Sustainability

Alan S. Gutterman

§1 Introduction

While debate continues regarding the appropriate level of government intervention via regulation in the marketplace, one area in which government involvement appears to be steadily increasing is social conduct. At the same time, consumers are demanding greater transparency on environmental and social matters from the companies asking them to purchase their products and services and investors are incorporating social responsibly into their assessments of the overall performance of portfolio companies. These trends have served as the catalyst for interest in “sustainable entrepreneurship”, which has been described as the continuing commitment by businesses to behave ethically and contribute to economic development (e.g., job creation that increases disposable income that generates tax revenues that can be invested in projects focused on sustainable development) while improving the quality of life of the workforce, their families, the local and global community as well as future generations. Sustainable entrepreneurship should be carried out using a sustainable business model that does not deplete resources, but rather replenishes them (e.g., natural resources, human resources, knowledge and technology foundations etc.), and creates value and material and non-material wealth (i.e., wellbeing and happiness) for all stakeholders through actions which are ethical and just. Sustainable entrepreneurship, and any sustainable business model, is based on acceptance of the principle that long-term environmental and social outcomes and impact are just as important as short-term economic objectives.

In order to understand the particular definition and description of “sustainable entrepreneurship” used in this publication, it is necessary to work through the evolution of the concept of sustainability that has occurred over the last several decades. Writers and activists from the 1970s and 1980s brought attention to concerns about the impact that economic growth would have on the Earth’s finite natural resources. Proponents of what was often referred to as the “limits of growth” theory argued that unchecked consumption and economic growth would eventually lead to the planet’s downfall and disaster. Specific problems included accelerating industrialization, rapid population

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growth, widespread malnutrition, depletion of non-renewable resources and a deteriorating environment. Opponents countered with faith in the ability that technological change and market signals would allow economic growth to continue without the predicted dire consequences (e.g., as natural resources became scarce, market prices would increase to the point where demand would decrease, thus preserving the scarce resources). While the two sides could not reach agreement—opponents also issued scathing critiques of the data and methodology used to support the theory, the issue of the boundaries of the maximum sustainable scale of usage of natural resources came into sharper focus and the debate has led to several different types and conceptualizations of “sustainability” that have become the basis for fields of academic research and organizational activities.

### Principles for Sustainable Business

According to the authors of *Sustainable Business: A Handbook for Starting a Business*, published and distributed by New Zealand Trade and Enterprise, there are two types of principles for sustainable business: operational and strategic. Operational principles were described as being practical and addressing the questions of what organizations do and how they do business on a day-to-day basis. In contrast, strategic principles are used as guidance in setting the overall direction of the business of the organization and should be used to help make decisions about operational principles.

The key operational principles were described as follows:

- **Good Employer:** The organization is committed to employee satisfaction, development and well-being. The organization, from the most senior management level display and model fairness and equity in all aspects of employee relations and show no tolerance for discrimination, bullying or harassment. Workplaces are safe and healthy and employees are encouraged to provide input and participate.

- **Environmental Responsibility:** The organization is respectful of environmental limits and operates in an environmentally efficient way in the design and delivery of its products/services. For example material/resource use is minimized, products are designed and manufactured considering the full life cycle of the materials and waste products. Environmental technology is invested in and/or used for example using solar panels to generate electricity.

- **Community Contribution and Fairness:** The organization contributes to making the communities in which it operates better places to live and do business (e.g., sourcing materials locally) and employees are encouraged to become involved in achieving this goal. Often this will be at a local level, but there may also be opportunities to apply this at the national and/or global level. All employees demonstrate honesty and fairness when dealing with stakeholders, including working closely with local community constituencies and empowering them in decisions that affect them.

- **Influencing Others:** The organization actively encourages others such as suppliers, customers and its employees to improve their own sustainability performance. For example, making it easy for customers to recycle the product and requiring that foreign material manufacturers must implement internationally accepted labor standards to ensure that forced or child labor is not used in the manufacture of materials or parts.

The key strategic principles were described as follows:

- **Integration of Sustainability into the Organization:** Sustainability is a business priority for the organization and is reflected in all aspects of the organization, including business processes (i.e., decision making, vision and performance management) to ensure that decisions are made with their sustainability effects in mind. In addition, there is clear evidence of management commitment to sustainability.
Minimizing Risks and Maximizing Opportunities: The organization addresses risks and uncertainty when making choices and takes a precautionary approach when making decisions that may cause serious or irreversible damage. Organizations that adopt this approach do not lean on the alleged lack of full scientific certainty about climate change as a reason for postponing measures to prevent environmental degradation.

Transparency and Accountability: The organization is transparent and accountable about its performance in matters that are important to others.

Meeting the Needs of Tomorrow with Innovation: Considering the long-term (inter-generational) implications of all decisions and seeking solutions that are mutually reinforcing rather than accepting that a gain in one area, such as reduction of environmental degradation, will necessarily be achieved at the expense of another, such as profitability. For example, recycling was material is not only good for the environment it will also save money for the organization by reducing the costs of removing rubbish.

