Sustainability for Small Businesses and Startups

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While corporate social responsibility ("CSR") has been a topic of discussion for larger businesses for a long time, relatively little attention was paid to CSR and small businesses. However, as governments have come to realize the importance of small businesses—small- and medium-sized enterprises ("MSEs")—to their economies as drivers of employment, research and guidance on management topics for MSEs has become more prevalent. While managers of small businesses rightly have concerns about the costs associated with many CSR projects, and non-governmental organizations have not spent as much time and effort on monitoring CSR among SMEs, more and more SMEs are beginning to appreciate the potential benefits of having some type of CSR initiative, even if it scaled down to fit the size of the firm and the relatively meager resources available. For example, as larger companies have integrated supply chain management into their CSR initiatives SMEs seeking to become supply chain partners have been forced to take a hard look at their efforts with respect to social responsibility, particularly the ways that they treat their workers and the impact of their operations on the environment. Another driver of CSR among SMEs is their dependence on their relationship with the local community. While larger companies operate in numerous locations around the world, SMEs have one primary site and depend heavily on the strength and support of the community surrounding the site. As such, it is incumbent on SMEs to act in a socially responsible manner in their interactions with community members and support community efforts in areas such as education, health, safety and general welfare.

Coronavirus: A Reminder That All Entrepreneurship Matters

Writing in the New York Times in April 2020, David Sax suggested that the Coronavirus pandemic and related public health and economic crises should serve as a reminder of the types of entrepreneurship that truly matter in our society. Sax noted that entrepreneurship has frequently been defined and lionized in the media as being limited to the tight knit ecosystem of Silicon Valley that is providing us with innovative ideas for the re-invented futures the prophets and gurus in that ecosystem decide that we must all have. Referred to by Sax as “bold, sexy entrepreneurship”, examples include Jobs, Musk and Zuckerberg; Mark Cuban and other ruthless investors on “Shark Tank”; WeWork and a host of other Unicorns; celebrity cosmetics companies and the seemingly endless stream of college dropouts who have miraculously found the next disruptive product or technology that they will develop with hundreds of millions of dollars of venture capital financing and no experience or responsible guidance.

Fawning boosters of this phenomenon, including many economists and policymakers, have effectively argued that the “Silicon Valley startup” is the only type of entrepreneurship worthy of financial and political support and, as Sax put it, small businesses that are not interested in innovating boldly or pursuing exponential growth have been disdainfully cast aside as effectively pointless and a waste of valuable scarce resources. Seemingly productivity alone is to be the holy grail of entrepreneurship. Sax provided the following quote from Lind and Atkinson to illustrate this view of entrepreneurship and its hostility to traditional small business: “The best way to boost productivity is to remove obstacles to the replacement of small-scale, labor-intensive, technologically stagnant mom-and-pop firms with dynamic, capital-intensive, technology-based businesses, which tend to be fewer and bigger.” Lind and Atkinson went on to advise
governments that if they wanted to help any small firms they “should focus on the startups that have the desire and potential to get big, not on nurturing Ashley and Justin’s efforts to open a local pizza shop”.

Certainly job creation and other types of economic growth, done responsibility by the Silicon Valley startups like those described above, is generally a positive contribution to society; however, Sax argued that to fixate only on those metrics of success ignored the deep and intricate connection that small businesses have to the heart and soul of their communities and everyone who lives there. According to Sax, if one or more of the darlings of Silicon Valley flamed out in the stormy seas of the Coronavirus life would go on relatively unchanged, but if we lost the barbers, fruit stores and plumbers that we have come to rely on every day we would lose a part of our souls and our communities would be filled with good people and their families who have been ruthlessly and callously consigned to struggling with financial and emotional trauma for years to come.

Even before the Coronavirus, the demographics and impacts of entrepreneurship in America were shifting dramatically. According to Sax, the number of Americans who were self-employed and had started their own businesses dropped by half since the early 1980s. However, while smaller in numbers, these entrepreneurs continued to have an outsized impact on their communities: struggling to sustain profitability to survive, yet contributing immeasurable intangible value to the social fiber of the world in which they operated. Sax’s own experience in his community was that if a business was owned and operated by entrepreneurs, including partners, individuals and families, they almost always offered their immediate support for activities that would benefit the community, be it schools, parks, the local playhouse or some other activity that could be enjoyed by their neighbors even if they weren’t customers at that time. On the other hand, when businesses in the same community were owned by larger corporations headquartered hundreds of miles away or funded by outside professional investors, they were far less likely to contribute to the cause. Sax also reported about small businesses, such as hair salons and restaurants, that served as de-facto community centers operated by entrepreneurs who often provided services and products for free to help out their neighbors in need.

Sax admitted that even with the best of intentions and financial support, many traditional small businesses would simply not be able to survive the sudden shock of the pandemic, as happened during the great recession of the late 2000s, and would be forced to close their doors, lay off their employees and file for bankruptcy protection to fend off their creditors, many of whom are also small businesses in similar situations. Small businesses simply do not have the safety nets to survive more than a few days or weeks without customers. Nonetheless, even as they struggled to deal with a future they could not control and politicians that said the right things but seemed unable or unwilling to really help while larger businesses got most of the financial assistance, small businesses around the country moved quickly to provide whatever support they could to help those in their communities during the crisis. Sax cited examples of small fashion designers pivoting quickly to making face masks; craft distilleries producing hand sanitizer and restaurants providing free meals to health care workers, the homeless and isolated senior citizens. Small restaurants also stayed open for limited takeout service, not just for the food but to simply give customers an opportunity for social interaction in line with social distancing.

There is a place for both Silicon Valley and traditional entrepreneurs and small businesses in our world, but the proper balance between these two types of entrepreneurship remains to be determined, one of many problems that will have to wait until after the Coronavirus is brought under control. Until then, however, the pandemic is a time for people to reflect on the simple things, often taken for granted, that they miss the most.

In spite of the above-referenced benefits of embracing CSR, SMEs reasonably complain about finding the time and resources to collect the necessary information, develop and implement CSR strategies and continuously engage with stakeholders. Owners and senior managers of SMEs typically wear a number of different hats already and adding CSR leadership assignments often seems to be just too much. Fortunately, the size and scope of activities of SMEs may actually make it easier to find information and reach out to important stakeholders. For example, since SMEs are already closely linked to their communities and dependent on them for customers, labor and supplies it is generally a small step to extend the relationship into social responsibility projects. In the same vein, SMEs often have higher levels of employee participation in decision making and this facilitates worker engagement of health and safety, product quality and service and implementing eco-friendly manufacturing processes.

While small businesses operate under resource constraints that make it impractical for them to implement comprehensive CSR initiatives on the scope of those that have been adopted by larger companies, they nonetheless can begin by referring to the same authoritative international instruments such as the Organisation for Economic Co-operation and Development (“OECD”) Guidelines for Multinational Enterprises and the UN Global Compact Principles, each of which are intended to be applicable to organizations of all sizes. Governments and business associations have also created and published guides and other resources relating to a wide range of SME management topics including the use of environmental management systems by SMEs and adopting the management systems framework of the International Standards Organization to the SME context. Other resources tailored to the particular needs of small businesses seeking to implement a CSR initiative include the “Introduction to Corporate Social Responsibility for Small & Medium-Sized Enterprises” available online from the European Commission with links to other European Union publications and tools on CSR and SMEs; and the CSR handbook for SMEs developed by the Caux Round Table (www.cauxroundtable.org), an international network of principled business leaders working to promote moral capitalism.

Small businesses can also embrace emerging principles of “responsible management”, which goes beyond the numbers on a balance sheet or income statement to ask how the companies make profits and the impact of their activities on the environment and society. The goal of responsible management should be to become and remain a “responsible company”. There is no universally accepted definition of a responsible company; however, Finnish Textile & Fashion (“FTF”), the central organization for textile, clothing and fashion companies in Finland, suggested that responsible companies typically share the following attributes:

- They strive to do more than required by law

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They take into account the needs and expectations of their stakeholders and engage in dialogue with them
They strive to have a positive impact on stakeholders other than their shareholders
They work with partners to develop corporate responsibility throughout the supply chain
They strive to minimize the negative financial, social and ecological effects of their operations
They ensure that their partners are aware of their codes of conduct
They openly and transparently report and communicate on the positive and negative effects of their operations

Essential characteristics of a responsible company identified by FTF included3:

- Corporate responsibility is included in the company’s basic philosophy—it is present in the values, vision and strategy
- The company has clear operating principles, models and instructions to guide corporate responsibility
- The senior management is committed to the matter and has made sure that the personnel are also committed
- Measurement focuses on the most important questions
- The outcomes of corporate responsibility are measured reliably and reported on openly and transparently using widely-accepted reporting frameworks such as the Global Reporting Initiative
- Development is goal-oriented
- The operates in solid interaction with its key stakeholders

The business opportunities associated with CSR have become too important to be ignored by small business owners. A number of studies have provided support for the proposition that a large percentage of consumers, far more than a mere majority, would consider switching from their existing brand to another one associated with a cause that they approve of. The numbers are even higher among millennials, which is important since that group is projected as being responsible for 30% of retail purchases and making up almost half of the workforce by 2020. Surveys also indicate that consumers have extremely high levels of trust in, and loyalty to, brands that have an authentic social cause as their foundation. In addition, a majority of consumers in the general population have used social media to engage around a CSR-related cause. In fact, social media and other technology tools have made it easier for consumers and others to investigate and evaluate a company’s CSR practices and widely report issues and problems that they may encounter. Companies cannot ignore CSR and risk swift and drastic damage to their reputations as well as potential legal problems if they fail to put safeguards in place and proactively integrate social responsibility into all aspects of their operations and their relationships with suppliers and the communities in which they operate.

3 Id.
Comparisons of Implementation of CSR in Large Firms and SMEs

Baumann-Pauly et al. argued that it was important to have a better understanding about CSR in small and medium sized enterprises (“SMEs”) due to the significant role that SMEs play in both the developed and developing world in terms of employment and overall contributions to the economy.\(^4\) CSR activities in SMEs are also directly related to the actions of MNCs due to the large number of SMEs that are embedded in the global supply chains maintained by SMEs. Baumann-Pauly et al. noted that the little research that had been done had resulted in a general impression that MNCs were more advanced at implementing CSR when compared to SMEs;\(^5\) however, they felt that it was necessary to challenge those impressions by critically analyzing public perceptions of CSR in both MNCs and SMEs through an assessment of the actual implementation of CSR practices at the organizational level.

Baumann-Pauly et al. conducted an empirical study of five MNCs and seven SMEs from Switzerland, all of which were selected based on their likelihood to present data-rich cases on CSR implementation.\(^6\) All of the MNCs (ABB, Credit Suisse, Nestle, Novartis and UBS) had announced that they had joined the UN Global Compact at the time that it was launched in 2000, putting them among the first MNCs worldwide to make a formal and public commitment to implementing the CSR principles set out in the UN Global Compact, an initiative that had received strong support from the Swiss government and some Swiss MNCs. All of the SMEs in the study (CPT, Mammut Sports Wear, Remei, Stuco, Sherpa Outdoor, Switcher and Vestergaard Frandsen) had less than 25 employees and were from the textile industry, which the researchers noted had a long CSR history and was considered to be a model for consideration and implementation of CSR initiatives. By selecting companies from a single country the researchers hoped to eliminate any issues with regard to inter-case compatibility that might arise because of differences in regulatory, political and cultural context. The study was conducted over a three year period between 2007 and 2010.

One of the most interesting and useful tools coming out of the work of Baumann et al. was the framework they suggested for assessing CSR among MNCs and SMEs. They were especially interested in assessing the organizational embeddedness of CSR in daily business practices to determine whether firms actually “walked the talked” with regard to CSR, an important question given that some researchers had argued that while many MNCs had heavily promoted their CSR commitments the reality was that they were not to be found in day-to-day practices (a phenomenon described as “building up a CSR

\(^4\) D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 3.


\(^6\) Id at 8-9.
façade”). Focusing on daily business routines was also a good way to see whether researchers were correct in their assumptions that SMEs would have difficulty implementing CSR due to their relative lack of financial and human resources and assumed inexperience with the formal management systems thought to be necessary in order for CSR initiatives to succeed.\(^7\)

Baumann et al. explained that their assessment framework was developed from an organizational learning model that Zadek created based on his empirical work with Nike that identified five stages that businesses typically go through before they fully implement CSR: “denial”, “compliance”, “managerial”, “strategic” and “civil”.\(^8\) Each stage, beginning with “denial” and progressing through “civil”, represents a progressively higher degree of embeddedness of CSR (i.e., organizational integration of CSR principles into daily business routines). Baumann et al. assessed implementation along three dimensions: commitment to CSR, internal organizational integration of CSR and the external engagement and interaction with actors of civil society, and took care to adapt the indicators for each of these dimensions to the specific, and quite different, organizational characteristics of MNCs and SMEs.

**Commitment to CSR**

With respect to the “commitment to CSR dimension”, the MNCs were assessed on the basis of strategic integration and leadership support and CSR coordination. In turn, SMEs were assessed on the basis of issue awareness and social connection attitude.\(^9\) Among the MNCs, the researchers found just one company (ABB) that had advanced to the strategic stage of implementation, as evidenced by a mission and vision statement that emphasized that each business decision would take into account economic, social and environmental aspects and would be made after involving all stakeholders in the decision making process. While other MNCs stated that they linked their commitment to CSR to their long-term success, they did not explain how stakeholders would be involved in the process and did not confirm that CSR principles would be respected regardless of the economic consequences to the company.

In contrast, the researchers found a high level of awareness for global CSR issues among the SMEs in the survey and managers and employees in those companies demonstrated a high level of perceived connectedness to raised problems in their supply chains. The


\(^10\) Id. at 9-10.
researchers observed that the relatively small size of the SMEs reduced the hierarchy in their organizational structures and made it easier for them to integrate new issues into day-to-day business activities. Leaders in SMEs were better positioned to drive and reinforce their overall vision for the company among all of the employees. The small size of the companies also allowed them to implement a strategic understanding of issues and take an integrated look at the CSR landscape when make decisions about products (i.e., consideration for both environmental and social responsibility could be built into each step of the product development and commercialization process).

**Internal Organizational Integration of CSR**

For the “internal organizational integration of CSR” dimension, MNCs were assessed on the basis of incentive systems, training, complaints channels, evaluation and reporting. In turn, SMEs were assessed on the basis of organizational culture, daily practices and processes, employee involvement and transparency.\(^{11}\) The researchers noted that consistent handling of CSRs in MNCs requires the drafting and implementation of formal CSR policies and procedures and the sheer size of the companies created challenges in embedding those policies and procedures across all of the daily operations occurring on a global basis. MNCs struggled to find the time and resources to effectively implement their CSR policies and efforts needed to be made to ensure that managers are trained, incentive systems are aligned, grievance procedures are drafted and implemented, CSR information flows freely throughout the company and processes for evaluating the CSR initiative are created and followed. One of the MNCs, Novartis, stood out as being farther along and the researchers noted that almost all its employees had completed courses using CSR e-learning tools and that the company was in the process of developing follow-up CSR training manuals and reviewing standardized incentives systems for bonus payments and promotions. Novartis had also appointed an ombudsperson who was in charge of the grievance process.

Among the SMEs, the researchers found that “responsibility in general and engagement in CSR was particularly strongly embedded in the company culture of the interviewed SMEs, often implicitly rather than explicitly” and that their employees were strongly involved in shaping their company’s CSR agendas and highly aware of CSR issues.\(^{12}\) The highly level of employee awareness was attributed to the small size of the organizations, flat hierarchies and lack of organizational complexity. The researchers reported on several innovative ways that SMEs had approached disclosure and transparency such as an online tracking system of all of their products along the entire supply chain. Interestingly, the relative lack of human and financial resources among SMEs did not appear to be an impediment to adopting CSR practices and companies in this group used both self-developed requirement sheets for suppliers or their own audit checklists and/or established certification schemes like SA8000 or ISO14001. One of the interviewees at Remei commented: “the advantage for SMEs is that they can act much quicker. We have shorter ways and are closer to the issue, and we can act out of

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\(^{11}\) Id. at 10-12.

\(^{12}\) Id. at 11.
conviction, rather than just due to profitability reasons.” Remei was one of the SMEs that used its supply chain tracking system as a competitive advantage in terms of demonstrating transparency and proudly promised its customers that social and environmental sustainability was traced and independently audit across the company’s entire value chain.

**External Engagement and Interaction**

For the “external engagement and interaction” dimension, MNCs were assessed on the basis of the quality of their stakeholder relationships and participation in collaborative CSR initiatives. In turn, SMEs were assessed on the basis of collective action and network involvement. The researchers found that while the MNCs acknowledged the need to listen to many voices to earn their license to operate in reality they lacked systems to document and coordinate processes for stakeholder engagement and that stakeholder involvement had generally been limited to superficial encounters, such as annual stockholders’ meetings, and ad hoc interactions triggered by a crisis situation. What was lacking among the MNCs was a proactive approach to dialoging with stakeholders. The MNCs were also not strongly involved in CSR initiatives, although one of the companies had already developed a high profile in working on developing human rights standards for companies operating in repressive regimes and another was in the early stages of engagement in the UN Global Compact Water Mandate. In sharp contrast to the situation among the MNCs, the SMEs were found to be “strongly engaged in external collaborations in the form of collective action with other SMEs or with civil society to jointly approach and solve global CSR challenges”. Representatives of the SMEs believed that because of their relatively small size it was important for them to work together on CSR issues and become and remain involved and engaged with appropriate networks at the industry level (e.g., helping to set industry standards) and beyond in other multi-stakeholder initiatives.

**Overall Assessment**

Overall, Baumann-Pauly found that the implementation of CSR among the MNCs that they survey varied considerably. Some of those companies had just begun implementation of CSR while others were already quite advanced. While all of the MNCs demonstrated a strong commitment to CSR, this commitment had not yet translated into systematic integration of CSR principles into all area of the organization. Reporting functions were strongly developed among all of the MNCs; however, several of the MNCs lagged behind with respect to conducting impact assessments of their CSR activities and installing internal grievance procedures. In addition, as noted above, the MNCs generally had done little to establish interactive ties with external stakeholders. In contrast, the SMEs in the survey generally demonstrated strong internal implementation of CSR-related practices and had aligned their corporate functions with CSR through

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13 Id. at 11.
14 Id. at 12-13.
15 Id. at 13.

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informal or implicit principles. The level of engagement between SMEs and their external stakeholders was also highly developed and the SMEs consistently tapped into the expertise of external stakeholders in making crucial decisions.\(^\text{16}\)

Comparing the MNCs to the SMEs, Baumann-Pauly observed that the relative strength of MNCs appeared to be in developing and publicly disseminating extensive CSR commitments and creating and publishing CSR reports while SMEs were stronger in implementing CSR-related practices in organizational processes.\(^\text{17}\) They argued that these differences in approaches could be explained by focusing on the relative organizational costs (i.e., the relative share in total firm costs) for implementing and communicating CSR in MNCs and SMEs. They explained that the size and scope of operations of the MNCs made it expensive in terms of time and resources to embed CSR in all of their operational functions and that being a global enterprise created challenges for MNCs with respect to developing stable stakeholder relationships. Given these implementation costs, MNCs opted to invest in externally communicating CSR—the “CSR-façade” mentioned above—by establishing a central CSR department that was responsible for public relations and collecting and publishing the data expected of companies that engage in formal CSR reporting practices. In contrast, extensive formal reporting was relatively costly for SMEs; however, it was generally easier and less expensive, in relation to MNCs, for SMEs to integrate organizational CSR practices given their small number of employees and their flatter organizational structures. This did not mean that SMEs were not reporting on the CSR activities to external stakeholders. In fact, reporting did occur on an informal basis in the context of discussions with stakeholders that were often crucial for SMEs in terms of providing them with access to expertise regarding CSR that was not available internally.

