SUSTAINABILITY IN INTERNATIONAL BUSINESS

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ABSTRACT

Sustainability is playing a key role in today's business world and sustainable business can be seen synonymous with business success. Through sustainability international companies are able to gain competitive advantage, increase their market share and boost their shareholders value. On the other hand the concept sustainability is still abstract for many businesses and companies are facing several obstacles on their way to corporate sustainability. The concept itself is relatively new and still constantly evolving but it has been already widely recognized that sustainability efforts must be seen as core business efforts.

This independent study provides comprehensive explanation as to how and why international companies should pursue corporate sustainability. This study gives the answers for following questions: What is the corporate sustainability? How to achieve the corporate sustainability? Why it is crucial for international companies to achieve the corporate sustainability? The study has been implemented by investigating different theories, strategies and definitions of sustainability and its dimensions. To get the broadest possible understanding of sustainability the concept has been examined in the light of the challenges, obstacles and risks as well.

This study shows that contrary to general belief, embedding the sustainability as a part of corporate strategy can be economically profitable way for the international companies to improve their brand image and gain competitive advantage by "doing good". Even in the short-term, effective and responsible management of sustainable issues can add value and reduce risk.

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Chapter 1

Introduction

1.1. Research background

The concept of sustainability has received growing recognition in international business environment in recent decades. What comes to sustainability, multinational enterprises are playing a specific role together with their stakeholders and institutional contexts, in both home and host countries. Together these actors can be part of the solution in sustainability by supporting social responsibility activities and implementing sustainable development. For international companies sustainability is much more than simply adopting sustainable practices because it has the potential to help companies to gain competitive advantage, increase their market share and boost shareholders value. There are many different views on sustainability and how it can be achieved. For many, it still remains abstract and theoretical therefore multinational companies fail to incorporate sustainable development into the policies and processes of a business.

1.2. Aims and objectives

The aim of this study is to investigate the importance and the effect of incorporating sustainable development principles into the business policies and processes.

This study is following four specific objectives:

The first objective of the study is to investigate what the business sustainability itself means, and which are its different dimensions and closely related terms.

The second objective is to investigate what are the major challenges and risk factors of sustainability but also that what kind of strategies international companies should follow to achieve sustainability in their actions.

The third objective is to find out how to manage and measure the business sustainability. I am also investigating what are those common obstacles that slow down the process of achieving corporate sustainability. This objective intends to provide solution how to limit these obstacles and support the main motives for sustainable business practices.

Fourth and the last objective is to provide answer for companies why they should embed sustainability into their corporate strategy. Together these objectives constitutes the process which should help companies to achieve the sustainability.

1.3. Scope of the study

This study provides guidance how to develop, implement and assess sustainable development strategies in international business enterprise. The study comprises five chapters this introduction chapter including:

In second chapter I identify the history of sustainability as well as the concept of sustainability and its different dimensions. Second chapter includes also introduction of terms Corporate Governance and Corporate Social Responsibility, which are closely related to sustainability.

In third chapter I give examples of those challenges that international companies are facing on their way towards sustainability. I introduce what kind of different sustainable development strategies companies have to exploit. This chapter also includes view of possible sustainable risk factors and how to manage those risks by exploiting Sustainable Enterprise Risk Management.

The fourth chapter of this study explains how companies can measure and evaluate the performance of sustainable development. This chapter also includes introduction of common obstacles that slow down the implementing of corporate sustainability. Fourth chapter provides the review why international companies must choose the sustainability and what are those perceived benefits that implementation of sustainable development strategy has brought to the companies.

The fifth and the last chapter consist of conclusions. It is a brief summary of the study and it answers for those essential research questions which I will introduce in the next sub chapter.

1.4. Research questions

This study provides the answers for four different questions:

- What are the strategies that international companies should follow to achieve sustainability in their business actions?

- What are the sustainability challenges? What are the barriers to achieve or implement corporate sustainability?
- How to measure and evaluate the performance of sustainable development?
- Why international companies should choose sustainability?

1.5. Research significance

It is widely recognized that enterprises have an important role to play in improving the environment and dealing with the climate change. Many of the companies like to continue doing their business as usual, and only few are ready to threaten their competitiveness in favor of green movement. On the other hand the factors like customers, new regulations or the market itself (inter alia high resource prices) are pushing companies toward sustainability. It means that sustainability is serious for companies and sustainability efforts are core business efforts. Companies cannot choose if they want to adapt sustainability part of their business or not. This makes sustainability very interesting and important area of study. Personally I am extremely interested in sustainability in business and I hope that in near future I will have opportunity to work on sustainable development. This is one reason why I want to investigate this topic. This study is useful and comprehensive fact sheet for all those who are interested in sustainable development.

Chapter 2

Sustainability and its dimensions

2.1 Brief history of sustainability

The concept of sustainability has been a wide approach since 1960s in response to growing concerns over environmental and health problems caused by various human activities. Organisation for Economic Co-Operation and Development (OECD) was founded in 1960 and its aims were to promote the highest levels of sustainable economic growth in member countries and drive the global economy toward increased employment and higher standards of living. (Kopnina & Blewitt, 2015)

In 1972 the topic sustainability was raised up again. The book *Limits to Growth* was published by the Club of Rome. The book demonstrated that continuous human and economic expansion is fundamentally not sustainable and the ecological footprint will increase to such levels that there is a risk of societal collapse during the first half of the 21st century. The ecological footprint is an index describing our environmental impact by indicating the amount of land and oceans needed to sustain our consumption of products and food, use of energy and the amount of waste we product. That same year, The UN Conference on the Human Environment was held in Stockholm. People were gathered to focus on the same issue; the challenge of maintaining the sustainability in the context of economic growth and development. The conference increased the global awareness of environmental issues; our connection to the environment and the negative impacts of our actions. (Kopnina & Blewitt, 2015; Sachs, 2015)

From business perspective breakthrough happened in 1992 when another important international conference, the United Nations Conference on Environment and Development (UNCED), also known as Earth Summit, was held in Rio De Janeiro. In this conference, multinational companies (MNCs) presented themselves first time as part of solution, rather than the problem. Group of MNCs started elaborating a new management conception that takes into account ecological considerations without weakening the value of shareholders. This new approach, which came to be known as eco-efficiency, later became a new environmental management philosophy. The Earth Summit established a framework for conventions that were to focus on climate change and biodiversity, identifying basic aims, principles, norms, institutions, and procedures for action.

