INTEGRATING Environm

Is corporate environmental practice at a crossroads? Is sustainable development the new business challenge? Today, many argue that the evolution of corporate environmental practice has run its course—that industries throughout the world have generally accepted environmental responsibilities and that the business environment has evolved to such an extent that corporations now need to attend to sustainable development as one of their central concerns. Nancy Bennett, program officer for the United Nations Environment Programme's (UNEP) Industry and Environment office concurs: "Environmental management (EM) has come and is certainly not about to go, but the next big challenge is about integrating social issues into traditional EM tools."[1]

One problem companies have with addressing the issue of sustainable development is that they are unclear on the definition. Even

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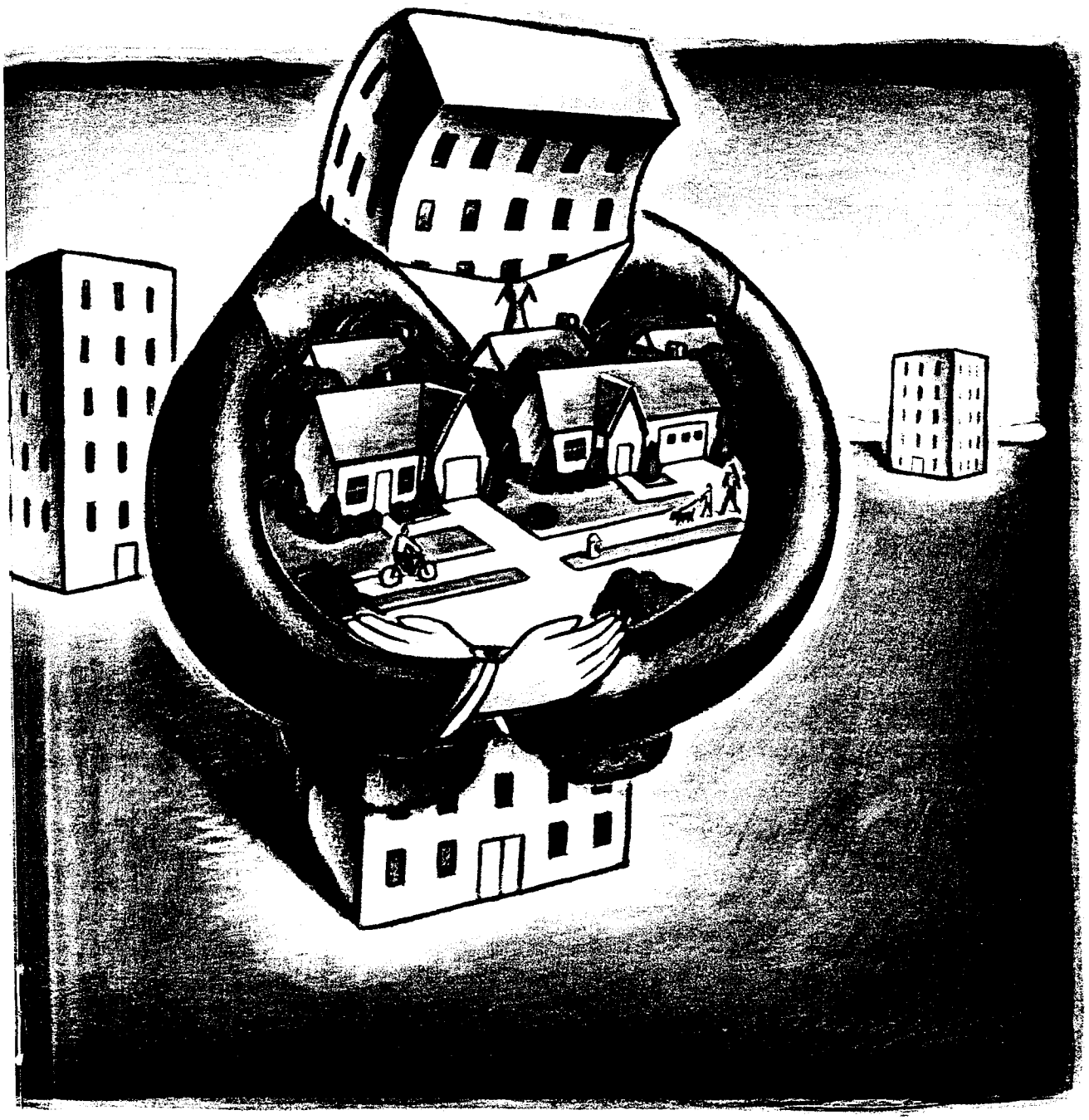
by Andrew J. Hoffman

ental and Social Issues into CORPORATE PRACTICE



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those who support the concept disagree on its precise meaning (see the box below). This ambiguity causes companies to fall back on known strategies to define sustainable development, relying primarily on strategies that were designed to address environmental concerns as the objective of near-term practices. Therefore, eco-efficiency has thus far provided the guiding framework for most businesses on how to respond to the emerging social pressures that will affect their market positioning and cost of doing business. It represents what businesses already know, and the adoption of the values underlying these concerns are consistent with the values already held by the market economy. But at its core, the defining values of sustainable development are more challenging to accept than the existing institutional beliefs about eco-efficiency. In fact, if corporations fully accept the values embedded within the sustainability agenda, the issue stands to challenge many underlying assumptions of the market economy and to redefine the objectives of companies that act within it.