The principles of sustainability outlined above, like many recommendations from the sustainability community, call on organizations to integrate sustainability into all aspects of their business processes to ensure that decisions are made with their sustainability effects in mind and ensure that there is clear and visible evidence of management commitment to sustainability. The following questions can be helpful in assessing whether sustainability has been integrated into the business of an organization:

- What norms or policies exist to ensure integration? For example, does the organization have a volunteering policy (i.e., providing employees with a certain amount of time off work to volunteer), environmental policy/goals and/or fair trade policy?
- What certification systems are available for the organization’s business (e.g., an environmental management system or an industry specific standard)?
- What membership organizations are available to join to increase the organization’s learning and profile in sustainability?
- How do staff members know that sustainability is important to the business of the organization and how are they rewarded for integrating it into their roles?
- What are the sustainability goals of the organization? Do the stakeholders know what the goals are? Is the actual performance being measured? How does the actual performance compare with the goals and how is the business communicating its performance to its stakeholders?
- How does the organization encourage its supply chain (e.g., suppliers, customers) to make sustainable choices and/or improve their sustainability performance?


Sustainability had its beginnings at the level of the “household” and its ability to produce and reproduce everything that was needed in order to sustain the livelihood of its members. Leal Filho observed that the term “sustainability” has been traditionally used as synonyms for “long-term”, “durable”, “sound” or “systematic”. Rey provided several basic definitions of “sustainability”:

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“In the literal sense, sustainable refers to, “of relation to, or being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged”. Alternatively, it is “of relating to a lifestyle involving the use of sustainable methods”, both according to the Webster’s dictionary. The Chambers Concise Dictionary defines the root word of sustainability - sustain - among other things, as “to hold up, to bear, to support, to provide for, to maintain, to prolong, to support the life of” - selecting the definitions that fundamentally define sustainability at its core (emphasis added by original author).”

In recent decades, the understanding of sustainability in both theory and practice has been influenced by three main groups: ecologists, the United Nation’s World Commission on Environment and Development, often referred to as the “Brundtland Commission”, and business strategists. In the 1970s and 1980s, sustainability was embraced by various ecological movements interested in balancing consumption and regeneration in nature and ensuring that natural resources were not abused and overused such that they were not as abundant for future citizens of the world, a cause that ultimately led to the emergence of interest in “sustainable development”. Ecologists have traditionally focused on the ecological dimension of sustainability, generally recognized as a desire to protect the natural environment and prevent over-exploitation of natural and environmental resources. In 1987 the Brundtland Commission convened by the United Nations added a social dimension to the discussion of sustainability by defining sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In general, definitions of sustainability introduced during this period stressed justice in and between generations with respect to use and stewardship of natural resources.

Sustainability first entered the realm of strategic management in 1980s when it was proposed that organizations could achieve a “sustainable competitive advantage” by employing valuable, rare, imperfectly imitable and difficult to substitute resources in a manner that would enhance their economic sustainability. A more radical infusion of sustainability at the corporate business level began to take shape in the late 1990s and early 2000s with the popularization of the “triple-bottom-line”, which was based on the proposition that the long-term success of businesses (i.e., their sustainable growth and development) depended on satisfaction of three conditions, all of which needed to be given equal consideration by management: environmental integrity, economic prosperity

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and social equity. This concept evolved into “corporate sustainability” and “corporate social responsibility” based on purposeful selection and use of sustainable business practices that mixed the traditional pursuit of economic profits with simultaneous attention to identify and meeting the demands and concerns of a wide range of stakeholders beyond the owners of the corporation. Daly argued that while there was no single universally accepted definition of sustainability, there should be little dispute that it is “both morally and economically wrong to treat the world as a business in liquidation” when engaging in commercial activities.

In summary, “sustainability” has taken on a number of different meanings and has become a widely used term in a wide array of scientific, social, economic and political contexts. Stankeviciute and Savaneviciene noted that sustainability is regularly used to describe each of the following:

- The systematic, long-term use of natural resources so that they are available for future generations, the concept famously defined by the Brundtland Commission in the late 1980s (i.e., development is “sustainable” when it meets the needs of the present without compromising the ability of future generations to meet their own needs);
- The modality of development that enables countries to progress economically and socially, without destroying their environmental resources (i.e. “sustainable development”);
- The type of development which is ethically acceptable, morally fair, socially just, and economically sound; and
- The type of development where environmental and social indicators are as important as economic indicators.

The term is also often used in contexts that combine two or more of the above-mentioned concepts. For example, Schuler and Jackson integrated the Brundtland Commission definition into the business world by arguing that an organization’s success requires meeting the present demands of multiple stakeholders while also anticipating their future needs. In addition, sustainability is transforming thinking in a number of management...
fields such as human resources management (“HRM”), where employees are no longer seen as simply tools to be used to achieve financial goals but also as resources to be valued and preserved so that they can continue to make contributions to their companies, families and the general community. As a result, HRM professionals are beginning to see HRM as both a “means” for achieving an organization’s sustainability-based strategic objectives and an “end”, or objective, in its own right. Specifically, HRM professionals are expected to train and direct employees in carrying out their individual roles and responsibilities with respect to sustainability (i.e., HRM as a “means”) and initiate and administer programs and practices that enhance the long-term physical, social and economic well-being of employees (i.e., HRM as an “end”).

