Sustainability Concepts And Challenges

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Introduction

Sustainability is traditionally defined as the capacity of an eco-system to endure. Exploiting the carrying capacity of the planet wantonly impoverishes future generations. The word “wantony” is critical because you could add to future capital by innovating new models of production and consumption. The capacity depends on the degree of human ingenuity and innovation. This is what has enabled Homo sapiens to thrive on this planet and take gigantic leaps despite monumental natural handicaps.

The sustainability landscape is changing. CEO’s around the world are starting to see the shape of a new era of sustainability coming into view. In the face of rising global competition, technological change and the most serious economic downturn in nearly a century, Corporate commitment to the principles of sustainability remains strong throughout the world Sustainability is important to the company’s future success. This is one of the most significant messages from the survey of 766 United Nations Global Compact (UNGC) member CEOs. Sustainability is truly on top in the – mind of CEOs, while environmental, social and governance challenges continue to grow and CEOs wrestle with competing strategic priorities. Sustainable business practices and products are opening up new markets and sources of demand: driving new business models and sources of innovation.

Global opportunities and growth mean global corporate governance responsibilities. New levels of accountability, which come not just from new laws and regulations, but also from the expectations of a broader stakeholder group, these compliance tools are in place and being utilized. There is also an increased awareness that this needs to be underpinned with the right attitudes and behaviors to ensure the organization’s reputation.

The London sustainability summit of 2010 gave completely new dimensions to sustainability by challenging the holy cow of “sustainable Development”, and how it has damaged sustainability agendas. All through the debate, speakers advocated that there was huge opportunity for changing the business as usual through innovation and creative destruction. It dealt with specific problems like inclusivity and the role of corporate. It described various problems of social exclusion and violence, due to inadequacy of dialogue. Despite human existence of thousands of years, relevance of full disclosure and meaningful dialogue are ill understood.

Sustainability Vs Sustainable Development

Sustainability agenda has become an archetype of “sustainable development”, a concept developed by the Brundtland Commission in their report in 1987. It is therefore important to understand the historical context of sustainability and sustainable development. The Commission defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. The concept of 'needs', in particular the essential needs of the world's poor, to which overriding priority should be given; and The idea of limitations imposed by the state of technology and social organizations on the environment's ability to meet present and future needs.

While the report nowhere mentions the word sustainability, the environment thinkers interchanged the terms “sustainability” and “sustainable development” and led to the confusion between the two that persists till today. This damaged the cause of sustainability, as the discussion remained confined to environmentalists.

The Corporate Landscape

Today’s corporate landscape is vastly different than what it was a decade ago. The change is pushing companies to be more transparent and accountable for their actions, open about engaging with all their stakeholders, in manner that balances the needs of the community while mitigating the negative social and environmental impacts of the business. Thus their approach towards Stakeholder Engagement, Disclosure, Corporate Governance and Corporate Social Responsibility become very important part of their sustainability strategy.

Additionally, climate change and sustainability present very different kinds of problems to corporate boardrooms. The issues these problems raise (like preserving ecological health or placing a premium on human rights) do not necessarily translate into direct financial impacts. As a result most companies find themselves ill-equipped to handle these subjects in a robust manner. Here too, there is a need for progressive companies to be open to add new variables into corporate decision-making, so that they can understand the uncertainties and opportunities that sustainability presents, thereby ensuring shareholder value creation.

Today’s business environment provides a multitude of new challenges to manage, but also significant opportunities for those who can master its dynamics. Business will have to grapple with a new concept of value that moves beyond a focus purely on profit and incorporates nonfinancial metrics, putting a new onus on the ability to measure and communicate progress. Companies will need to develop a broader sense of what value creation means to society as a whole. Sustainability is not a separate initiative, but something to be fully integrated into the strategy and operations of the company.

The New Era

Demonstrating a visible and authentic commitment to sustainability is especially important to CEOs because it is part of an urgent need to regain and build trust from the public and other key stakeholders, such as consumers and governments-trust that was shaken by the recent global financial crisis. Strengthening brand, trust and reputation is the strongest motivator for taking action on sustainability issues. Three key ways in which approaches and strategies are shifting as we move toward a new era of sustainability;

1. **The consumer as King**

   End consumers as well as business and government customers are increasingly driving a company’s strategy for developing sustainable products and services. CEOs identify the consumer as the most important stakeholder in influencing the way in which they will manage societal expectations.

