Engaging Senior Management on Sustainability

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Introduction

The objective of this chapter is to provide some insight on how managers in environmental, health and safety (EH&S) or sustainable development (SD) functions in companies, can more effectively engage senior management on moving their organizations to more sustainable forms of production. These insights are based primarily on the consulting work I have done over the past five years with large multi-national companies who are at various stages of integrating environmental and social factors into their business. Another key resource is a series of benchmarking efforts that my company, Five Winds International, has conducted over the last four years.[1] Typically these benchmarking efforts have focused on understanding the drivers, business case, implementation approaches and challenges, and organizational success factors associated with moving a sustainability initiative forward in an organization

In my experience EH&S or SD 'champions' are typically trying to convince senior managers that the integration of environmental and social considerations into traditional business decision-making processes will result in business benefits (e.g. improvements in operational efficiency, better management of risks, faster return on investment for capital projects, product innovations, enhanced brand image, etc). Unfortunately the business climate in which these champions operate (short-term

[1] Five Winds International manages the **Product Sustainability Round Table**. It is comprised of a group of companies who explore and share experiences related to the implementation of sustainability and advanced environmental management approaches into business decision-making. For more information see www.fivewinds.com.

planning horizons, a focus on traditional cost controls, little consideration of non-financial elements in management systems and performance evaluation schemes) is often at odds with effective integration of sustainability, which requires longer planning horizons, more integrated management of financial and non-financial risks and opportunities and a broader interpretation of the value proposition of the company. In addition many SD ‘champions’ come from an environmental science background and are not well versed in business language and tools. A further complication is that sustainability is inherently multi-disciplinary (i.e. requires a grasp of natural science, business and social issues) and cross-functional (i.e. often requires an integrated consideration of supply chain management, operations, sales and marketing, strategy) in nature. Frey makes a similar point in this volume about the multi-disciplinary requirements of the design function.

In spite of these challenges engaging senior managers in industry is critical to ensuring society moves toward more sustainable forms of production and consumption. These individuals are the key decision-makers in industry and the choices they make can directly or indirectly effect:

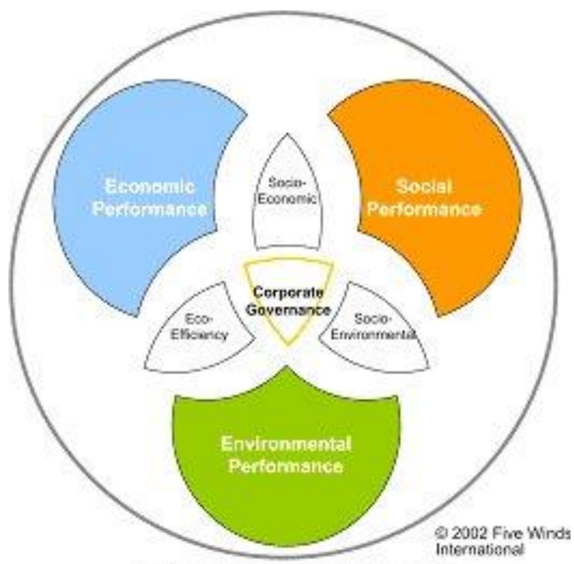
- the sustainability of natural resource extraction
- the impacts of manufacturing process
- flows of labour and capital
- energy supply options, and
- standards of practice related to corporate governance, environmental and social performance.

Consequently, moving senior managers ‘up the learning curve’ so that they can make more informed choices is a key step in the advancement of a sustainable society.

The Sustainability Journey

The pursuit of sustainable development (SD) has long been recognized as a transformational process - a journey rather than a destination (Rowledge et al 1999). For the purpose of this chapter, an organization can be considered to be on the sustainability journey if it is pursuing the elements indicated in the figure below.[2] At the core are corporate governance procedures that set the business and ethical tone of the company and ensure the proper consideration and management of economic, social and environmental performance. This model, or variations of it, is at the heart of most corporate interpretations of sustainability although other terms are often used to describe an organization's activity. These terms include corporate social responsibility, corporate citizenship, sustainable business strategy, sustainable growth, etc.