§2 Definitions of sustainable development

Sustainability is often associated with the concept of “sustainable development”. One of the first, and still among the most commonly cited, definitions of “sustainable development” was proposed in 1987 by the World Commission on Environment and Development of the United Nations (generally referred to simply as the “Brundtland Commission”), which described sustainable development as “a process in which the exploitation of natural resources, the allocation of investments and the process of technological development and organizational change are in harmony with each other for both current and future generations”. The Commission also described sustainable development as “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”. In the context of entrepreneurial opportunities and activities, the concept of sustainable development brings into focus the need to preserve a sufficient amount of limited resources to ensure that entrepreneurs in future generations will have the same opportunities as current entrepreneurs to tap into those resources.

At the macro-level, the definitions offered by the Commission cautioned that the pursuit of economic growth must be tempered by consideration of social and environmental concerns. The lesson for companies was that managers seeking to act in a sustainable manner need to confront a fundamental challenge and conflict: popular and heavily entrenched short-term goals, such as profit maximization for the benefit of one group of stakeholders—the shareholders—must be balanced against protecting the long-term needs and opportunities of future generations. Twenty years later, an updated perspective on sustainable development explicitly highlighted the need to balance social equity,

HR Decision Science Paradigm for a New Strategy Definition”, Human Resource Management, 44(2) (2005), 129 (sustainability is “achieving success today without compromising the needs of the future”).


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including business practices that sustain and value employees and other workers in the supply chain, alongside economic health and environmental resilience.\textsuperscript{17} That period also saw the emergence of sentiment that the pursuit of sustainable development, albeit challenging to existing ways of doing business, also offered opportunities for new forms of entrepreneurship and that sustainable entrepreneurs could be recognized as persons who created business enterprises that were based on the pursuit of business strategies and activities that simultaneously met the current needs of the enterprise and its stakeholders while also protecting, sustaining and enhancing the human and natural resources that would be needed in the future.\textsuperscript{18}

**Business and Sustainable Development**

The International Institute for Sustainable Development (www.iisd.org) (“IISD”) was established in 1990 as an independent non-profit organization dedicated to promoting human development and environmental sustainability through innovative research, communication and partnerships. The strategic plan for the IISD includes the following programs and core strategic goals:

- Economic Law and Policy: Reform economic policies to advance sustainable and equitable development.
- Energy: Shift energy systems and policies to support universal access to clean, low-carbon energy.
- Water: Advance science-based solutions for universal access to water and healthy ecosystems.
- Resilience: Strengthen capacities to manage climate- and conflict-related risks.
- Knowledge: Transform data and information into knowledge that supports sustainable development.
- Reporting Services: Provide accurate, neutral, high-quality analysis that informs decision making about multilateral environmental negotiations.

Content available on the IISD website includes materials on Business and Sustainable Development collected and presented on their own site (https://www.iisd.org/business/) which includes six sections covering the following:

- Key Issues: Briefings on specific sustainable development topics from a business perspective including corporate social responsibility, corporate reporting, integrated product policy, climate change and trade.
- Strategies and Tools: How to incorporate the principle of sustainability into everyday business activities, illustrated by real-life examples
- Markets: Business opportunities arising from sustainable development
- Banking and Investment: Spotlight on how sustainable development is being approached by the financial services industry
- Working with NGOs: How businesses are forging working partnerships with lobby groups
- Training Opportunities: How universities and professional training providers can help industry leaders incorporate sustainability into their business strategies

Among the strategies and tools are guiding principles (i.e., the CERES principles, the International Chamber of Commerce Business Charter, the GoodCorporation accreditation scheme, IISD’s checklist of sustainable business practices, “factor four” and the “triple bottom line”); business tools (i.e., by-product


synergy and industrial ecology, cleaner production, design for environment, eco-efficiency, energy efficiency, environmentally-conscious manufacturing, the “four R’s”, green procurement, performance contracting, pollution prevention and zero-emission processes; and systems and standards (i.e., environmental management systems, ISO 14001, EMAS, EH&S programs, SA 8000, life-cycle assessment, reporting, total cost assessment and total quality environment).

The IISD, in collaboration with Deloitte & Touche and the World Business Council for Sustainable Development, published “Business Strategy for Sustainable Development: Leadership and Accountability for the 90s” in 1992, and that publication included a number of steps for managing an enterprise according to sustainable development principles:

- Perform a stakeholder analysis to identify all the parties that are directly or indirectly affected by the enterprise’s operations and set out the issues, concerns and information needs of the stakeholders with respect to the organization’s sustainable development activities.
- Assess the current position to determine the degree to which the company’s activities line up with sustainable development principles, a process that requires evaluating the company’s overall strategy, the performance of specific operations, and the effect of particular activities. This process should compare the company’s current performance with the expectations of the stakeholders, review management philosophies and systems, analyze the scope of public disclosures on sustainability topics, and evaluate the ability of current information systems to produce the required data should be evaluated.
- Set sustainable development policies and objectives including articulating the basic values that the enterprise expects its employees to follow with respect to sustainable development, incorporating sustainable development objectives as an additional dimension of business strategy, setting targets for operating performance and establishing an effective external monitoring system that gathers information on new and proposed legislation; industry practices and standards, competitors’ strategies, community and special interest group policies and activities, trade union concerns and technical developments (e.g., new process technologies).
- Establish a social responsibility committee of the board of directors with responsibility for setting corporate policies on sustainable development and monitoring their implementation and for dealing with issues such as health and safety, personnel policies, environmental protection, and codes of business conduct.
- Decide on a strategy taking into account the performance of other comparable organizations and with a focus on narrowing the gap between the current state of the corporation’s performance and its objectives for the future. The strategy should be supported by a plan that describes how and when management expects to achieve the stated goals and the various milestones that must be reached along the way. Once the strategy and the general plan have been approved, detailed plans should be prepared indicating how the new strategy will affect operations, management systems, information systems and reporting. Plans should be reviewed and approved by senior management following consultation with employees throughout the organization.
- Design and execute an implementation plan for the management system changes that are needed in order to achieve sustainable development objectives, a process that normally includes changing the corporate culture and employee attitudes, defining responsibilities and accountability, and establishing organizational structures, information reporting systems and operational practices.
- Develop a supportive corporate culture to ensure that the organization and its people give their backing to the sustainable development policies. In most cases, managers will need to be retrained to change attitudes that have traditionally emphasized wealth management for the owners of the enterprise. An effort should also be made to develop a culture that emphasizes employee participation, continuous learning and improvement.
- Develop appropriate measures and standards of performance taking into account the company’s sustainable development objectives and standards that have been established by government and other public agencies.
- Develop meaningful reports for internal management and stakeholders, outlining the enterprise’s sustainable development objectives and comparing performance against them. Directors and senior
executives use internal reports to measure performance, make decisions and monitor the implementation of their policies and strategies. Shareholders, creditors, employees and customers, as well as the public at large, use external corporate reports to evaluate the performance of a corporation, and to hold the directors and senior executives accountable for achieving financial, social and environmental objectives.

- Enhance internal monitoring processes to help directors and senior managers ensure that the sustainable development policies are being implemented. Monitoring can take many forms, such as reviewing reports submitted by middle managers, touring operating sites and observing employees performing their duties, holding regular meetings with subordinates to review reports and to seek input on how the procedures and reporting systems might be improved, and implementing an environmental auditing program.

Other resources and references relating to sustainable business are available from the Sustainable Business and Entrepreneurship Platform (http://www.susent.org/), which is a research group from the International Business School and the Centre of Applied Research of Economics and Management at the Amsterdam University of Applied Science. The Platform was developed as a resource for professionals, primarily in the fashion, apparel and textile industries, to learn more about sustainability in practice and includes case studies and tools that can be used for assessment of sustainability and development and implementation of strategies for achieving sustainability change.

§3 Dimensions of sustainability

In many ways, the definition of sustainable development proposed by the Brundtland Commission was vague and ambiguous; however, commentators eventually began to focus on what became known as the three pillars, or dimensions, of sustainable development: environmental protection, economic development and social equity. Many of them argued that environmentally-conscious, or sustainable, businesses should pursue environmental, economic and social objectives simultaneously and conduct their operations ethically with sustainable environmental, economic and social dimensions embedded within their products, processes and services. This approach has often been referred to as the “triple bottom-line”, a nod to the notion that businesses should expand their traditional focus on the financial “bottom-line” as the measure of performance to include ecological and social impact. From time to time, others have suggested that additional dimensions of sustainability should be recognized and integrated into a model along with the first three dimensions. For example, a cultural dimension would take into account the need for sustainable businesses to sustain traditional or indigenous knowledge, maintain cultural diversity and prevent the loss of personal and community identity.

Racelis argued that sustainable development was, by its very nature, an

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ethically motivated normative concept and thus it was essential to include an ethical domain in any framework or model of sustainable entrepreneurship. In the years immediately following the release of the Brundtland Commission’s report much attention was paid to the manner in which business organizations coped with ecological issues; however, in recent years the social dimension of sustainability has attracted greater interest and led to the emergence of new research and practice areas such as “Corporate Sustainability” and “Corporate Social Responsibility”.

§4 --The “triple bottom-line”

One of the iconic themes and catch phrases of the corporate sustainability movement is the “triple bottom line”, which was first proposed in the 1990s as a framework for measuring and quantifying an organization’s economic activities that have a direct impact on society and the environment, thus moving beyond traditional performance measures such as profit, return on investment and shareholder value to incorporate creation of social and environmental value and the impact of operations on all of the organization’s stakeholders. The constituent aspects of the triple bottom line, each of which has its own set of distinct opportunities for companies to act in a responsible manner, have become known as the “3 P’s”: People (i.e., employees, suppliers, customers, local communities and other stakeholders); Planet (i.e., biodiversity, animal welfare, natural resource management and climate change) and Profit (i.e., economic responsibility including wealth creation and distribution, business ethics, fair competition, economic impact of operations on local communities, taxes, lobbying etc.). Each of the 3 P’s can be understood and appreciated in isolation; however, the challenge for companies lies in achieving and maintaining the appropriate balance among the three areas, a task that is particularly difficult given that companies operate in a turbulent and evolving external market that is constantly changing and must overcome the challenges of measuring and assessing environmental and social performance in the same way that they have been able to calculate and report on financial performance.

