wassenhove, and Simon (2015) propose an ethical analysis method to reflect on how companies' decisions promote sustainable development, particularly in the context of EIA. Their study applies this method to the Inambari hydropower project in the Peruvian Amazon, demonstrating the importance of ethical considerations in EIA for sustainable business decisions (Rode et al., 2015).

Strategic Environmental Assessment (SEA): Dr. Vijayan Gurumurthy Iyer (2022) discusses the SEA process, which is crucial for sustainable business, economics, management, and eco-tourism development. SEA is highlighted as a key tool for making earlier decisions than the traditional EIA process, thus playing a significant role in sustainable development (Dr. Vijayan Gurumurthy Iyer, 2022).

Environmental Impact Assessment (EIA): EIA is a process used to evaluate the environmental consequences of a proposed project or business operation. It examines factors such as air and water quality, biodiversity, and ecological systems. The goal is to minimize negative environmental impacts and enhance positive ones. In conclusion, EIA is a vital component of sustainable business practices, providing a framework for assessing and managing environmental risks. Incorporating green technology, ethical considerations, and strategic environmental assessment processes are essential for businesses committed to sustainable development.

Social Impact Assessment (SIA) is a critical process in sustainable business, focusing on the social aspects of business operations. It assesses the impact on communities, employees, and other stakeholders, with key areas including labor practices, community relations, and human rights. SIA aims to understand and manage the social effects associated with business activities, ensuring that they contribute positively to society.

SIA in Public Project Management: Zhao and Yao (2011) discuss the importance of SIA in public project management in China. They highlight the challenges and necessity of SIA in the context of China's rapid economic growth and the need for sustainable and harmonious development. The study emphasizes the importance of finding appropriate indicators and management systems for SIA to ensure sustainable development (Zhao & Yao, 2011).

SIA in Mine Closure Planning: Kabir (2022) investigates the role of SIA in the development of a coal mine closure plan in regional Australia. The study shows how SIA can bring stakeholders together to formulate a mine closure plan that is acceptable to the company, local communities, and employees. It highlights the importance of community engagement through SIA and the assurance of socioeconomic security for the local community and mine employees (Kabir, 2022).

Challenges in SIA for Forest Wood Chains: Rosén, Lindner, Nabuurs, and Paschalis-Jakubowicz discuss the challenges in implementing sustainability impact assessment, including SIA, in forest wood chains. They highlight the difficulties in assessing the sustainability impacts of forest wood chains, emphasizing the need for tailored approaches in different contexts (Rosén et al.).

SIA in Cultural Heritage Projects: Gallou and Fouseki (2019) propose the use of SIA principles to evaluate the contribution of cultural heritage to social sustainability. They explore SIA as a methodological tool for post-project evaluation in the context of a rural case study, demonstrating its effectiveness in assessing social sustainability in heritage projects (Gallou & Fouseki, 2019).

Social Impact Assessment (SIA): SIA focuses on the social aspects of business operations. It assesses the impact on communities, employees, and other stakeholders. Key areas include labor practices, community relations, and human rights. In conclusion, SIA is an essential component of sustainable business practices, providing a framework for assessing and managing social risks and impacts. Incorporating SIA into business operations is crucial for companies committed to sustainable development, as it ensures that their activities contribute positively to society and the communities in which they operate.

Life Cycle Assessment (LCA) is a comprehensive approach used to assess the environmental impacts associated with all the stages of a product's life, from raw material extraction through materials processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling. LCA helps businesses understand the full spectrum of environmental impacts associated with their products and services, enabling them to make more informed decisions that align with sustainable practices.

LCA in Business Model Innovation: Goffetti et al. (2022) discuss the integration of LCA in business model innovation, particularly in the context of selling versus renting products. Their novel LCA method allows businesses to understand how different business parameters influence environmental performance, aiding in the pursuit of sustainability. This method bridges the gap between physical life cycle and monetary flows of a business model, providing insights for business strategy and environmental performance (Goffetti et al., 2022).

LCA in Sustainable Production: Hosseinzadeh-Bandbafha et al. emphasize the importance of LCA as a tool for ensuring environmentally sustainable production and consumption. They highlight LCA's role in quantifying the environmental and health impacts associated with the consumption and production of goods and services, including algal fuels (Hosseinzadeh-Bandbafha et al.).

LCA in Sustainable Tourism: Campos Herrero et al. (2022) review the application of LCA in the tourism sector, focusing on sustainable tourism. They discuss the importance of assessing the impacts associated with each stage of the tourism sector and identify key recommendations for the progression of LCA in sustaining tourism (Campos Herrero et al., 2022).

Integrating LCA and Sustainable BPM: Fritsch et al. (2022) propose integrating LCA with Sustainable Business Process Management (BPM) to improve the sustainability performance of organizations. They present research opportunities showing how both disciplines can synergize to leverage methods for business process automation and innovation, thus enhancing sustainability performance (Fritsch et al., 2022).

Life Cycle Assessment (LCA): LCA is used to assess the environmental impacts associated with all the stages of a product's life, from raw material extraction through materials processing, manufacture, distribution, use, repair and maintenance, and disposal or recycling.

In conclusion, LCA is an essential tool in sustainable business, providing a detailed understanding of the environmental impacts of products and services throughout their life cycle. Its integration into business models, production processes, tourism, and BPM highlights its versatility and effectiveness in guiding businesses towards sustainable practices.

8.2 Identification of Sustainable Business Opportunities

Green products and services

Identifying sustainable business opportunities is crucial for companies aiming to innovate and grow in an environmentally and socially responsible manner. This involves developing green products and services that have a reduced environmental impact or address environmental challenges, thereby opening new markets and opportunities.

Green Marketing and Sustainable Development: Yadav, Singh, and Shaw (2020) emphasize the role of green marketing in sustainable development. They discuss how businesses can adopt green marketing strategies to address new societal concerns about the environment. This approach involves selling products and services based on their environmental benefits, which can be eco-friendly in themselves or produced in an eco-friendly way (Yadav, Singh, & Shaw, 2020).

Green Development in Manufacturing: Liu Tian-sheng discusses the concept of "Green Development and All Win in Harmony" as Yuchai's core concept. This approach focuses on green development and manufacturing, providing green powers and engines with higher capability but lower cost. It highlights the importance of sustainable development in manufacturing and its role in establishing an enterprise's core competitiveness (Liu Tian-sheng).

Challenges and Opportunities for Green Start-ups: Bergset and Fichter (2015) explore the specific challenges and opportunities of "green" start-ups in developing and marketing radical sustainable innovations. They develop a new typology of green start-ups to better understand their specific financing challenges and opportunities, contributing to sustainable entrepreneurship and innovation research (Bergset & Fichter, 2015).

Women Entrepreneurs in Green Business: Sumathi, Anuradha, and Akash (2014) focus on the opportunities for women entrepreneurs in green business. They analyze the perception of women regarding opportunities in green business, highlighting how the green economy offers a win-win situation for women to engage their values and achieve financial success (Sumathi, Anuradha, & Akash, 2014).

In conclusion, **the development of green products and services** presents significant opportunities for sustainable business growth. These opportunities are not only environmentally beneficial but also offer new market potentials, especially in the context of green marketing, sustainable manufacturing, green start-ups, and women entrepreneurship in the green economy.

Circular Economy Models

Embracing circular economy principles, where resources are reused and recycled, can lead to innovative business models. This approach not only reduces waste but also can lead to significant cost savings and new revenue streams, making it a cornerstone of sustainable business practices.

Global Waste Management and Circular Economy: Khomenko et al. discuss the world ecological problem of waste accumulation and the need to develop a circular economy. They emphasize that resource management should shift from a linear model to a more sustainable, circular model. The study identifies five main circular business models and highlights the importance of circular supply chains in minimizing waste and promoting sustainability (Khomenko et al.).

Circular Economy in Education: Roba et al. (2021) explore the integration of circular economy concepts in education through serious games. Their game, ecoCEO, introduces students to challenges of resource scarcity, circular product design, and sustainable entrepreneurship. This approach illustrates the importance of educating future generations about circular economy models and their role in sustainable development (Roba et al., 2021).

Data-Driven Circular Economy in Manufacturing: Okorie et al. discuss the paradigm shift in manufacturing industries towards a data-driven circular economy. They explore how manufacturing data can inform remanufacturing parameters, emphasizing the role of data in optimizing the circular economy's 3 R's: reuse, remanufacturing, and recycling (Okorie et al.).

Linear vs. Circular Economy Models: Chung and Le (2023) provide a narrative literature review discussing the concepts of linear and circular economies. They examine different countries' experiences in adapting circular economy models and make policy recommendations for successfully implementing a circular economy. The study highlights the need for a holistic approach, from product design to recycling, in the transition to a circular economy (Chung & Le, 2023).

In conclusion, **circular economy models** present a transformative approach for businesses to achieve sustainability. By focusing on resource reuse and recycling, companies can create more sustainable and efficient business models, contributing to environmental protection and economic growth. The integration of circular economy principles is essential for businesses committed to sustainable development and offers a pathway to a more sustainable future.

Sustainable Supply Chains

Transforming supply chains to be more sustainable can create significant opportunities for efficiency and innovation. This transformation includes sourcing from sustainable suppliers, reducing transportation emissions, and implementing ethical labor practices, all of which contribute to a more responsible and efficient supply chain.

Green Supply Chains and Global Competitiveness: Veljković, Milovanović, and Talić (2022) discuss the integration of environmental and social sustainability in business activities, emphasizing the concept of green supply chains. They propose a model for "greening" classic supply chains, which is beneficial for researchers and company managers. This model aims to improve sustainability, supply continuity, and long-term business efficiency (Veljković, Milovanović, & Talić, 2022).

Ethical Audit Regime in Supply Chains: LeBaron, Lister, and Dauvergne (2017) examine the role of ethical audit programs in governing labor and environmental standards in global supply chains. They highlight the growing legitimacy of auditing as a tool to promote corporate accountability and sustainable supply chain management (LeBaron, Lister, & Dauvergne, 2017).

Sustainability in Supply Chain Management: Nagarjuna et al. (2023) emphasize the practice of incorporating environmentally and socially responsible practices into supply chain management. They discuss methods such as supplier audits, certifications, and sustainability reporting to create a more efficient and responsible supply chain (Nagarjuna et al., 2023).

Sustainable Supply Chain in the Oil and Gas Industry: Ahmad (2016) explores the contextual factors of sustainable supply chain management practices in the oil and gas industry. The study focuses on the challenges and strategies for implementing sustainable practices in this sector (Ahmad, 2016).

In conclusion, **sustainable supply chains** are essential for modern businesses aiming to be environmentally and socially responsible. By focusing on ethical sourcing, reducing emissions, and implementing sustainable practices, companies can enhance their global competitiveness, meet regulatory requirements, and contribute positively to environmental and social sustainability.

Sustainable Technology and Innovation

Investing in sustainable technologies, such as clean energy, water conservation, and sustainable materials, can lead to significant competitive advantages for businesses. These technologies not only improve efficiency and reduce resource use but also align with the growing global emphasis on sustainability.

Floating Solar Photovoltaics on Wastewater Management: Goswami and Sadhu (2021) explore the adoption of floating solar photovoltaics on wastewater management systems. This unique nexus of water-energy utilization offers low-cost clean energy generation and water conservation, demonstrating an innovative approach to combining renewable energy with sustainable water management (Goswami & Sadhu, 2021).

Solar-Powered Water Production Technologies: Li et al. (2021) provide an overview of solar-powered technologies for sustainable water production. They discuss various technologies for converting alternative water resources into clean freshwater, emphasizing the importance of high-efficiency, energy-saving, and cost-effective methods in addressing the global water crisis (Li et al., 2021).

Photocatalysis for a Sustainable Future: Irshad et al. (2022) focus on photocatalysis using perovskite oxide-based materials as a solution for clean and sustainable future energy needs. They highlight the potential of photocatalysis in applications such as water pollutant degradation, water splitting, CO2 reduction, and nitrogen fixation, emphasizing the role of perovskite materials in addressing environmental challenges (Irshad et al., 2022).

Net-Zero-Carbon Water Sector Technologies: Rani et al. (2022) review waste(water)-based energy-extracting technologies, proposing strategies to achieve net-zero carbon in the water sector. They discuss the potential of wastewater treatment plants to become significant energy producers and recycled material generators, contributing to sustainable development goals and the water-energy-sanitation-food-carbon nexus (Rani et al., 2022).

In conclusion, the integration of **sustainable technologies** in business operations offers a pathway to enhanced efficiency, environmental responsibility, and economic growth. These technologies, ranging from renewable energy to advanced water treatment and photocatalysis, are crucial for businesses aiming to align with global sustainability trends and address pressing environmental challenges.

Partnerships and Collaborations in Sustainable Business

Collaborating with other businesses, governments, and NGOs can lead to shared sustainability initiatives and projects, providing access to new resources, knowledge, and markets. These partnerships are crucial for sustainable business development, as they foster innovation and efficiency while addressing environmental and social challenges.

