QUALITY TOOLBOX

Sustainability: The Three Responsibilities

Environmental, social, and economic accountability for business organizations

Sustainability can be a difficult concept for businesses to incorporate into their day-to-day operations. To make the process simpler, I recommend that organizations try to view sustainability simply as a way of operating effectively and efficiently. As part of this approach, I have suggested five "sustainability basics" for companies:

- business continuity and risk management,
- responsibility,
- conformance and compliance,
- performance, and
- continual improvement.

This column focuses on the second of these basics, responsibility. The others have been discussed in prior installments of the "Quality Toolbox" column.[1]

Maintaining Your License to Operate

Every organization depends on maintaining a "license to operate" from society. This does not refer to any specific document or permit required by law. Rather, it refers to society's acceptance of the organization and its willingness to let the business continue operating.

Companies gain (and maintain) their licenses to operate by providing value to the community. In this context, value refers to more than just economic development. It also encompasses environmental protection and social equity. These three concerns (environment, society, and economics) represent the three areas of responsibility that increasingly are being assigned to businesses.

As organizations struggle with achieving sustainability, coming to grips with these responsibilities is perhaps the greatest problem they face. The three responsibilities define sustainability in an operational sense. Failure to address them can lead to risk and jeopardize the continuity of the business. How well an organization meets these responsibilities (and how well it is perceived to meet them) can affect its ability to:

- maintain its reputation,
- attract and retain workers and customers,
- maintain worker and resource productivity levels,
- attract investment and other resources for improving competitive advantage, and
- deal effectively with regulators and insurance companies.

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The three responsibilities must be fully integrated with each other and made a key part of what every employee at the organization does every day. Specific responsibilities within the three major categories will of course differ somewhat depending on the nature of the organization.

A Local Perspective

Commentators often discuss sustainability from a large-scale perspective, viewing it from a global vantage point. In this column, however, I look at sustainability issues from a local perspective. The focus here is on a local business that must interact with local government officials, citizens in the neighborhood, and the larger community.

The specifics involved in implementing a sustainability program depend in part on where the organization is located and what it does.

From this perspective, sustainability represents the willingness of the local business to incorporate the three responsibilities into its governance. It indicates that the business expects to be held accountable for the impacts its decisions and activities have on the environment, on people, and on the economic vitality of the community.

A local business must be both transparent and accountable for its actions. It must exhibit ethical behavior that contributes to sustainability in the community. It must also take the interests of stakeholders into account and assure compliance with applicable laws and other norms of behavior. All of these considerations must be integrated throughout the business's practices and must guide its relationships in both the marketplace and the community at large.

Sustainability must be made operational at each organizational "point of presence." Think of sustainability as the "thousand points of light" that can be found both inside a corporation and within its supply chain. It represents the cascading down of the organization's three responsibilities to the lowest levels of the business.

Sustainability can be embraced by businesses of any size, in any sector. By no means is sustainability only the domain of large, multinational, publicly traded corporations. Even within these larger organizations, many of the best sustainability practices will arise from improvements initiated by smaller, more agile facilities and suppliers.

ISO 26000: Principles of Social Responsibility

Participants from the international community are currently finalizing a new standard that will be known as ISO 26000, "Guidance on Social Responsibility." This standard grows out of a multiyear consensus building effort. As part of that effort, the participants identified seven principles of social responsibility:

- accountability,
- transparency,
- ethical behavior,
- respect for stakeholder interests,
- respect for the rule of law,
- respect for international norms of behavior, and
- respect for human rights.

Each of these principles is described in more detail in the ISO 26000 guidance. These social responsibility principles should be part of any business's sustainability effort.

There is no comprehensive list of practices available that an organization can use to address sustainability in its local operations. The specifics involved in implementing a sustainability program depend in part on where the organization is located and what it does. However, the seven guiding principles listed above can give business organizations an idea of what they need to focus on to meet the three responsibilities associated with sustainability.

The sections that follow draw on guidance offered by the current draft of ISO 26000.

Engaging Stakeholders

Every organization, large or small, must identify the interests of its stakeholders through a process of engagement. This requirement applies whether the organization is public, private, or not-for-profit, whether it is operating in the manufacturing or service sector, and no matter where it is located.