2. **Importance of technology and innovation**

   CEOs are aware of the critical role that innovative, leading-edge technologies are playing in advancing the sustainability agenda-in area such as climate change and in terms of increased transparency through social media platforms.

3. **Collaboration is critical**

   Across the board, partnerships and collaboration are now a critical element of their approach to sustainability issues. Businesses realize that today's global challenges are too broad and too complex to go it alone. Companies engage in industry collaborations and multi-stakeholder partnerships to address development goals.

ENVIRONMENT AND CLIMATE CHANGE

Climate change and sustainable development are the defining issues of our time. How we collectively address them over the coming years will lay the foundation for the state of the planet we leave behind for our next generation. The last decade has seen Indian industry achieve a high level of growth. In this time-period, these companies have lived through an era of global recession, mergers & acquisitions, and a period of consolidation. Companies are only beginning to understand the inter-linkages of environmental, social and business performance and often times they do not possess the language to understand, measure, articulate and manage environmental and social dimensions. Some companies were quick to recognize the reputational and brand benefits of being perceived as responsible stewards of the environment and society.

As we move forward, there is growing realization that we need to act in our self-interest to fight climate change without waiting for either the global treaty or national legislation. Whether it's governments, companies or civil society, the need to aggressively pursue a sustainable development path is shared by all. To effectively address the issues related to climate change and sustainable development, we need a leap-frog in technology and business innovation. The landscape is quickly becoming fertile ground for innovations in clean-technology, especially those that target challenges.

Natural Resources

Natural Resources and raw materials like land, water, fossil fuels, ores, minerals, forest products, and agriculture goods are integral to the sustained economic growth of all companies. Corporate generally operates in an environment, where natural resources are loosely guarded by regulatory enforcement. This has created perverse incentive for the companies to exploit the resources ignoring the sustainability concerns. Managing such a risk without a robust natural resources management strategy, would be a daunting task, which all business leaders would like to avoid.

A robust natural resources management strategy will have following key aspects

- Identifying all critical natural resources in the entire supply chain and not limiting to water and fossil fuels.

- Including natural resources management as a governance priority for board members and executives
- Elevating natural resources management as governance priority for Board members and executives
- Conducting scenario analysis for natural resource stressed future to define technologies, products, markets and locations.
- Boosting engagement with key stakeholders such as local communities, shareholders, suppliers, government regulators and employees
- Going beyond normal routine compliance business mind-set to a natural resource compliance business mind-set to natural resource leadership by adopting international best practices for natural resources management.

The Business Case For sustainability

The business case for long-term sustainability is already well-established. Smart businesses are not only reducing greenhouse emissions at the end of the pipe, but also escalating their responses to embark on a larger sustainability drive encompassing natural resource management, energy efficiency improvement and renewable energy usage. It's clearly time to make transformational changes instead of incremental ones to accelerate our pace of switching over to a lower carbon economy. The business case of these emerging opportunities is too compelling. India has already emerged as one of the top 10 clean energy destinations in the world.

Sustainability is not just about the environment. It has social and economic dimensions too, our development plans must recognize the importance of growth and at the same time commit the business to a broad social, economic and environmental sustainability agenda. Real responsible growth must positively impact not just the environment, but also the economic and social dimensions.

Burden of ensuring sustainability cannot be borne by the emerging economies alone. The idea of "sustainability development goals", on the lines of the millennium development goals to promote sustainability and eradicate poverty is going round. All countries must institutionalize ways to ensured domestic account-ability to promote sustainability, suggest that emerging economies, which are still building their infrastructures, have the opportunity to move to a more sustainable path.

Sustainability management theory has always talked about elevating climate change and sustainability to the Board level. The assumption was that companies where Boards and top management take interest in these issues are able to manage them consistently over time. The role of Board and top management might not have resulted into actual performance on sustainability issues, because it is only recently that these subjects have been elevated to their level. It may take some time before their involvement results in actual performance.

Organization have developed a variety of strategies for dealing with this intersection of societal needs, the natural environmental continuum with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide.

Financial and operational performances are no longer the exclusive drivers for business. Business community is no longer expected to merely make profits. How that profit is made is also important to investors and stakeholders. Increasing public consciousness and stricter government regulation have resulted in growing demand for disclosure. And hence Economic, Social, and Environmental factor are now being recognized to play an important role in business success. This recognition along with the encouragement from internal and external stakeholders has led the companies to perform in these areas, which has resulted in surfacing of sustainability performance. With burgeoning globalization, India is bracing itself to keep up with the international competition.