Regardless of the term used, for many organizations the journey typically begins with recognition of the business implications of non-sustainable behaviour. Examples include the need to manage and eliminate CFCs in the electronics and refrigeration equipment sectors due to the harmful impact of these chemicals on the ozone layer, the recognition by energy companies such as Suncor, BP and Shell



SUSTAINABLE ENTERPRISE

[2] Being on the sustainability journey should not be confused with actually trying to define a sustainable business. The latter is a much more esoteric and difficult discussion.

that climate change is a threat to their business that must be responded to, restrictions in the 1980's on the access of North American forest products to the European market based on forest management practices, and the dilution of NIKE's brand image due to child labour practices of their suppliers in the mid to late 90s.

In some cases, the response to the 'crisis' situation created by non-sustainable behaviour has been a re-examination of the organization's strategies, policies and, in some cases, the business model and value proposition of the company. For example, a mining company might shift from viewing itself as an extractive industry to seeing itself as a resource management company that seeks opportunities to recover metals from a diversity of sources, including existing products. This strategy helps them better understand their end-use markets and meet customer needs, while recovering economic and environmental 'value' that would have been lost if the products went to landfill. One interesting example is the California based partnership between Canadian mining giant Noranda and Hewlett-Packard in which Noranda 'mines' valuable minerals from discarded computers. "In fact, if its facility in Roseville Calif., were classified as a Noranda mine, it would account for 5% of the copper, 5% of the gold, 14% of the silver, 37% of the platinum group metals mined in Canada" Nikiforuk 2000:74).

In a number of circumstances, this re-examination has started the organization on a path to more sustainable business practices. For example, Electrolux, the Swedish appliance and home products manufacturer, responded to the CFC crisis by examining the entire life cycle of its products. This work led to a realization that the major impacts of their products were in the use phase, and they consequently eliminated CFC's but also went beyond this, to become a world leader in energy and water efficient appliances.

As industry understanding of, and experience with, the concept of sustainability grows there is a new pattern emerging. In some leading companies, there is recognition of the business opportunity that sustainability can offer. A number of studies and reports (Feldman et al 1996; Fusseler and James1996; WBCSD 1997; Five Winds International 2001 and 2002; Presidents Council for Sustainable Development 1996) have indicated that pursuing sustainability, and in particular eco-efficiency, can in fact improve environmental performance and lead to business benefits such as:

- reductions in operating costs
- production and process improvements
- reduced liability and risk
- enhanced brand image
- increased employee morale
- increased opportunities for innovation
- increased opportunity for revenue generation, including new market openings and price premiums
- better supplier management, and
- better relationships with customers, communities and regulators.

More recently, social and ethical performance aspects of sustainability have come into focus, and companies are beginning to recognize that investments in ‘social capital’ can have business benefits as well. (See Wheeler and Thomson this volume) These investments often go beyond health and safety and philanthropic activities and can include stakeholder engagement processes, ethics policies, transparent governance structures and procedures, consistent and fair labour practices and codes of conduct that apply across the company and in some cases extend throughout the supply chain. These practices can also affect shareholder value in that they can help a company maintain market access, improve access to resources and capital, protect brand or company reputation and improve relationships with stakeholders.

Recognition of these potential benefits has led some proactive companies to actively integrate sustainability into their strategic frameworks. These ‘trail blazers’ have been able to learn and adapt to new circumstances and they have developed new strategies, management systems, programs and tools that enable them to better integrate environmental, social and economic factors into their core business functions. This activity is being aided and accelerated by the development, within the research and consulting community, of a growing **‘toolbox’** of management approaches, software tools, and standards (Box 1).