The Elusive Definition of Sustainable Development

Although the term "sustainable development" (or "sustainability") dates back to the 1970s, the most frequently cited definition comes from the 1987 Bruntland Commission report that called for development that "meets the needs of the present without compromising the ability of future generations to meet their own needs."[1] Giving more structure to this definition, sustainability has been described as focusing on the "triple bottom line," the need to balance the three E's in the global economy: economic prosperity, environmental quality, and social equity.[2] In other words, economic growth must be pursued in a manner that ensures the protection of both social and environmental systems. These system considerations have intergenerational and intragenerational components. In the former, future generations must be left with an ecologically viable and socially stable planet upon which to live. In the latter, present generations must be accorded an equal opportunity for economic security as well as the fair distribution of environmental costs and benefits.[3] For this to happen, the links between environmental degradation and economic activity in the developing world must be severed.[4] In short, the concept strives for a perpetually stable resource base, involving no depletion of resources or ecosystems (and possibly even an expansion of those benefits), and a perpetually stable social system, with no unfair inequities in standards of living, personal security, and income distribution.

Unfortunately, there remains no clear definition of exactly how people will meet these objectives because no practical definition of sustainable development yet exists. Academics, government agencies, activists, and corporate officials define it in diverse and often conflicting ways. Many corporate representatives turn to present norms and practices in defining the concept. They focus on contemporary issues for environmental protection (such as pollution minimization and toxics reduction) and worker rights (such as minimum wage and worker benefits). These issues remain central in present forms of development and in trying to harmonize natural and social systems.

Many outside of industry feel that in these terms, sustainable development becomes merely a tool, a set of actions, or a selective set of strategies driven by the standard social, economic, and institutional mechanisms.[5] The imperative of economic growth is still the primary goal of development planning, while criteria of sustainability become necessary constraints, much like environmental considerations were viewed in the 1970s and 1980s.[6] Rather than harmonizing economic, environmental, and equity considerations into a synergistic whole, the prevailing purpose is still one of tradeoffs among them with economic growth the paramount objective.

Instead, many argue that sustainable development represents a challenge to the underlying assumptions of the market economy.[7] Proponents of this argument believe that sustainability should redefine existing beliefs about the corporation's economic, environmental, and social responsibilities. Carl Frankel, author and U.S. editor for *Tomorrow* magazine, explains that sustainable development

has a vertical as well as a horizontal dimension. Life is not only technical and objective; it is also soulful and subjective. Our conception of sustainable development needs to do justice to these "vertical" dimensions of human experience. Sustainable development implies a new and healthier balance in how we conduct our human affairs, one that celebrates depth along with surfaces, community along with individuality, spirituality along with materialism, art along with linear techniques.[8]

In this light, sustainable development means much more than standard conceptions of eco-efficiency or social welfare. It is about changing the values of the system by which such problems are both created and resolved. Clearly, the values and practices of such a new system may be at significant odds with present market signals and objectives, depending on who ultimately defines them.

1. World Commission on Environment and Development. *Our Common Future* (Oxford: Oxford University Press, 1987), 8, 43.

2. J. Elkington, *Cannibals with Forks: The Triple Bottom Line for 21st Century Business* (Oxford: Capstone, 1998).

3. A. Farrell and M. Hart "What Does Sustainability Really Mean?: The Search for Useful Indicators," *Environment*, November 1998, 4–9, 26–31.

4. S. Hart, "A Natural-Resource-Based View of the Firm," *Academy of Management Review* 20, no. 4 (1995): 986–1014.

5. M. Jacobs, *The Green Economy: Environment, Sustainable Development and the Politics of the Future* (Vancouver B.C.: UBC Press, 1993).

6. M. Colby, "Environmental Management in Development: The Evolution of Paradigms," *Ecological Economics* 3 (1991): 193–213.

7. T. Gladwin, J. Kennelly, and T. Krause, "Shifting Paradigms for Sustainable Development: Implications for Management Theory and Research," *Academy of Management Review* 20, no. 4 (1995): 874–907; H. Daly and J. Cobb, *For the Common Good* (Boston: Beacon Press, 1994); and H. Daly, *Steady-State Economics* (Washington, D.C.: Island Press, 1991).

8. C. Frankel, *In Earth's Company: Business, Environment and the Challenge of Sustainability* (Stony Creek, Conn.: New Society Publishers, 1998), 22.

An important early step in creating a definition of sustainability is the development of measurable indicators. Explicitly defining the term allows for a better understanding of what it means for business practice. The United Nations Commission on Sustainable Development has proposed a set of indicators that are primarily meant as country-level social measures. But if institutionalized, these indicators could also act as a guide for the emergent definition of sustainable corporate practice. They include income inequality, average life expectancy, level of crime, number of homeless, population growth rate, the difference between male and female school enrollment rates, per capita consumption of fossil fuels for transportation, the ratio of the average house price to average household income, living space (floor area) per person, environmentally adjusted net domestic product, energy consumption, the intensity of materials used, the percentage of the population with adequate excreta disposal facilities, share of renewable energy resources consumed, annual withdrawals of ground and surface water, the ratio of debt service to export earnings, the maximum sustainable yield for fisheries, changes in land use, the percent of arable land that is irrigated, energy use in agriculture, emissions of greenhouse gases, waste recycling and reuse, and access to information.[2] One example of setting up a consistent set of measures to assess ecosystems is explained in Robin O'Malley's article that was published in the April 2000 issue of *Environment*.[3]

Some of these metrics represent values and objectives that are consistent with current corporate objectives. Others represent values that will require a considerable stretch for corporations. Many of the metrics in the first category deal with environmental issues. Many of those in the second deal with social equity. Herein lie the differences in the business imperative for environmental management versus sustainable development.