Zero Waste Concept in Sustainable Business: Zamlynskyi et al. (2023) discuss the importance of the zero waste concept in strengthening economic security through sustainable business practices. They emphasize the role of circular economy systems in long-term organizational growth, aiming to minimize waste and maximize resource efficiency. This approach is integral to corporate social responsibility and can help businesses reduce environmental impact, save costs, and create new opportunities for innovation and collaboration (Zamlynskyi et al., 2023).

Social Business as a Sustainable Tool: Abdaljawwad (2023) highlights social business as an innovative and sustainable tool to provide solutions for various social problems. The study identifies main drivers and keys to success for sustainable social business models, emphasizing customer centricity, quality, social needs, and collaboration as crucial elements (Abdaljawwad, 2023).

Coffee Agroforestry Business-Driven Clusters: Meter et al. (2022) present a new organizational model, the "Coffee agroforestry business-driven cluster" (CaFC), which aims at preserving ecosystems while offering producers a fair income. This model, based on a local micro value-chain dedicated to sustainable production of high-quality Arabica coffee under agroforestry systems, demonstrates the effectiveness of collaboration between stakeholders in fostering social and environmental innovations (Meter et al., 2022).

Responsible Digital Transformation for Sustainable Societies: Pappas et al. (2023) discuss the importance of responsible digital transformation, emphasizing the need for collaboration among academia, private and public organizations, civil society, and individuals. They highlight the emergence of corporate digital responsibility and the shift to human-centric approaches in digital business models, underscoring the need for interdisciplinary research and systematic approaches to sustainability (Pappas et al., 2023).

In conclusion, **partnerships and collaborations in sustainable business** are essential for addressing complex environmental and social challenges. By working together, businesses, governments, and NGOs can leverage their collective strengths to create innovative solutions that contribute to a more sustainable and equitable world.

8.4 Title: "Integrating Social Life Cycle Assessment in the Textile Industry: A Case Study on Contributing to Sustainable Development Goals"

Background: The textile industry, known for its significant environmental and social impact, faces the challenge of aligning its practices with the Sustainable Development Goals (SDGs). In response, Ana María Herrera Almanza and B. Corona conducted a study titled "Using Social Life Cycle Assessment to analyze the contribution of products to the Sustainable Development Goals: a case study in the textile sector." This study, published on July 8, 2020, explores the application of Social Life Cycle Assessment (S-LCA) to assess the social sustainability performance of a textile product.

Challenge: The textile sector is often scrutinized for its labor practices, resource consumption, and environmental footprint. The industry's complex supply chain, extending from raw material extraction to retailing, presents numerous challenges in ensuring social sustainability. The study aimed to address these challenges by assessing how the life cycle of a textile product impacts various social dimensions and contributes to the SDGs.

Action: The researchers undertook the following steps in their study:

- **S-LCA Methodology Application**: They applied S-LCA to a man's shirt with a supply chain spanning five countries, from cotton farming in China to retailing in The Netherlands.
- **Indicator Development**: The study developed a new classification of S-LCA indicators to link the methodology with the SDG framework, assessing both positive and negative contributions.
- **Data Collection and Analysis**: Primary data was collected for six different suppliers regarding 51 social indicators across four stakeholder categories (workers, local communities, value chain actors, and society).
- **Social Hotspot Assessment**: Using the PSILCA database, the study conducted a social hotspot assessment to identify high social risks in various stages of the shirt's life cycle.

Results: The study revealed several key findings:

- **Identification of High-Risk Areas**: High social risks were identified in Bangladesh (shirt manufacturing) and Malaysia (fabric manufacturing), particularly in health and well-being, affordable and clean energy, decent work, and responsible production and consumption.
- **Discrepancies in Social Performance**: The site-specific assessment showed different results than the social risk assessment, indicating worse social performance in the spinning stage in China.
- **Comprehensive Social Impact Overview**: The S-LCA provided a detailed understanding of the social impacts across the shirt's life cycle, highlighting areas for improvement.

Conclusion: This case study demonstrates the effectiveness of S-LCA as a tool for assessing and improving the social sustainability performance of products in the textile industry. By systematically evaluating the social impacts of a product's life cycle, businesses in the textile sector can make informed decisions that align with the SDGs, contributing to a more sustainable and socially responsible industry.

Summary

As we conclude this chapter, it's evident that impact assessment is not just a compliance exercise but a strategic tool for sustainable business transformation. Through the detailed exploration of Environmental Impact Assessment (EIA), Social Impact Assessment (SIA), and Life Cycle Assessment (LCA), we have seen how these methodologies provide a comprehensive framework for businesses to understand, evaluate, and improve their environmental and social impacts.

The integration of EIA in business operations, as illustrated in the case studies, enables companies to identify and mitigate potential environmental risks associated with their projects. It goes beyond regulatory compliance, fostering a culture of environmental stewardship and innovation. Similarly, SIA's role in evaluating the social implications of business activities highlights the importance of considering the broader societal impact. It ensures that businesses contribute positively to the communities they operate in and uphold ethical labor practices.

LCA, with its holistic approach to assessing the environmental impacts of a product's entire life cycle, empowers businesses to make informed decisions that minimize ecological footprints. It encourages the adoption of sustainable practices in product design, manufacturing, and disposal, aligning business operations with the principles of circular economy and resource efficiency.

The case studies presented in this chapter, ranging from the textile industry to the chemical sector, demonstrate the practical application and benefits of these impact assessment tools. They underscore the importance of a systematic and data-driven approach to sustainability, highlighting how businesses can turn environmental and social challenges into opportunities for innovation, efficiency, and market growth.

In conclusion, impact assessment is a cornerstone of sustainable business practices. It enables businesses to navigate the complexities of environmental and social responsibilities, aligning their operations with global sustainability goals. As companies continue to face increasing scrutiny from consumers, investors, and regulators, those that proactively embrace impact assessment methodologies will not only contribute to a more sustainable world but also secure a competitive advantage in the ever-evolving business landscape.

Discussion Questions

1. How do EIA, SIA, and LCA contribute to a comprehensive understanding of the environmental and social impacts of business operations? Discuss their roles and interconnections.
2. Evaluate the challenges faced by businesses in conducting effective impact assessments. How can these challenges be overcome?
3. Discuss the role of green technology in enhancing the EIA process. How can businesses leverage technology to improve sustainability outcomes?
4. Analyze the significance of ethical considerations in impact assessments. How can businesses ensure that their sustainability efforts are ethically sound?
5. Explore the potential of LCA in guiding businesses toward more sustainable production and consumption patterns. What are the benefits and limitations of LCA?
6. Discuss the ways in which businesses can identify and capitalize on sustainable business opportunities through impact assessment. How can impact assessments inform strategic decision-making for sustainability?

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CHAPTER 9. STRATEGIC DECISION WITHIN SUSTAINABLE BUSINESS AND ITS IMPACT ON COMPETITIVENESS

9.1 Introduction to Sustainable Business

A sustainable business is a business that aims to harmonize economic, social, and environmental aspects as a way of maximizing long-term value for all stakeholders (Sachs, 2015). Such a business position monetary gain only as one aspect of success and that it needs to be pursued alongside societal well-being and concern for environment. In principal, businesses that uphold sustainability values should seek to minimize the adverse impacts from their business operations like pollution and waste of resources. Additionally, those businesses should also actively promote social development and environmental preservation as driven by their internal values.

Businesses oriented to sustainability integrate sustainable practices into core business plans and daily operations, going beyond charitable endeavours and legal compliance. They do this by operating with an intergenerational, forward-thinking mind-set (World Business Council for Sustainable Development, 2010). According to Eccles et al. (2014), those kind of businesses should actively interact with a range of stakeholders like employees, customers, shareholders, and society, to ensure their business operations' alignment with sustainability goals and to foster adaptation in the face of rapidly changing business environments. Essentially, a sustainable business refers to one that adheres to the Triple Bottom Line concept (people, planet, and profit) and attempts to grow in a way that is in line with sustainability's tenets – that is to make a positive impacts based on equity, inclusion, and ecological security (Bansal & Song, 2017; Elkington, 1998).

The sustainable practices of businesses gained its momentum in the late 1900s. During the 1960s and 1970s, issues of social fairness, depletion of resources, and pollution started to arise. Major events, like the first Earth Day in 1970, brought environmental concerns to the public's attention and transformed the discourse of sustainability (Hawken et al., 1999). Influential publications such as "The Limits to Growth" (Meadows et al., 1972) and "Our Common Future" (World Commission on Environment and Development, 1987) further sharpened the sustainability discourses by emphasizing the need of balancing economic growth and social and environmental well-being.

As for the term "sustainability", arguably John Elkington is among the scholars who popularized the term through his 1997 book entitled "Cannibals with Forks: The Triple Bottom Line of 21st Century Business." The core idea of "triple bottom line" is that profits should not be the only criteria used to assess a company's performance; people and the environment (planet) should also be taken into consideration. Elkington (1997) offered a structure for incorporating social, economic, and environmental considerations into company activities. On its development, the notion of 'sustainability' in the context of business has broadened to include corporate responsibility, ethics, and long-term planning. Along the way, the TBL continues to drive corporate sustainability strategies, inspiring innovative practices and policies that aim to balance profitability with the well-being of people and the preservation of the planet.

Sustainability in the business context as we know it today has been assimilated with the TBL concept. Just like the TBL, sustainability encompasses three core interconnected dimensions: economic, social, and environmental. The economic dimension focuses on financial practicality, covering concerns related to profitability, efficiency, and economic growth. Businesses that embrace sustainability should manage their resources, finances, and operations in a manner that not only ensures financial stability but also pursuing long-term economic success (Dyllick & Hockerts, 2002). Sustainability strategies in the economic dimension include efforts to maximize economic value while minimizing negative financial risks on stakeholders.

The social dimension of sustainability is concentrated on the well-being of individuals and communities. This aspect highlights the importance of ethical and responsible conduct towards employees, customers, suppliers, and society at large (Carroll, 1979). It involves promoting diversity and inclusion, ensuring fair labour practices, and contributing to the betterment of communities through philanthropy and social initiatives. Companies that focus on the social aspect of sustainability recognize the significance of positive relationships with stakeholders, ethical business practices, and a commitment to social development.

The environmental dimension of sustainability is concerned with diminishing negative impacts on the planet, including resource depletion, pollution, and climate change. It emphasizes practices that conserve natural resources, reduce emissions, and promote environmental stewardship (Rockström et al., 2009). Through this dimension, business strives to lessen their ecological footprint and actively engage in environmentally responsible activities such as waste reduction, energy efficiency, and the use of renewable resources. This dimension is integral to addressing global environmental challenges and fostering a more sustainable future.

	Economics	**Environmental**	**Social**
Typical Measures	Sales, profits, ROI	Air Quality	Labor Practices
	Taxes Paid	Water Quality	Community Impacts
	Monetary Flows	Energy Useage	Human Rights
	Jobs created	Waste Produced	Product Responsibility
	TOTAL	TOTAL	TOTAL

Figure 9.1 Typical Measures of Sustainability
Source: Adopted from Savitz & Weber (2006)

Aligned with this chapter’s title, this chapter focuses on the discussion surrounding strategic decision-making within a business oriented towards sustainability practices and the subsequent effect on the business’ competitiveness. The following section will portray the broad concept of business strategic decision-making and sustainability. This section includes the discourses of sustainability and strategy interplay and sustainable strategy development. Furthermore, as the core of sustainability lies in continuity, this chapter will then discuss how a business sustains a competitive advantage over time by embracing sustainability practices. Included in that subchapter are the concepts of roadmap building for sustainable business success and common challenges for businesses embracing sustainability practices.

9.2 Business Strategic Decision Making and Sustainability

Strategic decision-making is a critical process within organizational strategy formulation. Strategic decision-making forms the long-term orientation and competitive positioning of organizations. It involves the selection of courses of action to achieve specific objectives while considering an organization's internal and external circumstances. Among the important aspects on this process is the assessment of an organization's strengths, weaknesses, opportunities, and threats, often referred to as SWOT analysis (Hill & Hult, 2020). SWOT analysis may guide resource allocation, shape the firm's value proposition, and determine its competitive advantage within the industry.

The strategic decision-making process also involves evaluating alternatives, assessing risk, and optimizing resource allocation. It requires a comprehensive understanding of market dynamics, competitive forces, and the organization's internal capabilities. Effective strategic decision-making often incorporates tools, models and frameworks. Beside the previously mentioned SWOT analysis, Porter's Five Forces is among the prominent tools in strategic decision making. Porter's Five Forces model, proposed by Michael Porter, helps assess industry competitiveness by considering factors like the bargaining power of suppliers and customers, the threat of new entrants, the threat of substitute products, and the intensity of competitive rivalry (Porter, 2008). This model aids in the development of strategies that account for competitive dynamics.