For each successful organization, however, there is a larger number who have had false starts or have failed in their attempt to integrate sustainability considerations into their organizations. There are a number of attributes that contribute to successful integration of SD into companies, they include:

- a deep understanding within senior management of how sustainable development relates to the company and its entire value chain, its social license to operate and ultimately long-term shareholder value
- governance structures that ensure full consideration of business

Box 1: Examples of concepts, guidelines and tools for the promotion of sustainability in industry

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Cleaner Production guides
Corporate Environmental Reporting Guidelines (e.g. GRI)
Corporate Social Responsibility Guidelines (e.g. CBSR)
CERES Principles
Design-for-Environment
Design for Disassembly
Eco-compass
Eco-auditing
Eco-efficiency
Eco-industrial Parks
Eco-profiling
Environmental Auditing
Environmental Management Systems
Environmental Performance Evaluation
Environmental Performance Indicators
Global Compact
Life Cycle Assessment, Costing, Engineering,
Life Cycle Management
Life Cycle Value Assessment
Pollution Prevention
Product Stewardship
Social Auditing Standards (e.g. SA 8000)
Stakeholder engagement processes (e.g. Stakeholder 360)
Sullivan Principles
Responsible Care
ISO 14000 standards and various national environmental standards
Environmental Supply Chain Management
The Natural Step System Conditions

risks and opportunities associated with sustainability

- management systems that ensure that the company has procedures in place to systematically manage economic, social and environmental aspects of the company
- stakeholder dialogue processes that ensure the company not only understands what is expected of them, but also benefits from the knowledge and insights that stakeholders can contribute
- operations and product development processes that ensure optimum productivity of resources and consideration of environmental and social factors up front in decision-making processes (e.g., in capital project development, process and product design)
- open, transparent and credible reporting on triple bottom line performance—environmental, economic and social
- innovative supply management processes where the environmental and economic performance of suppliers is seen as an important component of the organization's performance
- a toolbox that enables the company to see beyond its gates and understand and assess risks and opportunities along its entire value chain and over longer time horizons. Examples of such tools include scenario analysis, life cycle assessment, design for the environment, life cycle management and supplier management programs
- a range of tailor-made communications messages that carry the organization's commitment and performance to key stakeholder including, its customers, shareholders and financial markets. (Modified from Rowledge et al. 1999)

These attributes can enable organizations to identify and manage the business opportunities and realize the business benefits identified above. However these attributes only provide a partial 'framework' for implementing sustainable development within organizations. This is because they do not address the greater challenge, which is how to embed sustainability into the organizational culture and ensure that real change takes place.

According to change management experts Gareth Morgan and Azof Zohar it is important to understand that large-scale change (such as aligning an organization to pursue sustainability) is not the product of large-scale change programs, or pat formulas.

They contend that setting a new direction often unfolds “as the result of crucial, small-scale initiatives that succeed in creating new contexts that break the *status quo* and allow new streams of new thinking and innovation to occur” (Morgan and Zohar 1996). They believe that a key challenge for managers is to identify ‘high leverage’ decisions and actions that can push an enterprise in a new direction and that ‘reverberate and cumulate in their effects’. To aid the process, managers “must master the art of high-leverage change: by learning how to be driven by a sense of vision while finding ‘doable’, high-impact initiatives that challenge and transform the *status quo;* by learning how to allow one change to build on another and achieve a compounding effect; and by building on opportunities created by random changes that can create unanticipated breakthroughs.”

A key component of this change effort is engaging senior management and seeking opportunities to align the sustainability efforts with the core business processes and strategy of the company. The need to effectively engage senior management is consistent with the message of the sustainability case study literature and is one that has been echoed by many companies we have worked with over the past five years.

Although it is well understood that senior management support is critical for moving any major project, activity, or change management initiative forward in an organization, what is less understood are the processes for effectively engaging senior management on sustainability. In researching this chapter I was unable to find any direct references to this topic in the literature. Sustainability differs from many other business issues in that it forces the expansion of traditional decision-making processes to include environmental, economic and social initiatives in a more integrated or holistic perspective. It also extends the decision-making timeline well beyond traditional business planning cycles. As noted above, by definition sustainability is also a multi-disciplinary subject that requires insights and inputs from a range of functions within an organization. In the absence of the kind of crisis described above, these attributes make engaging management on sustainability a significant challenge.

Some Key Considerations for Engaging Senior Management

Terminology – Sustainable Development, Sustainable Business Strategy, Sustainable Growth, Corporate Social Responsibility?