The concept of environmental management has entered the reality of business practice. Similarly, the term sustainable development has entered the lexicon of corporate dialogue. However, integration of the former into business practice is far from complete, and integration of the latter is far from begun. This article's assessment of how businesses incorporate environmental management and sustainable development into their general practices is based on observations of the market institutions driving each. Why are companies beginning to adopt environmental practices that are consistent with their economic goals? Why does sustainable development remain on the periphery of corporate strategy? Where concerns for environmental issues have evolved beyond the realm of socially responsible business, concerns for the social aspirations of the sustainable development agenda remain firmly entrenched in this domain. Whether the issue moves beyond this domain will depend on the market, economic, political, and social institutions that require this development. Looking at the contemporary business imperative for environmental management provides a better understanding of the missing business imperative for sustainable development.

An understanding of why corporations pay attention to issues such as environmental management and sustainable development lies in who is driving that concern and what form it takes. In the case of environmental management, the constituency of that external environment, and hence the definition of corporate environmental practice, has evolved steadily over the past four decades. For example, what environmental protection meant 20, 10, or even 5 years ago is far different from what it means today. What was called ecology in the 1970s has evolved successively into environmental management, waste minimization, pollution prevention, product stewardship, total quality environmental management, eco-efficiency, industrial ecology, and environmental strategy. More importantly, these definitions are far different from what they will be in the next 20, 10, or even 5 years. The evolving concepts of corporate environmental practice emerge from an expanding constituency that defines how to view environmental problems as well as what the appropriate solutions should be.

Traditional Conceptions of Environmental Management

Governments and social activists have historically been the most prominent constituents driving corporate environmental practice. The first is able to establish laws that bind organizations to certain practices and procedures. The second is able to mobilize social protests in many forms that can reflect negatively on corporate reputation and performance. During the 1970s and the 1980s, these two social forces were the predominant drivers of corporate environmental practice, yielding the two traditional managerial views of the relationship between corporate practice and environmental protection shown in Figure 1 on page 26.

In the 1970s, the government was the primary arbiter of corporate environmental performance. Thus managers viewed the relationship between corporate practice and the environment in terms of how environmentalism acted as a regulatory constraint imposed by the government. This relationship is illustrated by the arrow moving from right to left in Figure 1. Through this

lens, environmentalism is lamented as a useful social endeavor but a decidedly unproductive intrusion into corporate affairs. It is a restriction on or deviation from central corporate activities. In this way, managers boiled environmental management down to "regulatory compliance."

In the 1980s, social activists began to take a more prominent role in driving corporate environmental performance. Their rise in power and influence correlates with their memberships and budgets, which grew significantly in the early 1980s. Membership in the Sierra Club alone nearly doubled between 1980 and 1986. Activists called attention to the impact of industrial activity on environmental ecosystems, displayed by the arrow moving from left to right in Figure 1. They organized public protests and lawsuit campaigns to convince corporations to change their practices. In the face of such pressures, managers developed environmental practice as an aspect of their corporations' "social responsibility."

In both cases, corporations had limited self-interest in initiating environmental practices. Unless the government forced them or activists shamed them, businesses did not need to initiate environmentally safe practices. Instead, the threat of either legal sanction (civil, administrative, or criminal penalties) or social sanction (protests, negative press, diminished reputation, and image) drove changes in corporate practices. Environmental issues were managerially framed as fundamentally external to business interests. Managers viewed these issues as a threat or a restraint to corporate affairs from sources separate from the key drivers of the market system. However, these views are now outdated. Corporate environmental practice is beginning to enter the realm of corporate strategy through a host of other institutional drivers.

Emerging Conceptions of Environmental Strategy

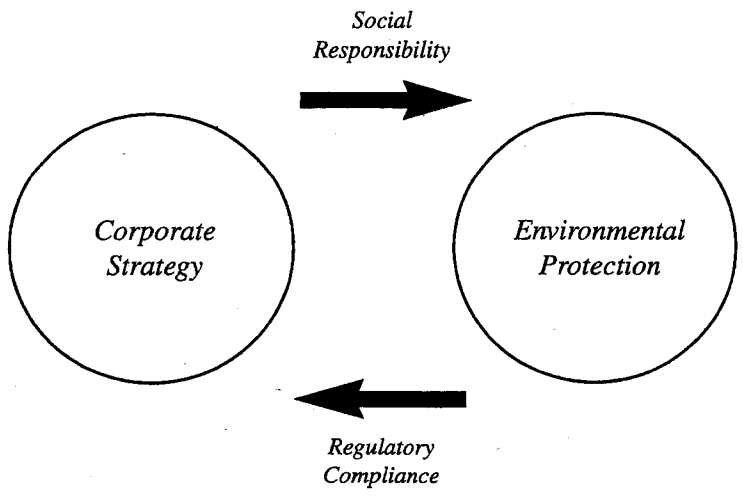
Since the early 1990s, the reality of environmentalism within the business context has become more complex than regulatory compliance or social responsibility reveal. In fact, the very form shown in Figure 1 is now incorrect: Environmental protection and economic competitiveness are becoming increasingly intertwined, as depicted in Figure 2 on page 27. At the intersecting space between the two fields are constituents with concerns for both business and environmental issues. What was once driven primarily by pressures separate from core business objectives is now driven by interests that exist within a firm's economic, market, political, and social environments and that share concerns at the core of business decisionmaking (see the box on page 29). Organizations within a firm's external environment equate good environmental performance with good operational management, low financial risk, and a signal for future economic success. They are beginning to influence the norms of corporate practice and to transform environmentalism from something external to the market system into something that is central to the core objectives of a firm. The entire business system is changing, and this triggers a more complex set of strategic responses than have been traditionally invoked.

