

ORGANIZATIONAL SUSTAINABILITY: APPROACHES TO ENHANCE STAKEHOLDER VALUE

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ABSTRACT

Sustainability has become a vital part of competitive business strategies as organizations invest in resources which could lead to long-term competitive advantage and increased stakeholder value. This paper reviews the core concepts of sustainability and suggests paths toward future prosperity where organizations can realize greater returns following commitment to sustainability.

STAKEHOLDER VALUE AND SUSTAINABILITY

Increased attention is being placed on how organizations are formulating strategies to enhance overall stakeholder value. Drivers of change come from multiple sources, including the various stakeholders in the organization, such as current and prospective investors, creditors, employees, management, and regulators. “Sustainability” is a term that historically has been included in organization vision statements, but without significant substantive measures to achieve it. With issues beyond bottom line profitability driving organizational culture shifts, the relationships between overall organization sustainability and stakeholder value are worthy of renewed examination.

SUSTAINABILITY AS COMPETITIVE BUSINESS STRATEGY

Sustainability has become a vital part of competitive business strategies for more organizations as they invest in resources to embrace measures which could lead to long-term competitive advantage. Responsiveness to factors which benefit the environment and social performance has been shown to also create stakeholder value, including Deloitte’s 2007 *White Paper*, where “Companies must undertake sustainability-driven enterprise transformation efforts in order to improve financial, environmental, and social performance,” and that is derived from a concept of the “Wholly Sustainable Enterprise” which is an entity that drives stakeholder value throughout the entirety of its activities, including products and services, workforce, workplace functions/processes, and management/governance. In order to create consistent long-term value, the traditional definition of “green principles” is extended to incorporate the entire activity base of the organization.

This “green” approach was expected to promote a longer-term profit perspective compatible with a long-term strategic enterprise sustainability planning approach for the organization, rather than a strictly short-term profit perspective—which may neglect maintenance and jeopardize the firm’s human resources. Companies that do not pay attention to sustainability issues on multiple dimensions may run the risk of losing a competitive advantage. As noted by Deloitte, companies that are “sustainable” across the entirety of their activity base will drive improved short-term profitability and long-term stakeholder value, while contributing to permanent betterment of social and environmental issues. The argument proceeds further: with the fulfillment of this win-win proposition, these companies will then sustain themselves indefinitely.

RECENT STUDIES OF SUSTAINABILITY IN ORGANIZATIONS

According to (Burnett, Skousen and Wright,2011) achieving corporate sustainability requires the implementation of management practices that create long-term shareholder value by embracing opportunities and managing economic, environmental, and social development risks. The authors examined the extent to which investors incrementally value the long-run benefits from adoption of eco-effective management. Their results supported their hypothesis that adoption of eco-effective management results in increases in firms’ market valuation, and that those increases persist beyond the current accounting period. As authors indicate their study has broad public policy implications with the shift by accountants, managers, and government policymakers forward to sustainability-- and the reliance on market-based mechanisms to further environmental goals.

A recent study (Gupta and Benson, 2011) examined whether sustainable companies are able to compete effectively in terms of financial performance and attractiveness to investors. They used a sample of firms appearing in the Innovest 'Global 100' rankings released annually at the World Economic Forum in Davos, Switzerland. Their empirical results indicated that sustainable companies do not significantly underperform the stock market as a whole. In addition the authors found that these companies are viewed as highly competitive within their industries. We provide a theoretical basis for these results by linking classic corporate strategy and competitive advantage theories to the performance of sustainable enterprises.

(Heffes, 2010) reported on a survey conducted by Robert Half Management Resources in the fourth-quarter last year which asked financial executives whether they expect their companies' emphasis on green initiatives to increase, decrease or remain the same in the next 12 month. As reported by Heffes, even in an economic downturn the survey found that 68 percent of chief financial officers said they anticipate no changes. Heffes noted that the survey included responses from 1,400 CFOs from a stratified random sample of United States' companies with 20 or more employees. Heffes also reported on another survey, co-sponsored by accounting and consulting firm Crowe Horwath LLP and the Center for Business Excellence (CBE) at Miami University's Farmer School of Business. According to Heffe, this survey found that sustainability initiatives are seen as having significant strategic value to organizations. However the reporting on these initiatives is challenging.

IMPLICATIONS AND FUTURE WORK

Recent efforts both domestically and globally suggest that sustainability extends beyond “green” and actually involves a call for return to basic principles of human resource, materials management, and financial accountability. This paper will review the core concepts of sustainability, analyze the emerging trends over the past decade, and suggest paths toward future prosperity where organizations can realize even greater returns following an organization committed to sustainability for stakeholder value.

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