Over the past ten years there has been and explosion of terms, concepts and tools related to sustainability. The terminology is confusing and can be a barrier to effective engagement. The choice of terms used should ideally reflect the corporate culture and concepts must be presented using terms that can be easily explained internally and externally. Large multinational companies operating in developing countries (e.g., mining and oil and gas companies) are often more comfortable with the term sustainable development because development is very much what they do. They develop a resource, create or expand communities around the resource and often put in place or support basic infrastructure requirements such as roads, health services and education. In other cases, companies are less comfortable with SD because they see this as encompassing responsibilities that belong to government and not industry. In these cases, terms like sustainable growth, sustainable business strategy or simply sustainability are often used. A growth-oriented manager focused on financial and production targets may feel more comfortable in a conversation about a sustainable business strategy than in one about corporate social responsibility. The term corporate social responsibility or CSR has been gaining ground recently. CSR is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. It includes social responsibility, environmental performance and, in some interpretations, governance and ethics. In general, when it comes to terminology it is important to keep in mind the advice of John Kotter, an expert on business leadership. In his view a key element in the effective communication of a vision is to minimize the use of jargon and keep it simple (Kotter 1996).

Effectively Documenting and Presenting Stakeholder Perspectives

Stakeholders' perspectives and expectations on company performance are potential levers for engaging senior managers. At one end of the spectrum are customers who can have an immediate impact and can immediately engage management; at the other end are non-governmental organizations that can have indirect but nevertheless significant impact on a business (e.g., through boycott campaigns). More recently, the financial sector is showing interest in sustainability and inquiries from rating agencies or pension fund managers on sustainability performance can be used to engage management. An important aspect of this activity is the growing linkage between sustainability performance and financial performance. There are a small, but growing, number of financial sector organizations that are utilizing sustainability to evaluate and direct investment decisions. This type of information can be very effective for engaging the chief financial officer and other senior managers. (See Feltmate et al. this volume)

Stakeholder expectations on sustainability performance are also useful, particularly when the company's performance against these expectations can be shown in comparison to competitors. A caveat to presenting this type of information is that it is important to understand the range of expectations, how they relate to the company's value chain and which ones are of priority because they are coming from key stakeholders (e.g., regulatory authorities or local communities that can affect the company's license to operate) or because they relate directly to the companies core business objectives.

Understanding where Management is on the Sustainability Learning Curve

Professionals in environmental management or sustainability development have typically gone up a long learning curve. This often involves moving from a compliance mindset to pollution prevention to thinking about industrial systems as complex webs of materials, energy flows and environmental releases. At the top of this learning curve, these professionals begin see how the integrated consideration of environmental, social and economic issues in decision-making processes relates to a variety of core business issues from operational efficiency, to innovation to brand reputation and the overall value proposition of the company.

It is important to take the time to learn where management is on the learning curve in order to devise strategies to move them along. Managers can often have preconceived notions on key issues such as climate change that they pick up from the popular media. This can be a barrier to effective engagement and must be overcome through processes that educate them on key issues. Often this is best done in one on one session where a manager is able to get exposed to new ideas in a non-threatening situation. There are many other tactics that can be used to bring managers along the learning curve they include:

- subscriptions to a key journal that examines sustainability from a business perspective. For example, one manager in a European transportation and logistics company subscribed his entire senior management team and board to a business and sustainability magazine in order to expose them to concepts he would be introducing to them

- executive level training programs on sustainability. A number of business schools are now offer this type of training, the most prominent Canadian example being the Sustainable Enterprise Academy operated by the Schulich School of Business at York University in Toronto. These programs offer senior mangers and opportunity to quickly come up to speed on sustainability issues and to interact and exchange views with peers from other companies

- articles by business leaders. There are a number of articles and books on sustainability that have been written by senior executives and these can be used engage senior managers particularly if the article is from an executive in their own sector. Prominent individual examples include articles by Chad Holliday the CEO of Dupont and Phil Watts (at the time CEO of Shell International) as well as a recent book on sustainability entitled Walking the Talk: the Business Case for Sustainability they wrote with Stephen Schmidheiny the chairman of Anova Holding AG (Holliday 2001, Watts 2000, Holliday et al 2002). In November 2001 the World Business Council for Sustainable Development released a publication on the business case for sustainable development that was signed off by the CEO's of a number of major corporations including Rio Tinto, Dupont, Shell, BP, Toyota, ST Microelectronics and Aventis (WBCSD 2001)