Stakeholders are individuals or organizations that have an interest or "stake" in how a business manages its activities, products, and services. Stakeholders can be employees and shareholders of the company. They can also be its customers, creditors, suppliers, and members of the community who are impacted by its activities.

A business can affect the people and organizations it comes into contact with in many ways. As a result, its actions effectively create relationships with a range of stakeholders—whether the business realizes it or not. The impacts that a business may have on stakeholders can be positive (e.g., employment opportunities) or negative (e.g., noise and odors).

A local business may not know who all its stakeholders are. To protect its license to operate, however, it should seek to identify as many of them as possible.

Stakeholder engagement involves establishing some level of dialogue between the business and those who have an interest in its operations, especially members of the local community. Such engagement can be formal or informal. It can also use a wide variety of different formats (including surveys, open-house meetings, and stakeholder group meetings). By definition, stakeholder engagement is interactive and requires two-way communication if it is to be effective.

In most cases, the local business will already recognize the key interests of its stakeholders. Nonetheless, actually engaging stakeholders in dialogue is still crucial if the business wants to ensure that it maintains its license to operate. Remember that the interests of stakeholders may change over time, especially if the business itself changes (through, for instance, rapid growth).

"Engagement" does not obligate the business to address every issue or concern that is raised by stakeholders. It does, however, require the organization to listen to its stakeholders and take their concerns seriously. Stakeholder engagement is the one activity that best characterizes the difference between business-as-usual and sustainable business operations.

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The Sustainability Responsibilities

Recognizing Responsibility

A number of specific relationships tend to guide the responsibilities of business organizations. ISO 26000 notes three types of relationships: between the organization and society, between the organization and its stakeholders, and between the stakeholders and society. Let's see how this plays out at the local level.

First, the local business clearly has a relationship with its surrounding community. Every business organization needs to understand how its activities, products, and services affect the community.

Second, the local business has a relationship with its stakeholders (i.e., those who have an interest in how the business operates because they are affected by it in some way). It is always easier to respond to stakeholders' concerns if the business has had previous contact with them (which is one of the reasons why stakeholder engagement is so important).

Third, the local business's stakeholders have a relationship with the larger community. Since stakeholders are a diverse group, some of them may have specific interests that are not consistent with the expectations of the community at large. Stakeholder concerns must be carefully balanced across a broad spectrum of interests. Individual stakeholder groups need to know how the interests of other stakeholders may conflict with their own.

Each local business should understand how the conflicts involved in these various relationships can complicate its ability to maintain a license to operate. The business must be constantly aware of the dynamics involved and must be able to modify its sustainability program to reflect changes in these relationships.

A local business should continually work to improve environmental performance—both its own performance and the performance of other parties that it controls or who fall within its sphere of influence.

To some degree, local businesses have always had to conduct their operations with particular awareness of community relationships. With the range of communication methods available today, it is even more important that they pay particular attention to these relationships.

ISO 26000 emphasizes that a business's responsibilities extend beyond what it can control directly, encompassing its full "sphere of influence." This term is defined as the "area or political, contractual or economic relationships across which an organization . . . has the ability to affect the decisions or activities of individuals or organizations."

Environmental Responsibility

ISO 26000 notes that "decisions and activities of organizations invariably have an impact on the environment no matter where they are located."

At the local level, environmental impacts can be particularly visible. A local business must do more than just comply with legal and other requirements. It must also take responsibility for the environmental impacts its activities have on the community. A local business should continually work to improve environmental performance—both its own performance and the performance of other parties that it controls or who fall within its sphere of influence.

■ *Enhancing Resource Productivity*

The first environmental responsibility of every business is to prevent pollution and waste by optimizing resource productivity. The business should work to ensure that all the processes responsible for its products and services utilize resources (i.e., energy, water, and materials) as efficiently as possible.

Those who are responsible for the operational efficiency of the business must be involved in preventing the loss of valuable resources. At the same time, the business must make an effort to reduce any process losses at the source.