The Climate Change Convention, which later led to the Kyoto Protocol (1997), the agreement of limiting greenhouse gas emissions, and other binding agreements were created during the conference in 1992. One of the key outputs of the conference was “Agenda 21”-document, an action plan for the 21st century with regard to sustainable development and environmental protection worldwide. Agenda 21 was nonbinding international partnership action plan signed by 21 member countries, mostly from developing countries. (Kopnina &Blewitt, 2015; Aras, 2016)

The Earth Summit was so-called opening shot and numerous sustainable development conferences have been held since then. These subsequent conferences have been based on those agreements that were made in Rio, 1992. Several additions have been made in these later conferences and sustainable development have been extended to apply all parties from regional to international level, from agencies to funds, programs and institutions. The number of participating countries has increased significantly. The latest conference, known as Rio +20, was held in 2012 again in Rio De Janeiro. A total of 192 UN member states, private sector companies, NGOs and other groups participated in this conference. The major output from this conference was a nonbinding document “The Future We Want”. The Rio+20 summit did not produce any breakthrough agreements or commitments, but it provided an international platform to shed light on pressing issues in the quest to secure global sustainable development. (Aras, 2016)

2.2. Definition of Sustainability

Firstly, it is beneficial to understand that sustainability is an open and values-based concept with many layers of meaning. The meaning differ depending on whether you are from another culture, from the world of multinational corporations, a small business owner, or an individual trying to figure out how a sustainable lifestyle looks like. (McNail, 2011)

There is no universally agreed definition on what sustainability really means but there are many different views on what it is and how it can be achieved. The most common and used definition for sustainability comes from the Brundtland commission report from 1987. The report “Our Common Future” was published by the World Commission on Environment and Development (WCED) and it stated:

“Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Blowfield, p.6, 2013)

This captures a key component of sustainability, a process of establishing appropriate strategies, policies and procedures to satisfy present needs without jeopardizing the future. This has been the baseline for subsequent definitions. It has been widely used and supplemented since then.

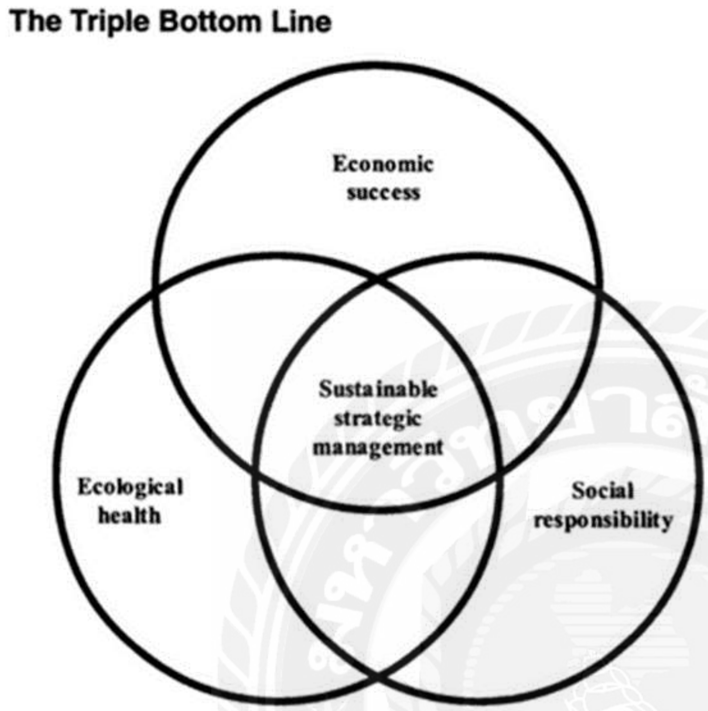
Sustainability can be also seen as “the capacity to support, maintain or endure; it can indicate both a goal and a process. Sustainability can be maintained at a certain rate or level, as in sustainable economic growth. It can also be upheld or defended, as in sustainable definitions of good corporate practice.” (Kopnina & Blewitt, 2015)

In fact there is wide range of different definitions of sustainability but those often fail to be comprehensive enough. Sustainability may be difficult, even impossible, to achieve within the time frame of the human experience on Earth. This should not diminish the importance of sustainable development. Sustainability is often defined by the policies that are set and the agendas that these policies establish. It is all about resources, management policies, energy, social concerns, planning, economics, environmental impacts, construction practices and much more. (Roosa, 2010)

2.3. Dimensions of corporate sustainability

Sustainable business is a company, a corporation or an enterprise that has minimal negative impact on the global or local environment, community, society, or economy. It is a business that strives to meet the triple bottom line. The term “triple bottom line”, introduced by John Elkington, represents an organizing approach and it has been used to refer to the management of corporate sustainability performance. Triple Bottom Line (TBL or 3BL) comprises three dimensions: economic, social and environmental. The company, that operates based on TBL and its every dimension, can be called sustainable business. TBL would be called as a foundation for sustainable business. (https://en.wikipedia.org/wiki/Sustainable_business)

Figure 2.1: The Triple Bottom Line



Note: From “Sustainable Strategic Management”, by Stead, J.G., & Stead, W.E., 2014, New York, NY, United States: Routledge

2.3.1. Economic performance

The economic performance is the most important component of sustainability. The primary goal of any business is to maximize shareholder value while generating sustainable economic performance. The economic dimension of sustainability performance can be achieved by focusing on long-term sustainability performance and improved effectiveness, efficiency and productivity; cost savings in energy, water and supplies; attracting new business and building greater customer loyalty and reputation; improved risk management and safety and fostering collaboration with other innovative companies. This should be communicated to shareholders through the high-quality financial reports. The conventional measures of cash flows, earnings, and return on investment are fundamental financial performance measurements but unfortunately these do not reflect sustainable performance and future growth. Instead the key measures of sustainability performance are operational efficiency, customer satisfaction, talent management, and innovation that should be derived from internal factors of strategy, risk profile, strengths and weaknesses, and corporate culture as well as external factors of reputation, technology, completion, globalization and utilization of natural resources. Financial crisis in 2008 was a visible example of an overall unsustainable performance when financial services providers had engaged in highly risk transactions for short-term gains in profits and executive bonuses. (Brockett & Rezaee, 2012; Crane & Matten, 2007)

Economic performance does not reflect only the effectiveness and profitability but it also refers to that economic impact firms and organizations have on those communities in which those are operating. Economic impact consist of indicators such as job creation, impact on local wages, impact on real estate in close proximity to the business, tax flows, investments in disadvantaged areas, impact on public works and social services systems. Sustainable business ensures that all these indicators are positively contributed to local economic growth while maintaining corporate profitability. Paying bribes, building cartels or avoiding corporate taxes can be seen as economically unsustainable performance. These activities are weakening the long-term functioning of markets. By avoiding corporate taxes corporations are weakening one of the key institutional bases (such as schools, hospitals, the police, and the justice system) of their corporate success. (Landrum & Edwards, p.21, 2009; Crane& Matten, 2007)

Economic dimension also refers to suppliers and other stakeholders. Sustainable business ensures that its suppliers and other stakeholders are committed to similar values and practices in terms of economic impact in local economies. (Landrum & Edwards, p.21, 2009)

2.3.2. Social performance

The social dimension of business operations is viewed both internally and externally and it ensures that business activities throughout the supply chain are socially responsible and ethical.