- personal interactions with industry leaders. Conversations with, or presentations by, industry peers can also be effective. A number of leading companies who are pursuing sustainability are quite willing to share their stories. This willingness to share can be partly altruistic in that they believe that the path they have chosen is good for business and society and it is partly self serving as they recognize that once they have committed to sustainability getting the word out on what they are doing is important for their stock price, reputation and company image. Ray Anderson the CEO of Interface Flooring systems is perhaps the most prominent example of industrial leadership.

Identifying Business Risk and Opportunity

An important aspect of engaging senior managers is identifying and effectively communicating business risks and opportunities. Of course these risks and opportunities need to be well documented and presented in both qualitative and quantitative terms. Effective communication can be difficult, as one official described it “on an emotional level the business case is intuitive but you might not be able to easily present it terms an accountant can understand”. (personal communication) Typically the business case for sustainability touches on a range of opportunities some easily quantified (e.g. efficiency improvements) and many not so easily quantified (e.g., the business value of investments in social capital, future value of GHG emissions reductions, technology investments). Senior management often prefers to talk about opportunities rather than problems. One tactic is to show how sustainability efforts can protect value (maintain markets, ensure operating permits, reduce risks) and then show how it can create value (e.g. for a manufacturing company process and product innovations or for a resource company being the developer of choice). Figure 1 below shows how this approach was demonstrated graphically within Alcan.[3]

[3] Source. Ron Nielsen Alcan. Used with permission.