Strategic Drivers of Environmental Issues

In a complex system of corporate networks and materials outsourcing, companies become tied to one another: If one company introduces a toxic material into the process, all companies must then consider how to handle it. Some companies, such as Dow, Levi Strauss, Nike, and Proctor & Gamble, have set standards on all contractors who provide materials that enter the product stream. For example, in 1998, Nike required all its supplier factories to comply with U.S. air quality standards even if they were more stringent than their domestic requirements. To assist in attaining these standards, the company is transferring technology and knowledge to overseas operations.[4] Levi Strauss & Co. offers generous timetables, loans, and volume guarantees for contractors who meet their requirements. In return, many contractors feel that meeting these requirements and having Levi Strauss as one of their clients is helpful in attracting new customers.[5]

One important component of this supply chain is capital, and one source of that capital—shareholders—has been active in

Figure 1. Institutional drivers of environmental management



SOURCE: A. Hoffman, *Competitive Environmental Strategy: A Guide to the Changing Business Landscape* (Washington, D.C.: Island Press, 2000), 9.

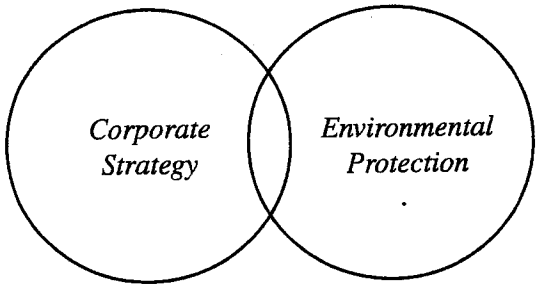
pressing environmental concerns since 1989 when the Council for Environmentally Responsible Economies (CERES) first enlisted the help of investors.[6] Since 1990, shareholders have been filing environmental proxy resolutions in annual board meetings and seeking the endorsement of their environmental principles. More recently, the environmental community has begun to engage this constituency for more action. According to Julie Tanner, senior financial analyst at the National Wildlife Federation, "We have been training people all around the world about the role of financial institutions and where they can find points of leverage."[7] Even without such outside influence, some shareholders have taken it upon themselves to exert environmental pressures on the companies in which they own stock. In 1999, investors pressured Occidental Petroleum Company into hiring an outside consultant to analyze the impact of drilling operations in an area of Colombia occupied by the U'wa Indians. Also in 1999, Maxxam Group Holdings, Inc., headquartered in Houston, Texas, experienced a drop in stock prices when it rejected a deal from the federal government and the state of California to buy its holdings of the largest privately owned grove of ancient redwoods in the world. As a result, the company had a change of heart and decided to accept the deal.

Beyond shareholders, broad-based investors are also an important source of capital. Like shareholders, they are beginning to make financial decisions based on studies that suggest a positive correlation between environmental and economic performance. The Alliance for Environmental Innovation reviewed 70 research studies and concluded that companies that outperform their peers environmentally also outperform them on the stock market by as much as two percentage points.[8] ICF Kaiser found a similar correlation in a study of 300 of the largest public companies in the United States.[9] A report by Robert Repetto and Duncan Austin of the World Resources Institute showed that companies in the pulp and paper industry face environmental risks that are of material significance, varying from 3 to 10 percent of market value (positive or negative).[10] In 1998, the New York Society of Security Analysts, the largest and most influential society of investment professionals in the world, launched a series of environmental seminars entitled "Uncovering Value" to examine how progressive corporate environmental practices contribute to a company's performance, profitability, and growth. These companies, according to fund managers, handle their environmental affairs responsibly relative to their industry competitors. Therefore, they will likely manage their overall operations more responsibly. This type of screening has for some funds, such as those run by Domini, Storebrand, and UBS Brinson, led to greater returns. The Storebrand Scudder Environmental Value Fund, for example, appreciated 51 percent in its first two years, outperforming the Morgan Stanley Capital International World Index by more than eight percentage points.

Banks are also beginning to look at the environmental practices of corporate loan applicants, equating poor environmental performance with high financial risk. As with investment fund managers, banks may view environmental mismanagement as operational mismanagement, thus opening up a great possibility for unforeseen problems and loan foreclosure. On the most basic level, no bank today would underwrite the purchase of a brownfield site (a previously used land parcel typically located in urban areas) without a full environmental assessment. But going further, banks are becoming more aggressive in their envi-

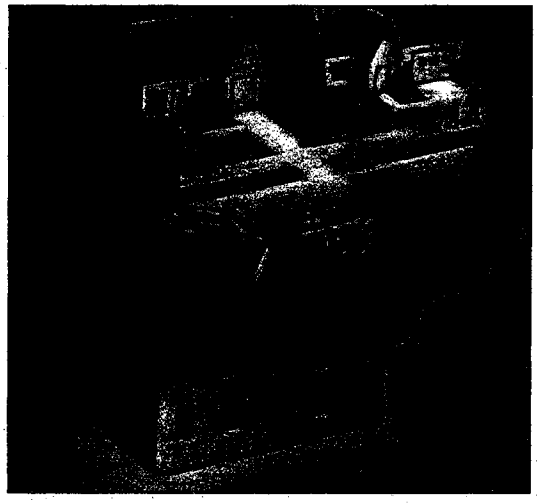
EVEN WITHOUT such outside influence, some shareholders have taken it upon themselves to exert environmental pressures on the companies in which they own stock.