In the 1990s, Elkington proposed a framework for measuring and quantifying an organization’s economic activities that had a direct impact on society and the environment, thus moving beyond traditional performance measures such as profit, return on investment and shareholder value to incorporate creation of social and environmental value and the impact of operations on all of the organization’s stakeholders (i.e., shareholders, customers, employees, business partners, governments and local communities).
Elkington referred to his framework as the “triple bottom-line”, described by others as an expansion of the “traditional accounting and performance framework to encompass its ecological and social impact, in addition to its financial impact”. The constituent aspects of the triple bottom-line have become known as the “3 P’s” (i.e., People, Planet and Profit), and can be briefly described as follows:

- **People**: This aspect focuses on how companies behave with respect to addressing social and ethical issues such as fair treatment for employees and promotion of social cohesion. Issues that need to be addressed include, job creation, protection of human rights, non-indulgence towards fraud and corruption, use of child labor, gender relationships and discrimination in the workplace, workplace safety, labor participation in management and profits, implementation and enforcement of behavior codes and social cohesion (i.e., fulfilling individual and community needs). Companies must not only adhere to formal labor regulations but also must voluntarily and purposely adopt self-imposed systems to manage these issues. Companies should provide fair salaries, tolerable working hours and conditions and meaningful benefits such as health care and insurance, and should also demonstrate their understanding of the value of their workforce through hiring, developing and training the “right” people that complement their sustainable business objectives. Training should not only meet the current needs of the company but also include a “knowledge” component that strengthens the ability of employees to survive in a competitive labor marketplace.

- **Planet**: The second aspect recognizes that sustainability is crucial to the longevity of the planet and its inhabitants and calls on companies to measure and manage the impact of its activities on natural resources and the landscape. Unsustainable use and abuse of natural resources will ultimately cause companies to lose their people, employees and customers, and destroy their profitability and economic viability. Among the specific issues that need to be considered are environmental care, supply chain management, eco-efficiency, clean products, sustainable technology and products, and responsible consumption:

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development, sustainable industry fields and eco-design. In many instances, protecting the environment is a real and substantial constraint on profit maximization for companies; however, the triple bottom-line places environmental integrity side-by-side with profit seeking as overall goals and purposes for the organization. As is the case with the People aspect, companies must not only deal with environmental laws and regulations but also a broad and continuously growing array of self-regulatory standards.

- **Profit:** The third aspect, profit, is certainly not new to commercial ventures and it can be expected that companies will be concerned about the financial results of their business activities. Simply put, companies cannot achieve the long-term value for Planet and People described above unless they are financially viable and sustainable and thus able to survive and ultimately achieve the goals and purposes originally stabled by the entrepreneurs who founded the venture. However, success with regard to profitability in the triple bottom-line framework is gauged by additional factors such as allocating excess funds away from self-gratification and into meaningful, helpful ways such as investments in machines and infrastructure, sponsoring and donating and equitable distribution of financial profits (e.g. labor participation). In addition, the framework also takes into account the economic benefits that society in general enjoys from the business activities of the company including profits realized by supply chain members and other business partners which must be understood and valued as social benefits.

### Illustrative Areas for the “Triple Bottom Line”

In explaining the role that lawyers and the legal profession have with respect to corporate social responsibility, the Council of Bars and Law Societies of Europe explained that the “triple bottom line” framework was designed to provide a roadmap for companies to understand how they should be contributing to sustainability in their relationships with human beings, or “people” (i.e., employees, suppliers, customers, local communities and other stakeholders); the external environment, or the “planet” (e.g., biodiversity and animal welfare); and the economy, referred to as “profit” and including the economy of the communities in which they operated. The Council provided the list of illustrative areas under each of the categories of the “triple bottom line”:

#### Social Responsibility (People)

- **Labor rights:** Slave, forced or compulsory labor; child labor; freedom of association/collective bargaining; non-discrimination/equal opportunities; rest, leisure and holidays; minimum wages; health and safety
- **Right to work:** Protection against unjustified dismissals and technical/vocational guidance and training
- **Right to life**
- **Development rights:** Right to education; to health; to adequate food and fair distribution of food; to clothing; to housing; to social security; to enjoy technological development

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Right to hold opinions and freedom of expression, thought, conscience and religion
Right to a family life
Right to privacy (e.g. surveillance, personal information, drug testing)
Minority rights to culture, religious practice and language and cultural rights (indigenous peoples)
Right to peaceful assembly
Right to take part in political life
Informed consent to medical/biological trials
Moral and material interests from inventions

Environmental Responsibility (Planet)

UN Convention on Bio-Diversity: in-situ and ex-situ conservation, impact on diversity, use of genetic material, technology transfer
The Precautionary Principle (if in doubt about negative environmental impact of a given action – abstain)
Use and handling of GMOs (Genetically Modified Organisms)
Air emissions and impact on global warming (greenhouse gases)
Impact on the ozone layer (Montreal Protocol Annexes)
Prohibition of use of certain materials and substances, hereunder safe handling/transport of dangerous substances
Distance to residential neighborhoods for production sites
Soil, ground water and surface water contamination
Treatment and reduction of waste water
Water consumption and leakage
“Eco-efficiency”, consumption of raw materials, and consumption of energy
Export of waste and re-use of material
Subsidizing environmental projects (e.g., protection of the rainforest)
Animal welfare