Internally, the social performance usually refers to practices related to employees and employment with the business. The social dimension consist of business practices and policies related to working conditions, diversity in hiring, opportunities for advancement for women and minorities, lack of discrimination, and the provision of affordable health care and other necessary benefits. Social dimension also comprises of wages, breaks, adherence to employment laws, safety, training, and other specific labor practices. The sustainable business also has to ensure that its suppliers are sharing the same values what it comes to treat employees. Sustainable business do not purchase its products produced using child labor or causing other human rights abuses. In cases like these, sustainable business either changes the supplier or then work diligently with the supplier to correct these problems.

In addition, social dimension refers to respect of others. A sustainable business need to make sure that its products, practices, logo, mascots or other aspects are not offensive or disrespectful to clients in the global market.

2.3.3. Environmental performance

Environmentally sustainable performance refers to the effective management of physical resources so that they are conserved for the future. What are corporation´s environmental impacts and how environmentally responsible the company has been throughout its operations. The environmental performance can be seen also both internally and externally.

Internally, the environmental performance of a business is usually measured by the use of natural resources, waste, toxicity, and pollution. It has been generally considered that manufacturing companies has bigger environmental impact and more efforts as well are needed to reduce waste, toxicity, and pollution during the manufacturing process. Service companies as well have their environmental impact. Let's illustrate by using hair dresser or cleaning company as an example. All those chemicals used that end up into the air, water or down to the ground, or that pollution originated by use of energy, employee computers or business travel. Recycling programs and purchasing of recycled items for office supplies, furniture and other needs, are essential sustainable business efforts to decrease the amount of waste and toxicity.

Externally, the sustainable business is taking into account the environmental impact of its suppliers in terms of products and services as well as transportation of goods. A sustainable business searches suppliers that are environmentally friendly; generate less waste, intend to be less toxic and create the least amount of pollution during manufacturing and transportation processes. A sustainable business also favors local suppliers and thus ensures that the environmental impact caused by the transportation of goods is as small as possible. Many sustainable businesses also favor so-called green procurement policy. It means that they favor producers whose products and services are most environmentally friendly. As an example, this policy would give preference to Forest Stewardship Council (FSC) certified wood products that come from sustainably managed forests. This is again the case that sustainability can be seen as a competitive advantage.

The company and its suppliers environmental impact can also been defined by measuring their water efficiency and energy efficiency. Sustainable business is searching practices to become more effective by decreasing its use of fresh water and increasing its recycle amount of water. When a sustainable business is taking into account how much it is actually using the energy (also referred as a carbon footprint or energy audit), it tries to find the way to become more efficient and reduce its energy usage.

One of environmental issues is the reduction of carbon emissions. Sustainable businesses are actively seeking ways to reduce carbon emissions that are contributed to climate change. The possibility of a future carbon tax has forced businesses to improve their energy usage. A carbon tax would be enacted and regulated by the government. The more carbon the company emit in its daily operations, the more carbon taxes the company pays. A carbon emission trading system would allow companies to trade "credits" for carbon emissions. This so-called cap-and-trade-system is also enacted and regulated by government which determinates a maximum amount of carbon emissions permitted by companies. Those businesses with large emissions are obliged to buy carbon credits from those businesses who have managed to produce fewer emissions. (Landrum & Edwards, p. 11-14, 2009)

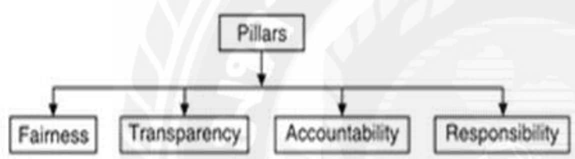
2.4. Corporate Governance

Corporate Governance (CG) in an ethical code of business, and the system by which business corporations are directed and controlled. At the most general level, CG involves the formation of rules and decision-making procedures and the operation of social institutions guided by these rules. CG deals with laws, procedures, practices and implicit rules that determine a company's ability to face challenges. According to international experts CG specifies the distribution of rights and responsibilities among different participants in the corporation; the Board, managers, shareholders, and other stakeholders. CG also clarifies the rules and procedures for making decisions on corporate affairs. CG provides the foundations upon which CSR and CS practices can be built to enhance business operations. Corporate Governance together with CSR are shaping the identity of businesses and therefore increasingly integrated into the business strategy of successful corporations. (Balachandran & Chandrasekaran V. p.84, 2011)

2.4.1. Governance Performance

The importance of corporate governance has changed significantly especially after global financial crisis 2007-2009. Business failures, high-profile scandals, financial crises, and institutional failures have made them in the forefront. Internal and external CG measures have been created by policy-makers, regulators and corporations. The goal is to improve the quality of corporate governance and hence achieve stakeholders' trust and investors' confidence in corporate sustainability performance and reporting. (Zabihollah, 2015)

Figure 2.2: Principles of Corporate Governance



Note: From "Corporate Governance, Ethics and Social Responsibility", p. 97, by Balachandran, V., & Chandrasekaran, V., 2011, New Delhi: PHI Learning Private Limited

2.4.2. Pillars of Corporate Governance

1. Fairness: This is related to equal treatment of all stakeholders such as shareholders, employees and the public as a whole. Business ethics are in essential role and those have to be in same line with the ethical code of the society in which a company operates.

2. Transparency: Transparency means that the company informs its stakeholders about company's activities and those plans that the business have been planning to implement in the future. In terms of transparency companies are also obliged to inform its stakeholders if there are any risks involved in company's business strategies. Transparency refers to openness, a willingness to deliver truthful information to shareholders and other stakeholders. For example, willingness to reveal truthful and accurate financial performance figures to the stakeholders.

The information of company's performance and activities must be done on timely manner and it has to be accurate. Company's investors must have access to clear, factual information which accurately provides information of the financial, social and environmental position of the company. The roles and responsibilities of the board and management should be clearly clarified and those should be publicly known to provide shareholders with a level of accountability.

3. Accountability: Accountability means that the managerial performance is monitored and sufficient return is provided for the shareholders by true and fair way. Corporations are responsible to implement the system which assures that the corporation obeys laws, acts in good faith with due diligence and care, and in the best interest of the company and its constituents.