**Framework for CSR Implementation by Small Businesses**

As discussed above, while a good deal of the commentary regarding corporate sustainable development and CSR has focused on larger companies, CSR is also relevant to smaller businesses, either businesses that have been in existence for a long period of time and are looking to transition toward more sustainability or entirely new businesses launched by sustainable entrepreneurs looking to integrate profitability and environmental and social responsibility into the business models in a balanced manner from the very beginning. Smaller businesses, particular those that are in their early stages, face a variety of challenges when trying to establish and implement a CSR framework that includes all or most of the elements suggested for larger organizations. For example, small businesses lack the financial and other resources generally required for many CSR initiatives, operate with less formal management structures and do not have in-house expertise for important activities such as reporting and external monitoring. However, small businesses can create partnerships with other companies and

\(^{16}\) D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 14-15.

\(^{17}\) Id. at 4-5 and 18-21.
tap into the resources available from outside groups offering advice on standards, monitoring and relevant technologies. In addition, size and informality can actually make it easier for the sustainable entrepreneur to secure the support of everyone in the organization and monitor how the initial CSR objectives are progressing. The following sections introduce various steps that small businesses should take in order to implement CSR initiatives and programs.

Assessment

One of the first things that any business seeking to implement a CSR initiative is an assessment of the company’s current strategies, policies, operational activities and stakeholder relationships. The scope of the information that should ideally be collected during this stage is a high mountain to climb for many SMEs; however, SMEs can work with non-profit organizations and/or engage students or consultants to assist with the assessment while company leaders remain engaged with other aspects of the business. In addition, small businesses can simplify the process by focusing on how CSR might be integrated over time into basic day-to-day business practices. The size of most SMEs makes it fairly easy to involved front-line employees in the process and this is important because they generally have extensive face-to-face interaction with customers, suppliers and other stakeholders. Hohnen and Potts suggested that small businesses start their CSR journey by asking what can be done by the company to

- Provide a safer working environment and educational assistance to employees?
- Improve contractual relations with employees?
- Enhance gender equality in the workplace?
- Use more energy-efficient appliances (e.g., light bulbs) or vehicles?
- Source more from local suppliers?
- Improve customer service standards?
- Support more local community projects?
- Purchase fair trade products that support workers in developing countries?
- Recycle more waste?
- Ensure a better work/life balance for employees?
- Be more accessible to customers of various abilities?

These types of questions are obviously somewhat general and the goal at this point is to get everyone in the company engaged in the process of thinking about ideas for enhancing social responsibility. While it is almost certain that companies can do more in all of the areas referenced in the questions, the process will hopefully focus everyone on a handful of ideas that can become the basis for the next steps in the CSR process while not unduly straining the resources of the small business. Small businesses generally do not have the luxury of forming working groups and using the more formal processes recommended for larger companies elsewhere in this chapter; however, small businesses

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do have an advantage in that it is easier to get everyone involved and motivated through informal gatherings and contests that elicit ideas from employees that can be incorporated into mission statements, values and short and basic CSR commitments that everyone can explain to customers and other stakeholders.

Developing Options for CSR Actions

One important byproduct of the assessment process is collecting sufficient information to develop options for the CSR programs and initiatives that the company would like to implement. Once the information has been collected, and a preliminary analysis has been done by the company’s leadership team, the term should convene brainstorming sessions with key internal and external stakeholders including members of the senior management team, employees and representatives from key business partners and the surrounding community. The foundation for these sessions should have been established during the dialogue with stakeholder that hopefully began during the assessment stage. While the agenda for the sessions might vary a good starting point would be to go through the following questions recommended by Hohnen and Potts19:

- What social and environmental activities and initiatives has the company undertaken already?
- What strengths, weaknesses, opportunities and threats do these present?
- What has the company learned from others that could be helpful?
- What are the company’s CSR goals?
- Where could the company be in terms of CSR activities and outcomes five and ten years down the road?
- What are the big social issues and how might the company help?
- If the company is to be a CSR leader, what changes to current practices and products would need to take place?
- Are there some CSR activities or initiatives the company could easily undertake now at no or low cost (i.e., is there any “low hanging fruit”)?
- Are there areas in which CSR changes would have a particularly big impact on the company and others? What are they and what are the likely impacts?
- Can the proposed CSR changes be organized into short-, medium- and long-term deliverables?
- What are the resource implications of these deliverables?
- Are there any changes to the company’s organizational structure that would need to occur to implement any of the deliverables?
- Are there any other obstacles or impediments (e.g., inadequate training or equipment or inappropriate incentive structures) that might stand in the way of taking a more systematic approach to implementing CSR? If so, what are they?
- Are there opportunities for cost reductions?
- What are the potential risks of failing to take into account the broader environmental, social and economic aspects of the company’s activities?

19 Id. at 38.
What should be the priorities for action if the company decides to do more?

As noted above, the brainstorming sessions can and should contribute to strengthening stakeholder relationships and engagement. In addition, the opportunity to participate in discussing what are often difficult issues builds commitment and excitement among those involved and makes it easier for participants to “take ownership” of the ideas and champion them throughout the organization once the time comes for implementation. Some companies use outside facilitators for these sessions in order to take advantage of their expertise in group dynamics and eliciting comments and provide a neutrality that ensures that the “agenda” of any one person or business unit does not skew the process and ignore other good ideas. Outside sources may be used to gather information necessary to answer some of the questions posed above. For example, while participants may have their own views about what are the most pressing social and environmental issues reference should also be made to publicly available surveys on the subject in order to get a better idea of stakeholder expectations and the likelihood of changes in regulatory and market attitudes.

Brainstorming sessions will and should generate a long list of potential ideas and the next step is to prioritize those ideas and decide how many of them the company is willing and able to execute. For many companies, CSR is implemented in an incremental manner due to resource limitations and concerns about introducing too many changes into the workplace and the company’s products and processes at one time. For example, a good first step is adopting a set of general principles that reflects the company’s recognition of the need to incorporate social responsibility into its strategies and decisions. Of course, simply adopting guiding principles is not sufficient unless the company begins to proactively incorporate them into its day-to-day activities. Once that begins, the company can take additional small but meaningful steps such as adopting detailed CSR commitments, pursuing and attaining certifications for its products and processes, formally engaging with stakeholders and reporting on its CSR outcomes.

Most small businesses prefer the incremental approach because a large CSR initiative seems well beyond their resources and the scope of what is generally a limited business strategy. Small businesses can select one or two areas to focus their initial CSR actions and set reasonably achievable goals that nonetheless will be meaningful when and if they are attained. For example, CSR for a small company may begin with implementing a recycling program and/or installing equipment that will reduce energy usage and costs. Whatever is done, a record should be created and maintained and CSR should be added to the list of factors or questions that senior managers and owners consider each year when it is time to set strategic goals for the next year. Eventually the small business will have several CSR successes to refer to and the organizational climate will change to the point where many people in the workplace will have new ideas as to how the company can advance socially and environmentally responsible causes.

Companies should also re-arrange their list of ideas into categories that are based on each of their key stakeholder groups. For example, companies should normally find that they can create idea lists for employees, customers, supply chain partners, local community
members, investors and the global community. When creating these lists an assessment should be made about what the company is already doing from a CSR perspectives with each of the stakeholder groups and the gaps in attentiveness that the company would like to address. For example, creating the lists may shed a spotlight on the company’s need to more in its local communities and the leadership team may make this a priority when deciding among competing alternatives in developing its CSR strategy. In and of itself, re-arranging a long list into categories does not reduce the number of ideas and this is generally a good time to make the whole process more manageable by choosing two to four initiatives for each category and then moving on to building a business case for each of them.

**Strategy and Governance**

CSR requires significant changes in the focus of the company’s strategic planning activities. Instead of concentrating on maximizing value for the shareholders of the company, which means prioritizing opportunities for generating revenues and reducing costs, the planning process must consider the expectations of multiple stakeholders including not only investors but also customers, employees, channel partners and the communities in which the company is operating. The success of any CSR initiative depends on integrating the goals and values of the company with respect to social responsibility into its business strategy and governance processes.

Rangan et al. argued that every company needs a CSR strategy; however, they felt that considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, that it was naïve to expect a company to somehow weave all this together and incorporate it as part of its core business strategy. The solution they offered was based on a platform of three “theatres” of CSR that would serve as a descriptive framework that accommodated the wide range of CSR activities and facilitated identification of strategic implications and development of a comprehensive CSR strategy that would integrate all of the diverse CSR activities. Theatre 1 included philanthropic activities which were primarily motivated by charitable instincts even though they may also have some potential business benefits. Theatre 2 included CSR activities that were symbiotic and intended to simultaneously benefit the company’s bottom line and the environmental or social impacts of one or more of company’s value chain partners (i.e., the supply chain, distribution channels or production operations). Theatre 3 included programs aimed at fundamentally changing the business’s ecosystem by taking on short-term risks in order to create social value that ultimately enhance the company’s long term business position.

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21 Id. at 4-5.
Rangan et al. claimed that their analysis suggested that companies rarely coordinated among the three theatres. They also made it clear that they did not believe that companies needed to be involved in initiatives in each of the theatres, nor should companies feel a need to evolve their CSR activities from one theatre to another. Their goal was to suggest a model that companies could use to maximize the effectiveness of what they did with respect to CSR, realizing that all companies cannot and should not have the same “brand” of CSR. The CSR initiatives and programs that a company decides to take on should be determined by the company’s core competencies, institutional capacity, industry, geographic reach and its ability to excel in efforts that are associated with a particular theatre (i.e., philanthropy, value chain or ecosystem transformation). A manufacturing company can be expected to focus its CSR activities on supply chain matters while a financial services company likely prefers to concentrate on philanthropic and transformative initiatives to address financial inclusion and literacy.

Rangan et al. argued that crafting a comprehensive and cohesive CSR strategy required a company to “connect the dots” between its initiatives in all three theatres. They did not believe that companies should or needed to follow any preferred path, such as starting with strategic philanthropy in Theatre 1 and then progressing toward re-configuring its value and then focusing on transforming its business environment. Size and industry play a big part in how a company puts together its CSR portfolio: smaller, private companies tend to focus on philanthropic giving initiatives that reflect their founders’ personal commitments to social or environmental causes, with little engagement in integrated CSR programs; smaller public companies typically focus on CSR initiatives that integrate with their business and manufacturing operations, while potentially also making philanthropic contributions to social or environmental conservation institutions; and larger global companies usually are engaged in all three CSR theatres, a choice that raises significant managerial challenges.

Rangan et al. offered the following suggestions as to how companies can do a better job of designing and implementing a CSR strategy that coordinates and provides a common direction for what would otherwise be a portfolio of disparate and possibly ineffective initiatives:

- Companies that are engaged in only one of the theatres should be making plans for the eventual expansion of their CSR initiatives into the other theatres and should begin that process by developing their own unique overarching CSR vision that can encompass programs in philanthropic, supply-chain and transformative ecosystem efforts. Having a vision in place before additional resources are committed increases the likelihood of successful expansion and ensures that new investments are properly focused.
- Before expanding too far beyond a single theatre the company should ensure that its activities in that theatre are coordinated and expressive of the corporate CSR vision. For example, smaller companies that tend to focus their initial CSR efforts on philanthropy need to avoid the trap of a portfolio of programs driven by personal

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22 Id. at 20.
23 Id. at 19 and 20.
24 Id. at 20 and 21.
preferences of individuals around the company and concentrate on setting and following a set of strategic philanthropy priorities that fit into the business’ operational strategy. Among other things, this requires establishing a CSR office to cooperatively manage the programs and proactively gather broad corporate support for the vision and the accompany strategy.

- Companies simultaneously involved in Theatres 1 and 2 should coordinate efforts in order to better express, in a consistent fashion, the core values that have been selected for their CSR efforts. For example, a company that has decided to focus on workers’ rights throughout its supply chain in developing countries in Theatre 2 should also prioritize philanthropic giving that addresses poverty, education and empowerment of girls and women in those same countries in its Theatre 1 initiatives.

- Supply chain initiatives are a common choice for CSR activities; however, companies often fail to approach them in the most efficient manner by failing to execute them through the lens of clear corporate CSR priorities. Rangan et al. recommended that companies identify a CSR priority, such as establishing environmental protection in the areas where they operate, and then use it as the primary means for evaluating every component of its supply chain: how are products sourced, what environmental guidelines are followed by suppliers and what is the environmental impact of suppliers’ logistics and transport systems?

Larger companies often develop complex governance schemes for their CSR initiative and much of this is simply too much for a small business. However, there are certain basic steps that small businesses can take in order to begin integrating CSR into their overall business strategy and accompanying governance processes:

- Developing new environmental and social products and services, thereby creating competitive advantage through innovation
- Sharing CSR lessons learned with customers, business neighbors and fellow members of a trade association or business organization
- Explaining the environmental, social and economic performance of the business to stakeholders and considering their ideas and views as the business develops.
- Committing to an external code or standard or a set of business principles that provides a framework to measure progress on environmental, and social and community issues

The “tone at the top” is an important factor in the success or failure of any CSR initiatives and the owners and senior managers of small businesses are uniquely positioned to act as champions of CSR within their companies and proactively communicate with everyone in the organization on a daily basis about the impact of new environmental and social products and services. The owners and senior managers must also commit to investing the time and effort necessary to explain the company’s CSR initiatives to customers and other stakeholders and develop and implement metrics for tracking and reporting progress.

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25 P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 32.
Rangan et al. argued that well-managed CSR creates social and environmental value, while supporting a company’s business objectives and reducing operating costs, and enhancing relationships with key stakeholders and customers.\(^{26}\) Rangan et al. joined others in recommending that companies establish an independent full-time position to oversee CSR and sustainability (they referred to this position as the “Chief Responsibility Officer” (“CRO”)) and who would have access to the CEO and input into the company’s business strategy. Rangan et al. emphasized that it was important for the CRO to hold that position as his or her primary responsibility, noting that too many companies delegated CSR oversight responsibilities to human resources or operations managers who were only able to devote a portion of their time to that job while continue to spend most of their time on their day-to-day line responsibilities.

The CRO should be given the resources to do his or her job in the form of a dedicated CSR unit that would be formally and publicly tasked with coordinating and integrating CSR initiatives across the organization, even if responsibility for implementation of the various initiatives remains dispersed throughout the company. While the CRO cannot attend every planning meeting or event, representatives of the unit can be knowledgeable participants for each program including have decision rights in the design and execution of programs. The knowledge collected from the activities of the CSR unit will allow the CRO to elevate strategic CSR topics and priorities to the highest levels within the organization quickly and effectively.\(^{27}\) Rangan et al. conceded that coordinating a company’s CSR initiatives in a strategic manner is a challenging task given that companies may be engaged in a diverse set of programs that include philanthropy, value chain activities and wholesale business transformation that may be driven and led by a range of actors including community affairs managers, operations managers and members of the executive team.\(^{28}\)

Rangan et al. pointed out that having CSR represented in the C-suite serves as a catalyst for the strong leadership and support for CSR initiatives that must emanate from the senior executive team in order for those initiatives to capture the imagination and energy of employees and other stakeholders. The CRO should be sure that CSR is taken into account when business strategy is being discussed and established in the boardroom and in meetings among senior executives and should take the lead in communicating with operations managers about how budgets and performance metrics for particular programs have been established taking into account CSR priorities. The CRO should also join the CEO in engaging with stakeholder groups to explain the company’s CSR strategy and obtain feedback and address concerns. Finally, the CRO should be responsible for


\(^{27}\) Id. at 21-22.

\(^{28}\) For further discussion of the model proposed by Rangan et al. for developing a CSR strategy, see “Strategic Planning for Sustainability” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
ensuring that the company adheres to the continuous process of auditing and evaluating its CSR activities necessary for a coherent and effective CSR strategy.29

The C-suite representative on CSR strategy and activities is often referred to as the Chief Sustainability Officer (“CSO”), a position that first emerged in larger companies as the role of a company’s chief environmental, health and safety (“EHS”) leader has transformed from focusing on handling audit and compliance matters and interacting mainly with permit writers, safety inspectors and low-level compliance staff at regulatory agencies to being recognized as the leader of a key element of overall company performance. Companies recognized that EHS could no longer be treated as a cost center, but instead should be regarded as an important strategic asset that could easily become a significant liability if not properly managed. As such, companies changed their organizational structures to move away from the traditional practice of having the CSO report into Legal or Human Resources toward a new alignment in which the CSO reported directly to the CEO, communicated with board members and interacted regularly with other members of the senior executive team as a peer.30

Heidrick & Struggles created a list of necessary competencies for an effective CSO, beginning with the ability to think strategically, which was described as the ability to look toward the horizon, identify an opportunity or challenge before it affects the company, and develop and implement a strategy to either take advantage of the opportunity or manage the challenge. Particular attention was given to the creation of business opportunities by the CSO, a marked shift from focusing primarily on prevention, mitigation and compliance. For example, the CSO can proactively seek out technological solutions to environmental problems that simultaneously reduce costs and improve productivity, a true “shared value” proposition. A second key competency for the CSO identified by Heidrick & Struggles was the ability to communicate effectively and translate complex technical concepts and strategies into terms that resonated with the company’s top leadership and key constituencies (i.e., employees, investors, lenders, insurers, rating agencies, customers, suppliers, the media and the public). When communicating the CSO needed to be able to adapt his or her tone and approach to a wide range of audiences ranging from the CEO, directors and regulators to each of the employees who would be called upon to change their skills and behaviors in order to execute the sustainability strategy.31

30 A. Luijkenaar and K. Spinley, The Emergence of the Chief Sustainability Officer: From Compliance Manager to Business Partner (Heidrick & Struggles International, 2007). Heidrick & Struggles found that many companies were expanding EHS, areas which had already been combined for a number of years, to include sustainability and corporate social responsibility and referring to the leader of activities in the expanded area as the CSO. Id. at 3.
31 Id. at 9.
While strategic and communication skills were at the top of the competency list, Heidrick & Struggles pointed out that the CSO must also have or quickly develop a wide range of interdisciplinary and cross-functional competencies, including the following:

- Ability to hire, lead, develop, and inspire a diverse staff and to develop trusting relationships with a variety of company constituents before an issue becomes a problem.
- A solid grounding in a wide range of EHS requirements, processes, procedures, technologies, and, depending upon the scope of the operation, familiarity with these issues at the local, state, federal, regional, and international levels.
- A knowledge of financial operations that extends beyond budgeting to include project financing, corporate finance, an understanding of how finance intersects with EHS and sustainability, and the ability to make a business case for a new direction.
- Knowledge of the company’s processes, products, technologies and business processes coupled with the ability to manage EHS systems within the company and the ability to assess and audit those systems with vendors, suppliers, and distributors.
- Familiarity with technological and process advances and an understanding of the trends in EHS and the influences on the company and the industry segment.
- Ability to communicate with community leaders and activists and to communicate with the media in a crisis.
- Ability to develop and manage a marketing campaign related to the EHS and sustainability aspects of the company’s performance, products, or liability.

Comments from interviews with CSOs conducted by Heidrick & Struggles emphasized the importance of the CSO being able to drive employee engagement through his or her vision, communication skills and demonstrated enthusiasm. As a promoter of significant change throughout the organization the CSO must be able to understand human nature and behavior, build trust, forge alliances and facilitate collaboration among people, departments and external stakeholders. Also, since sustainability challenges cannot be tackled and resolved by any one company, the CSO must be able to work effectively with broader initiatives focusing on particularly environmental and social issues, perhaps assuming a leadership position in those initiatives, and convince other companies in the same industry to stand down from their day-to-day competitive views of one another and develop appropriate new standards that would benefit them and their customers and employees and fend off regulatory intrusion. In that regard, Heidrick & Struggles reported that CSOs were serving on senior-level advisory groups and associations aimed at influencing public policy developments and regulations or dealing proactively with specific challenges to their particular industry or value chain as a whole.

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**From The Morning Walk**

Larger companies have the resources to support all of the activities of a chief responsibility or sustainability officer including the creation and maintenance of a dedicated group or department to...