Figure 2. Institutional drivers of environmental strategy



SOURCE: A. Hoffman, *Competitive Environmental Strategy: A Guide to the Changing Business Landscape* (Washington, D.C.: Island Press, 2000), 10.

ronmental demands. For example, the European Bank for Reconstruction and Development has written into its establishing agreement that it will "promote in the full range of its activities environmentally sound and sustainable development." This means that the bank will favor loan applicants that take full responsibility for minimizing their environmental impact.[11] In April 1995, the government of Brazil required all banks and credit institutions to grant loans only to projects that take environmental impacts into consideration. In 1992, UNEP coordinated a declaration of environmental commitment of the banking industry, with signatories committing to incorporate environmental factors into their daily practices. In a survey of European banks, 15 participants said they offered discounted rates for environmentally responsible companies.



Insurance companies are also beginning to see environmentally risky operations as correlated with increased financial risk and are starting to apply environmental criteria for minimizing that risk in their underwriting practices. In November 1995, the insurance industry developed a UNEP-supported Statement of Environmental Commitment with 78 official signatories making commitments to include the environment as one of the value-drivers in their underwriting decisions. One of the more aggressive reinsurance companies, Swiss Re, has been increasingly vocal about its concerns over climate change. One of their corporate reports that states

More extreme weather patterns could cause damage which not only pose a threat to individual citizens, families, and enterprises but could also jeopardize whole cities and branches of the economy and, on a global scale, entire states and social systems. In brief: damage which had better not be risked because it can no longer be handled.[12]

INSURANCE COMPANIES are also beginning to see environmentally risky operations as correlated with increased financial risk.

In 1998, weather-related disasters such as fires, floods, storms, and droughts caused approximately $89 billion in economic losses globally. This surpassed the previous record of $60 billion in 1996. During the first three quarters of 1998, the U.S. insurance industry alone had weather-related claims for more than $8 billion.[13] Moreover, increasing numbers of insurers worry that climate change could cause substantial losses in the years ahead.

Finally, trade associations and academic and religious institutions have become major drivers in changing corporate environmental practices. Beginning in 1989 with the Chemical Manufacturers Association's Responsible Care Program, similarly designed programs have flourished in such other industries as petroleum, printing, textiles, paper, lead, and automobiles.[14] Academic institutions are teaching students about the environment in ways that are far different than those of previous generations. Beginning with mandatory education in grades K-12, many students continue their environmental studies at the university level with environmental courses in schools of business, engineering, science, journalism, law, and public policy. In addition, many religious institutions are changing how they view behavior toward the environment. The Presbyterian Church has placed environmental concerns directly in the church canon, thus making it a sin to "threaten death to the planet entrusted to our care."[15] The Roman Catholic Church equated environmental degradation with theft from future generations in its new catechism.[16] His All Holiness Bartholomew I, spiritual leader of 300 million Orthodox Christians, equated specific ecological problems, such as species extinction, climate change, deforestation, wetlands destruction, toxic pollution, and over-consumption, with sinful behavior.[17] The first of the basic Buddhist precepts counsels those pursuing the path towards liberation to avoid destroying life, while the religion as a whole fosters a worldview that emphasizes the interdependence of all beings. According to the Dalai Lama, relations with one's fellow human beings, animals, and insects, "should be based on the awareness that all of them seek happiness.... All are interdependent in creating our joy and happiness."[18] In 1988, Shomrei Adamah, Keepers of the Earth, was founded as the first institution dedicated to cultivating the ecological thinking and practices integral to Jewish life.[19]

Changes in academic training and religious thought are at the core of individual beliefs about the environment. Furthermore, this knowledge can be mobilized into direct political action. In 1993, students at Dartmouth, Tufts, Williams, and Wellesley were able to pressure their administrations to divest their financial holdings in Hydro-Quebec, the Canadian hydropower project that environmentalists have criticized for flooding large areas of northern Quebec.[20] In 1996, evangelical groups rallied support for Endangered Species Act reauthorization, calling it "the Noah's ark of our day," while questioning Congress's apparent attempt to "sink it."[21] In 1998, the National Council of Churches and the National Religious Partnership for the Environment rallied to support the Kyoto Treaty on climate change, sending a letter to President Bill Clinton pledging to work to get the treaty implemented because it is "an important move towards protecting God's children and God's creation."[22] In 1999, Commonwealth Energy Corporation and the North American Coalition on Religion and Ecology announced the formation of the Greensmart Renewable Energy Project, which encourages more than 30,000 religious organizations and other nonprofit organizations in California to demonstrate their environmental commitment by switching to electricity generated by renewable energy sources.[23]

All of these pressures add up to a collectively different business environment than what corporate decision makers faced in the past. Managers that remain fixed on regulatory or public opinion trends will find such measures an inaccurate reflection of the emerging pressures for environmental performance. While public support for the environment has been declining since its peak around 1992, a comparable decline in environmental pressures on the corporation is not found.[24] A 1998 survey of U.S. companies by *Industry Week* found that 97.4 percent ranked environmental performance as one of their top 10 priorities.[25] Pressures from the firm's economic, market, polit-

Competitive Environmental Strategy in Practice

At its core, competitive environmental strategy is a change in perspective, a challenge to taken-for-granted notions of business processes, materials, objectives, and systems based on environmental considerations.