4. Responsibility refers to the responsibility of board to warrant that the corporation is a responsible citizen and serve the interest of the stakeholders as well as the best interest of the society. Responsibility refers to the larger ethics prevailing in the society. It is expected that corporations take more active roles what it comes to changing the practices and values that are believed to be harmful to groups outside of the company. (Balachandran & Chandrasekaran, 2011)

2.4.3. Effective corporate governance:

1. Promotes accountability for the board of directors and executives,
2. Improves sustainable operational and financial performance,
3. Improves the reliability and quality of financial information, and
4. Strengthens the cohesion and efficiency of the capital market, which results in economic growth and prosperity for the nation. (Zabihollah, 2015)

Corporate boards are obliged to take into account issues such as environment, social justice and economic efficiency to ensure their long-term existence. The following key drivers help to ensure the sustainability: 1) Corporate sustainability is a business approach creating shareholder value in long run, 2) Social impact assessment, 3) Repositioning capability, 4) Internal capacity building strength. (Balachandran & Chandrasekaran, 2011)

It is essential that the management of the corporation is concerned about the financial resources and financial performance of the organization but good corporate governance is also concerned with the stewardship of environmental resources together with ethical and social issues. Sustainability is focused on the future and its goal is to ensure that the choices of resource utilization in the future are not constrained by decisions taken in the present. It is desirable that good financial performance leads to good future performance in the environmental dimension whereas good environmental performance leads to increased welfare for society generally. (Aras & Crowther, 2009)

Corporate sustainability can be only achieved if firms are supported by a governance system that encourages going beyond compliance to a more strategic form of sustainability. This is itself dependent upon high levels of innovation and inter-relatedness with a range of organizations such as government, NGOs and other corporations. (Benn & Dunphy, p.3, 2007)

Good financial performance ensures the good corporate performance what it comes to other dimensions. This depends on the principles of the company itself of course.

2.5. Corporate Social Responsibility

During this study will be shown that the term corporate social responsibility (CSR) is closely interrelated with corporate, or business, sustainability. CSR can be seen as one element of a corporate strategy to address the sustainability imperative. CSR is sort of stepping stone for adopting triple-bottom-line sustainability.

CSR represents the obligations that corporations have towards society in terms of ethical, environmental, economic and social issues. CSR indicates the obligations to manage its activities to protect the interests of all of its stakeholders. As well as sustainability, CSR is quite imprecise concept and very difficult to define in a comprehensive way. Let me introduce few different definitions from different organizations to have a bit more clear image from this term CSR. (Mullerat; 2010)

The World Business Council for Sustainable Development defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.” (Watts & Holme, 1993, p.3)

The International Finance Corporation defines CSR as following: “CSR is the commitment of business to contribute to sustainable economic development by working with employees, their families, the local community, and society at large to improve their lives in ways that are good for the business and the development” whereas CSR Europe member corporations are committed to foster the following principles in terms of achieving business success:

- conduct business responsibly by contributing to the economic health and sustainable development of the communities in which they operate;
- provide employees healthy and safe working conditions;
- ensure fair compensation, good communication, as well as equal opportunity for employment and development;
- offer quality, safe products and services at competitive prices, meet consumers´ needs promptly and accurately and work responsibly with the business partners;
- minimize the negative impacts our activities may have on the environment and its resources, while striving to provide our customers with products and services that take sustainable consumption into account;
- be accountable to key stakeholders through dialogue and transparency regarding the economic, social and environmental impacts of our business activities;
- operate a good government structure and uphold the highest standards in business ethics;
- provide a fair return to our shareholders while fulfilling the above principles

(Mullerat; p. 17;19, 2010)

According to these definitions, corporations have obligations to contribute to the development of their employees, the local community and wider society to enhance the quality of life and hence to assure sustainable economic development while minimizing negative environmental, ethical and social impacts. Sustainable corporations are resilient; they are creating economic value but also healthy ecosystems and strong communities.

Chapter 3

Challenges, strategies, and risk factors

3.1. Sustainability Challenges

The increasing demand for sustainability has set new challenges for businesses and their business strategies. The sustainability triangle, which actually refers to both the triple bottom line approach and the Brundtland´s requirements, visualizes the three dimensions of sustainability and the related core contextual challenges of corporate sustainability. The sustainability triangle is defined by the distinction between effectiveness and efficiency. *Effectiveness* is the goal whenever management attempts to improve a single dimension of the sustainability triangle whereas *efficiency* describes the relation between different dimensions such as the environmental and economic dimension for eco-efficiency, or social and economic dimension for socio-efficiency. (Schaltegger, Bennett & Burritt, 2006)

Figure 3.1: The sustainability triangle

Note: From "Sustainability Accounting and Reporting", p.8, by Stefan Schaltegger, Martin Bennett, Roger Burritt, 2006, The Netherlands: Springer

In following subchapters I will go deeper and introduce the major challenges of these three dimensions.

3.1.1. Challenges in environmental (ecological) performance

The environmental challenge is to improve the eco-effectiveness of business activities. Eco-effectiveness illustrates how well harmful environmental impacts have been reduced. The main environmental problems caused by human activities are greenhouse effect, the destruction of the ozone layer, acidification and over-nitrification of soil and water, declining biodiversity, photochemical smog, toxicological burdens harmful to humans and the environment, desertification etc. Sustainable businesses are taking into account these environmental burdens by making substantial reductions in the absolute scale of the environmental impacts of their production processes, products, investments etc. Techniques such as Product Life Cycle Assessment (LCA) have been developed to measure the eco-effectiveness of the company. LCA, also known as life-cycle analysis, Eco balance, and cradle-to-grave analysis, is a technique to assess 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. Eco-effectiveness is mainly measured in terms of specific indicators such as LCA, CO2 emissions, or business ecological footprints. Eco-effectiveness measures the absolute environmental performance (e.g. how many tons of CO2 emissions were reduced in the last period). (Schaltegger, Bennett & Burritt, 2006)

3.1.2. Challenge in social performance

The social challenge of corporate sustainability means increasing the company´s social effectiveness, or socio-effectiveness. Companies must ensure the existence and success of the enterprise whilst at the same time taking account the diversity of social, cultural and individual social demands. This is related to safeguarding the social acceptance of the company and the legitimation of its business activities. It is good to keep in mind that human desires are unlimited, and when dealing with a great variety of social factors such as inter-regional and inter-temporal equality of rights, fairness, equity of needs and performance, these can never be completely satisfied. It is also conceptually difficult to define what social performance really means. Comparing to environmental or economic dimensions clear generally accepted absolutes, such as the reduction of environmental impacts or creation of wealth, are missing in socio-effectiveness. Even the most basic social goal, the right of life, is threatened in those countries which still are accepting death penalty. Norms, such as the role and rights of women, conflict between different countries. Also social expectations vary between different cultural contexts, which in turn complicate accounting and reporting of socio-effectiveness. Accounting and reporting research is nevertheless challenged to develop more comprehensive approaches for socio-effectiveness. In other words the criterion that indicates how successful a company has been in reducing the absolute level of its negative social impacts relative to expectations. Also the extent to which it gives rise to valuable positive social impacts and benefits. (Schaltegger, Bennett & Burritt, 2006)

The chart below illustrates how socio- and eco-efficiency can be mathematically expressed. It is a quotient of the value added and the positive external effects of business activities over their aggregated negative social or ecological impact which is shown in the following equation.