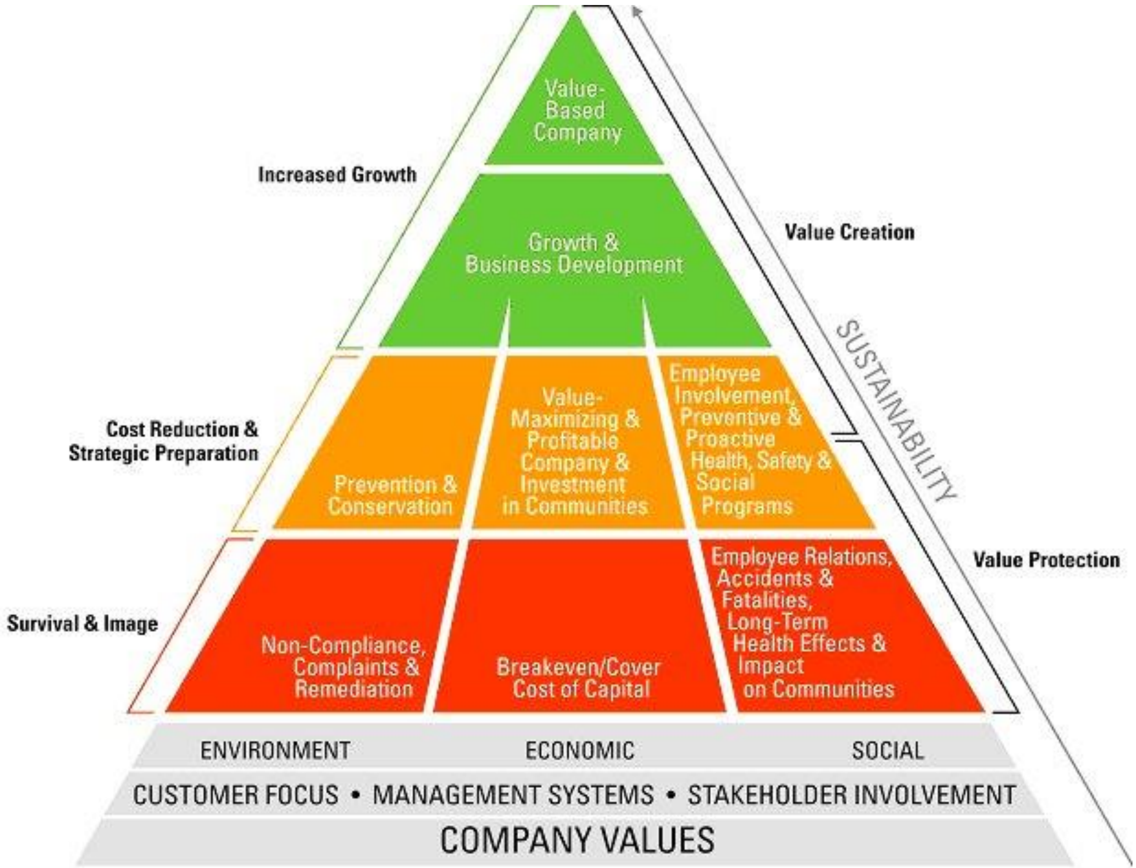

Figure 1 ©Alcan International Limited 2002

Where a company is in the product life cycle (e.g. material supplier, manufacturer, retailer) can also have a significant effect on the risk and opportunity analysis. For example for upstream companies (e.g. mining, oil and gas) the primary opportunities are related to better capital investments, access to land/resources and for downstream companies (e.g. consumer products and services) opportunities are centred on brand image, market access and expansion. Table 1 outlines some internal work we have done at Five Winds to characterize the different business risks and opportunities for our industrial client base as well as governments.

Table 1 © Five Winds International 2002

Identifying Champions

Having a champion in the senior management ranks who understands the business value of sustainability or its components is an obvious leverage point for engaging other managers. Ideally such a manager would come from outside the traditional environmental function. Support outside the corporate function is critical as business units or operational groups often are geared to core performance goals and targets of the company. If the manager of a business unit is a champion it is likely he/she will be able to articulate sustainability in a manner that will resonant with other managers. In cases where the CEO is a champion it is important to have a ‘sponsor’ for sustainability within the senior management. The sponsor’s role like the champion is to provide guidance, act as a sounding board for ideas and to help the sustainability team gain access to other senior mangers and their leadership teams. At Rio Tinto Borax, the SD champions are currently the Chief Financial Officer, the VP of Communications and the Head of Environmental Health and Safety. This is an ideal group of champions to engage the rest of management team on sustainability in that it encompasses business and environmental expertise with the more outward looking communications and reporting functions. Another company that we have studied is Suncor and they have been very successful at integration of sustainability. In their case the SD champion reports to the Chief Financial Officer. This places sustainability in the mainstream of the company’s day to day decision-making.

Role of the Board

A more difficult but potentially powerful leverage point can be a company’s board of directors. In theory the board is, in part, responsible for looking out for long-term viability of the company. One can argue that it is the responsibility of the board to consider risks and opportunities related to sustainability and their relationship to shareholder value. Identifying opportunities to engage board members or committees that are responsible for sustainability or components of it is important. Support at the board level can help ensure continuity when there are changes in the management ranks. Outside board members can also be an avenue for introducing perspectives and experiences that have a broader understanding of business risk and opportunity.

Ultimately the governance structure of a company is the glue that will ensure the integrated management of social, economic and environmental performance. The considerable attention being paid to governance structures of companies due to the evaporation of shareholder value in 2001/2002 is an opportunity to move corporate social responsibility or sustainability more formally into the functioning of the board.

Benchmarking

As noted under the section on stakeholder expectations benchmarking data is useful for engaging senior managers. Management teams often set targets such as being best in class or within the first quartile of their sector with respect to financial performance. Being able to demonstrate where the company ranks against competitors on the various elements of sustainability performance can stimulate discussion and start conversations about why the company's performance is behind or ahead of competitors. Senior managers tend to be numbers driven and being behind on anything does not sit well. Another important set of benchmark data is expectations and trends in a company's customer base. 'Radar' functions that gauge customer perspectives and actions on sustainability issues can help demonstrate the business relevance of specific programs (e.g. design, child labour or GHG management programs) moving forward. Figure 2 is an example of benchmarking data that is of interest to senior mangers. In this case oil and gas companies were benchmarked against business practices that are implicit in leading international standards and guidance documents on sustainability (e.g. the Global Reporting Initiative). The information enables mangers to see where they rank against their peer with respect to stakeholder expectations on performance. The scale on the yaxis of the graph indicates that even the leading company only meets about 60% of the business practices identified in leading standards and guidance documents.