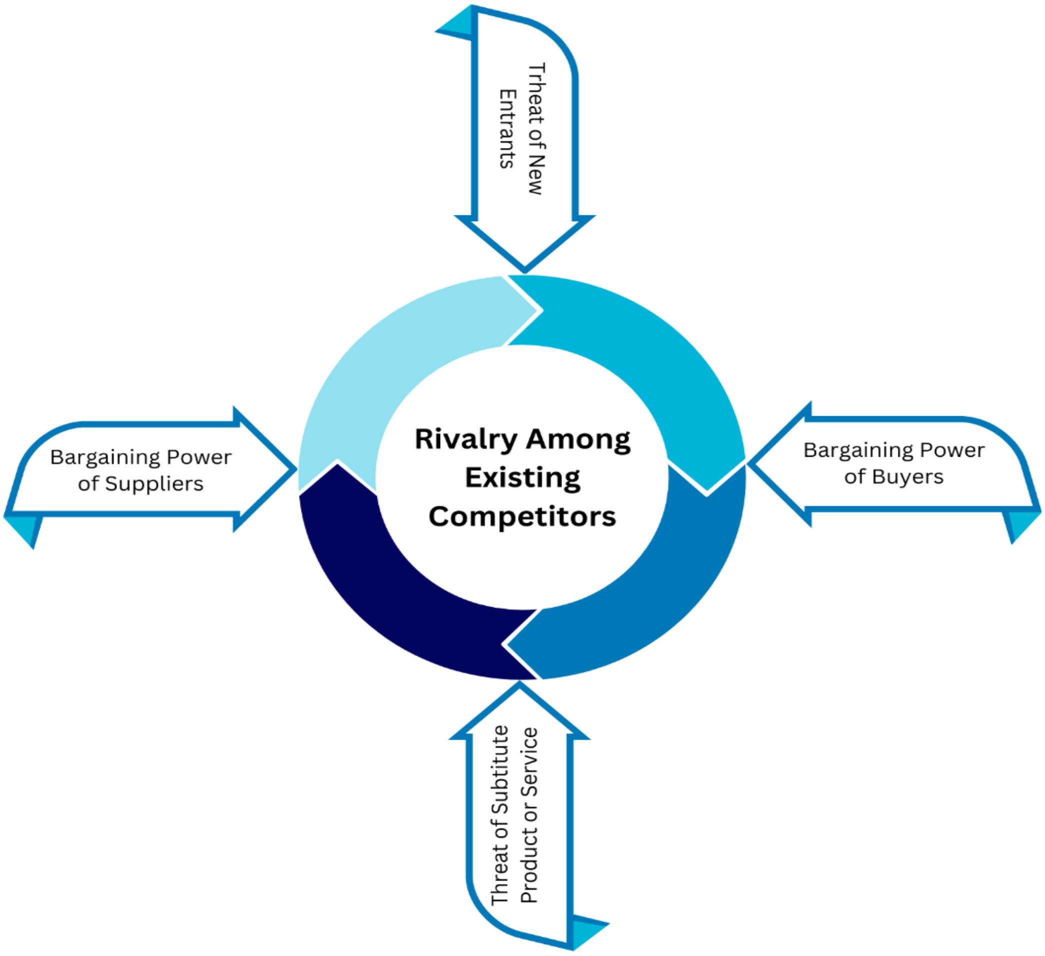

Figure 9.2 The Five Forces That Shape Industry Competition
Source: Adopted from Porter (2008)

Another essential model is the PESTEL analysis, which evaluates an organization's external environment by examining Political, Economic, Sociocultural, Technological, Environmental, and Legal factors (Hitt et al., 2017). By using the PESTEL framework, organizations can identify emerging trends and challenges, providing valuable input for strategic planning.

Strategic frameworks are also pivotal in facilitating decision-making in specific contexts. The BCG Matrix, for instance, is particularly useful for portfolio management by categorizing a company's products or business units into stars, cash cows, question marks, or dogs based on their market growth and relative market share (Hitt et al., 2017). Such categorization guides resource allocation and investment decisions. The Ansoff Matrix, another valuable tool, assists in identifying growth opportunities by exploring market penetration, market development, product development, and diversification strategies (Ansoff, 1957). Decision-makers can utilize these frameworks to make informed choices about expansion and diversification strategies.

Figure 9.3 BCG Matrix
Source: Adopted from Boston Consulting Group Website
(https://www.bcg.com/about/overview/our-history/growth-share-matrix)

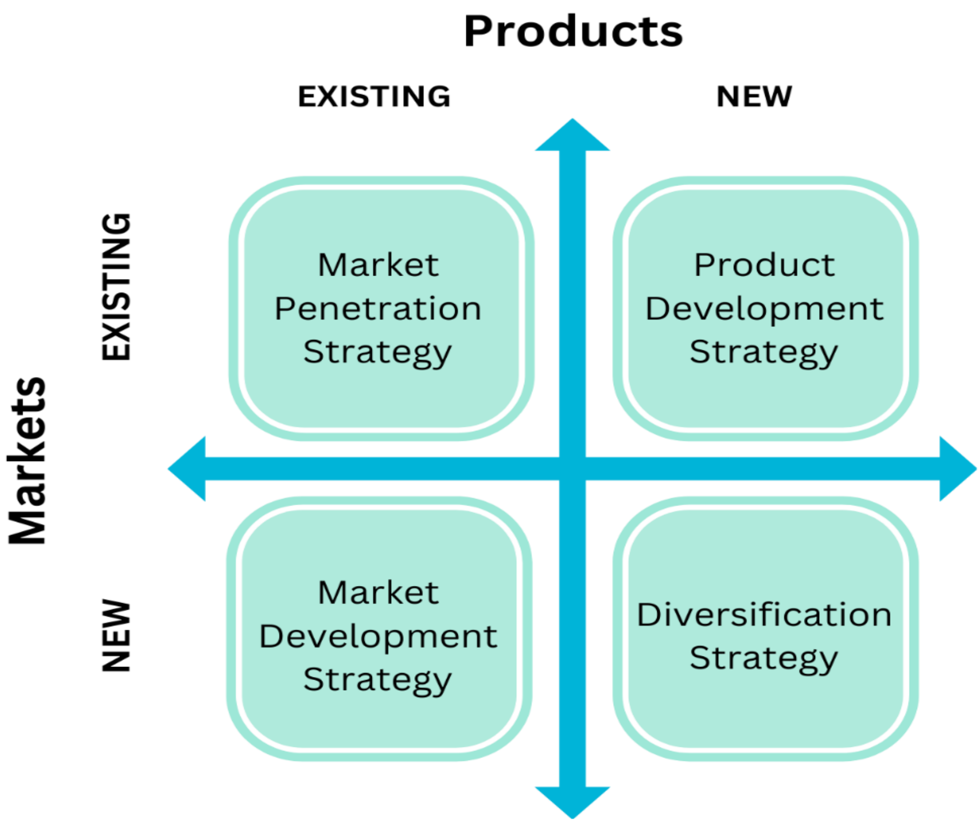

Figure 9.4 Ansoff Matrix
Source: Adopted from Hanlon (2021)
(https://www.smartinsights.com/marketing-planning/create-a-marketing-plan/ansoff-model/)

The Interplay Between Sustainability and Strategy

The integration of sustainability and strategy is a dynamic and transformative process that shapes the long-term success and competitive positioning of organizations. The integration process recognizes that sustainability is not only an aide to strategy but an integral component that permeates all aspects of an organization's decision-making. The alignment of business objectives with sustainability goals is a crucial component of this interaction. Sustainable business strategies are designed to balance economic growth with social well-being and environmental responsibility (Hart, 1995). Such an alignment makes sure that sustainability is a key component of strategic thinking, not just an add-on.

Incorporating sustainability into strategy requires a broader perspective that goes beyond short-term profit maximization. Sustainable strategies often emphasize creating shared value, which means generating economic value while also addressing societal and environmental issues. This interconnected approach not only enhances an organization's reputation and resilience but also leads to competitive advantages in the marketplace. That is as such an approach acknowledges both the importance of stakeholders and the long-term consequences of business decisions (Porter & Kramer, 2006).

Moreover, the interplay between sustainability and strategy involves a commitment to innovation. Sustainable innovation seeks to develop products, services, and processes that reduce environmental impact while meeting customer needs (Wilkerson & Trellevik, 2021). It involves exploring the opportunities presented by sustainability challenges, such as resource scarcity and climate change, to create novel solutions. This innovation-focused strategy drives continuous improvement, fosters creativity, and positions organizations to respond effectively to changing market dynamics.

Strategic decision-making in the context of sustainability is not a one-time enterprise but an ongoing process. It requires adapting to evolving societal and environmental conditions, incorporating feedback from stakeholders, and maintaining a long-term perspective (Eccles et al., 2014). In essence, the interplay between sustainability and strategy is a transformative journey that seeks to create value for organizations, society, and the environment in a symbiotic and lasting manner.

Developing a Sustainable Business Strategy

The effort to develop a sustainable strategy involves a comprehensive approach that put economic, social, and environmental factors into considerations so that an establishment of long-term value and negative impacts minimization could realize. One essential phase in this process is to run a thorough sustainability assessment. The assessment includes appraising the organization's ecological footprint, social responsibility, and economic sustainability (Elkington, 1997). Understanding the status quo of sustainability mind-set within the organization will be the starting point for the development of strategy that complies with sustainability goals. This may involve identifying Key Performance Indicators (KPIs) for each sustainability aspects, such as gas emissions, employee well-being, or resource consumption (Dyllick & Hockerts, 2002).

Another crucial aspect of developing a business strategy is to set a clear sustainability goals and objectives. The goals serve as a roadmap for the integration of sustainability values within the core operations and organizational culture. The strategic objectives of the organization should reflect a commitment to ethical practices, accountability, and thoughtful thinking on environmental condition. By having a clear direction, organizations can proactively work toward sustainable development (Savitz & Weber, 2006).

Figure 9.5 Sustainable Development Goals
Source: Unesco (n.d.) (https://en.unesco.org/sustainabledevelopmentgoals)

Furthermore, it is essential to integrate sustainable objectives into an organization's overall business strategy. This integration should involve defining key performance indicators (KPIs) that track progress toward sustainability goals (Hrebiniak, 2005). Regularly assessing and reporting on these KPIs demonstrates a commitment to transparency and accountability, while allowing the organization to adapt its strategies in response to changing conditions. To ensure alignment, sustainable objectives should not exist in isolation but be woven into the fabric of the organization's strategic planning, decision-making processes, and corporate culture, reflecting a holistic and values-driven approach to business success (Hart & Milstein, 2003).

Dyllick & Hockerts (2002) conceptualize the relationship of three sustainability dimensions: environmental; social; and economic. The two scholars termed economic dimension as ‘business case’, social dimension as ‘societal case’ and environmental dimension as ‘natural case’. Further, Dyllick & Hockerts argue that the interplay of these three sustainability cases is complemented by the notion of efficiency and effectivity. All in all, a so called sustainable company should fulfil six criteria depicting its attempt to cover all three dimensions within two aspects (efficiency and effectivity). The conceptual framework of corporate sustainability can be seen in the figure below.

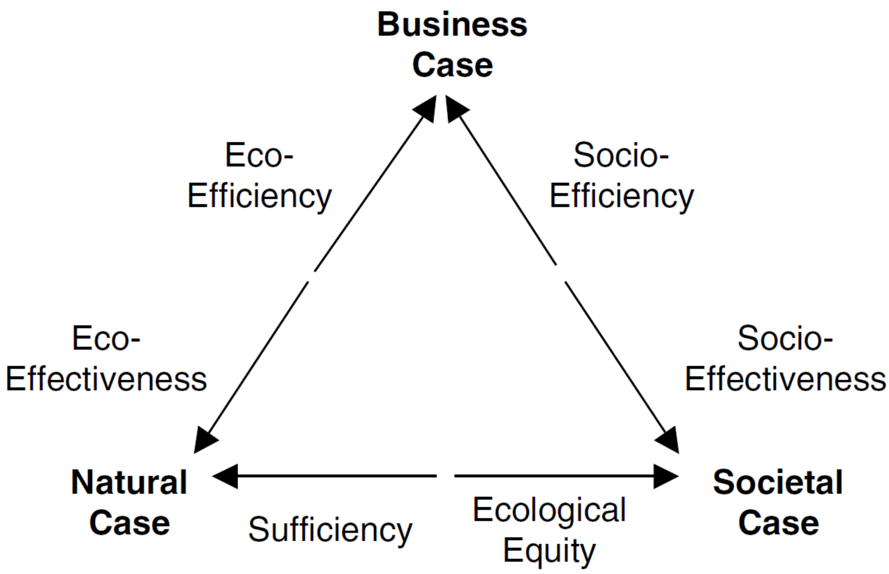

Figure 9.6 Overview of the six criteria of corporate sustainability Source: Dyllick & Hockerts (2002)

9.3 Sustaining Sustainability as a Competitive Advantage Over Time

In today's increasingly environmentally and socially conscious business environment, sustainability has evolved from being a moral obligation to a potent source of competitive advantage. By embracing sustainability as a core tenet of their business strategy, companies can differentiate themselves in the marketplace, enhance brand reputation, reduce risks, and drive innovation. Sustainable practices, whether related to reducing carbon emissions, ethical sourcing, or community engagement, are more than just corporate social responsibility efforts; they are tangible drivers of competitiveness.

