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Implanting sustainability in business strategies: CSR, Ethics or the Law

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Implanting sustainability in business strategies: CSR, Ethics or the Law?

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Abstract

This paper elucidates the conundrum faced by Australian businesses in developing 'sustainable' business strategies that are acceptable to a multiplicity of stakeholders. A content analysis of the web pages for leading Australian companies indicates that there is little tangible evidence that sustainable business practices are being implemented. The authors propose several directions for research into substantive issues between ethical behaviour, corporate social responsibility and environmentally sustainable behaviour for businesses. Each of these areas is developing research in relative isolation. However, we argue that this paradigmatic divide is limiting the opportunities for research to provide real insight into seemingly intractable problems.

Background

Sustainability is an abstract term with multiple dimensions. For example, the Oxford Dictionary (2002p 3129) states that it is something which is 1) supportable or bearable, 2) able to be upheld or defended, 3) able to be maintained at a certain level. The meaning of 'maintain' suggests supported or upheld over time. Thus, it is clear that to be sustainable, an action has to be capable of being maintained over the longer term (Herremans and Reid, 2002). The term 'environmental sustainability' has come to contain these ideas in relation to the nature of the biosphere. That is, in order for business, products and actions to be sustainable, the biosphere must support and bear them. The biosphere must also be protected (defended) and upheld in the longer term. Sustainability concepts have also been applied to social situations (Carew and Mitchell, 2008) and program (Jancey et al., 2008; Rosenberg et al., 2008) as well as, organisational sustainability (which may or may not be financial) (Carraher et al., 2008). In addition the concept has been applied extensively to health programs which need to be (self) sustainable beyond the initial investment of externally applied effort (Jancey et al., 2008; Sexton, 2006). However, sustainability can also mean financial sustainability whereby the business entity has a responsibility to remain financially viable over the longer term. This is of particular concern in areas where shareholders play a part in the corporate governance structure (Horrigan, 2007).

There is a myriad of stakeholders who may have an interest in sustainability in all of its guises. The discourse on the interconnectedness of organisations with the world around them and the resulting imperative for sustainability dates back to the writings of Mary Parker Follet in 1918 (Schilling, 2000), however the term 'stakeholder' emerged as a key consideration in the corporate domain in 1984 through the seminal work of Freeman (1984). While the term stakeholder had been used for many decades, it was Freeman who described a stakeholder 'in an organisation [as] (by definition) any group or individual who can affect or is affected by the achievement of the organisation's objectives' (p46). In consideration of the relative importance, or powers of the stakeholders, Freeman (1984 p.143) 'forwarded the criteria of cooperativeness and competitiveness as ways to distinguish stakeholders' as well as categorising stakeholders into 'generic' and 'specific' groupings'. In more recent times there has been no clear agreement as to what are the exact attributes of the term 'stakeholder' (see discussion in de Bakker and den Hond, 2008). However, there is consensus that the concept of 'stakeholders' has diversified to include many other groups than those who were traditionally seen to have a financial 'stake' in the corporation towards a more values based perspective (Abela and Murphy, 2008; de Bakker and den Hond, 2008; Werhane, 2008). Thus, there is a potential for tension between those with an interest in the activities of the organisation in terms of social and environmental sustainability and those primarily concerned with financial sustainability. Of course, these are not necessarily mutually exclusive categories, as is evidenced by the growing demand for ethical (Hofmann et al., 2007) and environmentally positive investment (Holm and Rikhardsson, 2008).

As a consequence of the multiple conceptualisations of sustainability, and the variety of potential stakeholders with competing and sometimes mutually exclusive motivations, business is left with the dilemma of which needs to fulfil first: customers, shareholders, stakeholders, government or society (and if society we might also need to decide the local or global society)?

For a short time, 'corporate social responsibility' offered a potential panacea to manage these competing demands. However, as neatly expressed by Horrigan (2007):

> "Both the developed and developing worlds are rapidly reaching the point where they must decide if today's global CSR movement is a passing social fad, a threat to economically efficient corporate capitalism, an intrinsic element of corporate responsibility, or even a key to humanity's long-term survival." (p.86)

The competing demands of saving humanity and dealing with a threat to the economic efficiency of the organisation are likely require incommensurable strategies and activities. The lack of an agreed framework for exactly what is 'corporate social responsibility' had led to a proliferation of actions which may or may not be 'responsible' depending on which stakeholders' considerations are the driving motivation behind the action (Banerjee, 2008).