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32 Id. at 10.
33 Id. at 3.
focus solely on developing and executing a sustainability-related strategy. Sustainable startups do not have that luxury, yet sustainable entrepreneurs must recruit a sustainability leader during the first days following the launch of the business in order to establish a foundation for all of the sustainability-related initiatives that will be required as the company grows and help the fledgling company establish credibility and legitimacy with respect to sustainability among its stakeholders.

There will be a temptation to choose someone who already has important responsibilities with respect to human resources or operations to serve as the startup’s sustainability leader. In many cases the founders will have no choice given that there is insufficient capital to fund a full-time sustainability leadership position. However, every effort should be made to make sustainability the primary responsibility of the sustainability leader and provide him or her with enough time and other resources to effectively take on the required tasks. In turn, the sustainability leader needs to understand that he or she is working in a startup situation and that “all hands on deck” will be the operating principle for months, if not years. As such, he or she should be comfortable with addressing the broad range of potential issues and activities that can be placed under the sustainability umbrella including environmental, health and safety matters; recruiting a diverse team; volunteering and other philanthropic initiatives and community engagement.

The startup sustainability leader needs to have certain specific skills and personality traits. He or she needs to be able to think strategically, not only using the traditional and formal tools of strategic and financial planning but also being able to grasp and implement important concepts such as strategic philanthropy and creating “shared value”. The ability to clearly articulate and communicate the company’s mission and purpose, as well as the company’s sustainability commitments, is also essential since the sustainability leader will, along with the CEO, be on the front lines of engaging with the company’s key stakeholder constituencies. Beginning with new hires and community groups, the sustainability leader will need to engage in dialogues to explain the company’s sustainability mission and commitments and gather information from stakeholders regarding their concerns, goals and objectives and expectations regarding their relationship with the company. Communication skills will also be needed in order for the sustainability leader to participate in broader initiatives on environmental and social issues that the company needs to join in order to establish itself within the sustainability community and gather the knowledge and connections necessary for it to ultimately become one of the recognized leaders in its area of activity. The sustainability leader also needs to have knowledge of the company’s processes, products and technologies in order to help the CEO and other senior managers identify sustainability-related opportunities and risks.

Perhaps the biggest contribution of the startup sustainability leader is contributing to the creation of an organizational culture in which dedication to sustainability is firmly embedded. When the position is created and the CEO and candidate for the position sit down to discuss whether or not to proceed, both parties need to take the measure of the other and confirm a commitment to building a sustainable enterprise. The sustainability leader needs the enthusiastic, authoritative and public support of the CEO and the CEO needs to know that the sustainability leader will be able to help the CEO follow through on the sustainability commitments he or she will be making to board members, investors, employees, customers and community members. The sustainability leader needs to be involved in the vetting of each new team member and work with them to explain what sustainability means to the company and the role they will be expected to play in building a sustainable business. The sustainability leader needs to plant the seeds for what will eventually become larger environmental and social projects: launch recycling programs; encourage telecommuting; offer employees opportunities to volunteer with community-based nonprofits; lay the foundation for certified B corporation status. All this will take time and substantial amounts of energy—the sustainability leader should expect to meet regularly with everyone in the organization during the first few months while the size of the team remains manageable—and will often seem daunting given the paucity of resources; however, the good habits formed will serve the company well as years go by and the company’s core competencies with respect to sustainability emerge.
Preparing and Implementing a CSR Business Plan

While their strategic planning processes may not be as elaborate as those typically found in larger companies, small businesses should develop an actual CSR business plan, which can be a separate document or incorporated into the company’s overall business plan. The CSR business plan should track the CSR strategy and commitments that have been endorsed by the leadership team and should identify all of the human, financial and other resources and activities that will be necessary in order to effectively implement the CSR commitments and track company performance in meeting those commitments. The business plan is also an opportunity to lay out specific plans and tactics for each of the key CSR commitments. For example, Hohnen and Potts suggested that a basic plan for meeting a commitment that prohibits illegal bribes to government officials might include the following elements:

- Establish appropriate training for all employees who have regular contact with government officials during the course of their day-to-day job activities. The course should focus on the distinction between proper and improper payments, with an online version that includes “frequently asked questions” that can be consulted when questions arise.
- Review the company’s incentive and disincentive structure (e.g., commissions) to ensure it does not indirectly encourage improper behavior. In other words, employees should not feel additional pressure to “close deals” that causes them to consider offering bribes to government officials who are in a position to influence decisions.
- Set up a procedure for seeking and obtain advice on payment issues. For example, the company should designate a member of the legal or compliance department to field payments questions and set up a “hotline” that employees can use to seek advice and/or report improper behavior.
- Create “whistleblower” protection measures that remove concerns among employees that they will be retaliated against if they report information relating to an actual or potential improper payment.

Each of the actions in the CSR business plan should be assigned a schedule and timeline and the resource requirements for each action should also be laid out in advance. It should go without saying that the company should not make a public commitment to a CSR activity unless it is willing to invest sufficient resources to effectively pursue and

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34 P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 58-59. For further discussion of designing and implementing anti-bribery compliance programs, see “Globalization: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
achieve the goals associated with the activity. Whenever the plan calls for assigning new duties and responsibilities to managers and employees, appropriate changes should be made to their job descriptions, reporting requirements and performance objectives. While the basic elements of a CSR business plan apply to all companies, the size and scope of operations of the company obviously needs to be taken into account. Small businesses will certainly not have the resources available to large global organizations and their CSR business plans should be scaled appropriately since they generally will not be able to hire new staff and set up dedicated CSR departments. In general, small businesses should begin with a single CSR project that excites managers and employees and which can be reasonable integrated into their existing duties and responsibilities.

**Initial CSR Implementation Ideas for Small Businesses**

Assessment and planning for CSR are obviously important, but the program does not begin unless and until the small business actually begins implementation. By definition, small businesses do not have a lot of resources available to invest in large and splashy CSR-related initiatives and this often leaves them confused about just where to start. In order to get past this barrier, representatives from every team in the company should convene at least quarterly to engage in CSR planning and offer suggestions as to how the company and its employees can immediately “make a difference”. Some of the easiest ways for small businesses to begin implementing CSR include the following:

- Changing from a paper-based invoicing system to a digital system, saving money on paper and reducing the adverse impact on the environment associated with using paper products, and then perhaps contributing a portion of the savings to charity.
- Encouraging volunteerism among employees by providing them with paid-time off for volunteering with organizations aligned with the company’s mission or other organizations involved in causes that are important to the particular employee (encouraging and supporting volunteer work has been shown to have a positive impact on employee happiness and to be a valuable recruiting and retention tool).
- Small businesses can begin to make a contribution to their communities by purchasing from, and actively promoting, other local businesses and perhaps seeking out cross-promotional opportunities with those businesses and/or getting involved with community business groups that plan events that bring customers into the community and provide entertainment and recreation for employees of local businesses.
- Small businesses may also be able share the skills and experiences of their employees in ways that will benefit the causes that are important to the company and the communities in which the company operates. For example, a sustainability-focused business may have its web designers teach classes at a local community center and/or volunteer at a nonprofit.

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35 For further discussion of business plan preparation, see “Strategic Planning: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

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• Small businesses may contribute with a relatively modest investment by sponsoring a local event or activity group, such as a youth sports team. The organizers of the event or activity are often willing to provide supporters with positive publicity and such initiatives are a cost-effective way to stake out a position as an up and coming leader in sustainability. Some events, such as local marathons, provide opportunities for employees of the company to actually participate and such participation can be a good bonding experience among team members. Contributions can take a variety of forms including cash or donation of goods that are necessary for an event (e.g., bottles, waters, snacks etc. for the marathon).

• One specific type of CSR partnership that can be an easy and effective initiative for a small business is launching a charity drive, such as collecting clothing, books or food from customers and employees and donating them to a local nonprofit (i.e., a homeless shelter or food bank). Soliciting donations can be accompanied by volunteer work at the nonprofit by interested employees. Companies can also solicit cash donations from customers by simply placing a collection jar in the sales area and in other places inside the company’s offices where people are likely to contribute.

• Another way to leverage volunteer activities with a local nonprofit is to establish a referral program that encourages customers to spread the word about the company’s products and services and its focus on sustainability. For example, if employees are volunteering at a local animal shelter the company may announce that if customers refer the company to their friends and they become customers the company will make a donation on behalf of the referring customer to the shelter.

• Any business, regardless of size, can eventually make a meaningful contribution to a cause that is important to it by setting up a “planned giving” program that automatically sets aside a fixed percentage of receipts or profits and channels them to a specific nonprofit. While the percentage does not have to be high, a commitment to giving is important and the company will find that over time the impact becomes substantial.

Since small businesses, particularly those focusing on sustainability-related missions, products and services, often run into difficulty finding traditional sources of financing it is incumbent upon them to master the art of “bootstrapping” and seize opportunities to pursue sustainability goals on a cost-effective basis. For example, small warehouse spaces, too small to be of much use to businesses, may be converted into a tasting room for the organic products of a fledgling “farm-to-table” foods distributor.

The International Institute for Sustainable Development (“IISD”) suggested a checklist of sustainable business practices that could serve as a useful guideline for small businesses seeking to launch their sustainability programs and initiatives in a way that does not stretch their scarce resources. The suggestions are designed to assist small businesses in improving employee engagement and motivation, customer loyalty, public credibility, and investor confidence through communication and developing and nurturing relationships with other organizations that can provide support and expertise.

• **Mission Statement.** Prepare a mission statement that declares the goals, principles and operating procedures of the company and provides a fundamental reference point for tracking the company’s
progress. Each company has its own unique circumstances to consider when developing a mission statement; however, the statement should always be issued from a committed CEO, distributed to all employees and stressed repeatedly. If employees know that performance will be measured against the stated goals, and are given the resources to achieve them, the mission will be taken seriously. The IISD recommended the CERES principles, issued by the Coalition for Environmentally Responsible Economies, as a good source of ideas for a company mission statement.

- **Employees.** Sustainability must be baked into the way in which the company recruits and treats its employees, particularly since small businesses often lack the financial resources to compete with larger companies for the talent needed for success. Companies should make an extra effort to provide a fun working environment, opportunities for employees to stay healthy (e.g., offering discounted memberships at local gyms) and support for work-life balance such as creating daycare facilities and offering flexible working hours. Particular care should be used in selecting human resources personnel to ensure that they understand the company’s mission and the goals of the founders with respect to treating and developing employees.

- **Internal and External Communications.** Companies should measure and report, the internal and external communications, their progress and performance with respect to achieving its social, financial and environmental goals. By developing benchmarks against which to measure progress, and reporting on successes and failures, companies can reinforce their commitment to stated objectives, and alert employees and other stakeholders to areas where more effort is needed. Lines of communication throughout the company regarding sustainability programs and initiatives should be created and maintained using regular staff meetings, e-mail bulletins, accessible managers and in-house newsletters. Centrally located bulletin boards or suggestion boxes can stimulate discussion and ideas and communications regarding major decisions relating to sustainability issues can reduce anxiety among employees and provide them with a better understanding of the rationale for such decisions.

- **Green Teams.** Small businesses often create in-house waste reduction and pollution prevention teams, so-called “green” teams, comprising personnel from different departments, to devise and implement strategies to improve environmental performance. This approach has the benefit of engaging employees directly in the process of sustainability; however, it is vital that teams have top-level support, adequate budgets, and ready access to all employees. Teams should start by setting easily achievable goals (e.g., recycling paper and turning off unused lights and equipment), and then becoming more ambitious as confidence and expertise are gained. As staff become increasingly aware of the cost and environmental benefits and the ease of implementation, suggestions for improvements are likely to be forthcoming. Some companies offer rewards to their employees for suggesting environmental improvements that could save the company money.

- **Education.** Companies should create and distribute materials that inform employees about economic, environmental and social trends. Informed employees will be better equipped to promote company goals and to respond to major trends. Well-written books and articles, videotapes, and the occasional guest speaker or external course can put a company’s efforts into perspective.

- **Annual Reporting.** Preparing and issuing an annual sustainable development report that highlights the progress that the company has made towards improving environmental performance and enhancing workplace and societal well-being. The reporting process is valuable in its own right, since it forces the company to measure the effectiveness of its sustainability programs and initiatives and make necessary changes and improvements; however, it is also a strong advertisement for demonstrating the company’s commitment to environmental protection and social responsibility to its various stakeholders (i.e., customers, suppliers, employees, investors, regulators, members of the local community and environmental groups).

- **Public Relations.** Sustainable entrepreneurs must launch their businesses with a commitment to honest and accessible public relations, which means clearly and efficiently conveying information about the company to customers, the press, the local community and anyone else with a legitimate interest in what the company is doing. While this certainly means developing an informed marketing and communications staff, it also requires making sure that every employee has sufficient information to interact with external stakeholders using clear and understandable language based on a common message regarding the company’s mission.

- **Community Commitments.** Companies should make a commitment to community development...
efforts, which can be done in a number of creative ways. For example, while some companies make cash contributions to local charities, most small businesses operate on tight budgets and thus need to look at different ideas such as engaging with community groups by providing employees as volunteers during their working hours or promising to contribute a specified percentage of profits to grassroots environmental groups.

- **Alliances.** Small businesses can extend their limited reach by forging relations with innovative business associations and tapping into the expertise of non-profit organizations. A growing number of trade associations and business networks are issuing environmental performance guidelines, preparing educational materials on environmental and social issues, and holding seminars on subjects of interest. In addition, assistance from non-profits interested in supporting sustainability programs and initiative is available in important areas such as environmental engineering, marketing and finance.


While small businesses often identify social causes as motivating forces for their CSR efforts, many such businesses find it easier and more immediately impactful to take on environmental issues to enhance their sustainability profile. Grayson and Kjelleren offered ideas on how companies can implement their strategies to enhance their environmental sustainability profile.\(^{36}\)

- **Develop and Communicate a Shared Vision:** A vision for environmental sustainability needs to be developed and formally approved at the highest levels of the organization, which means the board of directors and the entire executive team. The vision itself should be consistent with the existing organizational culture (or the culture that the company is seeking to achieve and should take into account the results of stakeholder engagement. Other factors include the potential to strengthen brand, personal values of leadership, and considerations of moral or ethical positions. Once the vision has been set, leadership needs to be committed to continuously communicating that vision to employees, customers, investors and other stakeholders. By the way, commitment to the vision can be encouraged through appropriate changes in compensation and employee performance processes.

- **Develop an Implementation Strategy:** As with every other part of the company’s overall and sustainability strategies, the push for environmental sustainability should be supported and guided by an implementation plan that identifies personnel, resources, objectives, targets, schedule and milestones. When setting initial objectives and targets, companies need to decide what issues are most important to the company (i.e., where can investment of resources make the most material impact). The company may have a number of material issues and in that case it needs to set priorities.

- **Determine What to Measure and How to Measure Performance:** The implementation strategy needs to include clear and well-defined key performance indicators, or KPIs, for each issue and plans need to be made in advance for collecting and analyzing the necessary data and reporting on the results at regular intervals. When a KPI is to be

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selected it should be accompanied by a specific action plan for achieving success and companies may actually form dedicated teams around each KPI to ensure that they are appropriately monitored. All data collected in connection with a KPI and used to evaluate performance should be in a form that can be verified via independent audit.

- **Spend the Money but Spend It Consistent with Your Values:** While the evidence indicates that environmental sustainability initiatives can provide financial benefits to companies they do require an initial, often significant, investment. Companies need to establish a reasonable budget for environmental sustainability initiatives use the same factors generally employed for any capital budgeting decision; however, consideration should be given to relaxing ROI hurdle rates for these projects given the potential for intangible benefits such as brand and reputational enhancement, improved employee morale and demonstrated attention to issues considered to be important by key stakeholders. Grayson and Kjelleren noted that companies can often make significant initial progress on environmental sustainability by relying on in-house resources and expertise and internal specialist skills should be encouraged and enhanced through training.

- **Start Winning:** Many environmental sustainability initiatives will take years, if not decades, to carry out to the point where it can be objectively determined that they have been successful. In most cases the “wait will be worth it”; however, the implementation plan should also include short-term projects that can be implemented and completed quickly in order to demonstrate early success and generate enthusiasm to keep moving forward on more difficult long-term projects.

- **Communicate:** Management should be prepared to continuously communicate results of the initiative and the company should commit to full reporting on its environmental sustainability progress to outside stakeholders through its sustainability reporting program.

The implementation plan should be review and, if necessary, updated no less than annually under the direct oversight of the board of directors and executive team. The review is not only an opportunity to evaluation each of the active initiatives and consider which ones might be replaced and with what, but it is also the time to assess all of the KPIs and attendant strategies, evaluation communication and reporting efforts and determine whether particular tasks should be handled in-house or outsourced to some of the wide range of specialist organizations that have been launched to assist companies with their environmental sustainability efforts.

**Reporting and Verifying Progress**

In order to know whether or not the CSR initiative and its related commitments are actually improving the company’s performance it is necessary to have in place procedures for reporting and verification, each of which are important tools for measuring change and communicating those changes to the company’s stakeholders. Hohnen and Potts described reporting as “communicating with stakeholders about a firm’s economic, environmental and social management and performance” and verification, which is often referred to as “assurance”, as a form of measurement that involves on-site inspections and review of management systems to determine levels of
conformity to particular criteria set out in codes and standards to which the company may have agreed to adhere.  

Verification procedures should be tailored to the company’s organizational culture and the specific elements of the company’s CSR strategy and commitments; however, it is common for companies to rely on internal audits, industry (i.e., peer) and stakeholder reviews and professional third-party audits. Verification procedures should be established before a specific CSR initiative is undertaken and should be included in the business case for the initiative. While auditing of financial statements by independent outside auditors has long been the norm for listed companies in the US and elsewhere, independent external assurance of sustainability information and reports is still largely voluntary; however, regulators and exchanges generally encourage assurance and including a discussion of steps taken with respect to assurance in the sustainability report itself.

In general, the financial aspects of any sustainability report will be based on the same externally audited financial statements included in the company’s traditional annual report. With respect to environmental, health and safety matters, companies may engage private quality assurance firms to conduct limited assurances on data relating to, for example, air and water emissions, carbon dioxide generation, recycling/reuse and lost time injury rates. The leading international standard for assuring sustainability reports is ISAE 3000 (Assurance Engagement Other than Audits or Reviews of Historical Financial Information) developed by the International Auditing and Assurance Board, an independent standard-setting board of the International Federation of Accountants. When external assurance is not available or feasible, companies may conduct assurance through internal groups that are organizationally independent of the business units they are reviewing and are specialists in the area with skills necessary to validate and certify operations to various quality, environmental, six sigma and safety standards (e.g., ISO 9000, ISO 14001 and OHSAS 18001).

One basic reason for reporting and verification is to make sure that the CSR initiative is properly managed and that persons involved understand they will be accountable for their actions. Other good reasons for reporting and verification include giving interested

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38 Companies using the Future-Fit business goals recommended by the Future-Fit Business Network can adopt the “fitness criteria” associated with each of the goals. See the discussion of the Future-Fit business goals elsewhere in this Guide and Future-Fit Business Framework, Part 1: Concepts, Principals and Goals (Future-Fit Foundation, Release 1, May 2016), 25, FutureFitBusiness.org.
39 Frameworks that have been developed to assist companies with developing and implementing their sustainability-related strategies and initiatives often include recommendations for tracking progress that can be integrated into the business case for the strategies from the very beginning. For example, companies using the Future-Fit business goals recommended by the Future-Fit Business Network can adopt the “fitness criteria” associated with each of the goals. See the discussion of the Future-Fit business goals in A. Gutterman, Strategic Planning for Sustainability (Oakland CA: Sustainable Entrepreneurship Project, 2019), available www.seproject.org and Future-Fit Business Framework, Part 1: Concepts, Principals and Goals (Future-Fit Foundation, Release 1, May 2016), 25, FutureFitBusiness.org.