Sustainability strategy

A strategy for sustainability is incomplete without embedding 5 Ds – diversity, dissent, dialogue, disclosure, disruption of status quo in the DNA of the organisation. The cornerstones of sustainability are innovation, engagement, transparency and accountability. Innovation needs clash of ideas and acceptance dissent as a value enhancer. If two persons think alike only one is needed. This requires a culture where people can freely discuss contrarian view points. It is only through diversity and difference that ideas are generated and innovation is stimulated. People cannot work together and create synergy if they are not open with each other. Disclosure is a prerequisite for trust and key to successful team work.

Sustainability, long considered a costly inconvenience by some, has quickly become a competitive advantage, a differentiator and sometimes even a matter of survival. Top companies know that focusing on sustainability is a way to improve profits and win customer loyalty.

Success not only means embracing the values and principles of sustainability but also ensuring appropriate actions and decisions at all levels of the organization. A comprehensive sustainability strategy must have a solid framework that ensures its execution is consistent with corporate governance and culture. Corporate Sustainability Strategy provides such a framework. It addresses all aspects of sustainability—from measuring and mitigating future forces that could affect a company's strategy, portfolio and operations, to assessing the company's environmental impact on the communities it touches. The result is a roadmap that links quantifiable sustainability objectives and targets to the business strategy.

Corporate Sustainability Strategy not only embeds the principles of sustainability into an organization but also makes sustainability part of the corporate DNA. The roadmap is charted and measured in terms of costs, revenues and reputation. We assess and quantify sustainability's impact in all key areas, including:

- Value chain (production, supplier selection process, logistics)
- Products and services (materials, packaging, pricing strategies)
- Organization structure (governance, sales and marketing, finance)
- Talent management (recruiting, performance management)
- Culture (leadership, change management)

Innovation is key to sustainability

Innovation is discovering new ways of creating value. Innovation serves as the lifeblood of many organizations whose survival and growth depend on developing new technology, products and services. A successful organization is a creative organization. In a successful organization, innovation is sustainable and on-going, rather than a process characterized by succession of “boom and bust” events. A creative organization is “led,” rather than “managed.” A sustainable innovative organization must be fluid and “organic”, almost biological in nature to foster the constant creativity vital for the success of a modern organization. A degree of security and stability is essential to “incubate” creativity. In the fiercely competitive 21st century marketplace, innovative ability is essential for survival. The following are major ingredients for sustaining innovation:

- **Creating value**: Innovation is a process of creating value and to stimulate the survival and growth of the organization. Ideas can come from anywhere. Ideas by themselves do not add value. Successful innovative companies, cultivates creative ideas that add value.
- **Dynamic process**: Innovation for the company is as “oxygen for a living body.” Oxygen must be delivered to all cells for survival of the whole body. The innovative organization includes everyone in the loop to generate ideas. Like the individual cells serving the body, in a truly innovative organization, the individuals are empowered by releasing their untapped potential and creativity. Successful innovation is a dynamic process that sustains itself.
- **Innovation is anything but business as usual:** Innovation is getting people to overcome their ego and to recognize that business as usual is not the best approach to solve a problem. Helping people to broaden their perspective, think “out-of-the box,” allows one to be creative. Getting people to see a different point of view is an ego issue. People tend to think that the way they have always done business must be the best way.
- **Innovation versus invention:** Invention is discovering things that have never been discovered before. Innovation, on the other hand, is the discovery of new ways of creating value. Not everyone can be an inventor, but everyone can be innovative. While not all innovations are inventions, all inventions are innovative. There are two basic types of employees, implementers and innovators. Implementers prefer to work within the existing rules, “doing the right thing.” They represent the status quo and serve important roles in the company. On the other hand, innovators seek out new ways and often break the rules or past “best practices” to solve problems “doing it differently”.

Financial and operational performances are no longer the exclusive drivers for business. Business community is no longer expected to merely make profits. How that profit is made is also important to investors and stakeholders . Increasing public consciousness and stricter government regulation have resulted in growing demand for disclosure. And hence Economic, Social, and Environmental factor are now being recognized to play an important role in business success. This recognition along with encouragement from internal and external stakeholders has led the companies to perform in these areas, which has resulted in surfacing of sustainability reporting. There is paradigm shift in measuring and reporting sustainability performance. With burgeoning globalization, India is bracing itself to keep up with the international competition.