Another framework which offers support for business decision making is that of 'ethics' and 'ethical behaviour.' If embedded appropriately, ethical frameworks can obviate the need for other frameworks (Boyce, 2008; Stevens, 2008). For example, as illustrated in Stevens' (2008) work, organisational codes of conduct can be developed which encompass environmentally positive behaviours. Further, the teaching of ethical behaviour at university can limit the overall damage done by the individual in the pursuit of organisational goals (Boyce, 2008). Unfortunately, the use of ethical frameworks is fraught in business; where the question arises - which framework to use? For example, mining companies have an obligation to their shareholders to cut costs and increase wealth. However, they may also have an obligation to the wider society to decrease pollution and restore the land that they have mined to the local community in a condition where it can continue to be used. Not fully restoring the land may not draw international media attention (due to a potential lack of agency within local communities) and shareholder angst, but a decline in profits may, especially in an era of share market uncertainty. In the consequentialist framework, an action would be judged to be 'right' or 'wrong' according to its 'value' trade-off (that is; it is not wrong if it does not hurt anyone/anything) (Scheffler, 1988). In the above case, the business needs to weigh up consequences of the multiplicity of stakeholders, assuming that all stakeholders have the right to equal value in outcomes of the various tradeoffs being made. We argue that few businesses are in a position to argue the intrinsic value of a particular action with the finesse of an ethical philosopher and would prefer a more clearly defined pathway for decision making. For many the framework is profit and growth, as the consequences of these are more readily assessable by their stakeholders.

A brief reading of *The Journal of Business Ethics* would illustrate many an example of how difficult the framing of ‘ethical’ behaviour in business is. In many cases, ethics are confounded with morals and there is an assumption that ethical behaviour is intrinsically ‘friendly’ and ‘moral’ (see discussion in Crockett, 2005; Schwartz and Carroll, 2003; Stevens, 2008; Werhane, 2008). We are not convinced that this is yet the case. We maintain that ethical decision making is potentially feasible in business and support the evolution of models that encompass environmental ethics in addition to business ethics. Any ethical or moral framework developed would need to consider the needs of all affected stakeholders (present and future). However, the assumptions underpinning existing decision making would appear to limit this potential (Hillerbrand and Ghil, 2008). There is much work to be done in this regard.

A further framework which could be used for decision making is the legal one (Christensen, 2008). Adopting this framework implies that organisations are not able to make moral and ethical decisions with regard to their multiple stakeholders, which given the tensions involved might easily be the case. In this scenario, businesses would be legally constrained to abide by some codified principles of environmental stewardship. In this case, business would have a code of conduct externally applied to their behaviours. As a consequence, business decision making with regard to the environment would not be voluntary - that is a legislative framework must be complied with by law. Compliance with any legislative framework would be enforced and penalties would be commensurate with the ‘crime.’ Unfortunately, an environmental crime is a global one and an international legal framework is yet to be established. Therefore, how do businesses make ethically sound, environmentally responsible, socially principled, financially sustainable decisions? Which framework is ‘best’ in the given circumstances, and how would an organisation choose between them? The truth is, we don’t know the answer to this question and we have yet to have agreement that we need to seek an answer. However, given the divergent paradigms at play here, we are unlikely to be spending research effort wisely if the current state of knowledge continues to expand with such rapid diversity.

The principles underpinning ethics and ethical business decision making do not appear to value the profit maximisation motive although this may change as more authors begin to challenge the assumptions that making a profit is not ethical (see for example Chan, 2008; Donaldson, 2008). There is some recent work in the area of the ‘morality of profit making’ but this is not yet incorporated into general practice (Padelford and White, 2009), and is unlikely to be in the short term, considering the current global financial crisis. Furthermore, as ethical and moral frameworks can be culturally bound (Fernando et al., 2008; Rashid and Ibrahim, 2008; Yong, 2008) it is also not surprising that international legal frameworks are yet to be established (the Kyoto Protocol notwithstanding).

There is a growing trend to incorporate CSR within marketing frameworks Dahlsruhd (2008). However, even this will not address the issues if the domain is as clouded as suggested by Horrigan (2007) and Dahlsruhd (2008). These authors indicate a high degree of variability in the way the term CSR is used by scholars and practitioners alike. Indeed, adding marketing to the mix of CSR is likely to further muddy the waters. It would be difficult to justify producing a cheap and inefficient air conditioner on any environmental grounds but some consumers definitely want them and the shareholders of electrical manufacturers make profits from these wants. Is it ethically (morally or socially) responsible to provide the customer with what they want at a profit, thereby undermining environmental efforts made elsewhere?