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parties the information they need in order to make decisions about purchasing the company’s products and/or investing in the company (the level of funding from investors focusing their interest on ethical businesses is continuously increasing) or otherwise supporting the company’s community activities; collecting information that can be used to make changes and improvements to the company’s CSR strategy and commitments; improving internal operations; managing and reducing risks; and strengthening relationships with stakeholders. However, in order to achieve the greatest benefits from reporting and verification companies need to carry out those activities in a rigorous and professional manner using tools and standards that are widely recognized and accepted among those interested in the results.

The scope of the company’s reporting and verification efforts will depend on various factors including the size of the company, the focus of its CSR commitments and the financial and human resources available for investment in those activities. Ceres, a non-profit organization advocating for sustainability leadership (www.ceres.org), has developed and disseminated its Ceres Roadmap as a resource to help companies re-engineer themselves to confront and overcome environmental and social challenges and as a guide toward corporate sustainability leadership. In the area of disclosure and reporting, Ceres stated that the overall vision was that companies would report regularly on their sustainability strategy and performance, and that disclosure would include credible, standardized, independently verified metrics encompassing all material stakeholder concerns, and details of goals and plans for future action.

When establishing plans for reporting and verification it is useful to obtain and review copies of reports that have been done and published by comparable companies. Reports of larger companies are generally available on their corporate websites and extensive archives of past CSR-focused reports can be accessed through various online platforms such as CorporateRegister.com, a widely recognized global online directory of corporate responsibility reports. It is also important to have a good working understanding of well-known reporting and verification initiatives such as the GRI Guidelines; the AccountAbility AA1000 series; the United Nations Global Compact; and the International Auditing and Assurance Standards Board ISAE 3000 standard. Country-specific information is also available through professional organizations such as the Canadian Chartered Professional Accountants, which has published an extensive report on sustainability reporting in Canada.

The scope and sophistication of CSR reporting has come a long way since the idea first came up in the mid-1990s, when only a handful of companies reported on social responsibility issues and activities in addition to their regular financial reports. Today almost all of the largest global companies produce reports on their environmental policies and activities, often providing interested parties with a whole range of documents that can

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40 Ceres, The Ceres Roadmap for Sustainability (www.ceres.org/keresroadmap)
41 For detailed discussion of sustainability reporting, see “Sustainability Reporting and Auditing” in “Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

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be accessed in a separate yet highly visible section of the company website. Companies participating in the United Nations Global Compact are required to make an annual “Communication on Progress” that outlines the actions they have taken with respect to integrating the Compact’s ten principles and to make the communication publicly available to stakeholders through annual financial, sustainability or other prominent public reports in print or on the company’s website. The Compact recommends that companies follow the GRI Guidelines when preparing their reports.

While international standards like the GRI Guidelines provide a useful framework for comprehensive CSR verification and reporting, companies should remember that it is important to tailor the information in their reports to the needs and expectations of their specific primary audiences. While it has become more and more common among larger companies to generate large reports with glossy pictures, charts and graphs and detailed breakdowns of data, many interested parties prefer to a short executive summary that highlights the most relevant information and provides links to detailed reports, case studies and other materials. Information should be presented in a manner that reflects the company’s overall organizational culture and provides recipients with a sense of what social responsibility means to the company’s leaders and employees on a day-to-day basis. Finally, while reporting is certainly a positive public relations tool and companies will be eager to showcase their CSR successes, credibility demands that reports also include transparent assessments of areas in which the company may have failed to achieved its previously announced objectives and disclosures on the reasons for those failures and the steps the company is taking to improve its performance and the metrics that will be used to evaluate how well the remediation is proceeding.

As discussed above, the company’s information systems need to be set up in a way that allows for creating the metrics necessary to track the performance measures that are most appropriate for each of the CSR objectives and commitments. In order for this process to be effective, the company must be able to use the information to generate clear and meaningful reports for both managers and the company’s stakeholders in order to allow them to make their own assessment of how well the company is doing in pursuing and achieving its objectives and commitments. CSR reporting actually has several dimensions, each of which will require a different form of report, albeit based on essentially the same pool of information: internal reports need to be created for members of the board of directors and the senior executives of the company so that they are able to monitor the implementation of the company’s CSR objectives and commitments using appropriate performance metrics and make decision about the strategies and methods that are being used for implementation; external reports to allow all of the company’s stakeholders—not just shareholders, but also creditors, employees, customers and the general public—to hold the company and its directors and senior executives accountable for the company’s stated financial, environmental and social objectives and commitments; and regulatory reports, beyond those that may be required by federal securities regulators and securities exchanges, to track the company’s compliance with specific regulations pertaining to environmental and social issues. In addition, if the company is formed and organized as a social benefit corporation, it will need to comply with applicable state law reporting requirements that call for information regarding the
success of the company’s efforts to pursue and achieve the specific public benefits set out in its charter documents.

The need to prepare reports relating to CSR activities creates another important process for companies: internal audits to ensure that the information included in the reports is accurate and complete. Auditing has long been a feature of financial reporting and companies reporting on CSR also need to engage in systematic, documented, periodic and objective evaluation of how well the organization is doing with respect to implementing its CSR objectives and commitments and complying with relevant policies and procedures. Internal auditing for CSR requires a multi-disciplinary team that includes engineers, scientists, auditors and attorneys with the necessary experience in both the substantive issues and the art and science of the testing and sampling associated with audit practice. Auditing is not only data-driven, but also includes insights from interviews, inspections and simple observations of employees engaged in their day-to-day duties. Interactions with external stakeholders will be needed during the audit process to confirm their impressions of company activities. Some companies draw on outside audit specialists to serve as consultants to facilitate the audit process.

In addition to formal audits, directors and senior managers can and should regularly engage in other practices to ensure that the CSR program is being followed and make their own preliminary determination regarding the effectiveness of the program. For example, regular reports from middle managers that focus specifically on CSR initiatives should be solicited and reviewed and interviews with those managers should be conducted on a regular basis to elicit their opinions with respect to improvements in operational and reporting processes. Directors and senior managers should also increase their visibility by visiting and touring operating sites in order to observe how the CSR objectives are being pursued in practice. During those visits time should be spent talking to employees to gauge their understanding of what is going on and how they feel about the initiatives and their particular roles. Directors and senior managers should also participate in other CSR-related events and activities such as meetings with employees, community groups, consumer advocates and key business partners.

**Evaluating and Improving CSR Initiatives**

Verification and reporting, both important in their own right, should also be seen as the catalyst for careful evaluation of the effectiveness and scope of the company’s CSR initiatives and generation of ideas for modifying and improving those initiatives. Maon et al. recommended that in order to improve their CSR programs, companies should implement evaluation procedures based on measuring, verifying and reporting in order to determine what is working well, why, and how to ensure that it will continue. In addition, companies need to investigate what is not working well and why this is the case, explore barriers to success and what can be changed to overcome these barriers and, if necessary, revisit original goals and make new ones. Maon et al. explained that regular

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42 F. Maon, V. Swaen and A. Lindgreen, Mainstreaming the Corporate Responsibility Agenda: A Change Model Grounded in Theory and Practice (IAG- Louvain School of Management Working Paper, 2008), 35-
reviews and evaluations of the company’s CSR activities are a means for keeping stakeholders informed of the progress and activities, thus providing visibility and transparency. The legitimacy of the review and evaluation process can be enhanced by involving external auditors and rigorous reporting that includes a comparison of the company’s actual performance against previously established goals and targets. Maon et al. recommended that stakeholders be invited to verify the organization’s CSR performance and report publicly on their findings.43

Hohnen and Potts admonished companies to use the results from the verification process, including information gathered from engaging stakeholders, to determine what is working well, why and how to ensure that it continues to do so; investigate what is not working well and why not, to explore the barriers to success and what can be changed to overcome the barriers; assess what competitors and others in the sector are doing and have achieved; and revisit original goals and make new ones as necessary.44 While some might ask why this is necessary when a detailed report has been prepared at great expense it is important to distinguish the data and other information in the report from the process of thinking deeply about what the data and information really mean in practice. Questions that Hohnen and Potts suggested should be used in order to drive the evaluation process included the following:

- What worked well? In what areas did the company meet or exceed targets? Has the company celebrated its successes, an important way to continue motivating employees?
- Why did it work well? Were there factors within or outside the company that helped it meet its targets?
- What did not work well? In what areas did the company not meet its targets?
- Why were these areas problematic? Were there factors within or outside the company that made the process more difficult or created obstacles?
- What did the company learn from this experience? What should continue and what should be done differently?
- Is the company using the right reporting indicators? Are they aligned with the company’s overall mission and CSR commitments?
- Is the company engaging with the right stakeholders?
- Have the right persons for advancing CSR initiatives inside the company been identified and have they been given adequate support?
- Drawing on this knowledge, and information concerning new trends, what are the CSR priorities for the company in the coming year?
- Are there new CSR objectives?

36 (citing P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007)).
43 Id. at 36.
44 The discussion in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 73-74.
Evaluations need to be done regularly, no less frequently than annually, and procedures should be established for tracking the results from evaluations year-over-year in order to gauge progress and identify any relevant patterns or trends. When conducting evaluations input should be obtained from people throughout the organization as line-level employees may have very different impressions of CSR initiatives than managers higher up in the organizational structure. When small businesses conduct an evaluation it need not be time consuming. In fact a good deal can be learned from having everyone in the company get together for a working meeting and planning session to go through the questions laid out above.

**Engagement**

The following list illustrates engagement mechanisms and examples of key interests for various stakeholder groups:

- **Customers** may be engaged through meetings and customer visits/audit and their key interests may include quality of products, reliability of supply and product pricing
- **Employees** may be engaged through periodic performance reviews, management committees, surveys, Intranet/newsletters, site meeting and community and wellness meetings and their interests may include workplace health and safety and career development
- **Governmental officials and regulators** may be engaged through meetings, reports, site visits and submissions and their key interests may include safety of products and compliance
- **Shareholders and investment community** members may be engaged through periodic reports filed in compliance with regulatory requirements (including financial results performance), annual shareholders’ meetings, corporate website and investor briefings and forums and their key interests may include financial performance, governance and innovation
- **Local communities** may be engaged through industry bodies, educational institutions, charities and staff engagement in local events and their key interests may include community impacts, education, product access, infrastructure and support for services
- **Suppliers** may be engaged through site visits/audits and meetings and their key interests may include business ethics, compliance and quality/reliability

Among the key steps that directors should take with regard to stakeholder engagement and collaboration are the following:

- Define stakeholder engagement, transparency, integrity and ethical relationships with stakeholders as core values of the company

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46 Adapted from Stakeholder Engagement and the Board: Integrating Best Governance Practices (International Finance Corporation and Global Corporate Governance Forum, 2009), 16-17.
- Identify, discuss and prioritize key risks associated with changing societal expectations about the roles of business in general and the company in particular
- Determine the board’s financial and non-financial information needs for decision-making, management oversight, and monitoring key stakeholder relationships associated with generating value and wealth
- Discuss and approve key performance indicators for social, environmental and financial performance with input from investors and other internal and external stakeholders
- Approve a policy for external reporting to all stakeholders of financial and non-financial results from the company’s activities and the governance processes that the board and senior management have created to ensure that sustainability is integrated into long-term strategic planning
- Proactively integrate discussion of stakeholder issues into annual meetings of shareholders rather than reacting to sustainability-focused proposals initiated by activists
- Discuss the risks and impacts of projects and operations and provide transparent disclosure information to shareowners and other key stakeholder groups
- Convene stakeholder forums and invite key stakeholder representatives to address board meetings and participate in permanent stakeholder panels formed to provide continuous input to directors and senior management

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### Checklist for Designing and Implementing a Stakeholder Engagement Plan

#### Step 1: Identify Stakeholders and Key Issues

- Profile stakeholders to understand their interests, knowledge, and capacity to engage.
- Using a table, chart, grid, zoning map or any other method appropriate for the company and context, categorize or map stakeholders based on the characteristics and issues that are most important to the company or project. Common dimensions used in stakeholder mapping include power, influence, interests, proximity and needs.
- Prioritize the issues and stakeholders that are most important to the business. Prioritization is particularly important for small businesses that are short on the resources necessary to conduct a comprehensive engagement program.
- Identify who are the legitimate and accountable representatives of each stakeholder.

#### Step 2: Establish Objectives and Process

- Decide on the scope of the process, timeline, and level of engagement.
- Set strategic goals, agree upon expectations, determine what methods are best suited to achieve these objectives and determine how to measure outcomes.
- Identify whether there are any regulatory or financial requirements for disclosure or engagement.
- Assign ownership for the process and outline responsibilities for carrying out the different components of the plan.
- Determine the resources available for engagement and any training needed in order for all stakeholders to engage effectively (e.g., sharing knowledge of the issues and process, supporting development of specific skills, or increasing resources, time or access to information).
• Identify existing channels of communication that may be used to communicate with stakeholders (e.g., engaging with employees can provide opportunities for communicating with the broader communities in which employees reside).
• Seek out third party organizations with additional resources that can serve as an intermediary stakeholder and enhance capacity.
• Establish a method for documenting progress and outcomes. Documentation should capture the purpose and aims of the engagement; the methods used; who participated and who did not; the time frame; a verbatim record; a summary of stakeholder concerns, expectations and perceptions; a summary of the key discussions and interventions; and outputs (e.g., queries, proposals, recommendations; and agreed decisions and actions).

**Step 3: Implement Plan**

• Managers make sure that the process moves forward as planned, gather data, and coordinate with any third parties that are involved.
• Embed commitment to engagement across all levels of company corporate and operating areas.
• Communicate progress to all stakeholders on a frequent and transparent basis.
• Enact written grievance mechanisms to allow stakeholders a chance to provide feedback during the process.

**Step 4: Review and Report**

• Keep track of how outcomes correspond with original objectives. Empowering stakeholders in this process gives them more ownership and can strengthen the relationship. An independent party is also helpful in certain circumstances in order to improve accountability and credibility of the engagement process.
• Use findings and feedback to revise the plan as needed and capture key learnings that can be applied in future stakeholder engagement initiatives.
• Provide regular and transparent information to stakeholders about the results of the engagement. Reporting on stakeholder engagement may include stakeholder groups engaged, approach to stakeholder engagement and methods used, frequency of engagement, primary issues and concerns raised through engagement and organizational response to the engagement outcomes.


When engaging with stakeholders, directors should see the dialogue as an opportunity to gather different perspectives on the risks confronting the company, information that directors can use to improve the company’s risk management systems and proactively address issues, problems and opportunities that may not have been apparent when the focus at the board level was limited to maximizing shareholder value. Stakeholder engagement is also the best way for directors to gain a better understanding of what important groups, such as employees, customers and suppliers, expect from their relationships with the company and what might be necessary in order to maintain and improve those relationships and thus promote stability and corporate sustainability. Some boards have supplemented proactive dialogue with stakeholders with grievance mechanisms that allow people external to the company, such as customers, suppliers and
community members, to anonymously channel their criticism of the company’s behavior and sustainability initiatives directly to the board.47

Certain of the directors, along with members of the executive team, should be assigned responsibility for engaging with investors and other key stakeholders of the company with respect to specific CSR and corporate sustainability issues. If one accepts the arguments of governance scholars such as Hart and Zingales, who have proposed that the primary goal of corporations should be increasing shareholder welfare by engaging in activities that shareholders cannot do on their own and which lead to satisfaction not necessarily limited to greater wealth, then directors cannot assume that shareholders only care about wealth maximization and must proactively engage with the largest shareholders of the corporation on a regular basis to understand their specific goals and objectives and the financial and non-financial criteria they are using to make decisions regarding allocation of capital to the corporation.48 Investor engagement is important since institutional investors have made it clear that they will support certain shareholder proposals that are intended to prod boards and company executives to provide more information and disclosures regarding sustainability issues and take consider sustainability in making long-term strategic decisions, managing operational activities and setting executive compensation.

Recognition of the importance of stakeholders in corporate governance calls on directors and managers of corporations to develop new skills in order to integrate the values and expectations of external and internal stakeholders into the overall strategic management process. Digman et al. pointed that strategic management is “inseparable from the strategic management of relationships” and Masuku advised: “A strategy should be in place for each stakeholder group their key issues and willingness to expend resources helping or hurting the organization on those issues must be understood. For each major stakeholder, managers responsible for that stakeholder relationship must identify the strategic issues that affect the stakeholder and must understand how to formulate, implement and monitor strategies for dealing with that group.”49

When engaging with stakeholders, directors should have the appropriate level of knowledge of the issues that are most important to a particularly stakeholder and be able to explain to the stakeholder how those issues are being addressed in the context of the company’s operational and risk management activities. It is common for the independent chairperson of the board to team with the company’s chief executive officer to engage with the company’s largest institutional shareholders. Engaging and building relationships with major institutional investors is also a helpful strategy in combatting the

47 A New Agenda for the Board of Directors: Adoption and Oversight of Corporate Sustainability (Global Compact LEAD, 2012), 12.
risk of unwanted attacks by activist hedge funds and other investors that are only interested in maximizing short-term gains and will almost certainly oppose any effort by directors and management to integrate long-termism into their strategies for the company.

**CSR Reporting for New and Small Businesses**

As CSR has emerged as an important issue and consideration for businesses, particularly larger companies that are used to preparing detailed financial reports for their shareholders, attention has turned to finding ways to integrate the “results” of CSR initiatives into traditional methods of reporting on economic activity. For example, a company that does not invest in technologies and other measures designed to reduce the adverse impact of its operations on the environment can be expected to report higher net profits due to its decision not to incur the costs associated with mitigating environmental harm. On the other hand, a company that does make those investments will likely have lower net profits than the first company, at least at the beginning of the investment cycle, and its economic performance vis-à-vis the first company will be poorer. In order to incentivize the second company, and others, to make the investments associated with a CSR objective or commitment to reduce environmental harm, there needs to be an accepted reporting method that allows for companies to disclose and explain the financial impact of their CSR initiatives so that shareholders and other stakeholders can make their own assessment about the company and, hopefully, reward the company for its efforts in spite of the impact on profitability measures.50

As interest in CSR and corporate sustainability has grown, companies have found that they are subject to heightened scrutiny and that the traditional disclosure practices that focused primarily, if not exclusively, on financial information and performance and related risks are no longer adequate. Companies must now be prepared to provide disclosures that address the specific concerns and expectations of multiple stakeholders beyond investors including customers, employees, business partners, regulators and activists. This means that the board of directors must understand existing and emerging disclosure requirements and ensure that the company has the necessary resources to collect and analyze the required information and present it in a manner that is clear and understandable. At the same time, however, the directors need to be mindful of the risks of expanded disclosure include the possibility of providing too much strategic information, exposing the company to heightened risk of litigation from stakeholders that believe the company has not vigorously pursued its promised CSR and corporate sustainability goals and the need to invest additional time and resources in creating and maintaining the internal reporting process necessary to support CSR and corporate sustainability disclosures.51

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50 The issue of valuating contributions to environmental and social wellbeing also appears in the use of aggregate measures such as “gross domestic product”, which has traditionally been based solely on output and does not take into account the present value of conserving natural resources for use in some future period.

51 For detailed discussion of transparency and disclosure, see A. Gutterman, Sustainability Reporting and Communications (Oakland CA: Sustainable Entrepreneurship Project, 2019), which is available at www.seproject.org.
While certain CSR and corporate sustainability disclosures have now become minimum legal requirements in some jurisdictions, in general such disclosures are still a voluntary matter and directors have some leeway as to the scope of the disclosure made by their companies and how they are presented to investors and other stakeholders. Some companies continue to limit their disclosures to those that are specifically required by regulators; however, most companies have realized that they need to pay attention to the issues raised by institutional investors and other key stakeholders and make sure that they are covered in the disclosure program. At the other extreme, there are companies that have embraced sustainability as integral to their brands and have elected to demonstrate their commitment by preparing and disseminating additional disclosures that illustrate how they have woven sustainability into their long-term strategies and day-to-day operational activities. These companies understand that not only are investors paying more attention but that more and more people everywhere are considering ESG performance when deciding whether to buy a company’s products and/or work for a particular company and that it is therefore essential to lay out their specific CSR and corporate sustainability goals and the metrics used to track performance and provide regular reports to all of the company’s stakeholders on how well they are doing against those goals.