What is your product? Electrolux has developed environmental products including a solar-powered lawn mower, chain saws lubricated by vegetable oil, and water-saving washing machines, which the company says generated 3.8 percent higher profits in 1997 than its conventional products.[1] Interface, Inc., the largest maker of commercial carpet now offers the Evergreen lease whereby customers lease rather than buy their carpet. In this way, the company will retain the carpet materials and reduce the need for virgin material by continually recycling new products. From 1995 to 1996, sales at the company grew from $800 million to $1 billion, while the amount of raw material used by the company dropped almost 20 percent per dollar of sales.[2]

How do you differentiate your service? United Parcel Service has developed an environmentally friendly letter-sized envelope. The package is bleach-free, produced with 80 percent post-consumer recycled fiber and is reusable.[3] Given the positive consumer response, Federal Express has announced a similar packaging system.

How do you run your operations? The Carrier Corporation, a division of United Technologies, invested $500,000 to eliminate the use of toxic solvents to clean copper and aluminum parts in the manufacture of air conditioners. By the end of one year, the company recouped $1.2 million in reduced manufacturing costs.[4] DuPont implemented a $500 million capital improvement plan at three North and South Carolina chemical plants, which reduced air emissions by 60 percent and increased production by 20 percent.[5]

What are your raw materials? With increasing constraints on lumber supply due to increasing concerns for the environment, forestry companies are looking to other sources of raw materials. The Trex Company[6] is offering a wood-polymer composite for use in decks, and the Mobil Chemical Company offers a competing product called Timbrex, manufactured with 50 percent sawdust from old wooden pallets and 50 percent post-consumer polyethylene recycled from grocery bags. These products are designed to resist damaging ultra-violet rays, moisture, and insects, and will not rot, warp, split, or splinter. They are dyed throughout, thereby eliminating the need for chemical sealants, paints, or stains.

What is your waste? Electric utilities use scrubbers to remove sulfur and fly ash from the exhaust gases of their power plants. Called scrubber sludge, companies typically pay to dispose of it. But the waste is high in calcium sulfate, which is used in wall board, concrete, and fertilizer. The Tennessee Valley Authority now makes from $6 million to $10 million annually by selling the by-product. Some plants owned by Indianapolis Power and Light Company are even planning to adjust their operating conditions to produce higher quality sludge.[7]

As each of these examples illustrate, competitive strategy has a decidedly environmental focus, altering basic conceptions for achieving corporate economic objectives.

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1. C. Arnst, S. Reed, G. McWilliams, and D. Weimer, "When Green Begets Green," *Business Week*, 10 November 1997, 98–106.

2. C. Fishman, "I Want to Pioneer the Company of the Next Industrial Revolution," *Fast Company*, April/May 1998, 136–142.

3. A. Streeter, J. Garman, and H. Yanulis, "Send It Again, Sam," *Tomorrow* 8, no. 4 (1998): 37.

4. A. Kumar Naj, "Industrial Switch: Some Firms Reduce Pollution with Clean Manufacturing," *Wall Street Journal*, 24 December 1990, A1.

5. "DuPont to Spend Big to Cut Plant Pollution," *Engineering News Record*, 5 August 1991, 22.

6. Trex Wood-Polymer Lumber, 1-200-BUY-TREX.

7. J. Fialka, "Once a Pollutant, 'Scrubber Sludge' Finds a Market," *Wall Street Journal*, 5 October 1998, B1.

ical, and social environments for environmental protection are driving this priority. The complexity of this systemic effect indicates the diverse implications it has for corporate strategy.

Strategic Responses to Environmental Concerns

Rather than deny or lament environmental issues, corporate managers now find that satisfying environmental demands relates to the specific economic concerns presented by each of these constituents. They are beginning to realize that as pressures on corporations emerge from each distinct institutional realm, they become transformed into something of central importance to the firm. For example, insurance underwriting practices act as consulting recommendations, and, as more insurance companies scrutinize how corporations handle their environmental affairs, they begin to influence the definition of corporate practice. If companies choose not to adopt insurance recommendations, they will find their business costs increased through higher premiums. Indirectly, insurance companies possess large amounts of investment capital from premiums, which can be used to sway financial markets. So when environmental pressures are imposed on the corporation from insurance companies, environmentalism becomes translated into an issue of risk management and capital acquisition, two issues of central importance to corporate practice.

In the same way, when buyers and suppliers impose environmental pressures on a corporation, environmentalism becomes an issue of resource acquisition, processing, and sale. When imposed by banks, shareholders, and investors, they become issues of capital acquisition and the cost of that capital. When consumers begin to consider environmental concerns in their purchasing decisions, the issue translates into one of market demand. When competitors begin to use the environment as a strategic issue or to challenge how others use it, the issue translates into one of competitive strategy and market share growth. When trade associations see opportunities in presenting a united front on environmental affairs, the issue becomes one of industry reputation or external and government relations. In each of these ways, environmental pressures enter the realm of strategic decisionmaking by being tied to issues of central importance to the firm. Corporate environmental practice is becoming less an environmental issue and more an issue of strategy, marketing, finance, human relations, operational efficiency, and product development. It can no longer be thought of as a necessary evil or a cost of doing business but rather is becoming a part of the business environment. It is evident that the business manager need not even believe in the validity of certain environmental issues to take them seriously as a business concern. What matters is that key business constituents possess that concern and translate it through the network of core business channels.

