1.6: A Strategic Approach to Sustainable Business Practice

Learning Objectives

- Explain how sustainable business practice can be a source of competitive advantage for businesses.
- Understand what it means for a business to create shared value.
- Describe how it can be beneficial for society to have businesses acting to address sustainability concerns.

A useful prospective for sustainable business practitioners will be between the balanced values approach and the systems approach. It would use a systems approach, but it would focus on the system from the inside of the business perspective and focus on the business interaction with the external environment.

But how can this systems perspective be incorporated into real-life business practices? The most useful business guidance can be drawn from arguably the most prominent scholar of corporate strategy, Harvard Business School professor Michael Porter. Porter’s strategic corporate social responsibility (CSR) model can be applied to sustainability. He rejects the pure stakeholder approach to CSR because stakeholder groups, he believes, can never fully understand a corporation’s capabilities, competitive positioning, or trade-offs it must make and because the loudness of the stakeholder voice does not necessarily signify the importance of an issue—either to the company or to the world. The stakeholder approach, for Porter, is too often used to placate interests or public relations with minimal value to society and to the company. Greenwashing is an example of this, and it has proven to be a failed approach.

Porter’s point about CSR that can be applied to sustainability is that sustainable business practices can be much more than a cost, a good deed, or good public relations for businesses—it can be a source of competitive advantage. In his 2006 article with Mark R Kramer, “Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility,” Porter proposes a new way to look at the relationship between business and society that does not treat corporate profits and societal well-being (including sustainability) as just a balancing exercise. The authors introduce a framework that individual companies can use to identify the social consequences of their actions, to discover...
opportunities to benefit society and themselves by strengthening the competitive context in which they operate, to
determine which CSR or sustainability initiatives they should address, and to find the most effective ways of doing so.

Perceiving social responsibilities, such as acting with attention to sustainability, as an opportunity rather than as damage
control or a public relations campaign requires for most private companies to dramatically shift their thinking to a mind-
set, the authors argue, that will become increasingly important to competitive success. The principle of sustainability
appealing to company’s enlightened self-interest works best for issues that coincide with a company’s economic
interests and when the company has strategically assessed what actions to address. The example of McDonald’s using
less packaging that reduces company materials and disposal costs at the same time that it helps the environment
illustrates this.

Another example is GE and Jack Welch, the famous former CEO of GE. While he was CEO at GE, Jack Welch was
often referred to as the greatest CEO of the last century. G. Michael Maddock highlights that “for all the accolades
Welch received, those handing out plaudits missed a huge one: He was the King of Green. Six Sigma, the management
style (and manufacturing process) he championed, is all about getting leaner: reducing steps, costs, and materials. And
lean is green.” G. Maddock, “Going Green’s Unexpected Advantage,” BusinessWeek, February 2, 2010,
http://www.businessweek.com/managing/content/feb2010/ca2010021_587893.htm. Lean manufacturing benefited GE,
in particular its competitive position, by reducing the company’s costs of manufacturing and operations relative to
competitors while providing broader societal benefits.

A few corporations such as Stonyfield Farms (Chapter 13 "Case: Strategic Mission-Driven Sustainable Business:
Stonyfield Yogurt") stand out even more than McDonald’s and GE with their exceptional long-term commitment to
sustainability. Gary Hirshberg, who refers to himself as the CE-Yo of Stonyfield in his book Stirring It Up: How to Make
Money and Save the World, highlights how the company has built its entire value proposition around social issues with a
focus on environmental actions. Gary Hirshberg, Stirring It Up: How to Make Money and Save the World (New York:

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An Example of a Company Value Proposition Driven by Sustainability Objective

Stonyfield Farms value proposition is to sell organic, natural, and healthy food products to customers who care about
food quality and the environment.

What Can Companies Do to Deepen Engagement on Sustainability?

Porter and Kramer suggest that companies do the following:

• First, identify their environmental impact (e.g., contribution to carbon emissions).
• Then determine which impact(s) they can benefit the most from addressing.
• Then determine the most effective ways to do so.

For the economy and society overall, businesses’ attention to sustainability has already become a source of social
progress, as businesses apply considerable attention and resources to reduce their environmental footprint, which
benefits their bottom line and also benefits the environment and society more broadly. But most companies are only at the initial stages of the sustainability learning curve.

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Competitive Advantage

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. Michael Porter identified two basic types of competitive advantage. The first is when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage). The second is when a firm can deliver benefits that exceed those of competing products (differentiation advantage). Thus a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. Michael E. Porter, Competitive Advantage: Creating and Sustaining Superior Performance (New York: Free Press, 1985).

What Porter and Kramer suggest is not easy. To enhance sustainable business practices, it must be rooted in an understanding of the interrelations between a corporation and society while at the same time anchored in the activities and strategies of specific companies. No business and no single industry can solve all of society’s environmental problems; instead each company can work on environmental issues that intersect with its particular business.

What should guide each and every sustainable business practice is whether it presents an opportunity to create shared value—that it provides a meaningful benefit to society and that it is also valuable to the business. Each company will have to sort through their own sustainability issues and rank them in terms of potential impact. For example, for Toyota, a focus on fuel efficiency with the development and promotion of the highly fuel efficient hybrid vehicle the Prius provided environmental benefits and has been a source of competitive advantage for the company helping it to increase sales and profits. The same is true of Stonyfield and its focus on providing preservative-free, healthy, organic yogurt produced with manufacturing processes that minimize material and energy use.

A corporate sustainability agenda should look beyond stakeholder demands and desires to strategic opportunities to achieve social and company economic benefits simultaneously. This is the move from a strategic approach to sustainable business practices. As the cases in the book will highlight, it is in each company’s best interest to identify a manageable number of sustainability initiatives whose shared benefits—to society and to the company—are significant for the company and also distinctive in helping the company strategically position itself in the competitive marketplace. Stonyfield’s response to health and environmental concerns with a single basic product, yogurt, and Toyota’s response to the concerns over automobile emissions are examples. Strategic sustainable business practices can lead to shared value creation that strengthens a company’s competitiveness. A symbiotic relationship develops. Companies can do well in profits by doing good things for the environment; it is a “win-win” for society and for business.

How do society and future generations benefit? Private companies addressing environmental issues by creating shared value will lead to self-sustaining solutions that do not depend on goodwill or government subsidies. As Porter and Kramer highlight, “When a well run business applies its resources to problems it understands and in which it has a stake, it can have a greater positive impact on social good than any other institutions or philanthropic organization.” And if many hundreds and hundreds of thousands of businesses act this way, it is powerful and can have a large impact on society and the world over time. This is the potential of sustainable business practices, which is why it is important to
study and understand.

Key Takeaways

- Sustainable business practices can be a source of competitive advantage. A sustainable business practice can position companies to have a cost or benefit (differentiation) advantage.
- Creating shared value means providing a meaningful benefit to society, which is also valuable to the business, through an organizational practice or initiative.
- Private companies can create self-sustaining solutions to environmental problems, and when many companies do this, society can benefit significantly.

Exercise 1

Identify a company, other than Stonyfield, that takes a strategic approach to sustainable business practices. Describe the strategic approach by the company and its benefits for the company.

Exercise 2

Read a couple of articles that describe Six Sigma. Discuss the qualities of this management strategy that lead it to be considered sustainable. If Six Sigma is a successful sustainability strategy for business, what might be some barriers to wider adoption by companies?

Exercise 3

What are some of the pros of considering the stakeholder approach as a sustainability strategy? What are some of the drawbacks of considering the stakeholder approach as a sustainability strategy? Provide some examples of how a small business might integrate the stakeholder approach into its business practices to make it more sustainable.