The strategy and formatting for external reporting varies among companies. In some cases, several different special reports were prepared for each of the specific stakeholder audiences such as employees. Other companies include separate sections on environmental and social benefit activities in the same annual reports in which they present their financial results. Regardless of how CSR reporting is integrated with financial reporting, companies should consider publishing, no less frequently than

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52 Williams noted that to the extent that governments have regulated corporate responsibility *per se*, such regulation has focused on disclosure and during the period 2000-2015 over 20 countries enacted legislation to require public companies to issue reports including environmental and/or social information. Many of these countries are in Europe and the EU has implemented a directive that requires approximately 6,000 large companies and “public interest organizations,” such as banks and insurance companies, to “prepare a nonfinancial statement containing information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.” In addition, several stock exchanges around the world require social and/or environmental disclosure as part of their listing requirements and pension funds in a number of developed countries are required to disclose the extent to which the fund incorporates social and environmental information into their investment decisions. All things considered, surveys show that more and more jurisdictions are implementing mandatory ESG disclosure requirements and that “there is a clear trend towards an increasing number of environmental and social disclosure requirements around the world”. See C. Williams, “Corporate Social Responsibility and Corporate Governance” in J. Gordon and G. Ringe (Eds.), Oxford Handbook of Corporate Law and Governance (Oxford: Oxford University Press, 2016), 15-16, 19, available at [http://digitalcommons.osgoode.yorku.ca/scholarly_works/1784](http://digitalcommons.osgoode.yorku.ca/scholarly_works/1784).

53 As mentioned above, expansive disclosure of this type increases the risk of litigation and/or adverse market reaction in the event that the company fails to meet its stated CSR and corporate sustainability goals, even if the disclosures are accompanied by appropriate disclaimers and are not included in regulatory filings that typically are covered by anti-fraud standards. Disclosure of actual or potential links between CSR and corporate sustainability goals and compensation must also be handled carefully, similar to links between short-term financial goals and compensation.
annually, a free-standing report on their CSR activities in order to highlight once again their policies, objectives and commitments and explain in details their implementation plans and the measurable progress that has been achieved.

When companies were first attempting to provide voluntary disclosures relating to their CSR and corporate sustainability initiatives they often struggled with the format and depth of their reporting. Fortunately, as time went by, a consensus began to emerge about the benchmarks that companies should use for guidance in preparing their CSR and corporate sustainability reports. Of particular note is the Global Reporting Initiative (“GRI”) (www.globalreporting.org), which is a multi-stakeholder developed international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. The Global Sustainability Standards Board (“GSSB”) issues and maintains the GRI Standards for organizations to use in their “sustainability reporting”, described by the GSSB as “an organization’s practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions—positive or negative—towards the goal of sustainable development”.

GRI has pioneered sustainability reporting since the late 1990s, transforming it from a niche practice to one now adopted by a growing majority of organizations. The GRI Standards are the world’s most widely used standards on sustainability reporting and disclosure and available for use by public agencies, firms and other organizations wishing to understand and communicate aspects of their economic, environmental and social performance.

GRI Standards for Determining Content of Sustainability Reports

Organizations that base their sustainability reporting on the Standards promulgated by the Global Reporting Initiative (“GRI Standards”) should begin the process by understanding and implement certain fundamental reporting principles for defining report content in a way that takes into account the organization’s activities, impacts and the substantive expectations and interests of its stakeholders. In a publication focusing on how small businesses can utilize the GRI Standards, the GRI and the International Organization of Employers laid out the following recommendations for each of the four principles to be applied when determining the scope and content of the sustainability report:

Sustainability Context: The report shall present the reporting organization’s performance in the wider context of sustainability.

- Present your understanding of sustainable development and draw on objective and available information and measures of sustainable development for the topics covered in the report.
- Present your performance with reference to broader sustainable development conditions and goals, and attempt to communicate the magnitude of your contribution to (un)sustainability.
- Describe how sustainability topics relate to long-term organizational strategy, risks and opportunities, including supply chain topics.

Stakeholder Inclusiveness: The reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests.

- Describe and map the stakeholders to whom you consider yourself accountable.


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The content of your sustainability report should ideally draw upon the outcomes of your stakeholder engagement processes.

Your report should show that you have responded to stakeholder concerns, policies and relevant standards.

**Materiality:** The report shall cover topics that reflect the reporting organization’s significant economic, environmental, and social impacts; or substantively influence the assessments and decisions of stakeholders.

- Take into account current topics and issues that represent significant risks for your organization and area of operation.
- Take into account the main sustainability interests, topics and indicators raised by stakeholders.
- Take into account the main topics and future challenges for the sector or your region that are reported by peers, competitors or expert bodies with recognized credentials in the field.
- Consider relevant laws, regulations, international agreements or voluntary agreements with strategic significance to your organization and your stakeholders.

**Completeness:** The report shall include coverage of material topics and their boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization’s performance in the reporting period.

- Take into account impacts within and outside your organization, and cover and prioritize all relevant information on the basis of the principle of materiality.
- Avoid omitting relevant information that influences or informs stakeholder assessments or decisions, or that reflects significant economic, environmental or social impacts.

**Source:** Small Business Big Impact: SME Sustainability Reporting from Vision to Action (Amsterdam and Geneva: Stichting Global Reporting Initiative and the International Organization of Employers, 2016), 8-10. The publication is available for download at www.globalreporting.org.

The International Integrated Reporting Council, or “IIRC” (integratedreporting.org), which was founded in August 2010, released its International Integrated Reporting Framework in December 2013 as a guide that companies could use to describe how their governance structure creates value in the short, medium and long term; supports decision making that takes into account risks and includes mechanisms for addressing ethical issues; exceeds legal requirements; and ensures that the culture, ethics and values of the company are reflected in its use of and effects on the company’s “capitals” (described to include financial, manufactured, intellectual, human, social and relationship, and natural (i.e., the environment and natural resources) forms of value) and stakeholder relationships.  

Guiding principles for preparation of integrated reports include strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness and consistency and comparability, and integrated reports prepared using the Framework are expected to include the following common elements:

- Organizational overview and external environment: What does the organization do

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and what are the circumstances under which it operates?

- Governance: How does the organization’s governance structure support its ability to create value in the short, medium and long term?
- Business model: What is the organization’s business model?
- Risks and opportunities: What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?
- Strategy and resource allocation: Where does the organization want to go and how does it intend to get there?
- Performance: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
- Outlook: What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
- Basis of presentation: How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

Other helpful resources are available from the Sustainability Accounting Standards Board, or “SASB” (www.sasb.org), which publishes the SASB Implementation Guide for Companies that provides the structure and the key considerations for companies seeking to implement sustainability accounting standards within their existing business functions and processes. The Guide helps companies to select sustainability topics; assess the current state of disclosure and management; embed SASB standards into financial reporting and management processes; support disclosure and management with internal control; and present information for disclosure. The SASB’s online resource library also includes annual reports on the state of disclosure, industry briefs and standards and guidance on stakeholder engagement. Companies should monitor CSR disclosures by their peers and the SASB library has examples of disclosures made by companies in annual reports filed with the SEC on Form 10-K. Companies can also follow the reporting practices of competitors by reviewing sustainability reports that have been registered with the GRI.

Smaller businesses generally do not have the resources to engage a professional auditor or prepare elaborate reports on their CSR activities; however, this does not mean that small businesses should avoid attempting to implement some basic and relatively simple steps for reporting the results of their sustainability efforts. The GRI has argued that transparent reporting and communicating about sustainability initiatives and programs creates valuable internal and external benefits for new and small businesses. Among the internal benefits that were noted were the following:

- **Forging and Describing Vision and Strategy:** By placing their purpose, vision and strategy into the context of global sustainability during the course of the sustainability

reporting new and small businesses can establish a direction for their activities and make that direction clear and explicit for their stakeholders.

- **Developing Effective Management Systems:** In order for sustainability management and reporting to be effective new and small businesses must invest in the development of management systems that can track and analyze data and use the results to identify and exploit opportunities for improvement, efficiency and cost savings.

- **Identifying Strengths and Weaknesses:** Committing to reporting and communicating drives managers of new and small businesses to seek out early warning signs of emerging issues that provide a chance to grasp opportunities and address potentially damaging developments before they grow into problems that threaten the survival of the organization.

- **Recruiting and Motivating Employees:** Communication, including reporting, is essential for recruiting and motivating employees through engagement in sustainability, leading to a workforce that is loyal and committed to the organization and its mission.

Important external benefits to new and small businesses from sustainability reporting and communication include building goodwill and reducing reputational risk; improving product image and branding; signaling quality and good management that leads to new sources of capital and reduced costs of financing; building or restoring trust among stakeholders through increased and improved stakeholder engagement; and increased customer satisfaction and loyalty, leading to more opportunities to collaborate with business partners as members of their trusted supply chain network.

Hohnen and Potts suggested that small companies could take several modest steps to report and verify their CSR initiatives58:

- While it is probably impractical to appoint a full-time CSR executive, small companies should at least designate one senior employee to monitor CSR activities and collect information that can be used to develop new CSR initiatives and report activities to stakeholders (the designated employee’s existing duties and performance metrics should be rearranged to accommodate the CSR-related activities).

- A modest budget should be set up to cover anticipated CSR activities and key people in other departments (e.g., human resources, customer service, marketing and public relations, manufacturing etc.) should be asked to submit ideas for CSR projects and informed that they will be expected to work with the designated CSR employee on projects from time-to-time.

- Even if the company has not yet adopted one of the international CSR instruments, information regarding its CSR activities should be posted on the company’s website and should include both successes and areas that have been targeted for improvement.

- Information on CSR activities can also be communicated to customers, suppliers and other business partners and community members by adding new sections to the

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58 P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 72.
company’s brochures and pamphlets and posting pictures of activities that can be viewed by visitors to the company’s facilities.

- Information about the company’s CSR activities can be placed into local newspapers, a relatively easy and low cost public relations effort that has high impact among current and prospective employees, local customers and community members.
- Staff briefings on CSR activities should be held on a regular basis and small businesses should also invite business partners and community members to events at the company’s facilities which showcase some of the things that the company is doing with respect to CSR.
- CSR should be placed on the agenda for all discussions with key customers, suppliers and other business partners in order to gather their input and ideas on things that the company can do in the CSR area and get feedback on current initiatives.
- Small businesses should begin with self-assessment of CSR commitments using well-accepted global guidelines as a reference point and use the self-assessment process as a means for preparing for more rigorous verification and reporting in the future.
- The company’s website should report on the activities of employees who are volunteering with the support of the company in charitable activities focused on making a difference in cleaning up the environment. Internally, CSR activities can be publicized in a newsletter that discusses the benefits of a recycling program.

### Questions for New and Small Businesses Launching Sustainability Reporting

Sustainability reporting is often seen as a daunting and challenging project for new and small businesses and sustainable entrepreneurs often complain that they do not know where to start. However, the Global Reporting Initiative (“GRI”), the developer of the GRI Standards used by thousands of organizations around the world to describe and report the progress of their sustainability initiatives and programs, and the International Organization of Employers partnered to generate the following list of questions that new organizations can use to develop a process for launching their reporting process:

- **Scope and Strategy:** *How does your organization communicate what it is and what it does, including showing your commitment to being environmentally, socially and economically responsible?* Provide a clear picture of how your organization creates value, and of your operations and activities. Explain how your business strategy incorporates sustainability into programs, priorities and executive level decision making. When describing value, consider value created for the company, the employees, local communities and the wider economy.

- **Governance and Accountability:** *How is your sustainability strategy led, and what policies and structures are in place to ensure organizational accountability when it comes to meeting sustainability objectives?* Show how your senior executives are involved in leading sustainability programs and key initiatives.

- **Stakeholder Inclusiveness:** *How does your organization identify the stakeholder groups that will have the greatest impact on your long-term viability? How do you engage with these stakeholders? How do you use their feedback to better understand and anticipate future risks and opportunities?* Identify your key stakeholders and show how they are being engaged. Explain how you have addressed—or will address—their highest priority topics and how this is reflected in your sustainability initiatives.

- **Material Topics:** *How does your organization present topics that are particularly important to you and your key stakeholders?* Indicate your material topics while explaining how these topics were identified and addressed both in your current strategy and programs and your strategic planning.

- **Key Performance Indicators, Performance and Impact:** *How does your organization measure sustainability performance? How do you know whether your sustainability performance is...*
advancing, and how it is impacting society, the environment and your bottom line? Use key performance indicators (KPIs) corresponding to high-priority topics to show how your performance is improving and whether you are meeting expectations/targets.

- **Data Quality:** How clearly do you communicate your sustainability priorities, plans and performance? Do you provide a well-rounded picture of your successes, challenges, risks and opportunities? Are you open about improvement points? How do you prove the accuracy of your performance data and the credibility of your claims? Is the information presented in a way that is sufficiently accurate and detailed for stakeholders to assess your performance? Sustainability reports should be credible. This means reports should be balanced and the data reported should be comparable, accurate, timely, clear and reliable. Show your stakeholders how a focused and effective sustainability program will improve your overall future direction (i.e., improving bottom line, reducing risks, increasing competitiveness), so that there is a strong link between sustainability and corporate strategy. Describe how your company addresses potential concerns about the reliability of data and claims through a combination of consistently applied internal auditing practices, independent quality assurance and feedback from stakeholders on the overall structure, topics and tone of the report.

Taken together, the above questions should prod the leaders of the organization to address several of the key elements for success in exercising social responsibility and pursuing sustainability in the course of the organization’s activities. First of all, the organization needs to identify its core mission and purpose and the way in which it intends to provide value to each of its stakeholders. In order to achieve clarity regarding the expectations of stakeholders relating to the organization’s value proposition, organizational leaders need to establish relationships with each of the stakeholder groups through engagement. Stakeholder engagement will ultimately lead to the identification of the organization’s major sustainability goals and objectives, each of which will eventually become a “major topic” in the sustainability reporting process and will need to be supported by a strategy that can also be explained to stakeholders in the sustainability report. Once the goals and strategies associated with the organization’s sustainability initiative and programs have been selected, the governance framework of the organization (i.e., policies and procedures) should be aligned with the strategy. This begins with the proper “tone at the top” and continues downward throughout the organization with clarity for everyone regarding their roles and responsibilities. In addition, in order for the organization to report on the progress of its sustainability initiatives and the success of its strategies, there must be performance indicators embedded in the strategy and investment in the systems necessary to generate and analyze the data required to track performance and report on it to stakeholders.

**Source:** Small Business Big Impact: SME Sustainability Reporting from Vision to Action (Amsterdam and Geneva: Stichting Global Reporting Initiative and the International Organization of Employers, 2016), 11-12. The publication is available for download at www.globalreporting.org.

While CSR reporting has already evolved significantly there will no doubt be important and interesting changes in the future as the appetite of the various stakeholder groups, particularly investors, for information on CSR management and corporate governance generally grows. There is already intense discussion about non-financial reporting, sometimes referred to as “extra-financial reporting” or “intangibles” reporting, that would cover operational activities that are not yet formally regulated but are already embedded in global social responsibility standards and best practices regarding ethical business conduct. In fact, a number of companies already include both financial and non-financial information in their reports to the investors and other stakeholders and it is expected that disclosure requirements in investor reports will continue to be changed to incorporate

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59 The discussion in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 70.
more analysis of the impact of environmental and social responsibility initiatives on economic performance and the overall well-being of the communities that are served by the company. A popular format for integrating financial and non-financial reporting is the “triple bottom line” which facilitates incorporation of economic, environmental and social considerations into performance measurement and disclosures; however, others have argued that additional dimensions should be included such as culture and ethics.\footnote{For further discussion of the “triple bottom line” and other dimensions of sustainability, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).}

Special Considerations for Stakeholder Groups

Many commentators have identified stakeholder engagement as being a core principle of CSR and effective implementation of CSR requires an engagement plan for each of the company’s key stakeholders. Hohnen and Potts described stakeholder engagement as the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on a company’s business (i.e., the company’s “stakeholders”) and noted that “engagement” implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation.\footnote{The discussion of stakeholder engagement in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 76-84. See also Stakeholder Engagement: A Good Practice Manual for Doing Business in Emerging Markets (Washington DC: International Finance Corporation, 2007) and From Words to Action: The Stakeholder Engagement Manual (Cobourg, Ontario, Canada: Stakeholder Research Associates in collaboration with AccountAbility, and the United Nations Environment Programme, 2005).}

Stakeholder engagement is about building relationships with the parties that are most important to sustainability of a company’s business. Companies that fail to pay attention to the concerns and opinions of their stakeholders can suddenly find themselves confronted with an array of problems that go to the very heart of their businesses. When companies are unresponsive to their customers, they begin to lose business and revenues tumble. Companies that do not pay attention to the needs of their employees are unable to recruit and retain the talent necessary to remain competitive. Failing to explain strategies and financial performance to investors jeopardizes the availability of capital. Companies that do not stay in touch with the communities in which they are operating will encounter opposition to expansion and other changes that have a local impact. Other important reasons for focusing on engagement include building social capital, risk reduction, accelerating innovation, and integration and alignment of strategic and managerial practices among the various departments and business units involved in the implementation of the company’s CSR commitments (i.e., finance, human resources, product development, marketing and communications, supply chain management etc.).\footnote{For further discussion of stakeholder engagement, see “Stakeholders and Stakeholder Engagement” in “Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). See also V. Nikolova and S. Arsić, “The Stakeholder Approach in Corporate Social Responsibility”, Engineering Management, 3(1) (2017), 24.}
Companies may have a wide range of actual and potential stakeholders; however, there are differences among the stakeholders as to the degree of influence they have on the decisions made by the company. The degree of influence dictates the type and level of engagement that is appropriate: for some stakeholders merely keeping them informed of developments will be sufficient while other stakeholders can and should be consulted during the CSR implementation process and participate actively in decisions about CSR commitments that affect them and their relationship with the company. Companies sometimes use a technique called “stakeholder mapping” to identify relevant stakeholders and their relative influence on the activities of the company. This exercise allows the company to prioritize its engagement efforts and allocate scarce resources to those stakeholders who will likely have the greatest impact on the CSR initiative. Hohnen and Potts suggested that the following criteria could be used to set priorities for the stakeholder engagement process:\footnote{P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 79-80.}

- The significance of the effect of the company in the view of the stakeholder (e.g., layoffs at the only plant in town will be very significant to workers, their families and other residents);
- The importance of the stakeholder group to operations (e.g., customers and key suppliers);
- The risk of gathering incomplete information by excluding a group (e.g., when a foreign subsidiary’s only contacts are with government officials, it will be difficult to learn the concerns of local workers or residents);
- The opportunity to access new ideas (e.g., engaging a group that is likely to challenge current practices may provide fresh insight into a difficult problem; however, the company has to be prepared to actually change its approach);
- The requirements of regulators or permit-issuing bodies (e.g., to get an operating license in certain countries, a company may be required to engage indigenous peoples);
- Some operations (e.g., emissions to land or water) may have extra-territorial impacts or implications that give legal or other grounds for special-issue groups to intervene; and
- The opportunity to share costs in addressing a specific challenge (e.g., by partnering with another company or non-governmental organization working on the issue).

**Environment**

Grayson and Kjelleren noted that companies faced several key environmental sustainability issues including climate change/sustainability, energy efficiency/recycling and energy extraction risks and that stakeholders had come to expect transparency and reporting from companies on a wide range of environmental performance indicators including materials; energy; water; emissions, effluents and waste, products and services;
biodiversity; transport and compliance.\textsuperscript{64} They noted that significant research existed to support the competitive advantage benefits of environmental sustainability including enhanced corporate reputation, better employee retention and engagement, cost effectiveness, risk avoidance and mitigation, innovation, market expansion and greater access to capital; however, they conceded that companies needed to do a better job of demonstrating how their environmental sustainability efforts improved financial performance. One way to do this is through the formulation and tracking of key performance indicators ("KPIs") that address common environmental sustainability concerns such as the following\textsuperscript{65}:

- **Energy Use/Greenhouse Gases/Climate Change**: Reduction in energy usage is a common first step for businesses with respect to environmental sustainability given that it is relatively easy to demonstrate a positive impact on overhead, cost and return on investment ("ROI"), as well as a commensurate reduction of greenhouse gas emissions. Companies can take advantage of incentives offered by utility companies and local and state governments that will improve the ROI profile of the initiatives.