Has corporate environmental practice run its course within the business environment? No. The evolution of environmental strategy will not be complete until all relevant constituents in the business environment incorporate environmental concerns into their rules, norms, and beliefs. Although some companies may, for example, view a robust environmental management system as a proxy for good management, the important question is whether insurance companies, mutual fund managers, individual investors, and bankers make this connection to its fullest extent. The entire market system—not just individual companies—must integrate environmental protection into its driving objectives. In fact, it is fair to say that there may never be a static definition of a "green" company. There will only be notions of how companies change in response to a changed market, economic, political, and social environment. Just as people may now look back with amazement at the practices of past generations ("the solution to pollution is dilution," ocean dumping of radioactive wastes, inundating neighborhoods with DDT), future generations may look back with similar amazement at the practices taken for granted today. Is the separation of business practice and social equity one of those issues that will amaze future generations?

WHEN COMPETITORS begin to use the environment as a strategic issue or to challenge how others use it, the issue translates into one of competitive strategy and market share growth.

The Missing Business Imperative for Sustainability

Is the issue of sustainable development the new business challenge? Proponents like Stuart Hart (associate professor of management at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill) argue that

today many companies have accepted their responsibility to do no harm to the environment. Products and production processes are becoming cleaner; and where such change is under way, the environment is on the mend.... But the distance we've traveled will seem small when, in 30 years, we look back at the 1990s. Beyond greening lies an enormous challenge—and an enormous opportunity. The challenge is to develop a sustain-

able global economy: an economy that the planet is capable of supporting indefinitely.[26]

And corporate executives can now be heard making similar proclamations about their responsibilities for sustainable development. Edgar Woolard, while chairman of DuPont, wrote, "Industry, as society's producer has a special role to play in creating sustainable development, and some of us in the industrial community are working on ways to make sustainability a characteristic of industrial programs."[27] Frank Popoff, while chief executive officer of the Dow Chemical Company, wrote, "If we view sustainable development as an opportunity for growth and not as prohibitive, industry can shape a new social and ethical framework for assessing our relationship with our environment and each other."[28] William C. Ford Jr., chairman of the board of the Ford Motor Company, wrote

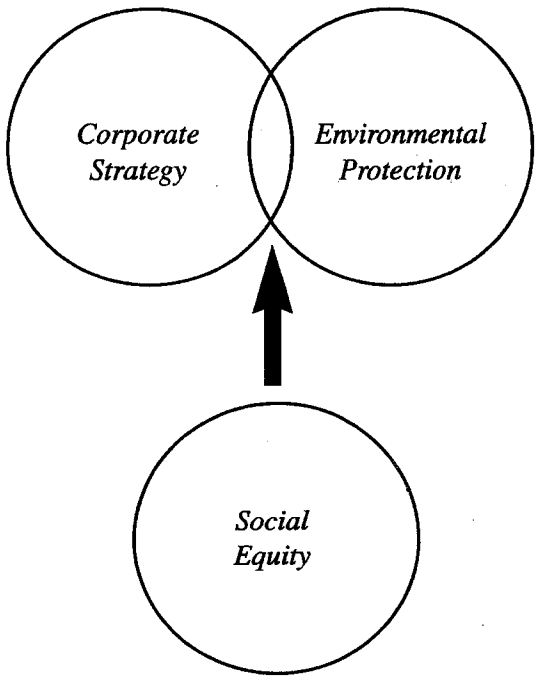
A good company delivers excellent products and services and strives to make the world a better place. Great companies understand that to fully meet the expectations of consumers, they address the concerns of society. That is the only way to ensure sustainable development and growth. It is also the best way to richly reward shareholders.[29]

Moving beyond rhetoric, several companies have taken action on establishing sustainability strategies. Shell has developed a new management system with performance metrics to address its financial, environmental, and social performance in an integrated and quantifiable manner. In 1998, the company published its first sustainability report, describing how the company's operations in 125 countries are "striving to live up to our responsibilities—financial, social and environmental" and offering the results of an auditor's report, verifying the assertions given in the report.[30] In 1998, Nike announced sweeping improvements in worldwide operations for its half million workers in 350 countries. The company set a minimum worker age of 18 years and created a new Corporate Responsibility Division with 75 employees. Through this division, the company helped negotiate an agreement between labor rights groups and the apparel industry to allow independent groups to monitor factories for fair labor practices.

But, the question remains as to whether there is a business imperative for the sustainability agenda. Is the business environment changing? Are the actions of companies like Nike and Shell indicative of new standards other companies must follow? In reality, the interests of sustainable development remain separate from those of business practice, as depicted in Figure 3 on this page. The sphere of social equity has not intersected with that of corporate strategy as has environmental protection. The actions of a few forward-thinking companies are not indicative of an industry trend. According to the World Business Council on Sustainable Development, while there are 34,000 multinational companies worldwide, the "same few names come up again and again" when sustainability issues are discussed.[31] The issue has entered the rhetoric of modern business, but not the realm of core business issues driven by the business environment.

The reason that the issue remains on the periphery is that the drivers of sustainable development also remain on the periphery of the business system, embodied by social activists, world governments, and a few vocal corporate leaders. For example, as the world's markets become more global and corporations become more multinational in nature, proponents within business, academic, and government institutions abound. Only isolated critics of the social implications of that process are emerging. Some, such as Dani Rodrik (professor of international political economy at Harvard University) and George Soros (chairman of Soros Fund Management, L.L.C.), point out that without a political, social, moral, and ethical infrastructure for a global society, the global economy becomes based on rules determined by values embedded in economic parameters.[32] These values are often inconsistent with the social equity values embedded within the sustainability agenda. The 1999 riots in Seattle over the World Trade Organization talks manifest that inconsistency. These talks had previously been dominated by multinational organizations and world governments whose interests are supported by certain values in the

Figure 3. Introduction of social equity into the business environment



SOURCE: A. Hoffman, *Competitive Environmental Strategy: A Guide to the Changing Business Landscape* (Washington, D.C.: Island Press, 2000), 237.

definition and preeminence of world trade. However, many constituents (including labor unions, farmers, environmentalists, and child welfare advocates) held different values that included concerns for worker rights, environmental protection, and social equity. The protests were a signal of these constituents' demand to be included in the decisionmaking process.

