Business in the Big Picture: Managing for Sustainability

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Business in the Big Picture: Managing for Sustainability

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Business activity lives within the context of the social and natural environment, and the economic sustainability of business depends on social and environmental sustainability. Figure 1 is a graphic that helps to illustrate how business activity belongs to a larger context called society and how both business and society are a part of the larger system of nature on this planet. Business management today is accountable for social and environmental, as well as financial results (Figure 1).

This big picture perspective contrasts to a narrower, conventional, picture which focuses on how business activity transforms inputs in products and services, but takes little cognizance of how that production impacts the environment. In that conventional view, the performance of the firm is evaluated by comparing the revenues from sales to the costs of inputs. Through the sale of products and services, businesses aim to generate financial capital which can be distributed as return to owners or reinvested in natural capital and human capital inputs for continued production. The conventional picture tends to ignore waste, pollution, or social ills which the firm creates but which have been externalized costs not computed in the firm’s measure of profitability. It may fail to take into account how production may be systematically depleting or degrading limited natural resources in a way that may curtail the availability of inputs. It has therefore been called a “Take, Make, Waste” model of business.

The conventional model sees the environment as subordinate to business. An illustration of such thinking is when business interests oppose policies to put a price on carbon emissions and other full life-cycle costs of generating energy (and pollution) from fossil fuel sources. That conventional thinking says that business cannot afford to attend to the environment if that would slow down economic activity. Such thinking is of course short-sighted, because the longer-term sustainability of business depends on the sustainability of the natural environment.

There are signs that the times are changing to a bigger picture understanding of business as an aspect of societal and environmental systems. Spurring this change is the increasing expectations of stakeholders for firms to measure and report the social and environmental impact of their businesses. Sustainability is becoming accepted as a positive strategy for the financial performance of the firm for several reasons, including: the reputation and attractiveness of the firm to customers, employees, and investors; and the avoidance of costs through more eco-efficiency and eco-effective design of processes and products. McDonough and Braungart [1] brilliantly expound that a cradle to cradle system of production can produce not only exceptional environmental performance, but leads to the greatest abundance, as our labour and resources no longer go into the production of throw-away waste.

Increasingly, the thinking in business is shifting away from viewing sustainability as detracting from profitability, to viewing sustainability as a profitable strategy. Examples of this shift in thinking are articles in Harvard Business Review such as “Why Sustainability is Now the Key Driver of Innovation” [2], and Porter and Kramer’s [3] HBR article depicting a more responsible form of capitalism which links shareholder value and stakeholder value. Arguments for the why of sustainability business are illustrated by the work of Willard [4] and now a strategic management guide to the how of sustainability has been contributed by Laszlo and Zhexembayeva [5].

Business education today must prepare managers with perspectives and tools for managing business in the big picture of social and environmental sustainability. One such perspective is that business is responsible and accountable for impacts throughout the life cycle of the products which it sells. Life cycle assessment opens minds to comprehend the stages of resource extraction, materials production, product production, product distribution, product use, and end of life disposition. Life cycle assessment systems provide companies with tools for measuring and disclosing impacts at each stage of the life cycle, including the materials, energy, and water consumed in the process, and whether they are from renewable sources; and also the emissions at each stage to air, water, and land including the measuring of known toxic substances.

It is not enough for the firm to just be concerned with measuring revenues at the life cycle stage where it transfers ownership of goods to customers. It also has to take responsibility for the impacts of its business upstream to the source of its materials and downstream to its product use and re-use. Businesses are also accountable for social performance including governance, labor, and stakeholder engagement practices.

To satisfy stakeholders’ expectations, more and more companies are adopting systems for measuring and reporting their impacts on global sustainability throughout their supply chain. One particular important force in this global trend is the Walmart Sustainability Index [6]. Walmart’s plan to achieve its corporate goals for reducing
climate impact entails three steps. The first step involves Walmart asking its suppliers to report on a self-assessment aimed to help them identify their sustainability opportunities. The second step is a research project with the sustainability consortium to develop a global database of product lifecycle impacts. The third step will involve tools for consumers to understand the sustainability performance of products.

Another example of measuring and reporting for sustainability is the Global Reporting Initiative [7], a reporting standard which illustrates the type of sustainability reporting that can address the interests of a diverse range of stakeholders, including business, labor, non-governmental organizations, investors, accountants, and others.

Integrating sustainability and business strategy is not just a mechanical process of learning some measuring and reporting tools, it is a shift to a mindset of envisioning new possibilities for what the world can be and how business can do well by doing good to improve social and environment circumstances. Part of that mindset shift is a change of consciousness, an opening of the business psyche and the organizational culture to processes which engage more of the whole person, including values, caring, and imagination [8]. Business activity exists within the context of the natural laws of the planetary environment. The more we can orient our lives to be in tune with those laws of nature for our individual well-being, then the greater good we can create for the health of our economy, and the thriving of the natural systems in our planetary environment [9].

Business at this time is in transformation. Business as usual practices which “Take, Make, Waste” are not sustainable. Innovative businesses can achieve competitive advantage while addressing social and environmental needs. How quickly and how well this transformation is achieved may well depend on the capability of management education to cultivate sustainable minds attuned to the bigger system of nature which nourishes all life and growth on earth.

References
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