

Business Sustainability: It's About Time to Future-Proof Growth

Syeda Anmol Jameel Habibi¹, Amna Ilyas², Nafisa Tahir³, Zain Rajpoot⁴

¹Business and Marketing, Anglia Ruskin University Uk

²Department of Computer Science, Institute for Art and Culture, Lahore, Pakistan

³Lecture, Institute for Art & Culture, Lahore

⁴Department of Computer Science, University of South Aisa, Lahore, Pakistan

Abstract

To achieve a sustainable competitive advantage, proactive managerial and leadership reactions are required in an organization that integrates the strategic intent, operations processes and corporate culture with long term institutional goals. Such alignment generates a high level of performance, resilience and ultimately delivers sustainable results against fast evolving environment dynamics and thereby supports the foundation of long-term success.

This study clarifies the concept of sustainability as it shows the character of the temporal dimension that distinguishes it from responsibility and similar concepts. Subsequently, the authors suggest that the widespread failure to consider time in strategic management has led to short termism - a phenomenon that fundamentally undermines sustainability. The paper concludes by specifying the directions for future research that will seek more fully to integrate sustainability into the strategic formulation process in the hope of creating the conditions that will allow business entities and society to flourish simultaneously over successive generations.

Keywords: Business sustainability, short-termism, corporate social responsibility and systems thinking.

Introduction

On 26th November 2010, Unilever announced that they are going to have semiannual earnings reporting instead of quarterly. Initially, the market reacted adversely, and there was a fall in the share price of the company. Nevertheless, by 2012 it rose 35% by the share price between its pre-announcement level. This change (together with other efforts) helped to lower the percentage of short-term hedge fund ownership from 15 percent in 2010 to 5 percent in 2012 resulting in more patient investors. Paul Polman, Chief Executive Officer of Unilever, argues that short termism is at the core of many of the problems facing us today (Polman, 2013). He contradicts the idea that fiduciary duty requires firms to maximize short-term shareholder returns, describing such an understanding as an overly limited Friedmannian understanding (Confino, 2012). Polman sees short termism as conflicting with sustainability. Take, for example, the Sustainable Living Plan, which aimed to double revenue with a reduction in environmental impact by 2020 - not the easiest target to achieve when quarterly performance is the focus of strategic interest. Polman's message is that sustainability is the creation of lasting business value, which the discretion to invest in the next reporting period beyond the reporting period itself permits.

In this editorial, we argue that temporality is the defining characteristic of sustainability, and the difference that makes it the critical distinctive when viewed in contrast to proximate concepts such as corporate social responsibility (CSR), corporate citizenship or even the triple bottom line. Sustainable enterprises are defined as those that are consciously managing intertemporal tradeoffs during strategic decision-making processes, one which evaluates short- as well as long-term ramifications in a single analytical framework.

We have argued that temporality should occupy a central place in organizational theorizing, considering that its ability to improve the outcomes for both enterprises and society in the extended horizon.

What is sustainability?

Sustainability is usually defined as development that meets the needs of the present without endangering the capacity of future generations to meet their own needs (World Commission on Environment and Development (WCED), 1987). At heart, the concern regarding sustainability is intergenerational equity. In simpler terms people mostly like to have at least the same quality of life as their parents and they want their offspring to have similar prospects. An analogous rationale does apply to organizations, for managers typically have the goal of ensuring the continued viability and profitability of the firm, and hopefully progressive improvement over time.

From this perspective, business sustainability is characterized as the ability of a firm to meet its short-term financial obligations without sacrificing its own long-term viability or the ability of others with respect to fulfilling their own obligations. Consequently, sustainability is necessarily associated with time.

The World Conservation and Development Committee defined sustainability in the context of systems perspective. Within a context of limited resources, industrial activities are committed to playing out extraction, use and disposal practices that preserve the regenerative potential of the planet, at the same time guaranteeing the equitable distribution of wealth generated to prevent future generations from being disadvantaged. Essentially, to achieve an equilibrium at the macro scale, great care must be taken when considering examples of the use of resources within the micro scale including temporal dimensions.