But why do the spheres of the sustainability agenda remain disconnected? The values that underlie the key determinants of sustainable development appear to be divergent from the presently accepted measures and objectives of economic growth and business strategy. Integrating the values underlying these notions into the market system may pose a serious challenge—significantly more daunting than the integration of environmental values over the past 40 years. Whereas environmental problems are highly visible and clearly threatening to almost everyone, the social equity components of sustainable development are less visible, and are inherently about distributing resources from those who presently have to those who are presently without. For example, one objective of sustainability is the fair distribution of environmental costs and benefits among people in all economic and cultural classes. This is underlain by the pragmatic concern that poverty resulting from inequitable resource distribution leads to the degradation of the ecosystem and could lead to destabilized economic and political regimes. Corporate practices that seek to offset these concerns could be at serious odds with the individualistic, self-interested, profit seeking, and resource utilizing beliefs that underlie the present market system—a system based on an uncritical belief in the necessity of increasing economic growth, the perception of nature as a limitless sink, the superiority of technological development for controlling natural systems, the social and physical autonomy of the firm, and the profit motive as a singular objective of the firm. Companies that choose to tackle these tough social equity issues today are examples of individual efforts to make sustainable change and may be indicators of a potential shift in industry norms. But they do not yet represent a broad scale shift in the systemic institutions of the business environment.

SUSTAINABLE DEVELOPMENT will not become a genuine business concern until the business environment becomes a driver of the social equity issues inherent in the sustainability agenda.

In the end, sustainable development will not become a genuine business concern until the business environment becomes a driver of the social equity issues inherent in the sustainability agenda. This is the only way that the issue will move beyond the realm of social responsibility and become a genuine business challenge. As stated in a 1998 World Business Council on Sustainable Development discussion paper, "The key to the urgency of the response is the degree to which the issue is seen as a threat to, or an opportunity for, the business. The closer the issue is to the company's direct commercial interest, the more likely it is to be acted upon."[33] This will only happen as key business constituents such as insurance companies, suppliers, buyers, customers, competitors, banks, shareholders, and investors find it in their own interest to adopt sustainable criteria in their decisionmaking. Sustainability must emerge from changes in the overall environment, changes that have yet to happen.

Will sustainable development follow the same trajectory as environmental protection, entering the business system through core business channels? The answer depends on two factors that were influential in driving environmental protection into the sphere of business practice: institutional entrepreneurs and critical events. The evolution of changes in corporate environmental practice in the United States was driven strongly by the actions of the social and government activists. Through collective action and political pressure, rules and norms were set to represent emergent values with regard to environmental protection. But independent corporate environmental strategy did not fully materialize until core economic constituents began to apply environmental pressures. In this regard, activists have been highly influential, helping to shift the norms in banking, insurance, investments, and other arenas.

Another critical factor in this evolution process was the emergence of critical and transformative events. The chaos and debate following such events created opportunities for activists to promote change. For example, the first Earth Day in 1970 galvanized the environmental movement into a cohesive collective, causing some to label it the dawn of U.S. environmentalism and the emergence of environmental activism as a powerful force for achieving change. In 1978, the discovery of buried hazardous waste at Love Canal led to the enactment of Superfund, which held corporations liable for past actions in a way that challenged basic acceptance of ex post facto in U.S. law—that no one could be found retroactively guilty for an act that was legal when undertaken.[34] The Bhopal disaster in 1984 and the resultant liabilities of Union Carbide and its insurers

significantly altered insurance underwriting practices and the availability of insurance coverage. It also altered the accepted beliefs about corporate disclosure and the community's right to know about hazardous activities taking place within plant walls. The *Exxon Valdez* disaster in 1989 significantly altered accepted notions about the limits of corporate financial liability for an environmental disaster while simultaneously altering oil transport procedures throughout the oil industry. These events precipitated shifts in thinking about the impact of corporate practice on the natural environment and are just a few examples of the need for it to change.

Conclusion

The evolution of the norms of corporate environmental practice has been remarkable for its relatively short time span. In 1970, the notion that corporations should go beyond regulation to protect the environment was heretical in business channels, labeled as "pure and unadulterated socialism" by economist Milton Friedman.[35] Today it is becoming the dogma of corporate strategy, being proposed as pure and unadulterated capitalism by academics in the business realm such as Michael Porter, professor of management of Harvard University.[36] An equally remarkable evolution process is what will be necessary if sustainable development is to reach the same levels of concern within the business world. The challenge of making this a reality now lies before sustainability activists and government bodies. Unfortunately, critical events that highlight breakdowns between the business and social systems may be necessary to further their cause. Ultimately, sustainable change to business practice will not occur through changes in isolated corporate actions or individual beliefs. Not until a firm's motivations and practices related to capital acquisition, resource acquisition, processing and sale, consumer demand, competitive strategy, and market share are tied to the social equity values of sustainable development will the issue become the next business challenge. For this to happen, constituents of the entire business system (insurance companies, banks, investors, and so on) must find it in their interests to make those ties in their business practices.

Andrew J. Hoffman is assistant professor of organizational behavior in the School of Management at Boston University. His research focuses on the dynamics of cultural and social change within organizational and institutional systems. He can be contacted at (617) 353-4287 or ahoffman@bu.edu.

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