Sustainability Reporting

Global Reporting Initiative defines Sustainability Report as the practice of measuring, disclosing, and being accountable for organizational performance while working towards the goal of Sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organization, including both positive and negative contributions.

The most important drivers for the quality of sustainability reports are the guidelines of the **Global Reporting Initiative.** Through a unique multi-stakeholder process, the GRI is developing a globally applicable framework for reporting an organization's sustainability performance. The framework presents reporting principles and specific content indicators to guide the preparation of organization-level sustainability reports. The framework documents are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products and services. With the increasing role of emerging market companies in the global economy, parallel investor expectations for these companies also continues to grow. Specifically, potential shareholders expect any company in which they invest to meet certain minimum standards in terms of governance and disclosure. These standards help demonstrate that companies are managing risks and stakeholder interest in a manner that secures long-term business sustainability.

Increasingly global companies understand that commitment to sustainability reporting can contribute to financial success. Such transparency allows companies to reach a broader range of investors and customers, enhance operational efficiency, improve brand positioning, and develop leadership in the marketplace. This requires monitoring and reporting back on progress in achieving sustainability priorities.

By integrating your sustainability report in to your strategy, both opportunities and risks are identified, such as:

Opportunities

- Identifying changing market trends and consumer concerns
- Providing a different perspective for management to view the business, that can identify new markets
- Measuring the resources and energy intensity of your business inputs creating cost savings and process efficiencies

- Attracting and retaining talent and increasing brand value

Managing risks

- Encouraging deep and broad analysis of business partners and your supply chain can identify potential reputation risks
- Better understanding business impacts and stakeholder concerns, and in turn proactively managing these issues
- Proactively disclosing management concerns so that you can manage any adverse publicity

The Sustainability community today is talking about Integrated Reporting – a way of accounting for economic, social and environmental (ESG) impacts. For most accountants / finance departments all over the world, sustainability has been either about risk mitigation or compliance. It hasn't really made a significant dent in how they worked. However, integrated reporting is about to change all that. The global reporting Initiative is driving the change towards integrated reporting practices at organizations all over the world.

Few organization have unlimited resources to dedicate to addressing sustainability issues. It is therefore important for each organization to determine which areas are the most important for it, and to understand how sustainability in these areas affects reputation, brand and relationships with stakeholders.

Creating a culture of sustainability begins with staff, throughout the organization, understanding not only what sustainability means generally, but what it means and why it is important in their specific context. Training is key to this and is particularly important and relevant in this developing area.

Sustainability measures need to be reported in a way that is part of and connected to the other key measures, financial and general, which inform performance evaluation. Measuring sustainability factors and establishing them at the heart of decision-making ensures that sustainability is embedded in the day-to-day life of the organization. In order to maintain support for sustainability improvements it is necessary to demonstrate how the organization has benefited from the changes made. This requires monitoring and reporting back on progress in achieving sustainability priorities.

Today, there is a greater understanding that corporate strategy can be crafted to encompass a larger picture that not only enhances competitiveness but also ensure responsible and sustainable growth. It is important that such initiatives are encouraged through stakeholder awareness and response. A key purpose of Sustainability Reporting is to assist organizations, both large and small, in identifying the cross-cutting dimensions of triple bottom line performance and in understanding the process elements of accountability and engagements. It is through this learning and change process that the organizations starts to measure, report and improve on the way they make decisions and take actions. And by doing so, they create sustainable value for the organization and its stakeholders.

In India, although there are more than 56 companies disclosing information to environment and social performances, a total of approximately 40 companies refer to the GRI Guidelines, although with varying application levels and assurance approaches. While currently there are no officially recognized guidelines or reporting standards on sustainability reporting (by accounting or regulatory bodies), the Indian companies are becoming increasingly oriented towards the globally accepted guidelines, the GRI framework. Over 80% of these reports correspond to application level a (or A+), the remainder was either undeclared or lower level of adaptation. The breath of the reports and their coverage of most GRI indicators prove that Indian reporters are committed, but the number of such commitments need to grow at a much faster rate than what it is today, compared to other emerging economies like Brazil, South Africa and China.

From the list of sustainability reports registered in the GRI website, it is observed that many companies like ITC, Reliance Industries, Jubilant Organosys, Dr. Reddy's, are the leading companies with almost 6-7 years of experience on sustainability reporting.