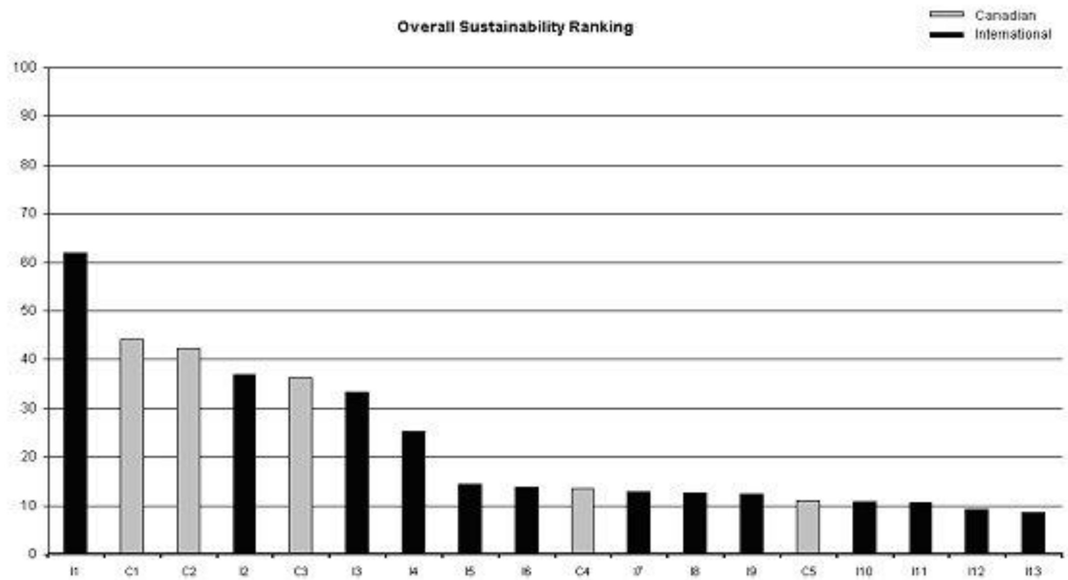

Figure 2

Speak to different functions

Executives responsible for different functions (e.g. marketing, product development, operations, communications, finance etc.) have issues and priorities that differ in certain ways, even though the company may be moving collectively in one direction. To effectively engage executives from different functions SD champions must try to understand the specific drivers, business issues and opportunities for each function. A sales executive can be influenced by thorough documentation of movement in the customer base to evaluate suppliers' environmental and social performance, while a general manager of a new resource development will be convinced by examples that show how proactive stakeholder engagement can accelerate approvals processes. We recently conducted a project that focused on engaging managers in different business functions and found the key steps to effective engagement to be:

- understanding your audience – what are their priorities, drivers, and business opportunities? What terms do the use?
- deciding what to say – gathering and assembling data in a manner that relates to the specific business objectives of the function you are trying to engage
- deciding how and when to say it - this involves consideration of the form (graphics, stories, detailed business cases) as well as the timing (at a one on one meeting, to a leadership team or committee meeting), of the engagement.

Conclusion

Engaging senior decision-makers on any issue is a bit of an art, and engaging them on a complex issue such as sustainability is a particular challenge. The ideas presented above are based on my experience in engaging senior managers and in studying organizational barriers and success factors to implementing sustainability. One key lesson is that integrating sustainability into an organization's business strategy and culture is a large-scale change management exercise and therefore has to been done with respect for the organizations past and a deep understanding of the risks and opportunities sustainability can offer the company's future. There are a variety of tactics that can be pursued (e.g. linking sustainability to the company's vision or mission statement is one way to tie it directly to the corporate priorities) but engaging the 'hearts and minds' of senior management is the crucial step. Once this has been done effectively, the creative power and managerial expertise of the company leadership can be focused on the pursuit of sustainability.

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