- **Water Use**: Water resources have come under significant pressure due to droughts and increased weather severity and uncertainty, population growth, contamination of resources and depletion of groundwater supplies and businesses are now challenged to practice conservation and management with respect to their water resources. A number of conservation strategies are available including closed-loop water cooling, low-flow fixtures, onsite treatment and reuse, gray water collection for irrigation and xeriscaping, and companies can adopt water usage KPIs such as total water used, water used per production unit, water used as a percentage of sales, and percent water reduction.

- **Waste Reduction/Product Inputs Reduction/Recycling**: Companies should continuously strive to improve their resource use to product conversion ratio and find ways to reduce waste in the resource inputs to products and processes through reuse, reduction of packaging materials and efficient disposal/recycling. Common KPIs for these issues include percent waste recycled, waste per production unit and total waste disposed to landfill.

- **Toxics Use Reduction or Elimination**: Many products include toxic materials and companies should strive to reduce or eliminate use of toxics in order to reduce workers’ exposure and factory emissions and safeguard the health of the ultimate consumers of the products. Elimination of toxics is challenging given that it will often require significant and costly modifications to products; however, companies are taking steps to voluntary substitute less toxic materials in both processes and products and will likely be required to do so in the future as more jurisdictions formulate regulate with respect to the issue (e.g., the European Union’s regulation on Registration, Evaluation, Authorization and Restriction of Chemicals, commonly referred to as “REACH”, which entered into force on June 1, 2007 to improve the


\textsuperscript{65} Id.
protection of human health and the environment from the risks that can be posed by chemicals).

- **Emissions and Effluents:** Toxic air emissions and contaminated wastewater, which are common byproducts of manufacturing, may be legal when released under a permit; however, they still have a significant impact on the environment and companies have a business and reputational incentive to pursue reductions in this area given that they are required to conduct assessments of their releases and file reports with regulators that are available for public review. Common strategies for reducing emissions and effluents include substitution or elimination of toxic materials in products and processes and process efficiency improvements and relevant KPIs include tons released, tons per dollars of sales and pounds per production unit.

Small businesses are often surprised to discover relatively simple ways that they can modify the way they carry out their businesses to contribute to improving the environment in which they operate. Among the possibilities are the following:

- Reducing consumption of energy, water and other natural resources, and emissions of hazardous substances
- Using or producing recycled and recyclable materials, increasing the durability of products, and minimizing packaging through effective design (“reduce, reuse and recycle”)
- Training and encouraging staff to look for additional ways to reduce the company’s environmental footprint
- Using “green” (i.e., renewable energy) power electricity suppliers and energy-efficient lighting
- Joining or starting a local “green business” club that can help local firms access conservation grants and expertise for reducing waste, water use and energy
- Considering using video-conferencing to meet a potential supplier or customer rather than always physically travelling to meetings
- Establishing an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts and transferring good practices

**Human Resources Management**

Hohnen and Potts made the following suggestions to small businesses with respect to practical strategies they could implement to improve the level of sustainability in their human resource management (“HRM”) practices:

- Establishing policies to ensure the health and safety of all employees and make the policies known to employees
- Involving employees in business decisions that affect them and improve the work environment

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67 Id. at 30-31.

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Consulting employees on how to hand a downturn in business (e.g., offer the option of all staff taking pay cuts or reduced hours instead of layoffs)

- When layoffs or closures are unavoidable, offering outplacement services, retraining and severance benefits
- Providing training opportunities and mentoring to maximize promotion from within the organization
- Extending training to life management, retirement planning and care of dependents
- Being open to job splitting, flex-time and other work-life balance policies
- Sharing training and human resources programs with other local small businesses
- Considering supporting daycare for children or elderly dependents
- Encouraging a healthy workplace (e.g., implement a smoking ban or drug and alcohol abuse support program)
- Providing exercise facilities or offer subsidized membership at a local gym

Workplace Diversity and Human Rights

In addition to their suggestion regarding HRM practices, Hohnen and Potts stressed the need for small businesses to promote diversity and human rights in the workplace by taking the following steps:

- Making sure that all staff know that there are explicit policies against discrimination in hiring, salary, promotion, training or termination of any employee on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion
- Having a zero tolerance policy with regard to jokes or behavior in the workplace that insult employees on the basis of gender, race, age, ethnicity, disability, sexual orientation or religion
- Thinking creatively about where to advertise new jobs and whether there are any local employment programs (e.g., programs run by a local council or employer) to help find work for people who are homeless or disabled
- Paying comparable wages for comparable work

The practice of sustainable HRM extends beyond the immediate workplace to include HRM practices of business partners and Hohnen and Potts urged small businesses to actively support organizations that promote fair trade and human rights compliance and check where products are manufactured and look into any associated human rights concerns.

Community

While corporate philanthropy and social investment are commonly discussed with respect to larger businesses, there are significant and effective ways for startups and smaller firms to engage with their communities and have a positive impact that enhances their reputation and their morale of employees. Some of the ideas that should be considered by entrepreneurs and small business owners include sponsoring the activities and/or specific events of nonprofit organizations in the community; incorporating employee...
volunteering into the company’s mission and personnel policies; designing a business model that “gives back” to the community (e.g., setting aside a portion of the profits from each sale for automatic investment toward a solution of a community social or environmental issue); contributing to the local economy by prioritizing hiring from within the community and selecting local vendors for procurement of necessary goods and services; and promoting local businesses to customers and other contacts through co-marketing efforts or referrals. 68

Larger organizations typically have formal business units or teams focusing on various aspects of community involvement and development ranging from philanthropy; employee volunteerism; infrastructure investments and collaborations on local issues relating to education, health, safety and the environment. At their startups, sustainable entrepreneurs need to approach community involvement pragmatically, recognizing that how they demonstrate appreciation for the surrounding community will have a profound impact on the organizational culture that emerges from the launch phase. Sustainable entrepreneurs need to put community involvement and development high on their agendas, even as they are struggling with creating the company’s initial products and services, and seek to identify not only what their communities can provide for the business but also what the business can offer to the community in exchange.

When a company is first launched the contribution of the business may be limited to the time and experience of employees who participate in community activities with the blessing and support of the company. While seemingly modest, these interactions will hopefully provide a foundation for a positive reputation for the business in the community, which can be enhanced by making a concerted effort to conduct meetings in the community to forge relationships with community leaders and prospective employees and other business partners. Other ideas for sustainable entrepreneurs looking for easy, yet potentially impactful, ways to quickly and efficiently start getting involved with their local communities include sponsoring events and activities of community-based nonprofit organizations; incorporating volunteering into the overriding purpose and mission of the business; identifying way to incorporate “giving back” into the company’s business model; contributing to the local economy by making commitments to buy supplies and raw materials from local vendors and partnering with local businesses for services and other business-related purchases; and promoting other local businesses through co-marketing efforts and/or through referrals. 69

For many startups, the first community is an online group that includes early adopters and users of the company’s product or service and others such, as representatives of the media and prospective investors, who have an interest in the progress of the company. In most cases, the primary interest of the startup in its online community is growth of that community, hopefully with accompanying revenues; however, engagement with an

online community should be done with the same goals and purposes that organization’s become involved with traditional communities: building relationships, enhancing reputation and social license to operate, soliciting information and ideas that can be used in the business, attracting the interest of potential investors and other strategic partners and recruiting talent. Surveys among startups regarding their approaches to online community involvement and management identify a variety of useful ideas and strategies including recruitment of an experienced “community manager” as a high priority.

Community management is not to be confused with social media management, although mastering the technical and marketing aspects of engagement through social media is important. Community managers in this context practice meaningful engagement with community members regarding the company’s products and services and the specific needs and expectations within the community, crucial information in a situation where it is relatively easy and costless for users to switch to a different platform. In fact, sustainable entrepreneurs often argue that community management is not the right term; the proper perspective is on engagement and eliciting participation in the vision by community members. The engagement process should involve building connections within the community so that members are able to communicate with one another, rather than just with the company, and do so in a manner that is transparent and amenable to discussion of problems with the way the company is handling a particular issue. Eventually, as resources permit, companies can expand engagement beyond online channels to include live events in areas where a significant pool of community members are located. Startups can also forge strategic partnerships with other organizations to offer related products and services to community members. In the meantime, the information obtained through community management can be used to focus the startup’s efforts on the one or two things that really need to be done next in order for the company to scale efficiently.70

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As mentioned above, small businesses are heavily dependent on the communities in which they operate. These communities typically provide a large share of the company’s business and serve as the primary source of human capital. The laws and regulations implemented by local regulators are significant to small businesses and can have a material impact on how the businesses are run and the costs associated with operations. All of this means that CSR initiatives for small businesses must include strengthen and improving community ties. Small businesses can assist the communities in which they operate by71:

- Encouraging employee volunteering in the community and with financial contributions and help in kind

70 For additional ideas and case studies relating to startup strategies relating to community management, see R. Barba, Startups Share Their Tactics and Thoughts on Community Management (May 15, 2015), https://tech.co/startups-share-tactics-thoughts-community-management-2015-05
71 Id. at 31.
• Making some of the business’s product or services available free or at cost to charities and community groups
• Looking for opportunities to make surplus product and redundant equipment available to local schools, charities and community groups
• Buying from local suppliers and strive to hire locally
• Offering quality work experience for students (i.e., job shadowing)
• Collaborating with local teachers to make the business the subject of a school project
• Using the business’s experience to help a local school, charity or community group become more efficient and entrepreneurial
• Using some of the marketing budget to associate the business or brand with a social cause

CSR for Sustainable Entrepreneurs

By the 1990s it was becoming clear that sustainability had “become a multidimensional concept that extends beyond environmental protection to economic development and social equity”—in other words, entrepreneurship guided and measured by the three pillars of the “triple bottom line”.

Crals and Vereeck reasoned that “sustainable entrepreneurship” could be interpreted as a spin-off concept from sustainable development and that sustainable entrepreneurs were those persons and companies that contributed to sustainable development by “doing business in a sustainable way”.

According to the Brundtland Commission, sustainable entrepreneurship is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, the local and global community as well as future generations.

Bell and Stellingwerf defined sustainable entrepreneurship as “startups that introduce an innovation, with the aim to solve a sustainability-related market failure, which initiates the transformation of an industry toward sustainability”.

The “innovation” could take the form of a product, process or service and the sustainability objectives behind these innovations were equally important as the economic objectives associated with them. The use of the term “startups” is intentional and significant as it explicitly differentiates sustainable entrepreneurship from the activities of established organizations, such as corporations, to address sustainable development issues in their environment (i.e., corporate-sustainability/CSR initiatives). However, like any other startup, a sustainable entrepreneurial venture must have the capacity to survive, develop and grow. Rey referred to this condition as “viability” and emphasized that a sustainable entrepreneurial company must, at a minimum, cover all costs, enjoy continuous growth in size and output, make a positive return on turnover and, fundamentally, “remain out of financial

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74 Id. For further discussion of sustainable entrepreneurship, see “Sustainable Entrepreneurship” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
75 Id.
danger for years". In other words, the company must seek and achieve long-term sustainability in order to successfully pursue and achieve its goals and purposes and provide prospective stakeholders, including employees, with security that their contributions to the enterprise will be product value over an extended period.

While engaging with CSR is often a slow process for the owners and managers of traditional small businesses, sustainable entrepreneurs understand from the very beginning that authentically embracing CSR and various CSR practices makes good business sense. For example, when sustainable entrepreneurs take on and promote initiatives to make society as a whole happier and healthier they are also working to improve the conditions in the marketplace, thus improving the foundation for a thriving business. When the lives of potential customers are improved they become more prosperous and this means that they are better able to consider and purchase the products and services that the sustainable entrepreneur and others are offering. In addition, implementing sustainable practices such as using less packaging and reducing energy waste not only helps to conserve the environment it also helps sustainable entrepreneurs cut their costs and improves the quality of the workplace for employees. Other business benefits of CSR, which are extremely important to startups struggling to survive and find their niche in competitive marketplaces, include brand differentiation, access to talented workers interested in working for companies with a socially responsible mission and alignment with a rising tide of consumer awareness and demand for businesses to act responsibly and offer products and services that are not only useful but which also contribute to sustainability.

**Profitability Matters**

Sustainable entrepreneurship is not about setting profitability aside; in fact, a strong business model and profitability strategy is just as important as the social and environmental missions to the sustainability of a new business. Sustainable entrepreneurship begins with a quality product or service that will resonate with customers and form the foundation for a business that generates profits that can be invested into the chosen social or environmental cause. While more and more consumers are willing to pay a premium for sustainable products, those products must nonetheless survive in competitive markets and the initial excitement about a cause-related product will soon evaporate if the product does not deliver the value that customers expect. If the sustainable entrepreneur is unable to build a successful business from a financial perspective, there is no “cause” and the sustainable entrepreneur will not be able to achieve the environmental and social impact that drove him or her to launch the company in the first place.

Sustainable entrepreneurs can take advantage of various innovative tools for securing financing, such as crowdfunding; however, even the most enthusiastic supporters of a

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social or environmental cause will eventually want proof that their capital has been effectively deployed and that the sustainable entrepreneur has pursued his or her stated mission and goals. Efforts to make investing in new ventures of all types have led to an explosion of promoters seeking capital for their businesses and sustainable entrepreneurs will find themselves in a crowded and noisy financial marketplace. If they are slow to execute they will be buried and will find it difficult, if not impossible, to secure additional outside funding, regardless of how compelling their social or environmental case might be. All this means that they need to put the basic elements of their CSR program in place as they develop their initial business model so that a realistic budget can be established, stakeholder engagement can begin at or before launch and realistic financial and CSR targets and milestones can be set, measured and reported on.

### Investment Criteria of Sustainable Investors

Sustainable investors are concerned not only with what companies are striving to accomplish, but also with the way in which those companies intend to operate and the values and methods that will be used by the principals of the companies. Specifically, sustainable investors look for individuals and companies that value and exhibit transparency and honesty and candor in communications among stakeholders; define economic success by social and ecological impact, not just financial results; have an entrepreneurial spirit and culture that encourages and fosters innovation and continuous improvement; and which are truly pioneers in their areas interested in building the fields in which they operate through collaboration and “open sourcing” of methods and ideas. Sustainable investors also tend to be particularly interested in developing and maintaining close, long-term relationships with their investees and providing them with appropriate support and resources throughout the investment period. One way this is accomplished is by matching entrepreneurs with local investors from the same community to develop a sense of shared responsibility and facilitate face-to-face interaction.

Enterprises seeking financing from social venture capital funds and other sustainable investors need to understand the criteria that these types of investors use when evaluating potential portfolio companies. A modest survey of the published investment criteria of various investors indicates that they are looking for companies that:

- Have a primary, clear objective to achieve significant social change and a business model in which generating social impact is an essential and necessary part.
- Provide goods and services that meet human needs and have significant social impact (e.g., food, medicine, clothing, housing, heat and light, transportation, communication, recreation, renewable energy, and “green” products and services). These goods or services must be based on core technology that is economically better or create greater social impact than what is available currently through the market, aid, or charitable distribution. Sustainable investors prefer and expect evidence of customer feedback on the utility of the proposed goods or services.
- Have a clear business plan and model that demonstrates the potential for financial viability and sustainability within a five to seven year period, including the ability to cover operating expenses with operating revenues and generate a fair return for investors.
- Have a strong and experienced management team with the skills, will, and vision to execute the business plan, an unwavering commitment to achieving the desired social impact in an ethical manner.
- Demonstrate a clear path to scale for the number of end users over the anticipated investment period, and be positioned as one of the leaders in the market.
- Provide positive leadership in the areas of business operations and overall activities that are material to improving societal outcomes, including those that will affect future generations.
- Balance the needs of financial and nonfinancial stakeholders and demonstrate a commitment to the

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global commons as well as to the rights of individuals and communities.

- Advance environmental sustainability and resource efficiency by reducing the negative impact of business operations on the environment, managing water scarcity and ensuring efficient and equitable access to clean sources, mitigating impact on all types of natural capital, diminishing climate-related risks and reducing carbon emissions, and driving sustainability innovation and resource efficiency through business operations and products and services. Red flags for sustainable investors would include a record of poor environmental performance and failure to comply with applicable laws and regulations, activities that contribute significantly to local or global environmental problems, and/or risks related to the operation of nuclear power facilities.

- Establish an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts, training personnel and transferring best practices to customers, suppliers and other participants in the marketplace through trade associations and other collaborations.

- Contribute to the quality of human and animal life. Sustainable investors will not invest in companies that abuse animals, cause unnecessary suffering and death of animals, or whose operations involve the exploitation or mistreatment of animals.

- Contribute to the community through charitable giving, encouraging employee volunteering in the community, making products and services available free or at cost to community groups and supporting local suppliers and striving to hire locally.

- Respect consumers by marketing products and services in a fair and ethical manner, maintaining integrity in customer relations and ensuring the security of sensitive consumer data.

- Respect human rights, respect culture and tradition in local communities and economies and respect Indigenous Peoples’ Rights. Sustainable investors will not invest in companies that have exhibited a pattern and practice of human rights violations or have been directly complicit in human rights violations committed by governments or security forces.

- Promote diversity and gender equity across workplaces, marketplaces and communities. Sustainable investors look for diversity throughout the organization, beginning with the board and senior management team, and will not invest in companies that discriminate on the basis of race, age, ethnicity, religion, gender, sexual orientation or perceived disability or support the discriminatory activities of others in their workplaces, marketplaces or communities. Red flags include a record of consistent violations of workplace-related laws and regulations and failure to adopt and enforce explicit policies against discrimination in hiring, salary, promotion, training or termination of employment.

- Demonstrate a commitment to employees by ensuring development, communication, appropriate economic opportunity and decent workplace standards. Sustainable investors will not invest in companies that have been singled out for serious labor-related actions or penalties by regulatory agencies or that have demonstrated a pattern of employing forced, compulsory or child labor. Sustainable investors seek confirmation that companies have implemented and follow personnel policies that promote the welfare of their employees, adhere to internationally recognized labor standards, value employee welfare and safety, pay a living wage to its employees and maintain a reasonable ratio of CEO earnings to average employee earnings, maintain cordial and professional relations with labor unions and bargain fairly with their employees, and follow sustainable employment practices.

- Save lives by guaranteeing product safety while promoting public health. Concerns for safety and public health caused sustainable investors to reject proposals from companies engaged in certain “prohibited business activities” such as the manufacture and/or sale of tobacco products; the manufacture of alcoholic beverages or gambling operations; the manufacture and/or sale firearms and/or ammunition; or the manufacture, design or sale of weapons or the critical components of weapons that violate international humanitarian law.

- Provide responsible stewardship of capital in shareholders’ best interests.

- Exhibit accountable governance and develop effective boards that reflect expertise and diversity of perspective and provide oversight of sustainability risk and opportunity. Sustainable investors will shun companies that have demonstrated poor governance, including failure to practice transparency in disclosures to shareholders or respond to shareholder communications or proposals, or engaged in harmful or unethical business practices.
• Commit to an external code or standard or a set of business principles that provides a framework to measure the company’s progress on environmental and social issues.
• Integrate environmental and social risks, impacts and performance in their material financial disclosures in order to inform shareholders, benefit stakeholders and seek their ideas and views and contribute to company strategy.
• Lift ethical standards in all operations, including in dealings with customers, regulators and business partners. Sustainable investors require that the companies in which they invest adopt and rigorously follow codes of conduct that are based on recognized global best practices to guide their policies, programs and operations.
• Demonstrate transparency and accountability in addressing adverse events and controversies while minimizing risks and building trust.