Figure 3.2: Socio- and eco-efficiency mathematically expressed

$$\text{Socio-/ Eco-efficiency} = \frac{\sum \text{Value added + positive external effects}}{\sum \text{Aggregated negative impacts on society / nature}}$$

Note: From “Corporate sustainability as a challenge for comprehensive management”, p. 11, by Klaus J. Zink, 2008, Germany: Physica-Verlag Heidelberg

3.1.3. Challenges in economic performance

The economic challenge aims to improve eco-efficiency as well as socio-efficiency. The main dilemma often is that profit-oriented businesses, which run primarily for economic purposes, are established. These businesses consider that environmental protection and social commitment are always confronted with the challenge of either increasing value, making a contribution to profitability, or at least minimizing costs. The traditional economic performance efficiency is usually measured by monetary performance and normally expressed by using indicators such as return on investment, return on equity, value added etc. In the context of corporate sustainability, these traditional measurements are supplemented by ecological and social aspects. Two types of efficiency are particularly important: eco-efficiency as economic-ecological efficiency, and socio-efficiency as economic-social-efficiency. (Schaltegger, Bennett & Burritt, 2006)

Eco-efficiency is equal to the ratio of an economic (monetary) measure to a physical (ecological) measure. Eco-efficiency can be seen as the ratio of value added to environmental impact added per unit, where environmental impact added is equivalent to the sum of all environmental impacts which are generated directly or indirectly by a product or activity. For example value added (in $ or Euro) per ton of emitted CO_2 the contribution margin of a product (in $ or Euro) relative to its contribution to greenhouse effect (in CO_2 equivalents). Several publications provide examples of possible target ratio improvements with integrative eco-efficiency indicators between economic and environmental performance. The problem is that most current approached do not provide the necessary information for questions such as: How does the consideration or non-consideration of specific environmental and social issues affect the economic performance on the business? (Schaltegger, Bennett & Burritt, 2006)

Socio-efficiency is measured by similar way than eco-efficiency. The ratio of value added to social impact added, where social impact added represents the sum of all negative social impacts originating from a company, product, process or activity. For example the value added (in $ or Euro) relative to the number of staff accidents, or value added (in $ or Euro) relative to the number of days lost through absence due to employee illness. Socio-effectiveness can be also defined by the positive social effects or the social value created by the company, or in terms of social and economic value created. The existing methods of defining and measuring of socio-efficiency are not very developed yet and the accounting for socio-efficiency is still in its infancy. (Schaltegger, Bennett & Burritt, 2006)

3.1.4. Integration challenge of corporate sustainability

The integration challenge means combination of those three challenges mentioned above plus the methodological integration challenge, which focuses on integrating environmental and social management into conventional economically-oriented business management. The real challenge is to combine and simultaneously satisfy economical, ecological and social performance. It requires simultaneous accounting and improving of these four challenges of ecological effectiveness, social effectiveness, eco-efficiency and socio-efficiency. (Schaltegger, Bennett & Burritt, 2006)

3.2. Responses to Sustainability challenges

Corporations respond to uncertainty and changing demands in different ways. Some companies see natural resource constrains as a business opportunity whereas other companies focus on building their brand image by managing sustainability. Businesses choose different sustainable corporate strategies, due to the leadership style, size of the business, corporate culture, surrounding opportunities etc., to respond to those changing demands. (McNall, Hershauer & Basile, 2011).

A business can achieve strategic corporate sustainability only if its management adopt sustainability as the central focus of its corporate strategy. There is a two-step process for a business to follow:

1) Embed sustainability in every stage of the strategy, and ´sustainability-proof´it
2) Differentiate the product, service, or overall way to produce business activities on a sustainable paradigm.

Strategic corporate sustainability is the recommended approach to embed sustainability into corporate strategy. This strategy approach must start with an awareness of the need and importance of changing company´s current business model to a sustainable business model. Sustainability needs to be embedded and internalized into the corporate strategy as its central guiding principle. Second step will be so called ´sustainable innovation and differentiation´ of the products and services strive to create sustainable value. This requires educated business leaders as well as determination and development of a sustainability mindset. It is also leader's responsibility to encourage and develop their stakeholders, in order to establish a sustainability culture that will benefit their organization, the welfare of society, and the environment in the future. The key success factor to corporate sustainability is to figure out an organization´s optimal combination of program initiatives and develop a strategically aligned sustainability program and implementation practice. (Fernando, 2015; McNall, Hershauer & Basile, 2011

I will introduce several, different corporate strategies that helps companies to achieve the corporate sustainability. Firstly, let me explain what the definition, corporate strategy, means actually. Corporate strategy aims to enable a company to create value for its customers as well as build a unique position on its market taking into account a constantly changing environment. Corporate strategy involves a) configuring the company´s scope of activities, b) effectively and distinctively allocating its resources and skills in order to, c) be able to develop a sustainable competitive advantage, d) allowing it to reach a higher level of performance than its competitors, and thereby e) satisfy its stakeholders. (Semples & Hoffmann, 2013)

3.2.1. Innovation & Technology

The first corporate strategy is innovation and technology. It aims to produce company´s products, services and overall business activities in the most sustainable way by taking advantage of newest innovation and technology.