Economic Responsibility (Profit)

Financial profit, economic growth and asset creation
Business ethics, corruption and bribery, conflict of interest
Direct and indirect economic impact on communities through spending power (suppliers, consumers, investors, tax payments and investments), and geographic economic impact
Economic impact through business process: outsourcing, knowledge, innovation, social investments in employees and consumers
Monetary support for political parties, lobbying, and other ‘political’ activities
External economic impact from pollution, internalization of externalities, value of consuming products
Stock exchange behavior, including insider trading
Economic regulation, tax incentives, redistribution
State contracts and State Subsidies
Intellectual property rights, hereunder patents, pricing and the impact on economic and societal development potential
Antitrust and competition, including market impact and “alliances”
Board and executive remuneration and role of accountants
Donations
Taxes, including “transfer pricing”

While each of the 3 P’s can be understood and appreciated in isolation, the challenge for companies lies in achieving and maintaining the appropriate balance among the three areas, a task that is particularly difficult given that companies operate in a turbulent and evolving external market that is constantly changing and thus requires a series of twists and turns in business strategy and the areas of immediate focus. For example, the need to generate revenues to maintain operations and invest in new equipment and personnel required to grow the business may lead to temptations to cut corners on using eco-friendly materials that may be more costly. Sustainable entrepreneurs may also find that their desire to protect and reward their employees threatens the long-term viability of the business during recessionary times when sales are down due to factors outside the control of the company. Similarly, donations and sponsorships may need to be cut back during times that excess capital needs to be diverted to upgrading products to address changing customer requirements. In all of these instances, the impact of changes in strategy and tactics needs to be analyzed and communicated to the involved stakeholders.

While the “triple bottom-line” has been well-known and recognized, a strong perception remains that financial and social returns are mutually exclusive and that improvements on one of these dimensions will be accompanied by reductions on the other dimension. Commentators have argued that it should not be a question of whether to focus on creating financial wealth or social change but rather on conceptualizing the path of the organization as concurrently pursuing both economic and social value. Bergh described that “blended value proposition” developed by Emerson et al., which is based on the belief that “the nature of value is integrated and non-divisible; that value attained as an outcome of an activity has financial, social and environmental elements integrated at the core of the value proposition”. What this means is that the focus of analysis should be on whole value created for all of the stakeholders, not just investors but also other impacted groups and society in general. Richomme-Huet and De Freyman have also stressed that sustainable entrepreneurs should create values that produces economic prosperity, together with social justice and environmental protection. In other words, there should not be a zero-sum game or tradeoff between profit and other non-profit aspects, such as environmental well-being or social welfare.

One issue that makes it difficult for companies to simultaneously manage People, Planet and Profits is that while there are accepted and reasonably objective ways to measure financial performance it is problematic to gauge the actual impact of a company’s

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28 L. Bergh, Sustainability-Driven Entrepreneurship: Perceptions of Challenges and Obstacles in a South African Context (Cambridge UK: Master Thesis for MS in Sustainability Leadership, July 2013), 6 (citing J. Emerson, S. Bonini and K. Brehm, The blended value map: Tracking the intersects and opportunities of economic, social and environmental value creation (2003)).

behavior on nature and the communities in which it operates and thus assess the company’s overall performance along all included dimensions. Racelis cited an example provided by Sir Partha Dasgupta, who was involved in the development of the Inclusive Wealth Index: “If a national accountant claims the savings ratio of a country like Brazil or Costa Rica is 15%, but doesn’t take into account the natural capital, the forests being razed, then it is not a true indication of the accumulation of wealth. If depreciation of forests is deducted from savings, the picture looks significantly different.”

An obvious problem is that there is no common unit of measurement, which makes it difficult to afford equal weight to each of the three dimensions. While there have been suggestions that social welfare and environmental damage can and should be measured using monetary values, the reality it is problematic, if not impossible, to put a price on social and environmental issues such as endangered species, nuclear disasters and soil degradation. Critics have claimed that companies have taken advantage of the lack of measurement tools to inaccurately report their triple bottom-line performances, with Pojasek arguing that while many companies have made a great public show of embracing the triple bottom-line, they often have used it in ways that have “provided a smokescreen behind which firms can avoid truly effective and environmental reporting and performance”.

In 2006, Savitz and Weber proposed a menu of economic, environmental and social performance measures based on information drawn from different functions within the company—accounting, marketing and human resources—that could provide a clear picture of a company’s management of the triple bottom-line and opportunities for reporting and assessing results:

- **Economic**: Traditional economic measures such as sales, profits and return on investment should be supplemented by taxes paid, monetary flows and jobs created (e.g., job growth and cost of underemployment).
- **Environmental**: Objective/quantitative measures can be obtained for air and water quality, energy usage (e.g., electricity and fossil fuel consumption) and waste production (e.g., hazardous and solid waste management).