To be effective, Corporate Responsibility (CR) reporting is not about an "add on" to business as usual, or a focus on your glossy year-end report, it's about integrating business strategy, performance reporting and stakeholder communication into your business. For CR reporting to be effective, sustainability performance needs to be embedded across the business and involves the following four key areas:

A) Consistent dialogue with stakeholders
B) Identifying the impacts you have on the environment and the communities you operate in
C) Developing responses to stakeholder concerns that are consistent with your business strategy.
D) Effectively communicating your impacts, mitigations and performance in key sustainability areas

This is really an appropriate time to promote Sustainability Reporting as a means to gain competitive advantage through informed decision-making and Sustainability Reports are seen by decision-makers as evidence of good corporate citizenship, and are increasingly used by financial institutions seeking more information to judge investment risk and opportunity.

Stakeholder Management

Today's businesses face a wider range of stakeholder expectations and more public scrutiny than ever before. Capital markets, consumers, pressure groups, employees and governments are just a few of those that rightly hold companies to account for how they define and execute their corporate strategies.

Effective management of stakeholders, disclosures, CSR and sustainability related governance requires companies to look at all these in a holistic manner.

Stakeholder engagement: *companies need to form a strategy to periodically engage stakeholders on sustainability issues. These engagements need to be on three levels:*

- ***Corporate level:*** *Engaging with the largest and most influential stakeholders for the company.*
- ***Project/site level:*** *Engaging with relevant supply chain partners, local communities, government officials and non-profit organizations.*
- ***Issue specific:*** *Engaging with relevant stakeholders on issues of concern like water rights issues for a particular region, and social justice among others.*

For each level of engagement, companies need to identify specific sustainability risks in consultation with the stakeholders that will be tracked over time. Participation of senior management should be encouraged so that the relevant decisions could be taken fast.

- ***Disclosure:*** *Companies need to lay emphasis on transparency, incorporating verified sustainability metrics and chart a forward-path of integrating sustainability parameter into business decision making. It should be noted that all disclosures should be relevant to the nature of the business and cover the entire value chain of the company.*
- ***Governance for Sustainability:*** *Companies need to elevate all sustainability issues to the Board room. These include GHG emissions reduction targets, water risk, issues of bio-diversity, and social justice matters among others. The key to successful governance is translating sustainability performance improvement goals into executive targets.*

Conclusion

The global challenges associated with sustainable development are also multi-faceted, involving economic, social and environmental concerns. Forthcoming sustainability into our thinking is necessary because, as a global society, we are living on the edge. The last global summit on Sustainability was in a way culmination of IODs approach to challenge the conventional wisdom and changing the corporate psyche to demonstrate virtues of being ethical, transparent, equitable and responsible in their decision making, by lifting CSR, CG and now sustainability to new levels. The opportunity to create sustainable value-shareholder wealth that simultaneously drives us towards a more sustainable world is huge, but yet to be fully exploited.Thinking through the full range of challenges and opportunities is the first step managers can take towards the creation of sustainable value for the corporation.

Corporate sustainability also covers business ethics, corporate social performance, global corporate citizenship, and stakeholder management. Management education should focus on new ideas about shifting towards an integrated rather than fractured knowledge economy. Creating a culture of sustainability begins with staff, throughout the organization, understanding not only what sustainability means generally, but what it means and why it is important in their specific context. Training is key to this, and is particularly Important and relevant in this developing area. Few organizations have unlimited resources to dedicate to addressing sustainability issues. It is therefore important for it, and to understand how sustainability in these areas affects reputation, brand and relationships with stakeholders.

Corporations around the world are struggling with a new role to take responsibility for the ways their operations impact societies and the natural environment. A firm must now focus both on increasing its bottom line and being a good corporate citizen. Keeping abreast of global trends and remaining committed to reshape their frameworks, rules, and business models.

Sustainability today, is not an option but an imperative, at the core of corporate strategy. If businesses are to achieve long term success and sustainable growth, they will have to be inclusive, making a real contribution to the socio-economic development of the communities within which the operate. By this, they can at the same time develop and hone a skilled talent pool, establish a market for their goods and service and, most importantly, contribute to the community they draw from. Equally, in an era of diminishing natural resources, by protecting the environment in which they do business, corporate can laid the foundation for their own long term sustainability.