One of the key ways that sustainability provides a competitive edge is through brand differentiation. Consumers and stakeholders are becoming more discerning and purpose-driven, preferring companies that prioritize environmental and social responsibility. Businesses that can demonstrate their commitment to sustainability not only attract more environmentally conscious consumers but also foster trust and loyalty. Furthermore, sustainability initiatives often lead to cost savings, such as reduced energy consumption or improved resource efficiency, which can enhance financial performance. By aligning sustainability with strategic objectives and delivering on these commitments, companies position themselves for sustainable growth and resilience in a changing world.

Building a Roadmap for Sustainable Business Success

Creating a roadmap for sustainable business success involves a structured and holistic approach that integrates economic, social, and environmental considerations into the organization's long-term strategic plan. A foundational step in this process is conducting a comprehensive sustainability assessment to evaluate the organization's current state and identify areas of improvement. The Global Reporting Initiative (GRI) Standards offer valuable guidelines for sustainability reporting, enabling organizations to assess their environmental, social, and economic impacts and set a baseline for sustainability objectives (Global Reporting Initiative, 2016). By understanding their current sustainability performance, organizations can identify strengths and weaknesses and formulate a roadmap that addresses areas that require attention.

Beside showing organization’s commitment to comply with the Sustainable Development Goals (SDGs), creating a report based on GRI standards also bring several other benefits to the organizations. Among others are to display organization’s effort in maintaining stakeholder engagement and encouraging continuous improvement. Additionally, reporting using GRI standard will also ease the benchmarking processes as the GRI reporting standards facilitate comparability of data, both within an organization over time and across different organizations, enabling benchmarking and continuous performance analysis.

Sustainability assessments activities should also inform the establishment of clear and measurable sustainability goals. These goals should be aligned with global sustainability frameworks, such as the United Nations Sustainable Development Goals (SDGs), which provide a universal reference for addressing critical global challenges. By setting specific objectives that resonate with broader societal and environmental concerns, organizations not only contribute to global sustainability efforts but also enhance their own brand reputation and stakeholder relationships.

To build a successful roadmap for sustainability oriented business, it is vital to integrate sustainable objectives into the core business strategy. This integration should encompass key performance indicators (KPIs) that track progress toward sustainability goals, ensuring ongoing alignment and accountability (Hrebiniak, 2005). The roadmap should also establish a reporting and communication framework that transparently conveys the organization's sustainability commitment and achievements to stakeholders. By weaving sustainability into the fabric of strategic planning, decision-making processes, and corporate culture, organizations can cultivate a holistic approach that resonates with the values and expectations of their stakeholders, ultimately driving sustainable business success.

Common Challenges in Implementing Sustainable Strategies

Implementing sustainable strategies presents a range of challenges for organizations as they navigate the complex intersection of economic, social, and environmental factors. One of the most prevalent challenges is the clash between short-term financial objectives and long-term sustainability goals. Businesses often face pressure to deliver immediate financial results, which can conflict with the longer-term nature of sustainability initiatives. Overcoming this challenge involves aligning incentives, educating stakeholders, and fostering a corporate culture that values sustainability as a critical element of long-term success (Eccles et al., 2014).

Resource constraints pose another significant hurdle in implementing sustainable strategies. Many organizations struggle with the costs associated with sustainability efforts, such as investments in renewable energy, supply chain improvements, or employee training. These upfront costs can strain financial resources, particularly for smaller businesses. A solution to this challenge involves exploring innovative financing options, engaging in partnerships, and demonstrating the long-term cost savings that sustainable practices can deliver (Hart & Milstein, 2003).

Measuring the impact of sustainability initiatives and effectively communicating results is a common challenge faced by organizations. Metrics and key performance indicators (KPIs) for sustainability can be complex and diverse, making it difficult to quantify and report on progress. Furthermore, the impact of sustainability efforts may not manifest immediately, creating difficulties in demonstrating their value to stakeholders. Successfully addressing this challenge requires the establishment of clear and relevant KPIs, transparency in reporting, and a commitment to ongoing assessment and improvement (Adams et al., 2016).

Summary

This chapter explores the intersection of competitiveness and strategic decision-making within the context of businesses upholding sustainability values. A business prioritizing sustainability seeks to balance economic, environmental, and social aspects within its practices, either by initiating actions to improve those elements or by minimizing practices that harm them. As elaborated within this chapter, sustainability strategy is dynamic in nature and requires comprehensive and continuous evaluation and commitment from the business. If managed properly, sustainability as a core value of the business may provide a competitive advantage that makes a business stand out in the competition, as sustainability principles trigger innovation and a customer-oriented mind set. However, a business should bear in mind the potential challenges in implementing sustainability practices. Among the focal challenges stands the dilemma of short-term financial benefits versus long-term sustainability goals.

Discussion Questions

These are the questions for further discussion from this chapter:

1. Considering the development of the sustainability concept over time, in which direction do you think the sustainability concept will further develop?
2. Do you think the current scope of the sustainability concept (people, planet, profit) is already ideal?
3. There may be scepticism that sustainability as a business value is only a short-lived trend. What do you think about this view?

4. Seeing the potential clash between short-term financial profit versus long-term sustainable benefit, do you think sustainability is limited to those companies that are already financially secure?

5. Please provide examples of companies that have successfully implemented a sustainable strategy. What lessons can we learn from those companies?

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CHAPTER 10. MEASURING THE ENVIRONMENTAL AND SOCIAL RESULTS OF THE ENTERPRISE

In today's globalized and socially concerned corporate climate, monitoring environmental and social performance inside firms becoming crucial. Businesses' growing activities have an increasing impact on society and the environment, which calls for a thorough knowledge and evaluation of these consequences. In order to evaluate an organization's sustainability and social responsibility, measurement is an essential tool that helps them track their progress, pinpoint areas for development, and be open and honest with stakeholders. An organization's credibility is increased when it can measure and convey its social and environmental performance. This builds confidence with investors, customers, and regulatory agencies. The present chapter discusses issues surrounding the measurement of environmental and social results from enterprises' activities.

10.1 The Importance of Measuring Environmental and Social Results

This conception emphasizes the multifaceted character of CSR, wherein businesses are required to actively participate in socially beneficial endeavours in addition to abiding by the law and ethical norms. Studies that examine the shifting expectations of stakeholders, like those by Dahlsrud (2008), reflect this change in the idea of corporate responsibility. The notion of the long-term advantages that CSR practices may offer to companies also has an impact on the growing attention on CSR.

Porter & Kramer's (2006) research presents the conception of "shared value," contending that companies may generate financial gains while concurrently attending to societal requirements. The concept that corporate strategy should be re-evaluated in order to include social and environmental factors into company operations has gained momentum in business-management literature. The increasing significance of CSR in influencing the actions and outcomes of modern enterprises is underlined from various angles like stakeholder expectations, ethical imperatives, and strategic advantages (Porter & Kramer, 2006).

A study by Eccles & Serafeim (2013) highlight the strategic advantages of effective environmental and social measurement; the businesses with strong environmental and social commitments tend to outperform their counterparts. Additionally, research by KPMG (2020) underscores the increasing expectations from stakeholders, such as customers, investors, and employees, for businesses to demonstrate a commitment to sustainability. Measuring and reporting environmental and social results not only meet these expectations but also contribute to long-term value creation and resilience in the face of evolving market demands.

Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) are two examples of environmental and social measuring frameworks that offer standardized methods for businesses to evaluate and disclose their impacts. Its extensive variety of indicators encompassing social, environmental, and economic aspects has made the GRI especially well-known. Stakeholder satisfaction and enhanced environmental performance are positively correlated with the adoption of such frameworks, according a meta-analysis conducted by Busch & Hoffmann (2011). For businesses looking to prosper in a sustainable and socially conscious corporate climate, assessing environmental and social performance is therefore both a duty and a strategic need. The next sub-chapters will further elaborate on this matter.

10.2 Measuring and Reporting Sustainability

An organization's performance in achieving environmental, social, and economic sustainability goals should be measured and assessed using a measurable statistic like Key Performance Indicators (KPIs). These KPIs will be crucial to give organization data-driven insights to track, assess, and report on their sustainability initiatives. Up to date, there is no single sustainability KPI globally accepted in all industries. The sustainability performance indicator typically modified accordingly with specific industry and even with each organization characteristics. KPIs for sustainability should encompass many indicators, including but not limited to, greenhouse gas emissions, energy efficiency, water usage, and employee well-being. Using such KPIs, organizations can define and track their efforts toward achieving sustainable goals (Epstein & Roy, 2003).

Sustainability KPIs serve multiple purposes, including benchmarking, goal setting, performance monitoring, and reporting. They provide a structured framework for organizations to identify areas where improvements are needed, track progress over time, and communicate their sustainability achievements to stakeholders. Furthermore, KPIs encourage accountability and transparency, helping organizations align their strategic decisions with sustainability objectives as explained in Global Reporting Initiative in its 2016 report.

It is also crucial to ensure that the KPIs are flexible. Those flexibilities in responding to changing sustainability issues and goals will be beneficial for the organizations. Organizations must also regularly update and improve their KPIs to reflect new concerns as the sustainability landscape shifts. For example, organizations all around the world now use the Sustainable Development Goals (SDGs) established by the UN as a common reference point when developing their sustainability KPIs. Should the KPIs were not flexible, the organizations will find difficulties to comply with the relatively recent established UN's SDGs (starting 2016). Of which these SDGs will also be adapted in 2030, emphasizing the importance of organizational sustainable KPIs' flexibility. By applying a dynamic KPIs, firms may remain adaptable to the changing needs of a world that is changing quickly, which guarantees that their sustainability initiatives are still relevant.

Environmental disclosures, social impact evaluations, and economic performance information are just a few of the elements that are frequently included in sustainability reporting. The dissemination of sustainability plans, objectives, and advancements made toward achieving these objectives may also be part of it. This is done to show the firm's commitment to sustainable development. In essence, corporate sustainability reporting is a vital instrument that companies may use to share their commitments, efforts, and advancements in the areas of social, environmental, and economic sustainability. Businesses may promote transparency and accountability, build stakeholder confidence, and support global sustainability objectives by providing consistent and trustworthy information through widely recognized frameworks.

10.3 Tools for Measuring Environmental and Social Impact

<u>Social Return on Investment (SROI)</u>

One of the most popular tools for sustainability measurement is Social Return on Investment (SROI). SROI comprises a complete set of methods for measuring the social, economic, and environmental values resulting from organizational activities. SROI calculation quantifies social and environmental benefits compared to the costs expended by the organization.

Firstly, an organization needs to identify the inputs (resources) and the outputs (results) of particular activities. For instance, a profit-oriented company may launch a new healthy and eco-friendly product that generates costs for its research and development, market testing, and production. The outputs could be the number of increased health and minimized waste as the product is sold in the market. Then the company needs to assign monetary values to those inputs and outputs so that a metric can be established.

As an illustration, if all the costs incurred to create that one new product are $100, then by customers buying that product, there are positive outputs, including: a) minimized waste that may be created if the customer chooses a competitor's product that is not so eco-friendly, and b) the improved health condition of the customers from long-term usage of that product, so that the national insurance budget allocated for the particular consumer can be saved up to certain amounts. Say the total value created by that product in a given period is \$150. Then the formula for SROI for that case is as follows:

$$\text{SROI} = (\text{Social Value Created}/\text{Investment Cost}) \times 100\%$$

$$\text{SROI} = (\$150/\$100) \times 100\% = 150\%$$

The calculation means that for every dollar invested, the company is generating \$1.50 worth of social, environmental, and economic value. Please note that the values included in the previously mentioned illustration depend on how the company identifies the outputs of its initiative/product. By using SROI and communicating such a calculation to the public, a company may gain a good reputation, customer loyalty, and other potential positive outlooks on its business practices.

<u>Global Reporting Initiative (GRI)</u>

GRI contains a complete set of rules for reporting on sustainability performance. By standardizing reporting across diverse sectors and industries, these principles make it easier for stakeholders to assess the sustainability performance of various businesses. The Global Reporting Initiative (GRI) has immensely influenced sustainability reporting field since its commencement in 1997. GRI was established by the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute, the initiative was formed as a response to the mounting demand for standardized sustainability reporting.

Despite initiated in 1997, GRI was officially launched in 1999 denoted by the release of its first version of Sustainability Reporting Guidelines. From the beginning, GRI offered a comprehensive framework to organizations so that they can transparently communicate their economic, environmental, and social impacts. The guidelines have going through several updates to stay relevant with contemporary emerging sustainability and reporting matters. These standards offer a modular and adaptable approach to sustainability reporting, allowing organizations to tailor their disclosures to their specific circumstances while maintaining a commitment to transparency and accountability.

The importance of GRI in advancing sustainability reporting is underscored by its widespread adoption and integration into global business practices. Studies such as those conducted by Marquis & Qian (2014) highlight the positive association between GRI reporting and corporate social performance, demonstrating the impact of GRI in promoting responsible business practices. As sustainability reporting continues to evolve, GRI remains a key player, guiding organizations in their journey towards transparency, accountability, and sustainable development.