Firms function as systems that are nested within larger economic, social and ecological systems. To be sustainable, managers will need to allocate resources in a way that allows the firm to generate both short-term profits and future revenue streams. When firms fail to manage these trade-offs between the future and the present, they face risks on a host of levels. At the micro level, the firm's fortunes may slump - for instance, by underinvestment in research and development, thus undermining long-term value. At the macro level, collective short-term orientation by the firms can lead to systemic breakdown and destabilization of the overall system (Hayes & Abernathy, 1980). Consequently, firms that are actively balancing short and long-time horizons moderate risk at a within individual levels of analysis as well as across them.

Because at its fundamental level, sustainability involves trade-offs by being temporal. Firms make frequent trade-offs between "less investment for smaller profits sooner" as compared to "more investment for greater profits later" Laverty (1996). This decision is closely related to the classics tension between exploitation and exploration (March 1991), whereby firms obtain benefits from exploiting the current products and capabilities, but they also need to invest in explorative endeavors, such as research and development to be able to build subsequent product, service, and process pipelines.

Sustainability is not responsibility

Corporate social responsibility (CSR) on the other hand is often viewed as a range of activities that create benefits for the wider community and the corporate entity (McWilliams & Siegel, 2001). Within that construct, responsibility can be characterized as: "good business" and is regularly linked with concepts such as shared value and "win-wins," whereby firms simultaneously generate economic and social value (Porter & Kramer, 2006). Even the triple - bottom - line framework, which is frequently used as a proxy for

sustainability (Bansal, 2005; Elkington, 1998; Hart & Milstein, 2003), may be more responsibility than sustainability if it ignores the central fact that sustainability implies intertemporal trade-offs.

Different paradigms

Corporate Social Responsibility (CSR) is tainted by ethics, standard, and morality, be as they originate within a company or are enforced by stakeholders. The practical challenge must be to reconcile different stakeholder claims and find a course of action which is most acceptable despite the lack of neat alignment to core strategy.

Sustainability is a unique conception that differs from traditional moral rules that are designed to guide the behavior of companies. Instead, it represents an analytical paradigm aimed at the assessment of the compatibility and the balance of the organizational structure with the wider systems of the macro-level in temporal elongated horizons. Within this framework, a system is not inherently positive or negative and nor does the analytical lens presuppose that actors have moral accountability as understood in the corporate social responsibility. By focusing on dynamics, resilience, and alignment through time, sustainability analysis can be applied regardless of the form of the organization without having to assess moral worth. For example, people who study sustainability might study the way that the addition of excess greenhouse-gas emissions alters climate systems without the necessary instruments, or even the authority, to qualify the climatic regimes as "good" or "bad."

Different outcomes

Since the concept of sustainability is focusing on the concept of intertemporal equity, it is able to orient conclusions that might be different from the conclusions obtained through CSR. CSR is predicated on the creation of shared value through the balancing of stakeholder interests; but a focus on the stakeholder demands of contemporary society may eclipse such trade-offs that become apparent in the longer term. For example, mine enterprises may engender shared value by financing educational and health infrastructure that enables a healthier workforce and adds to the welfare of the community. Nevertheless, such measures may not necessarily be sustainable in the face of ecological degradation that may accrue traditional livelihoods that may be compromised, notwithstanding initial local acceptance of stakeholder support. Predicting developments in the future is always a challenging task, and the search for legitimacy may give preference to symbolic or superficial initiatives.

The underlying logic of the theory of shared value does seem to contribute to explosive growth oriented towards perpetually increasing returns. This is a dynamic that could allow for the appropriation of future resources thus increasing the differences between short-term and long-term allocation. Without a strong analysis of the trade-offs from an intertemporal sense, or at least assume their existence, the shared values paradigm may contribute unintentionally or even accelerate weakening of the system.

Sometimes different practices

The confusing of corporate social responsibility (CSR) with business sustainability is easy to understand, given that societal time horizons usually exceed the time scales of conventional business cycles. While CSR programs, such as philanthropic programs and volunteerism, may provide short-term benefits, on their own they do not ensure the long-term existence of firms nor the sustainability of the broader systemic environments in which these firms operate.