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34 A. Savitz and K. Weber, The triple bottom line: how today’s best-run companies are achieving economic, social, and environmental success – and how you can you too (San Francisco: Jossey-Bass, 2006).
• **Social**: Labor practices (e.g., unemployment rate and female labor force participation rate), community impacts (e.g., relative poverty, health adjusted life expectancy and violent crimes per capita), human rights and product safety and responsibility.

Majid and Koe observed that the use of the triple bottom line, often referred to as the “TBL”, had been extended beyond being a means for explaining or describing sustainable development to being recognized as a “tool or device for sustainable reporting under the headings of environmental quality, social justice and economic prosperity by organizations; due to its ease in monitoring the effects of business activities on the three dimensions in TBL”.

Many businesses, non-profit organizations and government agencies have cited the triple bottom line as the foundation for their measurement and reporting of sustainability performance; however, many of have complained that significant shortcomings remain in developing reliable, objective and wide accepted standards for measuring performance on the environmental and social dimensions of the triple bottom line and simultaneously integrating the performance on each of the dimensions to arrive at a viable measure of overall return on investment. Racelis criticized the efficacy of the “triple bottom line” as a measurement tool for sustainable entrepreneurship due to its failure to clearly mention the degree of emphasis that should be given to the domains identified in the model. Others have attempted to solve the puzzle of how to balance the domains by maintaining that equal priority should be given to each of the domains in the model, a stance taken by Majid and Koe for their model, discussed below, that includes four domains: economic, social, ecological, and cultural.

§5 --Cultural dimension

Majid and Koe surveyed definitions of sustainable entrepreneurship that served as the foundation for suggesting that “culture” should be added to the three original dimensions of the triple bottom line and recognized as a context for entrepreneurship that should be sustained. They noted that O’Neill et al. described sustainable entrepreneurship as “a process of venture creation that links the activities of entrepreneurs to the emergence of value-creating enterprises that contribute to the sustainable development of the social-
“ecological system” and the characteristics of the cultural environment in which the entrepreneurial activities are being carried out play a significant role in influencing the “values” that sustainable enterprises seek to create.\textsuperscript{38} Earlier, Nurse had argued that culture should be integrated into sustainable entrepreneurship in the same manner as economic viability, environmental responsibility and social equity.\textsuperscript{39} In fact, Nurse proposed that not only should culture be the “fourth pillar of sustainable development, but should be central to it in order help the people to deal with sustainability issues in one’s own way, because “culture shapes what we mean by development and determines how people act in the world”.\textsuperscript{40}

Majid and Koe relied upon and endorsed these definitions when proposing their own definition of sustainable entrepreneurship: “A process in which entrepreneurs exploit the opportunities in an innovative manner for economic gains, society equity, environmental quality and cultural preservation on an equal footing.”\textsuperscript{41} They then continued to propose a revised model of sustainable entrepreneurship based on analysis of four domains: the economic, environmental and social domains in the traditional TBL, and a cultural domain that specifically recognized preservation of the community and cultural values as an obligation of sustainable entrepreneurs and their activities. Majid and Koe noted that explicitly including culture in the model was consistent with the significant role that culture played in setting the context for sustainable entrepreneurship, particularly the social impact of entrepreneurship.

In the same vein, Racelis pointed out that in many areas of the world, sustainable entrepreneurship must be understood to include addressing concerns about damage to traditional or indigenous knowledge or culture and over-dependence on Western culture arising from economic progress and development as defined by Western standards. Racelis noted that measurement and assessment tools relating to sustainability entrepreneurship must take into account cultural factors including those aspects related to learning, education, awareness, and marketing.\textsuperscript{42}

\section*{§6 Ethical dimension}

An important element of sustainable entrepreneurship is ensuring that the businesses launched and operated by the entrepreneurs conduct their affairs in a sustainable manner and demonstrate ethical behavior. Many commentators have stressed that the pursuit of

\begin{thebibliography}{99}
\bibitem{note39} Id. at 306 (citing K. Nurse, “Culture as the Fourth Pillar of Sustainable Development”, Small States: Economic Review and Basic Statistics, 11 (2006), 28). While arguing that culture should be included in any comprehensive model of sustainable entrepreneurship, Nurse did not advocate that “cultural entrepreneurs” should be recognized as sustainable entrepreneurs as they typically focused their activities on the art sector or cultural industries which could be not-for-profit and non-entrepreneurial oriented. Id.
\bibitem{note41} Id. at 300-301.
\end{thebibliography}
the various types of economic and non-economic entrepreneurship described in this Guide cannot be sustainable unless the entrepreneurs conduct their operations ethically. Building on this, Racelis argued for consideration of the ethical environment created within an entrepreneurial firm, the mechanisms put in place by the entrepreneur to ensure ethical standards are observed, and the ways in which unethical behaviors on the part of employees are addressed.\footnote{Id. at 14 (citing M. Morris, M. Schindehutte, J. Walton and J. Allen, “The ethical context of entrepreneurship: proposing and testing a developmental framework”, Journal of Business Ethics, 40 (2002), 331).} According to Racelis, “sustainable development is, by its very nature, an \textit{ethically motivated normative concept} referring to a form of economics and lifestyle that does not endanger our future” and that it is therefore essential to include an ethical domain in any framework or model of sustainable entrepreneurship.\footnote{Id. at 6.}