Here is an illustration of measuring the impact using GRI. Suppose a company contributes to several fronts as covered by the GRI. The company reports its EC1 as \$5 million, EN3 as 30,000 MWh, and SO1 as 400 in a particular reporting period. These numbers show the company's direct economic generated value through its sustainable products or services (EC1), the company's energy consumption (EN3), and the company's commitment to creating employment opportunities (SO1). Using such measurements, investors and the public could take a deeper look at each organization's commitment to sustainability issues and further compare which organization puts more effort into the issue.

<u>Sustainability Accounting Standards Board (SASB)</u>

Particularly for publicly listed companies in the US, the Sustainability Accounting Standards Board (SASB) is applicable as an option of sustainability reporting. SASB is a group designated to create and distribute sustainability accounting standards that are industry-specific. Established in 2011, SASB focuses on providing a framework that enables businesses to identify, manage, and communicate financially material sustainability information to investors. Unlike broader frameworks, SASB standards are industry-specific, reflecting the recognition that industries face unique sustainability challenges and opportunities. The organization's standards cover a wide range of sustainability topics, including environmental, social, and governance (ESG) issues, with the aim of helping companies report on the aspects most relevant to their specific industry and financial performance.

SASB's approach is grounded in the belief that ESG factors can be financially material, influencing a company's long-term value creation. The organization engages in a rigorous standards-setting process that involves industry-specific working groups, public consultation, and input from subject matter experts and stakeholders. The resulting standards are designed to be decision-useful for investors, providing them with information that is comparable, consistent, and material to investment decision-making. The SASB standards are organized into five categories: Industry, Issue, Accounting Metrics, Technical Protocols, and Implementation Guide, offering a structured and comprehensive approach to sustainability reporting.

The SASB framework has gained traction globally as an influential tool for integrating sustainability into financial reporting. As investors increasingly prioritize ESG considerations, the SASB standards offer a mechanism for companies to communicate how they are managing and mitigating sustainability-related risks and opportunities.

As an illustration, consider a hypothetical company named ABC operating in the technological innovation field, with a focus on developing a sustainable approach in its practices. In its annual SASB report, the company reveals some metrics. ABC reports the metric IT-PM-120a.1, measuring the total energy consumed to operate its data. ABC discloses a consumption of 5,000 megawatt-hours (MWh) for its data center. Additionally, ABC also discloses the SASB metric IT-SI-220a.1, indicating the percentage of revenue generated from products and services that concern data security and privacy. ABC states that it generates 15.6% of its revenue from those products and services. These mentioned numbers illustrate ABC's commitment to transparently reporting the measurement of its sustainability-related activities. Later on, stakeholders can easily assess whether the company has made a necessary amount of environmental and social impact.

10.4 Challenges in Measuring Environmental and Social Impact

Data Collection and Verification

Organizations committed to sustainability have to assess their social and environmental effect, but performing such a task presents multiple challenges, particularly during the data collecting and verification phases. The first issue is the enormous quantity and variety of data that needs to be collected. It takes a lot of endeavour to obtain thorough and reliable data on environmental and social indicators, and organizations may have issues obtaining standardized data across a variety of supply chains and activities. Report by KPMG (2020) highlights this obstacle by stressing how hard it is to collect pertinent data from several sources and guarantee its accuracy for impact measurement.

The second issue relates with the non-existence of widely acknowledged and accepted standard for collecting and reporting the data. The fact that many organizations employ heterogeneous metrics and measurement methods makes it hard to compare data across sectors and organizations. If the organizations do not stand on the same viewpoint, consequently benchmarking attempts will not be viable. In an attempt to address this issue, the currently existing standardization initiatives like Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) as explained earlier could stand as the solutions. Nevertheless, for the time being, even with the big initiatives like GRI and SASB, attaining widespread adoption and adherence is still stand as a challenge.

The third issue is on data verification. Eccles & Serafeim (2013) highlight this matter in their study, stating that the credibility of reported data on social and environmental impacts is crucial for stakeholders. However, verifying the truthfulness and completeness of data can be tough, particularly for organizations operating in many regions and countries. To address this issue, organizations can employ independent third-party to verify their reported data. In so doing, such an attempt can also increase organization’s credibility. As good as it sounds, this option entails additional costs, resources and effort that consequently only become feasible for some (Marquis & Qian, 2014).

Fourth, the quality and the reliability of the data often raise questions since there is no robust monitoring mechanism to check those criteria up to now. Says organizations can collect and report sustainability data, as progressive as it may sound, as long as the quality and reliability of the data are taken for granted, that could create many issues such as the gap between the reality and the report, that potentially bring the organization into misleading conclusions. It is a pressing urge to establish robust monitoring systems, which unfortunately will require significant amount of investments, in technology, infrastructure and training. Even when the monitoring system is already established, there is still a need to check on the effectiveness of these systems, when being used in various regions and sectors (Busch & Hoffmann, 2011).

Finally, privacy and confidentiality stands as a vital concern in data collection phase, especially when the data relate with sensitive social matters. Balancing the need for transparency with the protection of individual or community privacy can be complicated. Addressing the ethical considerations requires careful planning and communication with all stakeholders, and this is the step organizations must take in order to report their sustainability progression.

While measuring environmental and social impact is important for sustainable business practices, the abovementioned challenges, particularly in data collection and verification remain. Organizations should find ways to answers all those concerns while abiding to the norms and ethics, so that the sustainability report can be accurate, reliable and ethical. Considering these tough challenges, organizational efforts to address these challenges is potentially result on an immense upsurge on organizational reputation.

Obtaining accurate and reliable data

The previous sub-chapter already outline a slight illustration on data collection challenges. This sub-chapter will further elaborate on collecting accurate and reliable data as a paramount challenge in the effort to measure organizational environmental and social impact. The modern business operations had grown into a very complex structure and mechanism, often involving various supply chain approaches and diverse geographic locations, which adds the layers of complexity to data collection effort. The Global Reporting Initiative (GRI) acknowledges this matter by putting a strong emphasize that organizations should always engage intimately with their stakeholders so that data collection processes are well understood by all parties.

The source stands as a critical point on this matter; organizations typically self-report their sustainability data. Many organizations depend on internally generated data or the second-hand data provided by suppliers and partners. Putting aside the benefit of the doubt, self-reporting is susceptible to inaccuracies or intentional misrepresentation, which subsequently will break the reliability of the data.

On the other hand, the dynamic nature of business world introduces other challenges, particularly to keep the collected data relevant and up-to-date. Busch & Hoffmann (2011) stress the need for organizations to continually evaluate and modify their sustainability indicators so that the emerging contemporary sustainability issues can be touched upon effectively. The effort to keep up with environmental changes, while stand as a good move, at the same time also pose a question about data accuracy as the indicators oftentimes change.

Involving internal and external stakeholders

To involve stakeholders is a rule of thumb in an attempt to measure and report sustainability data. Internal engagement and placing the emphasize that the organization is committed to involve stakeholders are crucial for sustainability practices (Sharma & Henriques, 2005). However, once the organization announces that they will adhere to sustainability practices, some obstacles like resistance to change, a lack of awareness, and minimum levels of commitment among employees may appear and consequently impede the establishment of a cohesive pro-sustainability culture within the organization.

When engage with external stakeholders such as customers, investors, and surrounding communities, organizations may also face some challenges. There will be many different and even conflicting expectations from each stakeholder, that could create a havoc for the organization. For instance, the investors will surely prioritize financial performance, meanwhile, the surrounding communities may prefer the local area development to be placed in the top list of priorities. Engaging with external communities as driven by the sustainability practices orientation could pose benefits for the organizations. That is, as by nature, with or without sustainability initiatives, organizations are expected to actively manage the good relationship with external stakeholders as Bansal & DesJardine (2014) pointed out.

Connecting with the previous point about the absence of standardized reporting frameworks, communicating with external stakeholders can be very challenging. It is possible that the organization thinks they already accomplished something for building surrounding environment. Yet, the surrounding community may think otherwise, as there is no standardized understanding on the matter. Scheyvens et al. (2016) stress the need for inclusive and culturally sensitive approaches as the main key in an effort to engage with surrounding communities.

All in all, involving internal and external stakeholders in environmental and social impacts measurement is complex and challenging. Not only organizations need to navigate their internal culture, they also need to address conflicting external expectations. As frequently mentioned in this chapter, a quest to find and adopt standardized reporting frameworks, approach things sensitively and inclusively, and continuously communicate their sustainability initiatives could help organizations to overcome the abovementioned challenges.

10.5 The role of technology in environmental and social results measurement

Technology plays a crucial role in revolutionizing environmental and social results measurement. Technology provides innovative tools that could assist company in collecting, analysing and reporting their sustainability data. Things resulted from technological advancement like applications and sensor devices could serve the measurement handy, such things might facilitate real-time data collection from various sources and ease the organizations to better interpret the data they have. This issue is highlighted in World Economic Forum report, 2020. For instance, using the real-time data of sustainability, organizations could take a prompt action to fix the occurring problems. In the end, that would enhance organization’s capability to practice sustainability operations.

Further, organizations can also use the currently booming artificial intelligence (AI) and machine learning algorithms in their effort to measure environmental and social impact. AI and machine learning can process large datasets, identifying patterns and recognize correlations that could speed up the decision making processes. Back in the time before AI and machine learning, the decision making on sustainability matters should be done manually and separately, that takes many time and resources. The insights suggested by these modern tools could help organizations to identify their sustainability KPIs, track their sustainability effort progresses, and even make a forecast of future activities that potentially impact environmental and social. This is a notion of a sophisticated data-driven approach to sustainability management in the contemporary world.

Particularly for equity in the workplace, the emergence of blockchain technology also potentially contributes on organization sustainability efforts. Through immutable and decentralized ledger, blockchain technology enables the integrity of fair labour practices data which include ethical sourcing and social responsibility throughout the supply chain, in accordance to EY report, 2021. Blockchain helps reducing the false reporting possibility which later on will generate trusts from stakeholders to the organization.

Technology also helps the dissemination of sustainability efforts done by organizations. Using web-based platform, organizations may upload their ESG performances easily so that the stakeholders could learn about the report fast, that will also add to the organization’s image of transparency, based on Deloitte report, 2021. Digital platforms like social media also helps a lot when it comes to stakeholders’ engagement. Particularly, organizations can reach their customers much easier using social media, so that any issues the customers have can be answered swiftly by the organizations. Organizations can also leverage online platforms to communicate their sustainability performances, share progress reports, and engage with many stakeholders at one real-time setting.

Lastly, the emergence of Internet of Things (IoT) is also potential for contributing to environmental and social results measurement. For instance, using IoT devices like smart sensors, organizations can monitor their surrounding environmental conditions and energy usage right away. When there is a bad condition in the environment resulted from organization’s business operations, corrective actions can be taken directly before the damage arise. That promotes the sense of agility that could help the organization to become responsible in the higher level of pace.

Summary

This chapter emphasizes the crucial role of measuring environmental and social impacts in today's business environment. While measuring the impacts is important, effectively communicating them to the public is equally essential. If a company can transparently manage both aspects, it stands to gain numerous positive benefits, especially considering the increasing societal demand for businesses to be more environmentally and socially conscious. Additionally, the chapter illustrates how technological advancements present both challenges and opportunities in the measurement of environmental and social impacts. On one hand, data collection, verification, and stakeholder engagement pose challenges in the current technologically advanced era. On the other hand, technology also provides innovative solutions, such as artificial intelligence and blockchain, to address these challenges.

Discussion Questions

These are the questions for further discussion from this chapter:

1. Considering the existence of various approaches to measure the environmental and social impact of a business, do you think it would be better if we had only one measurement system?
2. Who should decide which standard a company should use?
3. Do you think there is a risk that the public will judge the company's initiative in measuring and reporting its environmental and societal impact only as a gimmick? How should a company deal with such judgment?
4. What requirements are needed for a company to be able to measure and report its sustainability initiatives continuously?
5. Should the government incentivize a company for measuring and reporting its sustainability impacts?

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CHAPTER 11. FINANCIAL EVALUATION OF SUSTAINABLE BUSINESS AND ESG FACTORS

This chapter explores the evolving sustainable business portrait, highlighting the growing significance of Environmental, Social, and Governance (ESG) factors as business orientation besides profit. In the early part, this chapter explains the concept of sustainable business with emphasis on the shift towards achieving financial success and social-environmental responsibility harmony as guided by ESG frameworks. Another discussion focuses on the complexities of financial evaluation faced by businesses upholding sustainability as their main value. Throughout the chapter, the readers were invited to understand the interconnectedness of sustainable business, ESG factors, financial evaluation and social innovation. In addition, several frameworks like Triple Bottom Line, ESG integration, Sustainable Development Goals, and Natural Capital Accounting are also highlighted in this chapter.

