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Creating Sustainable-Effective Businesses

CEO Publication
G 11-07 (5954)

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March 2011

Submitted for publication in
Sustainability: The Journal of Record

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In his 2010 commencement speech at Northeastern University, American Express CEO Kenneth Chenault said, "In exchange for permission to pursue profits, business must behave and act in ways that protect and enhance the world we live in."

A recent global survey of CEOs by the UN Global Compact and Accenture Sustainability Services found that 93 percent believe sustainability issues are critical to the future success of their firms. This same study found that 88 percent of CEOs believe they should be integrating sustainability through their supply chains. But only 54 percent believe this is being achieved in their company.

The Current Situation

Most companies in the U. S. are grasping the importance of sustainability and launching recycling initiatives and other company-wide initiatives targeted at improving their environmental impact. Coca-Cola recently launched "PlantBottle," packaging made up of 30 percent of plant-based material – a move that propelled the company to win the DuPont Award for Packaging Innovation, as well as praise from environmentalists and business analysts alike.

Kimberly-Clark announced last fall they were going to produce a new toilet paper, doing away with the cardboard tubes inside rolls that often create extra waste and incur additional manufacturing costs.

Coca-Cola and Kimberly-Clark are not alone; many other significant companies are making progress and should be commended for their sustainability efforts. Their initiatives are often win/win efforts; they not only have a positive environmental impact, they contribute to the financial performance and reputation of the corporations. In fact, according to a 2010 study by the National Environmental Education Foundation (NEEF), sustainability initiatives within large companies can increase profits by as much as 38 percent.

But what about sustainability initiatives that do not have a direct positive impact on the financial bottom-line? And beyond these "one-off" projects, what can companies do in the long-term to ensure that sustainability is embedded within their cultures and way of operating? As the survey by the U.N. Global Compact found it often is not today.

What about being sustainably effective, that is performing well financially, sociably and environmentally. Accomplishing requires organizations to develop strategies and make decisions that take into account the impact of their performance on all three.

Managers Must Hit The Reset Button

In order to embed sustainable performance effectiveness in organizations, the old way of managing needs to be thrown out. The management practices and strategies that have been used for decades are unable to meet demands of today’s rapidly changing business environment.

Just think about how drastically the business landscape changed over the past few years. Some of the largest corporations went bankrupt – Lehman Brothers, Borders and General Motors among them. According to the American Bankruptcy Institute, bankruptcy filings surged during the first half of 2010 and filings were more than 770,000 – a 14 percent increase from the previous year.

Yet, despite the rapidly-changing conditions, many companies are still following the same management approaches that were created in the early 1900s, adhering to rigid organization structures that don’t allow for innovation or sustainability. In fact, most of these approaches were designed to operate in an environment where one stakeholder’s demands (owners and shareholders) are dominant and where only one real measure of performance (profitability) is required.

In the past, it might have been acceptable to “fix” these broken management styles, by molding them for the current environment. But this simply will not work. In order to successfully build the nimble, future oriented and socially savvy organization of tomorrow, a seismic change is needed. The way organizations create value, govern and lead, organize work and manage talent all need to change.

Sustainable Financial Performance

So what does the financial performance of a "sustainable effective" organization look like?

According to our research, sustainably effective companies aren't always the top financial performers in their industries. Sustainable effective organizations are designed to be agile, which enables them to perform better over the long-term since they're able to adapt more quickly to the business environment change.

But this also means that sustainable managed organizations may never be the #1 performing firms in their industry at any point in time. They are not focused on optimizing their current performers (they're looking ahead, innovating, adapting and changing).

Take a look at Nokia. While Nokia's not considered by most to be the top player in tech (many would point to Apple or Microsoft), it has clearly exceeded expectations over the long haul. In fact, over the last 15 years, Nokia's profitability (return on assets) has exceeded the telecom/mobile industry average every year. If you go back 30 years, you will see a similar pattern and most other companies including Motorola, Samsung and even Apple cannot make that claim.

The Importance of Talent

Most agree that it's a company's talent that determines how effective it is. For sustainably effective organizations, this is certainly still true – their talent is an asset and they treat it accordingly. In sustainable effective organizations employees are paid for their skill, performance and in most cases their company's performance. They are given clear performance goals and their performance is systematically evaluated. Individuals are given options with respect to when, where, and how they work and in some cases what they work on, but they are always held to high standards.

Leadership That Is Shared

A key factor – possibly the most important feature of a sustainably effective organization – is leadership. Sustainable management organizations require more and different kinds of leaders than traditional organizations.

Leadership should be a shared responsibility that doesn't follow titles or hierarchy – features that are tied to the old way of managing. Sustainable management organizations need to be the opposite of traditional hierarchical bureaucratic organizations with their strong management relationships and hierarchy approach to job based leadership.

Shared leadership can often be a hard pill for old-fashioned business leaders to swallow. Just imagine telling certain command-and-control leaders (dead-set in their ways) that they need to share leadership across their organization. I'm sure you'd get a lot of mixed reactions (i.e. anger, doubt, etc.). But ultimately, this allows for organization agility, and contact with key stakeholders, which helps support the triple bottom line – economic, environmental and social success.

Organization Structures That Are Flexible

An organization cannot be sustainable effective unless it's agile and flexible enough to deal with the rapidly changing business environment. While there are a number of companies that are certainly on the right path, sustainable effectiveness calls for organizations to define their strategy and competitive advantage in a way that acknowledges the rapidly multi-stakeholder and marketplace demands.

W.L. Gore – a privately-held manufacturer of thousands of advanced technology products for the electronics, industrial, fabrics and medical markets – is a prime example of this. It recognized early on that hierarchical organizational structures emphasize stability and do not fit a world of uncertainty, so they built fluidity and flexibility into their structure by encouraging teams to form and pursue innovations.

Cisco is another example of a company with a flexible structure that allows for sustainability. The $40 billion dollar internet hardware and solution provider has cross-functional teams – essentially defined as a group of people with different functional expertise working toward a common goal.

Building Boards That Support Sustainable Management

Effective board leadership is needed to create the appropriate context for top management team decision making and to send clear signals to operating managers about short-term and long-term goals and strategies, that are aligned with sustainable effectiveness.

How often have you heard of a sustainability corporate board committee? Probably not often. It’s just not part of America’s business vocabulary. And while more and more people just are grasping the importance of environmental sustainability, a majority of U.S. boards are still missing the mark.

Corporate boards are particularly missing the sustainable effectiveness mark when it comes to their membership. Most board members are past or present executives of companies. No one represents the environment, employees or society. They need to be represented in order for a board to make informed decisions that support sustainable effectiveness.

Getting Started

The process of transforming any company into a sustainably effective organization is no easy task; it requires creating a whole new identity. There are many moving parts involved and the complexity can be overwhelming, but it can be done.

To get started, leaders who want to create sustainably effective organizations must do the following:

1. Lead and accommodate the changes and innovations that sustainable management organizations need to make.
2. Focus on the importance of sustainable effectiveness; develop metrics, set goals and reward sustainable performance.
3. Encourage a culture in which hierarchy is minimized and leadership is shared.

From a corporate progress perspective, sustainable effectiveness is not an option – it's a must have that will help ensure the future of your business, as well as the creation of positive outcomes for our environment, economy and society.

Edward E. Lawler III and Dr. Christopher G. Worley are co-authors of "Management Reset: Organizing for Sustainable Effectiveness"