Sustainable investors often focus their activities on companies engaged in addressing needs, problems and challenges in a specific societal domain and/or geographic area. Popular target societal domains include agriculture, education, safety, demography, community, poverty, environment, health and well-being, housing, and ethical goods and services. Geographic areas that have attracted substantial interest from sustainable investors include East Africa, West Africa, India, Pakistan and Latin America.

Given the nature of some of the requirements described above, it is not surprising that many sustainable investors are not interested in pure “startups” and are looking for companies that have advanced to the “early stage” of development and have identified a stable business model that has already achieved some minimum level of revenues.

Many sustainable investors have developed “exclusionary criteria” that list activities and other characteristics that will disqualify companies from investment consideration. For example, a sustainable investor is quite likely to rule out funding companies that:

• Are involved in the extraction of carbon based resources, such as coal, petroleum, and natural gas, for the production of fossil fuels;
• Are primarily involved in producing or distributing alcohol or tobacco products;
• Develop, manufacture or profit from weapons, including conventional, chemical, biological, and nuclear weapons;
• Generate nuclear power;
• Genetically modify seeds or living organisms (although such activities may be allowed with a showing of countervailing social benefits such as demonstrating leadership in promoting safety, protection of Indigenous Peoples’ Rights, the interests of organic farmers and the interests of developing countries generally);
• Are involved in the gambling, gaming or adult entertainment industries;
• Have primary business practices that involve the inhumane treatment of animals; or
• Have profited from conspicuous consumption, land speculation, predatory financial practices, or privatized detention facilities.

Source: The criteria identified and discussed in the text draws upon a review of published criteria of various social venture firms and investors including Calvert Group, Acumen Fund, City Light Capital and Root Capital. Each investor has its own specific set of requirements based on its goals and objectives. For links to information on other social venture capital firms, see Cause Capitalism “15 Social Venture Capital Funds That You Should Know About”, http://causecapitalism.com/15-social-venture-capital-firms-that-you-should-know-about/#sthash.A7KQmImG.dpuf [accessed June 1, 2016].

Authenticity
Many, although certainly not all, entrepreneurs are quite good at aggressively promoting their ideas and promises for new products and businesses, including the ways in which they intend to positively address social and/or environmental problems. However, stakeholders such as employees and customers are not interested in CSR promises that are not authentic and which are done for show while profitability remains the primary goal for the business. Many companies, large and established as well as startups, have viewed CSR as just another marketing scheme and failed to integrate sustainability deep into their culture and operational activities. For example, a company might tout that it will donate a product or a certain sum of money for each product purchased by a consumer. This is better than nothing; however, the value of such initiatives will quickly come into question if the company has made no real effort to incorporate sustainability into the sourcing, manufacturing and distribution activities associated with those products. For many companies, CSR means telling customers that if they purchase a good the company will donate the same good to someone who can’t afford it; however, it may be more impactful to commit to setting aside a portion of revenues from product sales to and transferring that amount to a nonprofit engaged in research that will ultimately have a larger impact on needy communities. Failing to be truly authentic about a stated CSR mission, and backing it up with passion and actions rather than just words, can be more damaging to a company’s reputation than saying and doing nothing at all. Social media makes it easy for critics and influencers to quickly distribute word about a company’s failure to do what it says it was going to do. Companies should not be shy about promoting their genuine CSR initiatives; however, it is best to actually begin executing on those initiatives before talking too loudly about them.

**Putting People First**

The traditional economic model for entrepreneurship has generally focused on a handful of fungible resources: capital, labor, technology and elements of nature. In this model, entrepreneurs make decisions with respect to these resources that are focused on maximizing return on capital. Missing from this model is an equal commitment to the well-being and happiness of the real people who are touched by the activities of the business: individual consumers that purchase and use the company’s products; the managers, employees, contractors and volunteers who provide services to the company; and the residents of the communities in which the company operates. From the outset, sustainable entrepreneurs need to put these people first and understand their needs and expectations with respect to their relationships with the company. Sustainable entrepreneurs need to commit to a transparent and honest relationship with people, one in which communication goes both ways. By doing so, the company can attract and retain talented workers, build a loyal customer base and forge strong and enduring relationships with the communities in which they operate.

**Operating Beyond Ethics**

It is common to think of “social responsibility” and “ethics” as being one and the same; however, this is a mistake that truly sustainable entrepreneurs understand and avoid and realize that their businesses must be run in a way that goes beyond ethics ethical actions
do not alone amount to social responsibility. A relatively simple illustration is the now common practice among American firms of sourcing manufacturing activities out of the US. In general, outsourcing of this type if not unethical; however, it becomes problematic when it is done in a manner that is not socially responsible (i.e., knowingly or negligently countenancing poor working conditions for local workers and/or displacing larger number of US workers who had been relying on the work that is being outsourced). Similarly, there is nothing ethically wrong with variations in compensation among executives, managers and workers; however, the enormous gaps between CEO pay and the compensation provided to the lowest paid employees in many public companies has been roundly criticized as a sign that those companies do not really care about their workers and should not be perceived as acting in a socially responsible manner. While not the same, social responsibility and ethics should each have a prominent place in every aspect of the company’s operational activities and the interactions that the company has with its stakeholders.

**Developing and Embedding a Sustainable Purpose and Mission**

A sustainable entrepreneur is no different than any other entrepreneur: he or she needs to identify and adopt a clear business purpose. For sustainable businesses, however, that business purpose needs to include a long-term commitment to continuous efforts relating to making a positive contribution to society through responsible behavior and actions. While businesses have thrived and survived without taking a proactive stance regarding sustainability issues, the landscape is changing and many potential customers are extremely interested in building relationships with companies that “stand for something” that is also important to the customer. Having a social mission not only open opportunities in the market, it also allows companies to demonstrate commitment to their communities and the environment, find new ways to promote their brands, improve their reputation, and forge partnerships with well-respected organizations that have already become involved in working on a particular sustainability issue.

Many sustainable entrepreneurs bring their mission to their business from the very outset. They have made a decision about the issue or cause that is most important to them and then select products, services and/or sustainability activities that are clearly aligned with solving the issue or mitigating the harm being caused by a particular social problem. Eventually, the mission becomes an integral part of the company’s brand. If, however, the company is looking to develop a mission after it has been in business for a while, the brand that it has already developed is probably a good place to start. A brand is a ready-made statement of what the company is and what it already stands for in terms of the expectations of customers and the company can use what is already known to narrow down the choice of causes that might be appropriate for the company’s social mission. If a product can be designed and produced in an environmentally friendly manner there is a natural connection to an eco-mission. If the design and use of the product itself does not immediately bring a social mission to mind, consideration can be given to having the company get more involved with its local community and/or donating cash, goods or volunteer time from employees to a charity or an institute doing research on an important medical problem. The question that needs to be asked and answered is why is the
Companies should avoid “niche”, or narrowly drawn, causes and define their missions broadly in order to have more opportunities to make an impact and engage with a larger audience. Some sustainable entrepreneurs are interested in pursuing political causes; however, politics often divides more than it unifies and may not be the best choice of mission. In addition, missions need to have a long shelf life and this means that missions tied to a single person or brand should be avoided since there is too much risk of something happening that causes the person or brand to fall out of favor. Whatever mission is selected, it must be something that the entrepreneur is passionate about and which is more important to him or her than making a lot of money, although profitability is certainly important to the extent that it allows the company to survive to pursue its mission and acquire the resources necessary for being successful in that pursuit. This means that the mission cannot be just an “add on” to the business. It has to be authentic and embedded in the core of the company’s brand and culture. If this does not happen then the company will derive no value from its sustainability initiatives and consumers and other potential critics in a world connected by social media will quickly sense the possibility of “green washing” and the company’s reputation will suffer dramatically.

Once the mission has been selected the company needs to have a multi-pronged approach for implementation and embedding the mission through the organization and in all of the company’s internal and external activities. The first step is to prepare and widely disseminate a mission statement that clearly highlights how social responsibility fits into the company’s business agenda. Then, there are a number of other things that can and should be done including integrating the mission into the company’s brand through modifications of the company’s brand guidelines and corporate identity; displaying the mission broadly on the company’s website, in press releases and in marketing materials; developing ways to empower employees to become engaged in the mission such as creating volunteer programs and distributing information about the mission to employees to ensure that they are aware of what the company is doing and that they understand the importance of the mission and their support of the mission; creating and executing opportunities to demonstrate the mission in visible ways such as donating cash, hosting a fundraising event or having a team of employees volunteer at an organization engaged in mission-related activities; and developing partnerships with other organizations, as well as individuals, involved in supporting the same mission. All of these activities are intended to enhance the visibility of the company’s mission and draw the company into the broader network of people and organizations working on the same cause. While the steps can be modest or robust, depending on the resources of the company, there must be a real commitment to execution since the mission will soon become an integral part of the company’s identity in the minds of its stakeholders.

**Kotler and Lee’s “Best Practices for Doing Good”**

According to Kotler and Lee, there are five C’s in CSR businesses must fulfill: “conviction”, which means striving for real improvement in business performance and not just public relations; “commitment”, which...
means “when we commit, we deliver”; “communication”, which means that the business has “committed to open, honest, and direct communication with all the stakeholders; “consistency”, which is the recognition that CSR is a process of continuous implementation and improvement; and “credibility”, which means the efforts of the business with respect to social responsibility must be perceived as credible and worthy of trust. Kotler and Lee famously suggested 25 “best practices for doing good” that corporations could consider when developing and implementing their social responsibility programs and initiatives. Among those practices were the following:

- Enhance public awareness and concern for a particular cause through the support of promotional communications.
- Support fundraising for a cause by encouraging customers and others in the community to contribute to the cause.
- Increase communication participation in cause-related activities by providing promotional support and access to distribution channels.
- Support efforts to influence individual behavior change and industry business practices that improve public health (e.g., launch awareness programs in the workplace regarding health, safety or environmental issues).
- Provide increased funds and other resources that help charities and cause efforts make ends meet and or expand efforts.
- Increase the number of volunteers donating their expertise, ideas and physical labor to a cause by promoting voluntarism in the community and supporting employee volunteer efforts.
- Build a strong corporate reputation, as key constituents observe action that supports promises of good corporate citizenship and responsibility.
- Contribute to overall business goals by opening up new markets, such as by providing opportunities to build long-term relationships with distributors and suppliers.
- Attract and retain a motivated workforce by being known for involvement in the community, and for providing employees an opportunity to become involved in something they care about and to receive corporate support and recognition for doing so. Build strong community relationships with organizations and agencies that can provide technical expertise and extend campaign reach by providing access to members and donors also supporting the cause by offering a credible endorsement for the corporation’s efforts and commitments.


**Bottom of the Pyramid**

Some companies, large and small, elect to focus their CSR activities on what has been described as the “bottom of the pyramid”, which includes the poorest people around the world who desperately need support from those who are more well off to improve their lives and become more self-sufficient. Programs in this area may include not only donations of needed goods but also contributions to training programs to improve skills and improve living and working conditions, often with the hope that the communities will become more prosperous and a source of revenues for the company in the future. For example, when Coca-Cola announced an initiative to empower millions of women entrepreneurs around the world it not only hoped to support the creation of new
businesses it also hoped that at some point the people working for those businesses would become Coca-Cola customers.

**Philanthropy**

Corporate philanthropy has been described as “a direct contribution by the corporation to a charity or causes, most often in the form of cash, grants, and donations and or in kind services”.

Companies may engage in philanthropy directly or through corporate foundations that are established as entities separate from the main business unit, although the work of foundations generally remains closely aligned to the company’s core competencies and business priorities. Ragan et al. described corporate philanthropy as the “purest” form of CSR and “the ‘soul’ of a company, expressing the social and environmental priorities of its founders, executive management and employees, exclusive of any profit or direct benefit to the company”.

Corporate leaders often find it difficult to explain how particular philanthropic initiatives make a direct contribution to business strategy; however, it is generally conceded that philanthropy has strategic value to the extent that it enhances the company’s reputation in its local communities, provides the company with insulation from unanticipated risks, motivates employees through opportunities to participate in volunteering activities in their communities on causes that are meaningful to them and provides managers and employees with a chance to gain new skills and experience which engaging in philanthropic activities that can also be used in their day-to-day roles for the company’s primary business.

According to Kotler and Lee, philanthropy has been one of the traditional corporate social initiatives and corporate giving has been a major source of support for community health and human service agencies, education, the arts and organizations working to protect the environment. Before engaging in a philanthropic activity, the company needs to select a cause that reflects one of its priority areas for CSR, determine the type of contribution to be made; and identify a recipient for the contribution (e.g., an existing nonprofit organization, a foundation or public agency such as a school). A list of the options for contributions that are commonly considered and used includes cash donations, grants and scholarships, donations of products and/or services, providing expertise, allowing the use of facilities and distribution channels, offering the use of equipment and sponsoring activities by providing financial or material support.

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81 P. Kotler and N. Lee, Corporate Social Responsibility – Doing the Most Good for Your Company and Your Cause (New Jersey: John Wiley and Sons, Inc., 2005)

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When determining the best way to contribute, companies must take into account the resources and skills that the company has available, the expectations of the company’s stakeholders and the contributions that are already being made by others interested in the same mission. For example, a company may make a cash donation; however, care must be taken not to unduly impair available cash flow that is needed for other activities. If cash is the preferred method for contributing, perhaps that the donation can be tied to product sales (e.g., for every product purchased the company will donate a specified amount to a cause aligned with its mission). Eco-related missions are generally best pursued through improvements in product design and/or waste reduction and energy conservation programs inside the company. Smaller companies often get involved in their missions through volunteer programs. The key point for the social entrepreneur is to act creatively in seeking and identifying opportunities to help.

As time goes by the challenge and goal for newer companies is to move their corporate philanthropy activities from the traditional ad hoc menu of a diverse and unconnected set of programs championed by individuals and groups scattered throughout the organization toward the practice of strategic philanthropy. While it is understood that many philanthropic programs will likely not produce an economic return, this does not mean that companies should not set strategic goals for their philanthropic efforts, such as making sure that each program contributes to strengthening the company’s social capital and reputation among employees, customers and other stakeholders.\textsuperscript{83} One way to yield a more strategic thrust for corporate philanthropy is for companies to channel their primary business expertise and institutional knowledge and connections into a comprehensive and well-funded initiative that is strategically focused on a highly visible and critical environmental or social issue that motivates all of the company’s employees, benefits the company’s community, improves the company’s social capital and brand reputation and provides the company with a valuable platform for companies to experiment and learn in anticipation of becoming more active in other forms of CSR such as transformation of their value chain.\textsuperscript{84}

Investing in Sustainability-Related Actions and Programs

The company should build specific actions and programs into its strategic plan that are directly tied to its overall mission and social responsibility goals. For example, companies may set aside funds for targeted grants to nonprofits and community organizations, enter into partnerships to pursue and complete infrastructure projects in impoverished areas and provide employees with paid time off work to volunteer with programs that are related to the company’s social mission.

\textit{Customer Engagement}

\textsuperscript{84} Id. at 17 and 33.
Many entrepreneurs, and established traditional businesses, are skeptical about the profitability and viability of business models that are based on sustainability; however, the reality is that consumer demands and expectations have opened up substantial opportunities for sustainable entrepreneurship and revitalizing the businesses of mature companies that have only emphasized profits in the past. Surveys taken in all parts of the world have provided support for the proposition that consumers would consider and purchase sustainable products whenever possible, prefer to do business with companies that have an established positive record with respect to CSR and would stop buying products and services from firms found to behaving in an unethical manner. Understanding what drives consumer decisions is important and companies should consider diverting some of their traditional investment in marketing toward sustainability-related initiatives that will resonate with consumers such as new technologies to conserve energy and support for philanthropic projects.

Many companies find ways to integrate their social and environmental mission with the branding for their products and rely on CSR as a means for differentiating their brand, products and services from others in what is always a fiercely competitive marketplace. For example, promoting products made with “sustainable materials that are kind to the environment” not only helps build the brand but also demonstrates the success that the company is having in giving back to the communities in which it operates. Designing and selling high quality products that consumers want to buy not only generates the profits necessary for a business to be sustainable it also provides a foundation for turning customers into advocates and promoters of the company’s brand and its sustainability mission, thereby contributing to the viral dissemination of goodwill regarding the company that is so important during the startup phase.

**Employee Engagement**

Competition for the best human resources is always fierce, particularly for startups that need talented personnel to accelerate their progress, and sustainable entrepreneurs need to quickly build a committed team that can help build out the company’s mission and achieve traction in a crowded market. In order to retain talented employees every business needs to focus on engaging them in their work and building a sense of loyalty and commitment to the company and its mission. With respect to sustainability, this means making sure that CSR is tightly embedded in the overall workplace culture and that prospective workers can see that the business is committed to contributing to society and not just making profits for the benefit of investors and a few insiders. In addition, of course, sustainable entrepreneurs need to adopt the practices described above with respect to HRM and promoting diversity and human rights in the workplace.

A variety of strategies can be used to create and maintain a sustainability-focused organizational culture; however, the process should begin by inviting as many as possible inside the company into the process. Meetings should be held where the founders and the other members of the executive team present their ideas about the company’s mission and elicit suggestions and feedback from employees as to what they see as being important and how they would like to participate. The participants should be focusing on
identifying and implementing widely accepted practices that reinforce the social mission and engage employees by having them do things they enjoy and find personally rewarding. For example, team events such as having groups of employees engage in volunteering are great bonding experiences. Just as important is a regular forum for discussing how sustainability fits into the company’s overall brand. The bottom line is that involving employees in the formulation of the mission and related strategies ensures that they understand the path that the company is taking and social purposes associated with their day-to-day activities and interactions inside and outside the company.

The rewards for employers can be substantial: the company will stand out among the alternatives available to talented workers and those that do join the company, particularly younger workers, are more likely to stay with companies that support their passion for pursuing and achieving social and environmental good. In addition to lower turnover costs, satisfied employees are most likely to become passionate ambassadors for the company and its brand among customers and members of the broader community. Since their hearts and minds are closely tied to the business and its goals they will work harder on making customers happy and satisfied customers become loyal supporters and recommend the company and its products to their friends, which helps to expand the company’s customer community, spreads the word about the company’s mission and improves the “triple bottom line”.

Part of the process of recruiting the most talented people to work for a business is making sure that the company’s website provides a clear and compelling picture of what the company stands for and how it might be to work there. Sustainable entrepreneurs should make sure that their company websites include a separate tab or area devoted to social and environmental responsibility that can be easily access and provide visitors with descriptions of the programs the company has put in place and the activities that employees engage in. Among other things the website should include articles, pictures, videos, case studies, lists of community awards, descriptions of CSR partnerships and relevant company policies. Assuming that the company has a progressive volunteer program, interviews with employees can be featured along with video footage of volunteer activities. The bottom line is that the website should celebrate the company’s commitment to CSR and demonstrate its valued and central place in the company’s overall mission and values.

Employee engagement will be most effective when employees are passionate about the business model, the company’s mission and the products and services that the company develops and markets in connection with that mission. Sustainable entrepreneurs need to be passionate about their cause and the business they are building and want to be surrounded by co-workers who share that passion. Unfortunately, while the skills needed to successfully operate a business can usually be found, or taught, passion comes from within and no amount of training can light a fire in someone that isn’t already there when he or she joins the company. Founders need to test potential candidates to see if they have requisite passion and then make sure that every aspect of the job experience for employees builds and leverages that passion.
**CSR Partnerships**

Many companies, especially smaller ones, decide that the quickest and most efficient way for them to begin implementing their CSR initiatives is through partnerships with other organizations. In fact, from the outset, sustainable entrepreneurs, lacking internal resources, need to rely on partnership to build their businesses and accelerate their reach in pursuing their sustainability objectives. For example, many companies choose to give back by announcing that for every sale of a good to consumers they will donate the same good to needy communities; however, in order for this strategy to be effective the company must identify reliable partners in those communities that can ensure that the donated goods make their way to people in need.