11.1 The Concept of Sustainable Business and ESG Factors

Beyond the conventional concentration simply on profits, the concept of sustainable business and the consideration of Environmental, Social, and Governance (ESG) concerns have become significant in today's corporate environment. A move away from profit-centric paradigms, sustainable company seeks to achieve a balance between financial success and social and environmental responsibility.

A commitment to sustaining the environment is a vital part of sustainable business. As an example of that commitment, businesses can uphold sustainable supply chain management strategies and using eco-friendly methods to lessen their operational negative impacts (Smith, 2016). In order to match businesses with environmental sustainability goals, this proactive approach includes installing technology to increase energy efficiency and incorporating renewable energy sources.

Another crucial component of sustainable business strategies is social responsibility. Businesses are now focusing on using fair labor standards and diversity and inclusion efforts to positively influence their consumers, workers, and communities (Freeman, Harrison, & Wicks, 2007). In addition to improving social well-being, these initiatives also aid in forging closer bonds with stakeholders, which eventually strengthens the business's image and overall resilience.

Sustainable company models require effective governance to ensure ethical decision-making, openness, and adherence to the law. Strong governance frameworks enable businesses to successfully manage obstacles and preserve stakeholder confidence (Sullivan & Mackenzie, 2014). ESG governance indicators evaluate a company's commitment to responsible governance by evaluating risk management, leadership effectiveness, and adherence to ethical business practices.

In essence, sustainable business conceptually represents a thorough approach to corporate responsibility and is driven by ESG considerations. Companies may create benefit for society at large as well as for their shareholders by addressing environmental, social, and governance concerns. This promotes a robust and ethical corporate climate.

11.2 Concepts and Frameworks Related to Financial Evaluation in Sustainable Business

Economic assessment has grown more complex in the field of sustainable business, embracing frameworks and concepts beyond conventional economic inquiry. The interconnectedness of the social, economic, and environmental aspects is acknowledged by this all-encompassing approach. To help businesses include sustainability into their financial evaluations and provide a more comprehensive knowledge of value generation, a number of concepts and frameworks have been developed.

Triple Bottom Line (TBL)

As briefly explained in Chapter 9, Elkington coined the Triple Bottom Line (TBL) concept in 1997, which is a fundamental principle in sustainable financial evaluation. TBL adds social and environmental aspects to the conventional financial bottom line. According to the framework, companies have to answer for their effects on the environment, social responsibility, and economic viability. This all-encompassing strategy promotes long-term thinking by getting businesses to think about the bigger picture of their operations.

An organization upholding TBL principles, can evaluate, for instance, its performance not just in terms of financial aspects but also in terms of how well it reduces environmental damage and makes a positive contribution to social well-being.

Integration of Environmental, Social, and Governance (ESG) aspects

With several frameworks guiding their integration into decision-making processes, ESG aspects have become more prominent in financial evaluation. Kotsantonis and Serafeim (2020) introduced the ESG materiality framework, which prioritizes and identifies substantial ESG elements that are pertinent to a company's financial performance and industry. Analysts and investors are looking at ESG factors more and more as a sign of a company's capacity to control risks and seize sustainability-related opportunities.

In order to discover the critical elements influencing their financial performance, businesses may actually carry out ESG evaluations. This allows them to make well-informed strategic decisions that are in line with sustainable practices.

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) established by the United Nations (2015) offer a global framework that businesses may use to coordinate their operations with more general social goals. SDGs containing 17 targets that aim to address a variety of environmental and socioeconomic concerns. Businesses that include the Sustainable Development Goals (SDGs) in their organizational assessment indicate they are serious in supporting global sustainability campaigns.

By relating financial success to beneficial societal and environmental consequences, a firm might get a more well-rounded understanding of how the firm’s activities correspond with certain SDGs, such as gender equality, climate action, and responsible consumption and production. The firm may also assess whether its actions are not yet complying with the collective sustainable goals.

Natural Capital Accounting (NCA)

The World Bank (2021) highlights that the Natural Capital Accounting (NCA) places significant emphasis on the value of natural resources and ecosystems as essential constituents of commercial operations. A true depiction of a company's reliance on environmental resources is provided by NCA, which takes into account the depletion and deterioration of natural capital.

NCA enables companies to identify and measure their environmental effect in financial assessments, including this data into decision-making procedures. This method adds to a more thorough comprehension of the whole value production of a business, taking into account both financial and environmental factors.

Shortly speaking, firms trying to align with the details of the contemporary business nuance must incorporate sustainability into their whole organizational assessment. In order to encourage a more sustainable and responsible approach to economic success, they can evaluate their performance using frameworks such as the Triple Bottom Line, ESG integration, Sustainable Development Goals, and Natural Capital Accounting, among others.

11.3 Financial Performance Metrics

Metrics of financial success are essential for evaluating the viability and well-being of an organization. These measures are used by analysts, investors, and stakeholders to evaluate a company's profitability, effectiveness, and overall financial health. This thorough overview delves into important financial performance measures and their importance in assessing the financial health of a business.

Profitability Metrics

Profitability metrics are key performance indicators that assess how profitable a business is in relation to its overhead and other costs. Net Profit Margin (NPM), which determines the portion of profit a business keeps from its sales after all costs are subtracted, is one of the often utilized measures. A high NPM denotes efficient revenue creation and expense management (Brigham & Houston, 2013).

Return on Equity (ROE), which evaluates how well a business uses shareholder equity to create profits, is another crucial profitability indicator. Strong financial success and efficient capital use are indicated by a higher ROE (Ross, Westerfield, & Jordan, 2018).

Liquidity Metrics

In order to evaluate a company's overall financial health and ability to settle short-term debts, measures of liquidity are crucial. Calculated by dividing current liabilities by current assets, the current ratio is a common metric used to measure liquidity. Gitman and Zutter (2019) state that a ratio of higher than one indicates that a company has enough assets to cover its current liabilities.

Efficiency Metrics

They focus on how successfully an organization uses its resources to generate revenue. Inventory turnover is a crucial metric in this field as it indicates how frequently a company sells and replaces its stock over a certain period of time. Faster cash conversion and more effective inventory level management are linked to higher inventory turnover (Hilton, Maher, & Selto, 2019)

Debt Management Metrics

Knowledge of a company's leverage and capacity to fulfill long-term commitments is crucial. Dividend by total debt by shareholder equity yields the frequently used Debt-to-Equity Ratio (D/E). A better ratio of debt to equity and less financial risk are indicated by a lower D/E ratio (Gitman & Zutter, 2019).

Market Performance Metrics

A company's reputation and attractiveness to investors in the financial markets are evaluated by market performance criteria. Divided by the total number of outstanding shares, Earnings Per Share (EPS) is a crucial performance indicator. As per Ross et al. (2018), a high earnings per share (EPS) is indicative of robust profitability and is frequently a critical consideration for investors.

When assessing a company's stock, investors also need to consider the Price-to-Earnings (P/E) ratio. The market price of a share today is compared to its earnings per share using the P/E ratio. According to Brigham and Houston (2013), a higher P/E ratio may indicate robust growth possibilities, but it also suggests larger market expectations.

Sustainability and Non-Financial Metrics

Concern for sustainability and non-financial measures is developing in addition to traditional organizational measurements. Businesses are expected to embrace Environmental, Social, and Governance (ESG) considerations in their evaluation. A more comprehensive assessment of a company's long-term survival and ethical standing may be achieved by using metrics like employee satisfaction scores, diversity ratios, and carbon footprint (Eccles & Serafeim, 2013).

11.4 ESG Factors and Financial Performance

In recent years, the evaluation of the financial health of an organization has put a greater priority on environmental, social, and governance (ESG) aspects. Investors and stakeholders are starting to see the relationship among sustainable business practices and financial success over the long run. Several studies indicate that financial success and the inclusion of ESG issues are positively correlated.

Businesses are seen to demonstrate better risk management, operational efficiency, and overall financial resilience when they strategically integrate ESG factors into their company operations (Eccles & Serafeim, 2013). For example, Khan et al. (2020) conducted a meta-analysis and discovered that most research shows a favorable correlation between financial performance and ESG performance.

Carbon emissions, resource efficiency, and sustainable approaches to supply chains are instances of environmental considerations that have gained akin relevance within ESG. Studies indicate that enterprises that perform well in terms of the environment are more inclined to achieve positive economic outcomes (Flammer, 2015). This advantageous association can be explained by savings in costs from energy consumption, compliance with regulations, and improved popularity of the brand, all of which may end up in an upsurge in market share and loyal customers.

Economic performance is also strongly influenced by societal factors, such as as engagement with the community, worker satisfaction, and inclusion and diversity in the workplace. Both consumers and investors often have favorable perceptions of companies that exhibit a positive impact on society (Huang & Watson, 2015). For instance, high satisfaction among workers leads to higher performance and lower turnover costs, both of which ultimately enhance a business's performance.

A variety of governance components, including ethical management, transparent decision-making, as well as effective management of risks, are essential for financial performance. In the opinion of Hawley and Williams (2017), solid management practices contribute to a drop in corporate misconduct, a decrease in legal costs, and an improvement in investor trust. Businesses that possess strong governance frameworks are more successful at handling challenges and demonstrating their dedication to everlasting sustainability.

Consequently, because investors now recognize that sustainable practices foster long-term economic growth, their stake in ESG criteria has risen substantially. Investors consider firms that have strong ESG performance as safer as well as more solid in the face of volatile markets, and they are increasingly integrating ESG factors into the way they make decisions (Kotsantonis & Serafeim, 2019). The crucial role of ESG factors for determining financial success is made clear by this change in investor outlook.

The above-mentioned explanations indicate a compelling relationship between ESG and financial performance as the ultimate goal of enterprises. Businesses developing plans which consider governance, social, and environmental factors into account will be more equipped to achieve both increased economic growth and sustainable business practices. Incorporation of ESG elements is getting more and more recognized as an important factor to long-term value generation as the financial outlook changes.

The positive correlation between ESG and financial performance is also backed by a recent meta-review study done by Whelan et al. (2021) involving more than 1000 peer-reviewed papers from 2015-2020. That study reveals ESG integration within businesses enhance financial performance and become more apparent over longer time horizons. The researchers argue that the finding is driven by improved risk management and innovation of a business as its embrace sustainability initiatives. Below is the illustration of one of that research findings highlighting positive relationship between ESG and financial performance in general.

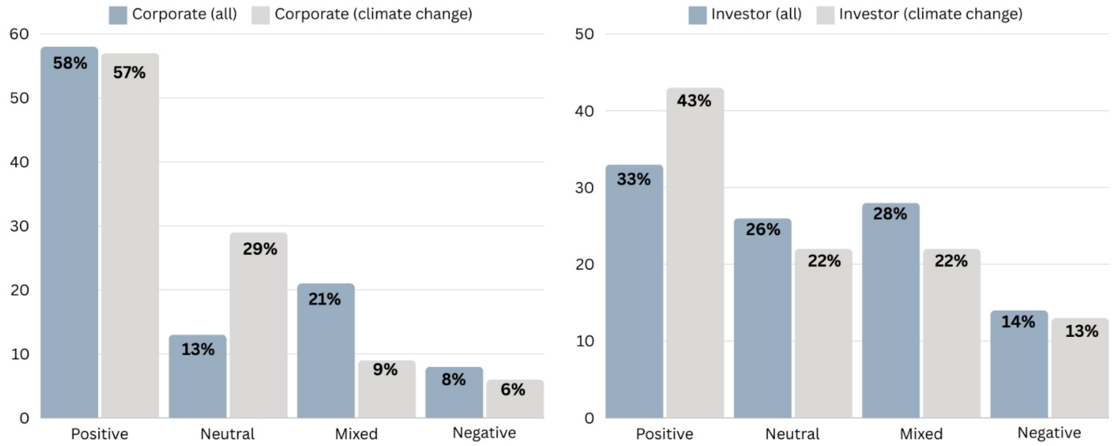

Figure 11.1 Business results for investing in sustainability
Source: Adopted from Whelan et al. (2021)

11.5 Social Innovation and ESG

Social innovation refers to the development and implementation of novel ideas and strategies to address social challenges effectively (Mulgan, 2007) This involves creating and expanding socially beneficial responses, from neighborhood-based initiatives to innovative economic models that put emphasis on positive societal impact. Social innovation promotes transformational approaches to problems in society, which go beyond common corporate social responsibility.

The 'S' or social elements, which encompasses themes such as engagement with the community, diversity and inclusion, human rights, and standards of employment, is a vital component of the ESG framework. By encouraging businesses to address societal problems in innovative manners that offer shared benefits, social innovation heavily aligns with the above traits. Businesses that engage in social innovation, for instance, may develop programs that enhance diversity in the workforce, aid communities around them, or use their products and services to address larger problems in society.

Community engagement is included in one of the areas wherein social innovation and ESG closely intersect. Collaboration with local communities to figure out and address their unique needs is an important aspect of socially innovative efforts (Phills Jr, Deiglmeier, & Miller, 2008). Businesses that incorporate social innovation into their sustainability goals can strengthen their ties with communities, establish trust, and have a beneficial social impact. As a result, this improves a corporation's legitimacy to operate, which is a vital element of sustainable business practices.