Certain things can have ethical responsibility but not sustainability. Altruistic interventions which are focused on symptom relief are laudable; however, such interventions are unsustainable when they do not address underlying structural determinants. The construction of new infrastructure is a perfect example of such inconsistency: construction only is the first phase of the process, while further maintenance and operative capabilities must be constantly supported to guarantee the functionality in the long run. Historical precedents where mining companies set up schools and clinics without concurrent investment in educational and medical capacity building or setting aside financing for on-going maintenance are often the result of the local community covering subsequent economic burdens and resulting in hugely increased economic burdens.

On the other hand, some sustainable efforts resist generalization as either responsible or irresponsible. These practices mainly focus on designing organizational architectures consistent with a larger system of change. The approach generally includes flexibility and modularity and hence, will help in quicker adaptation to the changing situations (Teece, 2007). An example which can be considered an illustration of this paradigm is three-dimensional printing technology that is in turn linked to the concept of sustainability for its utilization of producing a quantity of products that are mostly needed, thus reducing waste and for enabling iterative rapid development of the designs and technologies as they evolve. Within this intersection involving strategy and sustainability, both products and processes are engineered to keep them viable against changing demands on the macro scale, and they effectively manage intertemporal trade-offs.

The threat to sustainability and strategy: short-termism

If business sustainability is understood to mean the capacity to achieve a balance between short- and long-term goals, then a mismatch in time is one of its most serious risks. This concern comes especially well illustrated through the dominant trend to short-termism. In a seminal survey of 400 executives - mostly chief financial officers - Graham and others (2005) found that close to eighty percent were willing to forego long-term value creation to smooth through earnings or meet short-term goals. Empirical studies of hyperbolic discounting also suggest that managers suffer from greater discounting of future outcomes, and this biases firms to ignore investments with the potential to create substantial long-term value (Dasgupta and Maskin, 2005).

Short-termism could be defined as "decisions and outcomes that follow a course of action that is best for the short-term but suboptimal long-term" (Laverty, 1996: 826). There is empirical evidence that people tend to value immediate rewards and discount future benefits (Loewenstein and Thaler, 1989) and which are amplified when conditions of uncertainty or urgency are present; parameters that often describe contemporary market environments.

Short, termism is harmful for both firms and society for several reasons which are interrelated with each other. Primarily, it inclines organizations to focus on incremental gains rather than substantive, transformational investments so that necessary resources are concentrated on operational efficiencies or adjacent market moves that may limit investment in disruptive technologies that can provide future competitive advantage. In comparison, firms that gain a healthy match between short-term and long-term goals exhibit a higher tendency to invest resources for research and development, develop the competencies of their employees, reduce turnover and maintain healthy relations with the community thereby ensuring that resources are developed responsibly (Slawinski & Bansal, 2012). Analogous to athletes who compete in the marathon, such organizations place strategic investments in a broad spectrum of resources throughout

the operational tenure (neither front-loading nor sprinting as in the modern slave system with inevitable reign of degeneration in performance from the leftovers of the modern plantation).

Second, excessive use of short-term tactical measures could increase earnings volatility. Myopic decision making can lead to sub-maximal returns - or it can force managers to seek riskier propositions in the hope of securing big payoffs. Either scenario can create a destabilizing cycle where "wins" are followed by "loses" and help promote high risk behavior to compensate for past losses (Kahneman & Tversky, 1979). This dynamic helps to form what Perlow et al. (2002) call a "speed trap," where accelerating pressures pressurize temporal horizons to an increased extent. Consequently, managers may become empowered to game financial statements to achieve targets - to defer important investments, for example, or to make managerial decisions that are divisive. From this perspective, then, Polman's decision to leave earnings guidance shortly after assuming the chief executive position was not mere symbolism but a calculated choice to ensure investment flexibility, and thereby further long-term, corporate-initiated goals.

