

Letting the Market Drive the Corporate Sustainability Model

Market driven sustainability models recognize that external forces are driving a need for supplier alliances that compound results.

Enterprises are taking journeys towards becoming sustainable enterprises, embracing social, economic, and environmental arenas. Though these are distinct areas, the reality is the three overlap because the state of the environment impacts the quality of life for communities and the ability of the organization to create wealth. There are many challenges associated with developing, implementing, and managing market driven sustainability because profit-making organizations have primarily been concerned with growth and control, while social and environmental organizations are concerned with the quality of human life and the preservation of the earth. Reconciling the goals and developing solutions that embrace all three areas is the overriding purpose of market driven sustainability models. Emerging is a greater need for supplier alliances and metrics to measure and track progress while ensuring value is driven to the bottom line.

Forming Alliances

Paula Kyro a former professor and acknowledged expert on entrepreneurship and sustainable development and management consulting developed a model several years back that used the agricultural industry as an example of how a model based on business alliances should drive sustainability. She applied market driven management (MDM) to the assessment of environmental sustainability as a method of focusing on the outside-in capabilities. Capabilities are found on three levels. The first level is the skills and knowledge needed to benefit from close relationships and alliances with other market stakeholders and to foster innovation. The second set of capabilities are concerned with the creation and maintenance of productive and close relationships with customers. A third set of capabilities is the ability to assess market trends and adapt the business' strategic processes so that the organization maintains a competitive advantage.

Notice that the perspective is on forming alliances between the business and its stakeholders in order to achieve environmental sustainability. Managers are asked to understand the market as a whole, use the knowledge to strategize, and take advantage of organizational skills and knowledge to adapt to market changes. Alliances with customers, environmental groups, and suppliers are central to this model.

The alliance model works this way. It first considers market driven capabilities which include channel bonding, customer linking and market sensing as the external inputs. They are linked to internal inputs which include economic sustainability (bottom line impacts and strategic independence) and social sustainability (synergy with employees and community while creating value). The output is environmental sustainability in a form relevant to the business, such as preservation of local resources and uninterrupted resource deliveries, innovative supply chain, positive community relationships, and so on.

Global Interdependence

In practice this model is based on alliances between the business and the local communities of operation, between the enterprise and suppliers, and between the business and the marketplace. It is a collaboration model intended to develop and systematic network of companies and associations that are then managed in a way that produces business value. The assumption is that there is now a global interdependence among companies, supply chains, and stakeholders.

In this model, alliance performance metrics are important. They include operational effectiveness and financial results, like revenues. They include measures of outcomes and leading operational indicators to ensure the alliance is on track to producing financial outcomes while achieving sustainability goals at the same time. There is an alliance Balanced Scorecard using metrics that measures strategic objectives rather than just operational outcomes. Alliances need regular monitoring and frequent adjustment to stay on course. Metrics include measuring increases in shareholder value or financial contribution of the alliance, innovation, resource utilization, and so on. The specific data analysis depends on the industry.

Value Driving

A model developed by the UN Global compact is the Value Driver Model that uses key business metrics to measure the ROI of corporate sustainability activities. This model is designed to help organizations integrate sustainability data into decision making involving resources. The model considers growth, productivity and risk management as inputs to determine the return on capital employed. Unique organizational metrics are developed to connect financial objectives to sustainability-related revenue growth, cost savings, and reduced risk exposure.

The Value Driver Model Toolkit report is a starting point for measuring and communicating the value of sustainability strategies, including supply chains. Included in sustainability advantaged growth is the development of innovative sustainable products and services that satisfy customers while minimizing negative environmental and social consequences. Under the productivity gains is operational efficiencies resulting from cost savings from better uses of natural resources, alternative materials and reduced waste. Once again, supply chains are integral to the process. Metrics are used to assess the reliability and responsible nature of products and services, and compliance with industry and international standards.

Sustainability related risk management also considers operational, regulatory, and reputational risks.

No Right or Wrong...Only Best Fit

These are just two models. Bob Willard with Sustainability Advantage discusses three sustainability models. The first is the "3-legged Sustainability Stool" model in which economics, environment, and social factors are viewed separately. This model does not fit the global business environment that has emerged because the three elements are not separate in the real world. In the second model, the "3-Overlapping-Circles Model," there is a small common area where the economy, society, and the environment intersect, and that is where sustainability effort is found. In the "3-Nested-Dependencies Model" the economy and society are nested within the environment. It is a co-dependent model because one cannot survive without the other two.

There is no right or wrong model. There are no right or wrong metrics. The important metrics are those that provide business leaders with the information they need to manage supplier relationships, make strategic decisions, and have assurance the business is as competitive as possible. Companies can measure water and energy use, the costs of supply chain social problems, and the risks associated with production all along the supply chain and internally due to lack of sustainability practices. Simple? No. Important? An emphatic "yes" for companies that expect to strategically manage risks while maintaining competitiveness.