Racelis argued that “entrepreneurship is an ethical activity of pressing importance as it significantly influences the sort of lives we will lead in the future” and noted, in particular, that “the very process of creating new products, services, and markets is a journey with its own enormous ethical impact on the stakeholders immediately affected by the entrepreneur’s actions”. For example, there are strong ethical dimensions at play in the relationship between the entrepreneur and the supporters of the new venture who put themselves in a position of great vulnerability to the entrepreneur and place much at stake in anticipation of the success of the entrepreneur.\footnote{Id. at 11 (citing L. Dunham, Entrepreneurship and ethics (2005)).} Racelis mentioned several important and complex moral and ethical issues and problems that all entrepreneurs must confront with respect to basic fairness, personnel and customer relationships, distribution dilemmas and other challenges.\footnote{Id. (citing F. Hannafey, “Entrepreneurship and ethics: a literature review”, Journal of Business Ethics, 46(2) (2003), 99).} Illustrations of major ethical concerns and issues with respect to entrepreneurship include\footnote{Id. (citing E. Garriga and D. Melé, “Corporate social responsibility theories: mapping the territory”, Journal of Business Ethics, 53 (2004), 51; M. Morris, M. Schindehutte, J. Walton and J. Allen, “The ethical context of entrepreneurship: proposing and testing a developmental framework”, Journal of Business Ethics, 40 (2002), 331; and R. Raeesi, M. Dastrang, S. Mohammadi and E. Rasouli, “Understanding the interactions among the barriers to entrepreneurship using interpretive structural modeling”, International Journal of Business and Management, 8(13) (2013), 56).}:

- \textit{Human dignity and human rights issues}: Racelis argued that “a normative approach to entrepreneurial ethics calls for the application of social norms to business and management since social norms serve as the foundation for rules of behavior within a community”. Racelis suggested that organizations, including sustainable entrepreneurial ventures, need to treat members of their community with dignity and respect and must be mindful of: (1) maltreatment (i.e., blatant injustice through abuse of power or mistreatment); (2) indifference (i.e., disrespectful treatment through lack of recognition of people’s personhood and concern); (3) justice (i.e., respect for persons and their rights), (4) care (i.e., concern for people’s legitimate interests and
support for them in resolving their problems); and (5) development (i.e., favoring human flourishing, mutual esteem, and friendship-based reciprocity).  

- Contributing to a harmonious way of living together in just, peaceful, and friendly conditions: Racelis observed that humans are also social beings; they possess “sociability” and want to live together in an established order, with harmony, justice, and peace. These traits and needs should be demonstrated by feelings of care, trust, concern and interest for others, including those who are vulnerable to the choices of others and those who deserve extra consideration.  

- Corruption, especially in the supply and customer chains: Hefty fines, damaged reputations, and jail sentences—recent scandals prove that corruption in business does not always bring profits, yet bribery persists.  

- Financial and operational pressures which heighten the incentives for entrepreneurs to engage in expedient behavior (including dishonesty): Rising incidents of corruption, piracy, terrorism, and human and drug trafficking. Legal and reputational issues (i.e., penalties for willful infringement and having unlicensed software reduces credibility and can be seen as being very unprofessional.  

Other unethical practices include violations of union rights, use of child labor, dangerous working conditions, race and gender discrimination, and underhanded influence on people to gain benefit or power by way of lies, deceit, or the creation of false expectations.

Racelis argued that “a strong case for our moral responsibility to future generations can be established on the grounds of fiduciary duties, virtue ethics, stewardship and accountability, respect for human dignity and human rights, promoting the common good, etc.” and that the job of leaders such as sustainable entrepreneurs should include caring and taking responsibility for their followers. Ethical missteps will cause sustainable entrepreneurs to lose their existing funds and resources due to corruption and make it more difficult for them to obtain new financial resources and recruit and retain the human capital needed for the venture to be successful. As to some of the actual steps that sustainable entrepreneurs can take in order to fulfill their ethical obligations, a survey described by Morris et al. mentioned implementing penalties for unethical behavior and communicating them to employees; drafting and adopting a formal code of

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conduct that provided guidance for resolving specific on-the-job ethical dilemmas; implementing ongoing ethics-related training; preparing and circulating among employees a company policy manual covering ethics was accessible to employees; designating an officer or manager who is assigned direct responsibility for ethical issues; and launching and maintaining a program regularly scheduled discussions with employees regarding ethical issues.. The ideal is for the business as a whole and each of its managers and employees to embrace and practice ethical values and adopt and live the simple premise that “Good Ethics is Good Business”.

About the Author

This chapter was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters’ Westlaw, the world’s largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 80 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to sustainable entrepreneurship and ageism. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/) and visit his website at alangutterman.com.

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) was launched by Alan Gutterman to teach and support individuals and companies, both startups and mature firms, seeking to create and build sustainable businesses based on purpose, innovation, shared value and respect for people and planet. The Project is a California nonprofit public benefit corporation with tax exempt status under section 501(c)(3) of the Internal Revenue Code dedicated to furthering and promoting sustainable entrepreneurship through education and awareness and supporting entrepreneurs in their efforts to launch and scale innovative sustainable enterprises that will have a material positive environmental or social impact on society as a whole.

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