General Electric´s (GE) is a great example how to embed sustainability successfully into the corporate strategy by using innovation and technology. 10 years ago the company created and implemented Ecoimagination which is a growth strategy to enhance resource productivity and reduce environmental impact at a global scale. This happens through commercial solutions for their customers and through their own overall business operations. GE is investing in cleaner technology and business innovation, developing solutions to enable economic growth but on the same time avoiding emissions and reducing water consumption. The company is committed to reduce the environmental impact in their operations and they have developed strategic partnerships to solve some of the toughest environmental challenges across the energy, transportation, water, healthcare and lighting industries. Just to mention few examples, GE is bringing clean energy solution to developing countries by providing a wide range of equipment for renewable energy and efficient power generation, such as wind turbines and water purification. ((The Business of Sustainability: Trends, Policies, Practices// http://www.ge.com/about-us/ecomagination)

An American multinational corporation Nike, Inc. is another great example from sustainable innovations. This familiar sport-gear provider has integrated sustainable design across its product portfolio and created the Making app in 2013, allowing the data in its materials sustainability index to be public. The company is producing athletic footwear and apparel products from waste and grinds materials. “This innovative approach prevents millions of pounds of waste from ever reaching the landfill” as described in their web sites. In this way the company has turned limited resources into infinite possibilities. (www.nike.com)

Businesses have also increased the technology utilizing to control travel and other expenses, saving substantial time, money, energy and carbon in comparison to travel-mediated business. Travelling and weekly face-too-face meetings have replaced by more sustainable ways by taking advantage of digital technology as video conferencing, Web posting and weekly Skype meetings with consultants and clients. Videoconferencing and telecommuting saves both human and synthetically generated energy. It also may be one of the most sustainable strategies; saving substantial time and money, decreasing carbon caused by traveling plus creating an additive approach to the sustainability of a project. (Fred, Cooperman, Gifford & Russell, 2011)

3.2.2. Greening the Supply Chain

Greening the Supply Chain strategy is related to sustainable procurement which is important for any sustainability strategy as a company´s impact on the environment is much bigger than the products that they consume.

Creating a sustainable supply chain is the car manufacturer Ford Motor Company´s overall approach. The company promotes long-term relationships with its suppliers and seeks solutions with them on sustainability-related issues such as human rights, working conditions and environmental responsibility.

The company started to work on human rights and working conditions by developing its own code of conduct for these issues, training its workforce and assessing its own facilities. Next step was to develop common expectations and guidance for first-tier suppliers and to provide consistent training for them. Ford has established requirements which mean that both their own suppliers and their sub-tier suppliers meet specific sustainability expectations. The company provides training for first-tier suppliers to help them build their capability to manage sustainability issues. Also they require that first-tier suppliers cascade the training to their own suppliers. Continuous assessments are performed to ensure the compliance.

Ford provide tools for its suppliers to operate in a sustainable way; the company has developed in-depth resource guides and sponsored presentations on issues as human rights, working conditions and greenhouse gas (GHG) emissions; worksheet on emissions tracking and reporting on code of conduct development are provided by Ford, as well as shared training materials, information and guidance on the compliance and training processes. (corporate.ford.com)

3.2.3. Collaboration

The third sustainable business strategy is collaboration. It means the formation of networks with similar or partner companies to facilitate knowledge sharing and propel innovations.

General Electric´s (GE) has also embraced this strategy as part of its operations. In 2015, the company announced the formation of Ecoimagination 2020 Partnerships to help solve global resource challenges with industry leaders such as Wal-Mart, Total, Intel, Goldman Sachs, MWH Global etc. The company believes that by partnering with other like-minded companies they can achieve greater impact than any company could have on its own. These companies are just starting the collaboration process in areas such as industrial energy-efficiency, water-reuse adoption, energy-neutral wastewater, and new hybrid renewable solutions. This partnership is all about focusing on innovation, sustainability and problem-solving. (http://www.ge.com/about-us/ecomagination/strategy)

Ford Motor Company also strives for excellence in overall sustainability by using many different sustainability strategies. The company has collaboration networks within its own industry but also with other industries when relevant. The company is working proactively with companies from many industries on conflict minerals.

Collaboration within the Automotive Industry happens primarily through the Automotive Industry Action Group (AIAG) which is North-American nonprofit industry group specializing in supply chain issues. This group has five main issues to focus on: global working conditions, conflict minerals, greenhouse gases, chemicals management and reporting, and health care value. According to Ford websites AIAG is developing these issues in following way: a) exploring an industry response to conflict minerals sourcing and transparency challenges, b) providing common guidance and tools for responsible procurement, c) continuing to expand a factory-level supplier training program for a responsible supply chain, d) increasing supplier ownership of corporate responsibility issues through an expansion of engagement opportunities, and e) developing resources and networks that will ensure the successful communication of responsible procurement expectations throughout the automotive supply chain. Most of the issues are same or similar than what was mentioned in the earlier strategy; greening the supply chain.

Cross-Industry collaboration happens mainly through different cross-industry associations and corresponding working groups. Common issues are similar; environmental and social responsibility in the automotive supply. (corporate.ford.com)

3.2.4. Process improvement

Fourth corporate sustainability strategy is Process Improvement. It means that companies are continuously surveying and seeking ways to produce existing processes for more sustainable way.

The software company Adobe aimed to achieve a 75% reduction, from 2000 levels, in company emissions by 2015. It was using renewable energy technologies such as hydrogen fuel cells and solar arrays, and was also focused on reducing energy needs by improving the cooling efficiency of its data centers and "virtualizing" many of its systems, platforms and devices. By the end of 2015, over 97% of company´s licensed products were delivered digitally. The need of physical supply chain was minimized and the amount of waste produced was drastically reduced. Company aims to minimize all waste they produce in their operations or through the digital delivery. They are working with local partners to responsibly divert the waste from ever reaching landfill, to compost, recycling and especially re-use whenever possible. (www.adobe.com)

3.2.5. Sustainability Reporting

Sustainability reporting strategy means periodic reporting of company performance in relation to goals. These goals are often incorporated in to the corporate mission. The B Corporation (certification) model is a good example of one that encourages companies to focus on this. “B Corp certification is to sustainable business what Fair Trade certification is to coffee. B Corporations represent an emerging group of companies that are using the power of business to create a positive impact on the world and generate a shared and durable prosperity for all.” (http://bcorporation.com.au/what-are-b-corps-0)

The Coca-Cola Company has a longstanding commitment to reporting on their sustainability journey. From the company´s web sites the reader is able to find both regional and global sustainability reports. (http://www.coca-colacompany.com/sustainability)

Adidas, another giant sportswear manufacturer, has published an annual sustainability report for last 16 years. The report is detailed summary from the company´s progress from previous year. (www.adidas-group.com)

Now different corporate sustainability strategies have been introduced. The truth is that all sustainable successful companies are actually using many strategies, or even all of them, on the same time. Thus all three sustainability dimensions; economic, social and environmental are taking into account. Sportswear manufacturer Adidas is a good example. Only by reading the company´s sustainability report the reader notices that all above-mentioned sustainability strategies are in use and all three dimensions are taking into account.

Firstly, the company uses newest technology and innovation in product creation to strive sustainable solutions for the customers. *"We presented the world's first shoe made of yarns and filaments reclaimed and recycled from ocean waste and a 3D-printed Ocean Plastic shoe midsole"* says company´s sustainability report 2015.