Is there such a thing as an ethical framework that incorporates the environment? Or are we doomed, as suggested by O'Brien (2009 p. 25), to 'moral belly button gazing' because being 'good' is too difficult in the current business context? It is not clear if one framework will best enable appropriate decision making. If a combination of factors is required, which, if any, of the existing frameworks will be most useful? CSR? Ethics? The law? In order to respond to this question, we need to understand which of these frameworks is most developed in terms of incorporating environmental sustainability into decision making that concerns strategic directions being planned by business. Further, we need to understand how our top organisations are responding to the exigencies of the current environmental context. How close are we to sustainability?

Methodology for the exploratory study

In this paper the above three dimensions are developed through a content analysis of existing organisational websites. Frequency counts are used to analyse how often these dimensions are invoked and these are expressed as a percentage of the total number of websites examined. The websites of the ASX Top 20 were analysed looking for visible statements of activities and artefacts that were categorised as: corporate social responsibility, codes of conduct (which we assume to be evidenced by ethical frameworks) and environmental sustainability or green activities of these businesses. The analysis was based in the following (highly arguable) assumptions as shown in Table1. Judgement was used to ascertain whether the evidence on the webpage met the criteria for the dimension being assessed. Statements such as, "Our corporate responsibility is to customers, shareholders, employees, the community and the environment" (Telstra, 2008) was an example that the details would meet the criteria for dimension No.2 (Table 1). Some firms referred to their care for the environment in statements such as "We aim to achieve a high standard of care for the natural environment in all activities in which we engage" (Ozminerals, 2009). This firm would meet commitment No. 2 (Table 1). However, this webpage did not include specific information about these activities and therefore would not meet the requirements for dimension No.4 (Table 1). Similar judgements were required for the other dimensions as shown in Table 1.

Results

The analysis shows that the existing activities described as CSR, environmental sustainability and ethical codes of conduct are to a large degree not congruent with each other. There is very limited convergence between the concepts and the actions of the Top 20. In addition, there was very little evidence of environmental action beyond that required by the legal framework. We take this as verification that the Top 20 organisations are not yet able to establish practices beyond the legal requirements that are consistent with environmental sustainability. This demonstrates that there is an urgent need for academic debate about which framework will provide a basis for business decision making with regard to the environment.

Table 1 Dimensions, their underlying assumptions and results

Dimension	*Assumptions*	*Percent of Top 20 indicating (rounded)*
1. Growth as a key	A high growth strategy is not	45%

objective	environmentally sustainable	
2. Level of commitment to environmental issues in the annual report	More overt commitment is better than none or low levels	27%
3. Existence of a public code of conduct	For ethical standards to prevail (as opposed to moral ones) there must be a formal statement of ethics and/or an ethical code of conduct.	82%
4. Number and type of environmental issues incorporated in the code of conduct	If there are more environmental activities occurring, the organisation will be better than if no activities are occurring.	27%
5. Use of triple-bottom-line reporting	If an organisation is using 'triple bottom line' (TBL) reporting, there will be more activities and TBL is indicative of a commitment to the environment.	27%
6. Expressed willingness to trade off profit for the environment	Firms with a willingness to trade off profitability in order to improve their environmental actions are more environmentally friendly.	0%
7. Total lifecycle considerations	Organisations which have established total-life-cycle management for their products and services are more environmentally sustainable.	20%
8. CSR activities	CSR activities will of necessity contain an environmental dimension.	27%

Conclusions

If the public face of the Top 20, as expressed in their websites, is not providing evidence of sustainability by implication this is not occurring in practice. This suggests that research into what might be an acceptable common framework for business decision making is urgently needed. Environmental sustainability will not come about through serendipity. If legislation is required to effect change, some upstream marketing may be required. If a code of conduct will provide the framework, this needs to be developed in conjunction with the stakeholders based on some clear theoretically sound principles. However, each of these will require an inter-disciplinary approach. Specifically, we propose that the eight dimensions (Table 1) and their underlying assumptions are tested through further research. These firms may be practising a form of green-washing, either deliberately or otherwise; if so, this practice should be exposed, enlightenment provided and guidelines provided for the various stakeholders.

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