Organizations often confine resource-productivity considerations to their pollution prevention efforts. But these concerns should also be embodied in the design of processes and the procurement of resources. A good tool for this purpose is PAS 2050, a British standard that assesses the life-cycle greenhouse gas emissions associated with goods and services. This standard can be used to calculate how much energy is "embedded" in products.

■ *Considering Stakeholder Environmental Concerns*

A second environmental responsibility involves paying attention to stakeholder interest in environmental issues, such as climate change, local water availability, and the business's use of chemicals that might cause health effects to those who use the company's products or services.

These interests cannot be handled one at a time, since addressing them generally involves trade-offs. For example, efforts to conserve and reuse water often require the business to use much more energy. Efforts to reduce energy use may lower the amount of air conditioning in the summer but increase the amount of heat needed in the winter.

Consider the example of corn-based ethanol: It is classified as a renewable energy source, unlike petroleum. But it generates carbon dioxide and nitrous oxide upon combustion, making it a source of greenhouse gases comparable to a fossil fuel.

A local business should not assume that action on an issue of regional or global importance, such as climate change, equals a sustainability initiative from the perspective of its stakeholders. Local water shortages due to drought may be as important to the neighboring community as climate change is to a regional environmental organization.

■ *Protecting the Local Environment*

A third environmental responsibility involves protecting the local environment and natural habitats. A business can cause environmental damage even when it is operating within the legal limits of its permits. Some level of pollution is always created because no process is 100 percent efficient. In some cases, the pollution and the resultant damage to the environment occurs elsewhere in the supply chain, either upstream or downstream from the local business.

Many companies work locally to restore natural habitats even if they were not the ones responsible for the habitats' degradation. This is a good way for a local company to acknowledge its impacts on the environment and demonstrate responsibility to the community in which it operates.

In addition, local businesses may encourage their employees to volunteer for environmental activities in their communities. This also allows the business to meet its obligation of social responsibility, which is discussed next.

Social Responsibility

ISO 26000 emphasizes several key areas of social responsibility (in addition to the environment). Among them are:

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- human rights,
- labor practices,
- fair operating practices,
- consumer issues, and
- community involvement and development.

The sections that follow briefly outline each of these areas of social responsibility.

■ *Human Rights*

ISO 26000 recognizes that governments have primary responsibility for ensuring human rights. But business organizations also need to respect human rights, and should exercise due diligence in seeking to determine where human rights issues may arise.

The ISO 26000 standard takes an expansive view of due diligence, defining it as a "comprehensive, proactive effort to identify risks over the entire life cycle of a project or organizational activity, with the aim of avoiding and mitigating those risks."

For local businesses, this means considering and mitigating human rights issues both in their own operations and in the operations of their supply chains (at least to the degree that businesses can influence the behavior of their suppliers).

Some businesses form partnerships with nongovernmental organizations that have expertise in human rights. Such partnerships can help the business organization better understand the challenges associated with this aspect of social responsibility, especially when the business's supply chain reaches into many different countries around the world.

A business organization's labor practices can have a highly visible impact on the community and may play a key role in maintaining the business's license to operate.

ISO 26000 addresses a number of specific concerns related to human rights, including:

- situations that can create human rights issues;
- avoidance of complicity in the human rights violations of other parties;
- resolution of grievances;
- discrimination and vulnerable groups;
- civil and political rights;
- economic, social, and cultural rights; and
- fundamental principles and rights at work.

Issues affecting human rights can arise here in the United States or in other countries within the business's supply chain, especially supplier operations in developing countries. All human rights issues pose risks for business organizations and can potentially affect their license to operate.

■ *Labor Practices*

Local businesses often provide a significant number of jobs for the surrounding community. This represents one of their most important social contributions. A business organization's labor practices can have a highly visible impact on the community and may play a key role in maintaining the business's license to operate.

ISO 26000 examines a number of labor issues that can have an impact on the sustainability of local businesses. They include the following:

- employment and employment relationships,
- conditions of work and social protection,
- social dialogue,
- health and safety at work, and
- human development and training in the workplace.

Issues involving labor practices may arise outside the business's own workplace. A business organization must also be aware of its responsibilities when subcontracting work out to other parties.