References

1. Bansal, P. (2005) "Evolving Sustainability: A Longitudinal Study of Corporate Sustainable Development," *Strategic Management Journal* 26: 197–218.
2. Barney, J. (1991) "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17(1): 99–120.
3. Caves, R. E. and Porter, M. E. (1977) "From Entry Barriers to Mobility Barriers: Conjectural Decisions and Contrived Deterrence to New Competition," *Quarterly Journal of Economics* 91: 241–61.
4. Confino, J. (2012) "Unilever's Paul Polman: Challenging the Corporate Status Quo," Available at: <http://www.theguardian.com/sustainable-business/paul-polman-unilever-sustainable-living-plan>
5. Dasgupta, P. and Maskin, E. (2005) "Uncertainty and Hyperbolic Discounting," *American Economic Review* 95(4): 1290–9.
6. Elkington, J. (1998) *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*. Stony Creek, CT: New Society Publishers.
7. Graham, J. R., Harvey, C. R. and Rajgopal, S. (2005) "The Economic Implications of Corporate Financial Reporting," *Journal of Accounting & Economics* 40(1): 3–73.
8. Hart, S. L. and Milstein, M. B. (2003) "Creating Sustainable Value," *Academy of Management Executive* 17(2): 56–67.
9. Hayes, R. H. and Abernathy, W. J. (1980) "Managing Our Way to Economic Decline," *Harvard Business Review* 58(4): 66–77.
10. Holling, C. S. (1973) "Resilience and Stability of Ecological Systems," *Annual Review of Ecology and Systematics* 4: 1–23.
11. Hsieh, P., Koller, T. and Rajan, S. R. (2006) "The Misguided Practice of Earnings Guidance," *McKinsey on Finance* 19: 1–5.
12. Kahneman, D. and Tversky, A. (1979) "Prospect Theory: An Analysis of Decision under Risk," *Econometrica: Journal of the Econometric Society* 47: 263–91.
13. Kozlowski, S. W. and Klein, K. J. (2000) "A Multilevel Approach to Theory and Research in Organizations: Contextual, Temporal, and Emergent Processes," in K. J. Klein and S. W. J. Kozlowski (eds) *Multilevel Theory, Research, and Methods in Organizations: Foundations, Extensions, and New Directions*, pp. 3–90. San Francisco, CA, US: Jossey-Bass.
14. Lavery, K. J. (1996) "Economic 'Short-Termism': The Debate, the Unresolved Issues, and the Implications for Management Practice and Research," *Academy of Management Review* 21(3): 825–60.
15. Levy, S. (2011) "Jeff Bezos Owns the Web in More Ways Than You Think," Available at: http://www.wired.com/magazine/2011/11/ff_bezos/all/1

16. Loewenstein, G. and Thaler, R. H. (1989) "Anomalies: Intertemporal Choice," *Journal of Economic Perspectives* 3(4): 181–93.
17. McWilliams, A. and Siegel, D. (2001) "Corporate Social Responsibility: A Theory of the Firm Perspective," *Academy of Management Review* 26(1): 117–27.
18. Mosakowski, E. and Earley, P. C. (2000) "A Selective Review of Time Assumptions in Strategy Research," *Academy of Management Review* 25(4): 796–812.
19. Perlow, L. A., Okhuysen, G. A. and Repenning, N. P. (2002) "The Speed Trap: Exploring the Relationship between Decision Making and Temporal Context," *Academy of Management Journal* 45(5): 931–55.
20. Polman, P. (2013) "The Remedies for Capitalism," Available at: http://www.mckinsey.com/features/capitalism/paul_polman
21. Porter, M. E. and Kramer, M. R. (2006) "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review* 84(12): 78–92, 163.
22. Shrivastava, P. (1994) "Castrated Environment: Greening Organizational Studies," *Organization Studies* 15(5): 705–26.
23. Slawinski, N. and Bansal, P. (2012) "A Matter of Time: The Temporal Perspectives of Organizational Responses to Climate Change," *Organization Studies* 33(11): 1537–63.
24. Teece, D. J. (2007) "Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance," *Strategic Management Journal* 28(13): 1319–50.
25. Teece, D. J., Pisano, G. and Shuen, A. A. (1997) "Dynamic Capabilities and Strategic Management," *Strategic Management Journal* 18: 504–34.
26. The Economist (2013) "Why Does Michael Dell Want to Take His Company Private?," Available at: <http://www.economist.com/blogs/schumpeter/2013/02/economist-explains-why-michael-dell-taking-company-private>
27. World Commission on Environment and Development (WCED) (1987) *Our Common Future*. New York: Oxford University Press.
28. Zaheer, S., Albert, S. and Zaheer, A. (1999) "Time Scales and Organizational Theory," *Academy of Management Review* 24(4): 725–41.