Secondly, Adidas is putting lots of effort to keep and make the supply chain greener: *"In 2015, we ranked first in our industry in the Corporate Information Transparency Index (CITI), which is great recognition for the environmental performance of our supply chain in China."* Also the performance of direct suppliers is monitored: *"Our Compliance Key Performance Indicator (C-KPI) is our rating tool to comprehensively evaluate our direct suppliers' social compliance implementation and its effectiveness. Directly incorporated into the overall supplier rating, the tool influences our decision on which supplier to use and helps suppliers to understand the importance of delivering fair, healthy and environmentally sound workplace conditions."*

Collaboration strategy is obvious: "*In order to create positive change in our industry, we promote an open collaboration with partners who share the same goals, but also enter in dialogue with critical stakeholders. It is our belief that we are better when we team up and sharing knowledge and expertise."*

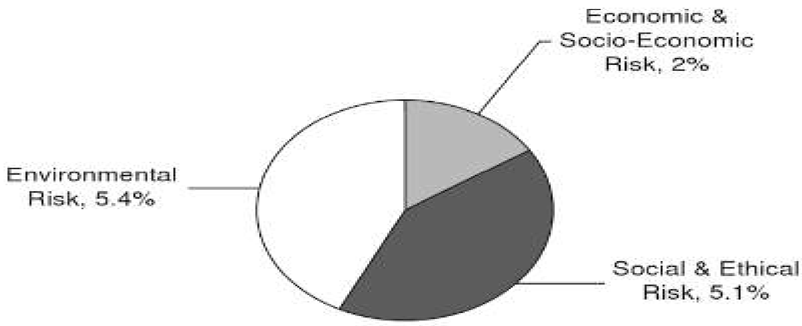
The fourth strategy, process improvement, is mainly the improvements of manufacturing processes. Adidas has optimized its packaging solutions: *"During 2014 we used single wall carton quality for standard adidas Group carton sizes globally and generated significant volumes of paper savings."* Dyeing techniques have been improved: "*We also advanced dyeing techniques like DryDye and NoDye to decrease the amount of water, energy and chemicals used in the dyeing process."* Adidas has also conducted a virtualization project to drive reduction of samples and it has started to source so-called "Better Cotton" that among other things requires less water and fewer pesticides. (http://www.adidas-group.com/media/filer_public/9c/f3/9cf3db44-b703-4cd0-98c5-28413f272aac/2015_sustainability_progress_report.pdf)

3.3. Sustainability risk factors

Business is about managing risks, and the truth is that the greater risks, generally the higher margins. Risk can be anything which prevents an organization from achieving its business objectives. According to the review of the United Nations Environmental Programme in 2004 many organizations are not disclosing to their investors the true risks that exist in their sustainability reports. These risks can be factors from environmental impacts, social impacts, ethical impacts, or another factors related to sustainable development which can damage the reputation and investor confidence. (Hawkins, 2006)

Following chart shows how 12.5% of average company´s market value is threatened because of economic, social and environmental sustainability issues.

Figure 3.3: The net risks to market value



Note: From “Business Risk Management Handbook”, p. 16, by Linda S. Spedding & Adam Rose, 2008, Oxford, UK: Elsevier Ltd

Socio-economic risk issues and how to prevent those issues:

- Economic crimes like bribery and corruption → Responsible procurement and governance procedures can prevent this kind of actions.
- Business interruption risks → Prevention requires effective disaster and act of terrorism recovery programmes and contingency plans.
- Stakeholder value (=stakeholder pressure, whether it comes from financial community complaining about executive remuneration or non-governmental organization (NGOs) complaining the lack of published policies) and reputation risk. → Defining the value of company´s reputation and protecting this intangible asset
- Business and marketing practices → Political agendas, public/private partnerships
- New technology → Access to technology as internet and computers. Fundamental use of technology/training plus employee engagement (Spedding & Rose, 2008)

Social- and ethical risk issues and how to prevent those issues:

- Business culture practice → Education and access to mentoring, capacity building and training
- Human rights in the workplace → Employment law and confronting discrimination
- Human rights outside the workplace → recognition of the issues as surrounding poverty and inequality. Community relations and investment: increase secure employment: provision of food, shelter, healthcare, education and training: loans, micro credit; promote access of local services/products: staff involvement in the local community;

partnership development. Refusal of forced, slave or child labour. Labour translocation and outsourcing.

- Health and safety in the workplace → Access, infrastructure for provision of health services for staff. Workplace disease prevention. Provide adequate health and safety awareness programmes. Gaining of standards of suitable ISO series.
- Governance – corruption, crime → Promote and support transparent governance. Abide by the laws (but unfair and unjust laws). Reform of laws. (Spedding & Rose, 2008)

Environmental risk issues and how to prevent those issues:

- Environmental management risk → Environmental management systems. Gaining of EMS standards, i.e. ISO 14000 series (introduced in next chapter). Implementation of precautionary operations. Following the principles of sustainable development
- Emissions to air- air pollution → Becoming carbon neutral and energy efficient: reduced reliance on external energy sources
- Emissions to land- waste/reuse/recycle → Reduce waste, increase reuse and promote recycling –leadership
- Resource efficiency- sustainable production and consumption (responsible consumerism) → Communicate benefits of sustainable production. Improve labelling and communication of product information. Maximise product efficiency and consider by-products. Use components produced in a socially and environmentally responsible manner
- Supply chain management → Green the company´s supply chain. Indirect damage to purchaser´s production. (Spedding & Rose, 2008)