■ *Fair Operating Practices*

ISO 26000 recognizes a responsibility to adopt "fair operating practices." This means that a business should deal ethically with other parties, including partners, suppliers, competitors, and government agencies. Among the key aspects of ethical conduct identified by the standard are:

- preventing corruption,
- practicing responsible political involvement,
- competing fairly,
- promoting social responsibility in the business's sphere of influence, and
- respect for property rights.

■ *Consumer Issues*

Every business organization is responsible for protecting consumers who buy or use the organization's products and services. Failure to consider consumer interests can have serious negative consequences for a business's continued ability to operate.

For example, a number of computer companies received negative publicity when they acknowledged the amount of energy used in their own internal operations, but ignored the energy used by consumers who purchased their products. By making their products more energy-efficient, they can begin to address these concerns.

ISO 26000 suggests a number of components that need to be considered in connection with this aspect of social responsibility:

- fair marketing, communication of factual and unbiased information, and fair contractual practices;
- protecting consumers' health and safety;
- promoting sustainable consumption;
- consumer service, support, and dispute resolution;
- protecting consumers' data and privacy;
- providing access to essential services; and
- promoting consumer education and awareness.

■ *Community Involvement and Development*

Companies should strive to be "good citizens" in all of the communities where they conduct business and should contribute to the development of those communities. ISO 26000 identifies several components associated with this aspect of social responsibility:

- community involvement,
- education and culture,
- employment creation and skills development,
- technology development,
- wealth and income creation,
- health, and
- social investment.

Economic Responsibility

Economic responsibility is a key component of sustainability. A good way to approach this responsibility is by using the Five Capitals Model, a framework created by Forum for the Future that looks at sustainability in terms of wealth creation. According to this model, business organizations depend on five types of capital:

- natural capital (natural resources and processes), which underpins the other four types;
- human capital (including individuals' knowledge, skills, and motivation);
- social capital (which the model defines as "any value added to the activities and economic outputs of an organization by human relationships, partnerships and cooperation"; examples include networks, organizations, and intangible benefits such as social norms and trust);
- manufactured capital (including tools, technology, machines, buildings, and all forms of infrastructure); and
- financial capital (which "reflects the productive power of the other four types of capital").

For a business organization, economic responsibility means protecting and enhancing the five types of capital under an umbrella of organizational transparency and accountability.

The products or services that a business creates ultimately rely on a combination of all these capital components. To promote sustainability, the business needs to "maintain and where possible enhance these stocks of capital assets, rather than deplete or degrade them."

For a business organization, economic responsibility means protecting and enhancing the five types of capital under an umbrella of organizational transparency and accountability. By utilizing the Five Capitals Model, a business can overcome the weaknesses of the "triple bottom line" concept. With this model, there is no need to trade off social, economic, and environmental factors. The five types of capital are interrelated and need to be managed, protected, and enhanced in an integrated fashion.

Back to Sustainability Basics

As noted at the beginning of this column, there are five sustainability basics, of which responsibility is one. Most companies address these basics in some way, so it is important to understand what mechanisms for promoting sustainability may already be in place at your company. You can work to integrate these elements into a sustainability management system, and then add more advanced components as your sustainability program progresses.

It is a good idea to use a performance or "business excellence" framework in combination with your sustainability management system.[2] Incorporating such a framework into your management system can help make sustainability operational at the local level.

Finally, always remember that, no matter how advanced your system becomes, your company should always strive to continually improve its sustainability program. Every organization must constantly work to enhance its sustainability management system as stakeholders and competitors continue to raise the bar, bumping up the expectations for companies that want to remain at the forefront of sustainability.

Notes

1. See, for example, Pojasek, R. B. (2008, Spring). Quality toolbox: Risk management 101. Environmental Quality Management, 17(3), 95–101.

Pojasek, R. B. (2009, Autumn). Quality toolbox: Conforming to a management system—and complying at the same time. Environmental Quality Management, 19(1), 79–86.

Pojasek, R. B. (2009, Winter). Quality toolbox: Sustainability performance: Addressing the now with attention to the future. Environmental Quality Management, 19(2), 77–83.

2. See Pojasek, R. B. (2007, Winter). Quality toolbox: A framework for business sustainability. Environmental Quality Management, 17(2), 81–88.

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