Although social innovation needs to be included in ESG strategies, measuring how it impacts society remains tricky. Given that social effects examinations tend not to be uniform, it can be difficult to determine and assess the results of multiple initiatives (Kotsantonis & Serafeim, 2019). To assess the success of social innovation initiatives in the broader ESG framework, businesses have to develop robust assessment frameworks. Measuring key indicators of achievement for community development, diversity and inclusion, and staff satisfaction is part of these facets.

Together, social innovation and ESG integration have the potential for significant beneficial developments and sustainably improved economic performance. Businesses may take an active role in transformational initiatives that address societal issues and go beyond compliance through incorporating social innovation into their ESG strategy. Implementing social innovation within the ESG framework is not just strategically essential but also a way of generating a lasting and significant societal impact as the field of responsible business practices advances.

One real example of a network gathering businesses focus on ESG is Dream Impact in Hong Kong (check their profile in their website https://www.dreamimpacthk.com/). Dream Impact is Hong Kong's largest network of social enterprises and impact ventures established in 2017. By the time of this writing, Dream Impact has supported more than 150 social-oriented organizations, 3000 impactful events and attract more than half a million participants in their events. Dream Impact stands on three pillars of work which consist of impact community and space, impact solutions and consultation and impact capital services.

As for its impact on ESG, Dream Impact compiles all metrics showing good ESG practices which include waste and pollution management, quality of life and sustainable building materials adaptation. These metrics were translated from the SDGs into some more concrete measurements. To date, with more than 100 partners, Dream Impact making impact on the themes they aim to achieve as can be seen from the list of metrics below.

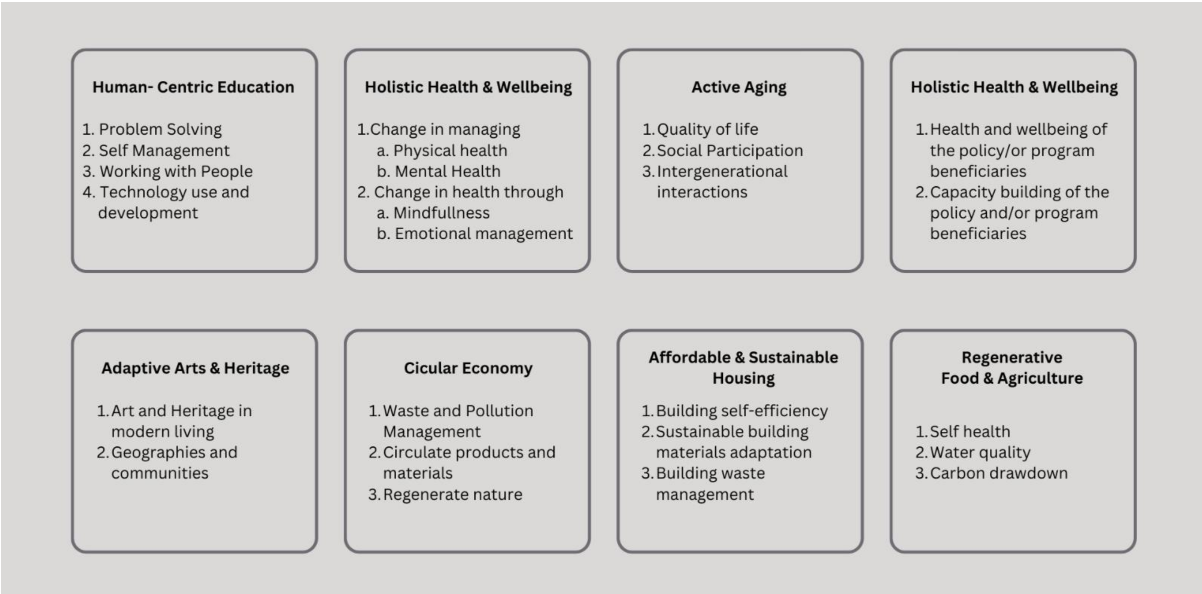

Figure 11.2. Dream Impact's Measurement Metrics
Source: Adopted from www.dreamimpacthk.com

Summary

This chapter discusses the dynamic landscape of sustainable enterprises, applying Environmental, Social, and Governance (ESG) factors as considerations beyond profit. As explained within this chapter, various concepts and frameworks like TBL, SDGs, and NCA exist to guide businesses in conducting their sustainable practices. While some may be sceptical about whether focusing on sustainability may divert a business from reaping greater profits, many studies indicate that businesses focusing on ESG actually result in a positive financial performance outlook. Aligned with positive financial performance, a focus on social innovation is also beneficial for businesses. All of these are arguably driven by the increasing global awareness of sustainability.

In addition, this chapter also provide a study supporting the notion that ESG relates positively to the business financial performance. This support should add more motivation for the businesses to embrace ESG, as many businesses may worry that upholding ESG will cost their fortune in the market competition. Also in this chapter, there is an illustration of how a network of social enterprises in Hong Kong compiles the metrics of ESG as translated from the SDGs. These metrics illustrates the wide-ranging aspects of ESG. Given different societal circumstances, ESG may be translated differently, as accustomed to the local needs and contexts. All in all, such a viewpoint may encourage businesses to embrace ESG even more, as its wide-ranging nature may give businesses options of the ESG focus they can reach in order to contribute to the ESG and sustainability movement.

Discussion Questions

These are the questions for further discussion from this chapter:

1. Do you think the positive relationship between ESG and a company's financial success applies in all countries? If yes, what is the rationale for that answer? If no, what circumstances drive this positive relationship?
2. What do you think of businesses that uphold ESG only for the sake of reaping more financial rewards? Considering the two variables' positive relationship.
3. Looking at the wide range of ESG metrics in practice as provided by Dream Impact, do you think it is better to let companies and communities define the metrics by themselves, or is it better if there is one global single standard for ESG metrics?
4. Should the government interfere so that more companies want to embrace ESG? If yes, how?
5. Should there be new financial performance metrics specifically made to measure financial-related performance driven by ESG?

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CHAPTER 12. SYSTEMS AND TOOLS FOR MONITORING AND IMPROVING SUSTAINABILITY IN BUSINESS MANAGEMENT

This chapter focuses on the dynamic outlook of sustainable enterprises with an emphasize on the tools that could be useful for monitoring and improving sustainability goals within business management organization. This chapter will outline the role of systems and tools in monitoring and improving sustainability, name some examples of tools that may serve that purpose and also highlight the challenges in implementing such tools in an organization. Throughout the chapter, there will also be real-life examples of tools and sustainability initiatives backed by systems and tools applied by the organizations.

12.1 The Role of Systems and Tools in Monitoring and Improving Sustainability

A mind-set of constant improvement and thoughtful decision-making are promoted by solid frameworks and tools, that are vital to evaluating and enhancing sustainability. As businesses comprehend the mutual dependence of environmental, social, and economic variables, the integration of specialized systems and instruments has become important in managing the complex landscape of practices that are sustainable. This part explores the essential part that these structures and tools serve for tracking and enhancing sustainability.

Systems to control sustainability provide businesses an organized structure for integrating sustainability into their main operations. The starting point for this could be the widely accepted standards, such as ISO 26000 for social responsibility and ISO 14001 for environmental management. Organizations may utilize such frameworks to assess performance, formulate objectives, and execute strategies for continuous improvement in governance, social equity, and the environment.

Another tools can be used to monitor and improve sustainability are Environmental Management Information Systems (EMIS) and Life Cycle Assesment (LCA) tools. Organizations can gather, manage, and disclose information related to the environment using EMIS, a system that focuses mainly on environmental aspects (Katsoulakos & Aravossis, 2012). EMIS eases the process to collect data concerning emissions, resource usage, and consumption of energy. In doing so, businesses may gain useful insights that may assist them enhancing their commitment to sustainability. EMIS is crucial for ensuring compliance with regulations and identifying areas in need of sustainable resource management.

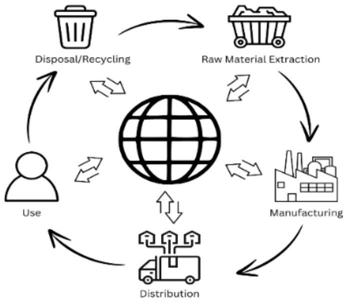

Figure 12.1 Life Cycle Assessment (LCA)
Source: Adopted from https://pre-sustainability.com/articles/life-cycle-assessment-lca-basics/

Like EMIS, LCA can also assists businesses in dealing with environmental impact monitoring. LCA may provide benefits to the businesses in assessing a product or service's environmental effect at every stage of the product's life cycle. From the very first beginning, which is the gathering of raw materials to the disposal process (Curran, 2016). Through Life Cycle Assessment (LCA), companies could obtain an in-depth understanding of the environmental effects associated to their products. Such understanding could facilitate knowledgeable choices in the development of products, manufacturing, and distribution decisions, not only for internal parties (the management) but also for external parties (the consumers).

Beside the above-mentioned tools, a business may also develop its own tools in monitoring its environmental impacts, for instance through their internal Key Performance Indicators (KPIs). Hitchcock, Willard, & Strang (2012) suggest that a business could develop a set of KPIs that address sustainability issues and those KPIs may be used to monitor and improve the business sustainability performances. Using organizational internal KPIs, not only it could be useful in tracking the sustainability performances and progresses, the KPIs may also be used to provide a roadmap of sustainability for the enterprise. Using KPIs as the tool to monitor and improve sustainability, the daily operations of the enterprise will be already aligning with sustainability goals by itself.

In addition to the above-mentioned tools, there are, in fact, various tools that may not deliberately developed for monitoring and improving sustainability in business management, yet, may be accommodating to serve that purpose. Such tools will be discussed in the next sub-chapter. However, closing the discussion about the role of systems and tools in monitoring and improving sustainability, there is one important note for every business. While using systems and tools is helpful and important, speaking of sustainability monitoring and improvement, a business must always maintain a good engagement with its stakeholders that include but not limited to employees, shareholders and communities. Such an engagement will enable organization to receive feedback upon their sustainability initiatives which then will provide a platform for continuous improvement. Engaging with stakeholders is also beneficial to establish the climate of trust, transparency and accountability in executing sustainability-oriented practices.

12.2 Potential Tools for Monitoring and Improving Sustainability

Considering various facades of sustainability practices, the tools mentioned here should be taken with understanding that there might be various other potential tools beyond the list. In this chapter, the author would only like to list several idea of tools on a few sustainability fronts, namely: Environmental Performance; Social Impact; Stakeholder engagement and collaboration; and Data security and privacy.

Environmental performance

- Energy Management Systems (EMS)

It is a tool to monitor and optimize energy consumption resulted from an enterprise. Using EMS, a business can track the energy usage real-time, allowing them to quickly identify ineptitudes and take necessary corrective actions.

- Emission Tracking Software

It is a tool to track, monitor, and report the greenhouse gas emissions resulted from a business. Using this tool, an organization can assess its operation impacts on the environment.

- Water Management Platform

Like the previous tool, this tool can also be used to track, monitor and report the use of resources, particularly water. The benefit of applying this tool is alike with the other tools, that is to enhance water efficiency in the business.

Social Impact

- Employee Well-being Platforms

This is a platform to track employee well-being factors that include their satisfaction, health, stress level, and others. The process of data collection of this platform may be done through survey, sensors, and feedbacks.

- Diversity and Inclusion Analytics

This tool can show how diverse an organization is. The feature may include diversity in gender, religion, nationality, and others. The tool may also be completed with a survey to check whether those employees coming from minority background received equal treatment in the workplace.

Stakeholder Engagement

- Stakeholder Engagement Dashboard

Many businesses find it challenging to arrange all their stakeholders in order. A dashboard putting all stakeholders in one place may help a lot. Imagine a dashboard of customers, suppliers, employees and communities in a simple outlook. Such a dashboard can be filled with communication and feedback channel, also satisfaction rating from each stakeholder.