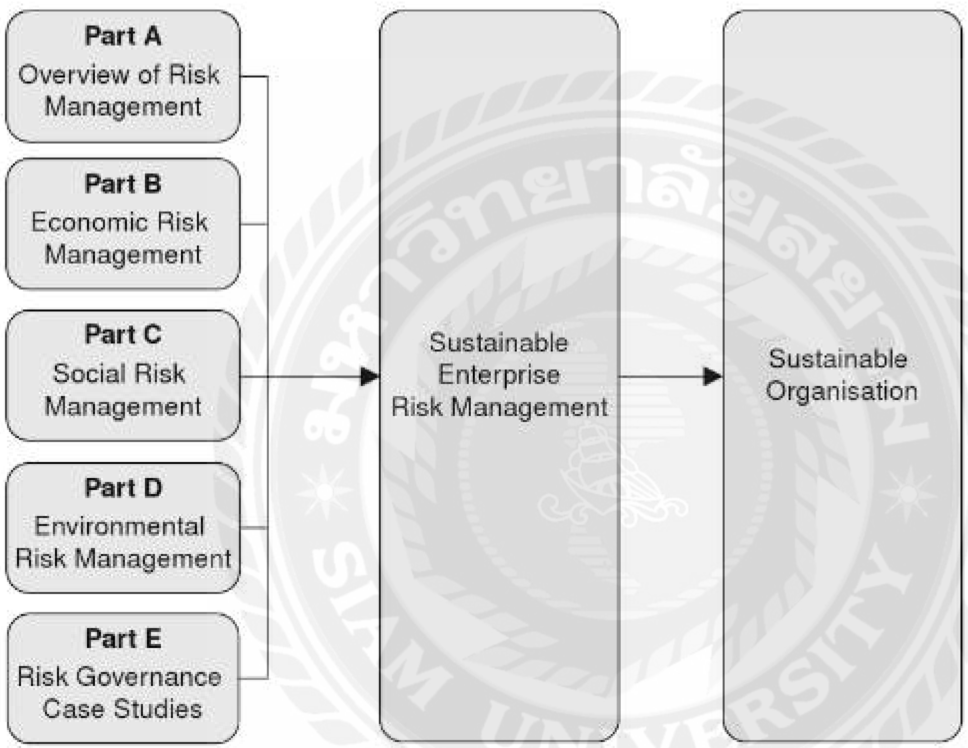
3.3.1. Sustainable Enterprise Risk Management (SERM)

Sustainable Enterprise Risk Management (SERM) system leads businesses towards becoming a sustainable corporations. This approach seeks to minimize those risks and negative impacts of not yet being sustainable. Effective SERM systems aims to:

- Enhance corporate reputation and brand;
- Recruiting and retaining talent;
- Reducing risk, and;

- Developing innovative products and services
- Increase compliance;
- Reduce fines and penalties; and
- Improve competitiveness and marketing opportunitie

Figure 3.4: Overview of Risk Management



Note: From "Business Risk Management Handbook", p. xxiv, by Linda S. Spedding & Adam Rose, 2008, Oxford, UK: Elsevier Ltd

Those corporations which fail to develop effective SERM- system often go through loss episodes and direct or indirect economic impacts can be following:

- Non-compliance fines and enforcement notices;
- Reputation and brand damage;
- Work stoppages, labor disputes and strikes; and

- Product recalls and loss of stakeholder confidence

This is why risk management, including *risk identification; risk assessment; risk prioritization; and the development of suitable risk management framework*, is extremely important part of sustainable business strategy. (Spedding & Rose, 2008)

Chapter 5

Conclusions

Sustainability has achieved growing recognition and is one of the key factors in international markets nowadays as it has direct impact to many areas of the businesses. Different stakeholders put pressures on companies to be more transparent and responsible in their actions comprising environmental, social and economic dimensions. The concept corporate sustainability is relatively new and still constantly evolving.

What are the strategies that international companies should follow to achieve sustainability in their business actions?

Companies have opportunity to choose between many different strategies to make their business actions more sustainable. Most of the businesses have decided to mix these strategies or those apply several different sustainable strategies. Very important note is that transition to sustainability should always begin from higher management and employment engagement is extremely crucial. Without the participation of these two factors transition to sustainability is not doable. Key sustainability strategies are, inter alia, 1.) Innovation and technology, 2.) Greening the supply chain, 3.) Collaboration, 4.) Process improvement and, 5.) Sustainable reporting.

What are the sustainability challenges?

Even if sustainability is very recommendable approach for firms, it is not always so easy to achieve. Firms are facing many challenges on their way to sustainability.

Triple Bottom Line and its dimensions itself comprises wide range of different environmental, social and economic challenges. Environmental challenges like greenhouse effect, the destruction of the ozone layer, photochemical smog etc. are very serious environmental issues. Sustainable driven businesses are actively looking for ways to reduce and prevent their negative environmental impacts.

Social challenges comprise issues like exploitation of human rights or failure of cultural diversity. Those companies pursuing sustainability must ensure the realization of human rights, or the overall community wellness.

Economic challenge consists of improving both environmental and social performance of the company. Most profit-oriented businesses were established for economic purposes and the biggest economic challenge often is their old-fashioned corporate way of thinking. These profit-oriented businesses consider that environmental protection and social commitment are always confronted with the challenge of either increasing value, making a contribution to profitability, or at least minimizing costs.

Companies are responding to these challenges by adopting strategic corporate sustainability. This happen through following actions: sustainability must be embedded and internalized into the corporate strategy as its central guiding principle; products and services need to be differentiated; management encourage and develop their stakeholders, in order to establish a sustainability culture that will benefit their organization, the welfare of society, and the environment in the future.

What are those barriers which slow down the implementing of corporate sustainability?

Sustainability is necessity but as proven it is not that easy to achieve. Otherwise surely all businesses would be sustainable already. There are plenty obstacles businesses must overcome to become sustainable but those obstacles are not insurmountable. For example if we consider the first obstacle mentioned before: *there are too many metrics and those are too confusing.* This obstacle requires that the company search quite a lot background information from different metrics; how those work and what those really measure. Then the company must choose the most suitable metric that best fits their business objectives and is the most appropriate for company´s needs. This also requires commitment from the management and educated sustainability leaders to help with the mission.

How to measure and evaluate the sustainable performance?

I want to use the same phrase which was mentioned already before because it describes the importance of measuring and evaluating the sustainable performance perfectly: “what gets measured gets managed.” If corporate sustainability is not easily defined or achieved, it is not easily measured either. Various organizations, investors, and other parties together have created guidelines and measurement tools (indexes, standards etc.) to help businesses on their way to sustainability. Again it is crucial to choose the right and suitable guideline that best fits for the company´s objectives and needs. If even the concept of sustainability is still on the stage of development so are the measuring tools. New, more integrated sustainability measurement tools are still needed but before those are created the companies should apply the current guidelines and tools to monitor measure and evaluate their sustainable performance.

Why companies must choose sustainability and what are those benefits perceived?

Sustainability is essential for international firms and there are several reasons why all businesses should choose sustainability. Through sustainability companies can improve their brand image and gain competitive advantage. The improvement of brand awareness through “doing good” is crucial for companies who eager to be successful. Sustainable companies attract good employees, and investors. People like to be associated with the positive. Firms linked to ecological disasters or social welfare scandals are unfavorable and will be ignored. The company that choose to be respectful towards the environment and its employees attract the caliber of people the successful companies want to employ as well as the funds the business needs to expand. Well managed sustainable actions increase business ability to comply with regulation. State and federal governments are enacting regulations to protect the environment. By integrating sustainability into the business strategy companies can meet these changing regulations in a timely manner. The last but not the least, sustainable companies can make shareholders happy. Sustainability can increase profits and it is proved that companies with high ratings in environmental, social, and governance factors have outperformed the market in medium and long range terms.

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