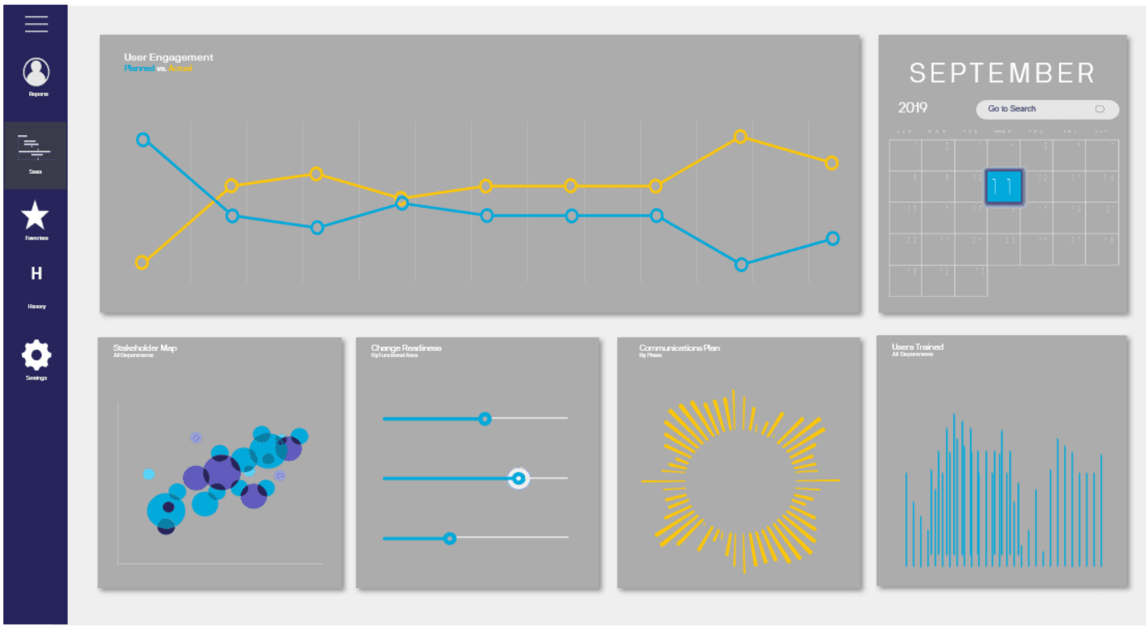

Figure 12.2 Illustration of Stakeholder Engagement Dashboard
Source: (https://www.migso-pcubed.com/blog/project-management-delivery/managing-your-stakeholders/)

- Collaborative Project Management Tool

A tool to support teamwork and coordination for many running projects in executing sustainability initiatives. This can help ensuring all teams do their part well and will enable all team members to see how each of them contribute to a bigger picture of company's contribution toward sustainability.

Data Security and Privacy

- Secure Data Storage Solutions

This tool offers a feeling of safety that companies' data, which subsequently will also be stakeholders' data, is safe and sound without any risk of data breaches and malware. Many big companies already implemented such tools, like Microsoft with its Azure Sustainability, IBM with its Intelligence Suite, and Amazon with its Amazon Web Service (AWS)

- Data Privacy Compliance Tools

A business may use a tool to ensure all activities they do comply with data privacy regulations. An example of such a tool is BigID, a tool helps organizations to identify and manage sensitive data, so that no privacy regulations were breached by them. The features include data mapping, consent management, and all other data privacy-related activities.

12.3 Common Challenges in Monitoring and Improving Sustainability

When a business would like to integrate sustainability as one of the aims of its business operations, various challenges will appear, particularly on the effort to monitor and improve the sustainability initiatives. The challenges include internal and external aspects, the internal challenges appear from within the organization and the external ones come from the surrounding factors outside the organization. Among the internal challenges are the difficulties of data collection and the trade-offs faced by the organization. Meanwhile, the external factors include stakeholders' engagement and also compliance with the regulations.

Starting with the internal challenges, firstly a company could face many rejections either from the employees or from the management. The decision to aim for sustainable business practices comes with the necessity to change the way organization do its businesses, and to some extent even changing its organizational culture (Eccles & Serafeim, 2013). Just like common changes of organizational culture and practices, resistance to change might occur. Dealing with this problem, a constant and open communication may serve as one of the base line in driving the companies into sustainability-oriented practices.

Another internal challenge is the trade-off between short and long-term priorities. Sustainability initiatives often associated with long-term intangible orientation. Meanwhile, organizations will always be demanded to create a short-term, tangible, and apparent financial gains over long-term sustainability investment. The organization may also want to consider the difficulties in gathering the data of environmental impacts resulted from its practices. As explained in the previous chapters, data reliability and availability stand as critical concern on sustainability-oriented practices (Bjørn & Lynggaard, 2018). Oftentimes, the positive impacts to the environment as resulted by business practices is not immediately available, even though it is available, it will be challenging to claim that the positive impacts are indeed the results of business practices.

From external outlooks, communicating with the stakeholders always stand as the big issue in establishing sustainability initiatives. Firstly, the organization must ensure the investors that the investment on sustainability is worth it and will eventually be fruitful. Constant and clear communication once again will be very helpful for serving such a purpose. The organization, especially the multi-national company (MNC) should also be aware that each region and country may have their own legal frameworks that are dynamic, may changing overtimes. As Delmas & Burbano (2011) pointed out, to navigate the complicated landscape of regulatory aspects is one of the most challenging facet for organizations orienting in sustainability.

12.4 Social Enterprises as the Emerging Trends in Sustainability Monitoring

As frequently indicated in the previous chapters, currently the trends to implement sustainability is highly increasing. Such a phenomenon triggers the existence of many emerging trends in sustainability, particularly in social entrepreneurship viewpoints. This chapter aims to elaborate on several emerging trends with regards to social entrepreneurship practices.

Among the most notable emerging trends in sustainability monitoring is the increasing emphasis on comprehensive impact assessment. Social enterprises are proactive on the engagement with local communities and its stakeholder, creating a nuance that the sustainability monitoring is within their control and expertise (Dart, 2004). This active participation delivers a sense that those social enterprises are responsible, transparent and are open to progressive initiatives, in line with many, if not all, communities expected from businesses.

Either overtly or covertly, many enterprises injected social aspects on their business lenses. One of the example is TOMS, a shoes, accessories and apparel company. TOMS monitor its environmental impact by keep counting the amount of shoes donated to the communities and goes deeper into the donation positive outcomes assessment. In 2015, TOMS made a #WithoutShoes campaign, a campaign of shoes donations done through social media by posting a bare feet image, where the count of images associated with the counts of shoes donations to children in need. This campaign is one of the many successfully executed through the help of systems and tools implemented in an organization.

Figure 12.3 TOMS' Without Shoes Campaign
Source: https://alexofarabia.com/2015/05/23/one-day-withoutshoes-how-toms-is-getting-consumer-sustainability-spot-on/

In a broader outlook, in the Baltic Sea Region, there is a network named Social Entrepreneurship Support Network (www.socialenterprisebsr.net), the first integrated learning and sharing platform for social enterprises in the region. Collectively, this Social Enterprises (SE) Network establish a database of the organizations in the region that concern with sustainability issues. The network also provides a forum to share the success stories, i.e., the positive impacts toward surrounding community.

Figure 12.4 INDIGISE: One of SE Network Program
Source: https://www.socialenterprisebsr.net/2021/06/read-the-latest-guidelines-how-to-stimulate-social-entrepreneurship-via-non-formal-and-informal-learning-methods/

The famous Four Lenses Strategic Framework – also known as the Balanced Scorecard established by Kaplan & Norton (1996) is also commonly employed by organizations in implementing sustainability initiatives. The nexus of financial, customer, internal process and learning and growth lenses often paired up with sustainability practices performed by social enterprises. The financial lens often associated with the effort to save energy and investment in sustainable energy sources.

The customer lens focus on providing the consumers with eco-friendly products coming from ethical manufacturing processes. That is connected with the internal sustainable processes such as sustainable supply chain practices and waste minimization in manufacturing processes. Lastly, the learning and growth foster the organizational culture to encourage creativity oriented at sustainability practices. In so doing, employee empowerment may also be enhanced with a hope that equity and satisfaction among employees are at the positive state.

Another example of the tools that can be used to enhance social enterprises is Isometrix, a software specialized in integrated risk management solutions. Isometrix provides modules and tools to enable organizations managing their sustainability initiatives in-depth. Especially those modules and tools related to sustainability practices offered by Isometrix are: ESG Management; Carbon Footprint Management; Environmental Sustainability; and Social Sustainability. The existence of these emerging social enterprises, software and tools to enhance sustainability practices indicate a positive sign in welcoming the future of businesses that concerned not only on profit-making activities, but also on sustainability matters: people; planet; profit.

Summary

In summary, this chapter underlines the importance of incorporating systems and tools to support sustainability initiatives designed by businesses. The chapter also looks at internal Key Performance Indicators (KPIs) and how they may be used to match everyday operations with sustainability objectives. The acknowledgement of the wide range of instruments at hand as well as the necessity of continuing stakeholder involvement to promote accountability, trust, and openness in sustainable practices is made in the conclusion.

The chapter also covers typical problems encountered in sustainability programs, both external (stakeholder participation and regulatory compliance) and internal (resistance to change and trade-offs). After that, the chapter explores new developments in sustainability monitoring, with an emphasis on proactive involvement from the company to the community. The Social Entrepreneurship Support Network in the Baltic Sea Region and TOMS's sustainability efforts are two instances of the ways that complete sustainability initiative portrait.

Many frameworks and tools have also been mentioned above, like the widely acceptable ISO 26000 and ISO 14001 standards to provide organized assemblies of sustainability installations within a business. There are also some ideas of tools that may inspire businesses like data privacy tools, emission tracking software and diversity and inclusion analytics such as mentioned above. Businesses may adapt the tools in accordance to their needs, resources and business context. Nevertheless, one important thing to note, having systems and tools to support sustainability initiatives could be productive for enterprises.

Discussion Questions

These are the questions for further discussion from this chapter:

6. What other tools can you imagine to be beneficial for sustainability initiatives beyond the ones already mentioned in this chapter?
7. Do you think government should impose all businesses to implement particular systems and tools for monitoring and improving their sustainability initiatives? Why or why not?
8. What internal challenges might a company face when integrating sustainability into its business operations, particularly in terms of organizational culture and resistance to change?
9. What are the important criteria to assess whether particular tool is ideal to be implemented in a business?
10. What contemporary topics do you think will attract Gen Z to join social movements initiated by a company?

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GLOSSARY

Biodiversity Conservation The practice of protecting and preserving the variety of life forms on Earth, including different species, their habitats, and ecosystems.

Carbon Neutrality The state of achieving net-zero carbon dioxide emissions by balancing emitted carbon with an equivalent amount of carbon being offset or sequestered.

Circular Economy An economic system aimed at eliminating waste and the continual use of resources through recycling, reusing, and refurbishing.

Corporate Governance The framework of rules, relationships, systems, and processes within and by which authority is exercised and controlled in corporations.

Corporate Social Responsibility (CSR) A business model in which companies integrate social and environmental concerns in their business operations and interactions with stakeholders.

Diversity and Inclusion Policies and practices that promote the representation and participation of different groups of people, including people of different ages, races, ethnicities, abilities, genders, sexual orientations, etc.

Environmental Impact Assessment (EIA) The process of evaluating the potential environmental impacts of a proposed project or development, taking into account inter-related socio-economic, cultural, and human health impacts.

Environmental Stewardship The responsible management and conservation of natural resources and the environment through sustainable practices and policies.

ESG (Environmental, Social, and Governance) Criteria used to evaluate an organization's operations and policies in terms of their environmental impact, social responsibility, and governance practices.

Ethical Decision Making The process of evaluating and choosing among alternatives in a manner consistent with ethical principles.

Ethical Leadership Leadership that is based on guiding principles that respect the rights and dignity of others, emphasizing integrity and fairness.

Governance The system by which organizations are directed and controlled, encompassing policies, processes, and decision-making structures.

Green Innovation The development and application of products, equipment, and systems used to conserve the natural environment and resources, which can minimize and reduce negative impacts on the environment.

Impact Assessment The process of identifying the future consequences of a current or proposed action.

Innovative Leadership Leadership that drives the creation and implementation of new ideas, processes, and solutions to meet emerging challenges and opportunities.

Leadership Styles Various approaches to providing direction, implementing plans, and motivating people, including autocratic, democratic, laissez-faire, and more.

Renewable Energy Energy from sources that are naturally replenishing but flow-limited, such as sunlight, wind, rain, tides, and geothermal heat.

Resource Efficiency Using the Earth's limited resources in a sustainable manner while minimizing impacts on the environment.

Social Equity Fairness in treatment and opportunities for all people, with a focus on eliminating discrimination and promoting inclusivity.

Social Innovation New strategies, concepts, ideas, and organizations that meet social needs of all kinds — from working conditions and education to community development and health — and that extend and strengthen civil society.

Social Responsibility An ethical framework suggesting that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large.

Stakeholder Engagement The process by which an organization involves people who may be affected by the decisions it makes or can influence the implementation of its decisions.

Stakeholder Management The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders.

Strategic Leadership The ability to influence others to voluntarily make decisions that enhance the prospects for the organization's long-term success while maintaining short-term financial stability.

Sustainability Performance The measurement of an organization's impact on the triple bottom line — economic, social, and environmental outcomes.

Sustainability The ability to maintain or improve systems and processes indefinitely without depleting resources or causing harmful impacts on the environment or society.

Sustainability-Oriented Innovation (SOI) Innovations that are social, environmental, or sustainable, aiming to improve not only the economic performance of firms but also the environmental and social well-being.

Sustainable Leadership A leadership approach focused on long-term growth and ethical standards, aiming to balance economic success with environmental stewardship and social responsibility.

Systems Thinking A holistic approach to analysis that focuses on the way that a system's constituent parts interrelate and how systems work over time and within the context of larger systems.

Transformational Leadership A leadership style that involves inspiring and motivating followers to exceed their own self-interests for the good of the group or organization, and fostering significant change.