In many cases there are already groups engaged in working on a particular issue that have more resources and experience and a company can make better progress by partnering with those organizations and providing them with time, money and social capital. The partnership can be a good way for the company to learn about the issues and the strategies that they might eventually be able to implement on their own. However, companies need to choose their partners carefully and make sure that they will be able to closely monitor the partner’s activities and see exactly how the contributions are being used. If the potential partner is not transparent about its activities, it is not a good fit. Being aligned with an organization that turns out to be a bad actor, or otherwise dishonest about its activities, can significant damage a company’s reputation even if it had only the best of intentions in entering into the partnership.

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**Built to Last—Successful Habits of Visionary Companies and Sustainable Leaders**

Writing in the early 1990s, a time when management books had become somewhat of a fad, Collins and Porras claimed that they were doing something different in their best-selling book *Built to Last: Successful Habits of Visionary Companies*. They weren’t writing about charismatic visionary leaders, visionary product concepts or visionary market insights, and reminded readers that all leaders eventually die, all products become obsolete and all markets mature. Instead, they believed that one of the most important economic challenges and issues was figuring out how to build enduring “visionary companies” that met the following criteria: a premier institution in their industry that was widely admired by knowledgeable businesspeople; a company that had made an indelible imprint on the world; and a company that had been in business for at least 50 years and gone through multiple generations of chief executives and multiple product (or service) life cycles. Collins and Porras tackled two fundamental and difficult questions: “What makes the truly exceptional companies different from the other companies?” and “Is it possible to discover the timeless management principles that have consistently distinguished outstanding companies and which apply over long stretches of time and across a wide range of industries?” Based on their extensive research, Collins and Porras argued that such timeless management principles did exist and can and should be applied by managers, CEOs and entrepreneurs all over the world to create their own visionary companies and effectively practice sustainability leadership.

In *Built to Last* and other articles regarding their research, Collins and Porras listed and described at least ten management principles they had identified from looking at both companies that they believed had achieved visionary status and at comparison companies which, while “born in the same era, with the same market opportunities, facing the same demographics, technology shifts, and socioeconomic trends”, had
been less successful. Of those principles the authors felt that four of them stood out—‘be a clock builder—an architect—not a time teller; embrace the ‘Genius of the AND’; preserve the core/stimulate progress; and seek consistent alignment’—and most of the book was about explaining and illustrating each of these concepts.

For example, the authors explained that “[h]aving a great idea or being a charismatic visionary leader is ‘time telling’; building a company that can prosper far beyond the presence of any single leader and through multiple product life cycles is ‘clock building’”. Embrace the “Genius of the And” meant that visionary companies had “the ability to embrace both extremes of a number of dimensions at the same time” such as having a purpose beyond profit while engaging in the pragmatic pursuit of profit. Preserve the Core and Stimulate Progress meant that “[a] visionary company carefully preserves and protects its core ideology, yet all the specific manifestations of its core ideology must be open for change and evolution”. Finally, visionary companies achieved alignment by making sure “that all the elements of a company work together in concert within the context of the company’s core ideology and the type of progress it aims to achieve”. On a day-to-day basis, alignment met making sure companies didn’t adopt incentive systems that rewarded behaviors that were inconsistent with the company’s core values or policies and procedures that inhibited change and improvement.

As mentioned above, Collins and Porras identified and followed pairs of companies, 18 in all, over a long period of time in order to identify those capable of achieving enduring success and not get caught up celebrating a company that may have had just one or two moments of good fortune. It was interesting that more often than not the comparison company had greater initial success during the entrepreneurial phase than the visionary company. While all of the pairs were used to illustrate the four key concepts mentioned above, let’s look at just three examples starting with Hewlett-Packard (a visionary company founded in 1937) and Texas Instruments (the comparison company founded in 1930). HP was consistently applauded by the researchers as an example of the clock-building orientation and the researchers noted that it was telling that when Dave Packard, one of the HP founders, was asked about which product decisions were most important to the growth of the company his response completely ignored specific products and focused on organizational decisions that are so much a part of clock-building: “developing an engineering team, a pay-as-you-go policy to impose fiscal discipline, a profit-sharing program, personnel and management policies [and] the ‘HP Way’ philosophy of management”. The researchers also praised Packard as a strong example of understanding “Genius of the AND” in the way that he and his company simultaneously pursued “profit and purpose beyond profit”. In order to illustrate their point the researchers provided a quote from a presentation that Packard made to HP personnel who would be responsible for management development training which included the following: “I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being . . . The real reason for our existence is that we provide something which is unique [that makes a contribution].” In contrast, the researchers “could find not one single statement that TI exists for reasons beyond making money”. HP also received high marks with respect to the way it aligned its practices and policies with its “lofty values and aspirations” by finding ways to show respect for its employees, reinforce the importance of technological contribution, promote an entrepreneurial environment and “immerse employees in the tenets of what became known as the ‘HP Way’”.

A second pair of twins was Wal-Mart (a visionary company founded in 1945) and Ames (the comparison company founded in 1958). The researchers complimented legendary Wal-Mart founder Sam Walton for implementing “concrete organizational mechanisms to stimulate change and improvement” and noted that he “concentrated on creating an organization that would evolve and change on its own”, each of which were consistent with clock building. Walton also knew the importance of succession planning to make sure that the company philosophies survived. In contrast, “Ames leaders dictated all change from above and detailed in a book the precise steps a store manager should take, leaving no room for initiative” and the researchers noted that Ames had no succession plan in place and eventually management control fell into the hands of outsiders with no ideas about the philosophies of the founders.
A third pair of twins was Walt Disney (a visionary company founded in 1923) and Columbia Pictures (the comparison company founded in 1920). With respect to clock building the researchers judged Harry Cohn, one of the founders of Columbia to be a complete failure who “cared first and foremost about becoming a movie mogul and wielding immense personal power in Hollywood and cared little or not at all about the qualities and identify of the Columbia Pictures Company that might endure beyond his lifetime.” On the other hand Walt Disney spent every moment from the day that he founded the company to the day that he died thinking about future ways that the company could make people happy. Disney was also praised for its efforts to institutionalize its core technologies while simultaneously maintaining ongoing efforts to stimulate progress and the researchers took particular note of how Disney developed a cult-like culture through “intensive screening and indoctrination of employees”. For its part, Columbia, like Ames, was criticized for its neglect of investments for long-term growth and failure to invest in employee recruiting, training and professional development. Today Disney remains an important force in entertaining children and adults all around the world while Columbia, lacking a strong heritage or reasons to exist beyond its cash and assets, ceased to exist as an independent company.

As to how the research they conducted twenty years ago might relate to the future, such as today, Collins and Porras predicted that clock building would become even more important as ideas, products and markets became obsolete more quickly due to “accelerating rate of technological change, increasing global competition and dramatically shorter product life cycles”. They also thought that preserving the core/stimulating progress would become more important as companies became “flatter, more decentralized, more geographically dispersed” and workers became more knowledgeable and seek more and more individual autonomy. In other articles Collins talked about how the work done to write Built to Last might be helpful in understanding dramatic and seemingly sudden failures of high flying companies like we seen so often recently and mentioned the dangers of “hubris born of success” and undisciplined and reckless pursuit of more success—more money, larger size, more celebrity. The stories collected, and lessons learning, in creating Built to Last should be useful for the current crop of celebrity companies such as Facebook, Google, Amazon and Apple that have been so successful in their start-up phase, but must now settle in for the long haul of decades of ups and downs before they are eligible for entering the visionary class.


Sustainable Sourcing and Value Chain Reengineering

Sustainable entrepreneurs need to think about way to incorporate sustainability into every aspect of their projected value chain. For example, every business has sourcing issues and sustainable entrepreneurs will establish and maintain standards in its supply chain management strategies and processes that ensure that preference will be given to suppliers that can provide fair trade ingredients and other inputs created in a sustainable manner. In many cases, preferences will be given to local suppliers as a way to contribute to the overall financial and social health of the community. Of course, the sustainable entrepreneur needs to understand that his or her business must provide quality products to consumers in order to survive, so sustainable sourcing must also mean that the company has accesses to the inputs necessary to produce the best products.

Sustainable sourcing is part of a broader theme of CSR activities that are intended to reengineer a company’s value chain in ways that simultaneously benefit the company’s
bottom line and the environmental or social impacts of one or more of company’s value chain partners (i.e., the supply chain, distribution channels or production operations). Relevant CSR initiatives and programs will touch on natural resource extraction and sourcing, manufacturing, shipping, product delivery and other areas where it is feasible to identify and develop innovative technological solutions that reduce operating costs while mitigating environmental and social impacts.

CSR initiatives implemented throughout the company’s value chain have the potential for achieving much broader social and environmental benefits than philanthropic CSR programs. In addition, particularly when companies undertake supply chain initiatives it is easier to identify and quantify positive impact on their bottom line (e.g., working with supply chain partners to improve working conditions in their factors can be expected to increase productivity, benefitting both the partner and the company). On the demand side, focusing on ethically or socially responsible sourced products allows companies to tap into the willingness of many consumers to pay a premium for such products and thus increase profits.

Rangan et al. provided several examples of how companies might engage in value chain engineering. One common initiative is establishing a code of conduct that governs a company’s entire production supply chain, particularly the factories in which supply chain partners manufacture products and parts that are eventually delivered to the company under supply contracts. Codes can cover a wide array of topics; however, in almost all cases the company seeks commitments from its supply chain partners to compensate their workers fairly (i.e., at or above a local “living wage”), maintain a healthy working environment and treat their workers fairly and ethically. Companies may also apply pressure on supply chain partners to reduce production waste, materials and energy use. Employees are obviously also an important link any company’s value chain and this theatre includes support of educational and health programs for employees and their families, which reduce absenteeism, improve work-related skills and build a loyal and committed workforce. Also included would be micro-finance programs to support small retailers in a company’s distribution chain, many of whom need additional help to overcome working capital shortages and finance small capital additions (e.g., maintaining and improving their storefronts in a way that attractively showcases the company’s products).

**Personal Branding of the Sustainable Entrepreneur**

While everyone’s personality is different, sustainable entrepreneurs should understand and consider the power and influence associated with building a personal brand that is aligned with the company’s mission and using their brand to promote the causes for which the company was formed. Some sustainable entrepreneurs press outward to

86 Id.
87 Id. at 8.
88 Id. at 8.
become recognizable leaders and organizers with respect to their chosen cause. This approach can be valuable to the company; however, the entrepreneur must understand that his or her activities will reduce the time available for company-specific activities and must also be prepared for the additional scrutiny that comes with more public visibility.

The personal brand and profile of the sustainable entrepreneur is particularly important when the company is seeking to fundamentally change the business’s ecosystem by taking on short-term risks in order to create social value that ultimately enhance the company’s long-term business position.\textsuperscript{89} Such efforts are uniquely “top down” and must be driven by the powerful leadership of the sustainable entrepreneur and other members of the executive team. However, Rangan et al. cautioned that this is far from sufficient for guaranteeing success. Of course, the sheer scope of transforming the company’s long-term business strategy and the ecosystem in which it operates while delivering significant public value is extremely risky. In addition, several challenges posed by various stakeholders of the company must be addressed and overcome: operations managers must be taught how to manage programs in which profits are deferred to realize social or environmental benefits; employees must learn new skills in order to execute what are often fundamental changes in the way that products are designed, produced and marketed (the need to learn new skills and take on different responsibilities often causes tension and anxiety among the workforce which must be addressed by senior management); and investors must be convinced about the viability of a business strategy that reduces financial return in the short- or medium-term in exchange for the promise of greater long-term shareholder value.\textsuperscript{90}

\textbf{Organizational Culture: How to Become a Sustainable Company}

Eccles et al. observed that even though there was empirical support for the view that adoption of sustainability-related strategies was necessary in order for companies to be competitive and that “high sustainability” companies significantly outperformed counterparts that had not adopted environmental and social policies, relatively few companies exhibited a broad-based commitment to sustainability on the basis of their original corporate DNA.\textsuperscript{91} Because of this Eccles et al. argued that most companies needed to make a conscious and continuing effort to formulate and execute a sustainable strategy and embed sustainability into their strategy and operations. In order to counsel companies on how to accomplish this transformation, Eccles et al. studied the organizational models of companies they referred to as “sustainable” by comparing them with companies they called “traditional” and focused on two key questions: (1) how did sustainable companies create the conditions that embedded sustainability in the company’s strategy and operations and (2) what were the specific elements of sustainable companies’ cultures that differentiated them from those of traditional companies? Based on this work, they concluded that companies needed to be prepared to embark on large-

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{89} Id. at 4-5.
\item \textsuperscript{90} Id. at 16-17.
\item \textsuperscript{91} R. Eccles, K. Perkins and G. Serafeim, “How to Become a Sustainable Company”, MIT Sloan Management Review 53(4) (Summer 2012), 43, 44.
\end{itemize}
\end{footnotesize}
scale change in two stages: the first stage involves reframing the company’s identity through leadership commitment and external engagement, and the second stage involves codifying the new identity through employee engagement and mechanisms. Eccles et al. pointed out that the transformation would be extremely challenging and companies with an established organizational culture that included strong capabilities for change, a commitment to innovation and high levels of trust would have a significant advantage.\textsuperscript{92}

**Stage One: Reframing the Company’s Identity**

According to Eccles et al. the first stage in becoming a sustainability company involves reframing the company’s identity, a process that requires both leadership commitment and external engagement. Transformation of the company’s organizational culture requires the strong and focused guidance of the leadership team and the organizational leaders are the people who are best situated to drive the necessary engagement relating to sustainability between the company and the diverse range of external stakeholders including investors, community members, regulators, activists and members and representatives of civil society. The goal at this stage is to strengthen the commitment to sustainability at the top of the organization and redefine the company’s identity to the world as being an organization that has embraced the principles of sustainability and embedded them in its organizational culture, strategy, operational processes and relations with stakeholders. As the organizational leaders begin to reach out to external stakeholders they gather the information necessary to formulate and execute the company’s sustainability strategy. As the engagement process expands to include employees their interaction with external stakeholders creates opportunities for learning that can be used to make the company more innovative and committed to creating value for itself and society in general.

**Leadership Commitment**

Eccles et al. joined many others in noting that in order to create and maintain a sustainability company there must be a personal resolution and commitment from the CEO that is supported by an enterprise-wide sustainability vision and a willingness of the CEO to exercise his or her authority to see that the vision is realized. Eccles et al. identified the following differences between leaders of sustainable and traditional companies, each of which can be used by aspiring sustainability leaders as guides for transforming the leadership styles\textsuperscript{93}:

- The top-level leaders of sustainable companies were perceived as taking a long-term view when making decisions and more willing than leaders of traditional companies to take measured risks in pursuit of sustainability.
- Sustainable companies were more likely to be knowledgeable of the issues pertaining to sustainability and have a clearer business case for pursuing sustainable goals, thus

\textsuperscript{92} Id. at 44. See “About the Research” on page 45 in the article for an extended discussion of the methodology used by the researchers and the scope of the companies surveyed.

\textsuperscript{93} Id. at 45.
making it easier to incorporate sustainability into core business activities and basic decisions about operating budgets and capital investments.

- Leaders of sustainable companies demonstrated personal commitment to sustainability that inspired others throughout the organization, especially employees who were far more likely to view sustainable strategies as being essential to the company’s success when they worked at sustainable companies as opposed to traditional firms.

As for the CEO’s sustainability vision mentioned above, Eccles et al. actually found that the leaders of traditional companies were more likely to be seen as having clear visions for sustainability than the leaders of sustainable companies; however, the researchers suggested that the reason for this might be that CEOs of sustainable companies generally focus on transformational changes based on aspirational goals with unknowable starting and ending points, thus making them more difficult for others to completely understand, while the sustainability goals of CEOs of traditional companies, to the extent there are any, are based on smaller-scale transitional changes that are more within their comfort zone and easier to describe and lay out with specific beginning and ending states (e.g., moving from an energy system based on fossil fuel to a system based on a renewable source of energy or implementing a redesigned process that will reduce waste). Eccles et al. pointed out that the CEOs of sustainable companies did realize that transitional changes would be needed and the learning from all of this is that the CEO must have both a transformational vision and a portfolio of clear and attainable transitional changes upon which a foundation of success and progress can be built.

External Engagement

Eccles et al. argued that sustainable companies “learn from the outside” through engagement with a variety of external stakeholders, a process that allows the company to learn about the concerns and expectations of those stakeholders regarding the company and opens the eyes of company leaders to potential opportunities to create value for shareholders and stakeholders. Their research found that sustainable companies were much more likely to encourage their employees to assimilate knowledge from sources external to their company than were traditional companies, a process that companies found useful for building the culture of innovation and learning necessary for sustainability. Sustainable companies were also much more likely to collaborate with other companies, including competitors, and organizations to advance their goals. Collaboration was particularly keen up and down the supply chain and the researchers noted that one of the strongest differences between the sustainable and traditional companies was that sustainable companies encouraged their supply chains to adopt sustainable strategies and were likely to work closely with suppliers to support those efforts. Eccles et al. pointed out that sustainable companies did a much better job than their traditional counterparts with respect to transparency, clear and consistent messaging to stakeholders and honest and widely disseminated reporting on their sustainability.

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94 Id.
95 Id. at 47.
targets and the progress that was being made toward achieving them (including some of the problems that the company had encountered that had caused it to fail to meet its sustainability commitments). Among other things, the reporting provided by the sustainable companies was a good way for their stakeholders to see how their interests and views were being integrated into the strategy and management of the company.  

**Stage Two: Codifying the New Identity**

Eccles et al. explained that the second stage of the process of creating a sustainable company involves building internal support for the new identity developed during the first stage through employee engagement and creating and codifying mechanisms for execution. Taken together, these elements serve to create and maintain the requisite organizational culture that is supportive of sustainability. The priorities of the first stage—leadership commitment and external engagement—continue during the second stage as parallel drivers of the company’s new identity.

Employee Engagement

Eccles et al. defined employee engagement as the actions that the company takes in order to secure the interest and attention of its employees in the company’s sustainability efforts and the roles that employees are asked to play. In most cases the transition to become a sustainable company will require that employees change their behaviors and behavioral change will not occur unless the employees believe that it will be worth it. Employees will also need to understand and accept the reasons for the company’s decision to make changes and have a clear picture of the specific individual role that they are expected to play and how their performance will be measured. The process of employee engagement will not be easy; however, Eccles et al. pointed out that engaged employees are emotionally connected to their work and to their workplace and thus tend to be more productive and more willing to engage in discretionary efforts to achieve company goals.

Eccles et al. found that sustainable companies were much more likely than traditional ones to have a clear strategy for engaging employees supported by a clear business case for sustainability and that these strategies were implemented by communicating the impact that the employees’ contributions will have on the company, articulating the connection between each employee’s work and the sustainability goals and enabling cross-functional communication and idea exchange. For example, everyone in the organization from senior leadership to line management should have sustainability-related goals incorporated into their individual goals in order for them to feel personally invested in the company’s progress toward sustainability. In addition, a concerted effort should be made to facilitate sharing of experiences and best practices with respect to

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96 Id. at 46-47.
97 Id. at 47.
98 Id.
99 Id.
sustainability-related activities throughout the organization to accelerate learning and assure employees that they are not “going it alone” and that others are taking on similar sustainability challenges and creating sharable solutions.

Mechanisms for Execution

Eccles et al. found significant differences between sustainable and traditional companies with respect to the presence of organization-wide mechanisms supporting sustainability-related changes and the way in which those mechanisms were used. For example, sustainable companies were far more likely to have enterprise-wide management systems (i.e., structured frameworks of practices and procedures) for executing sustainable strategies. Notable features of these management systems included processes that connected sustainability to corporate strategy, with direct ties to performance evaluation and compensation; incorporation of sustainability metrics into the capital budgeting process; development of valuation processes that take externalities into account; setting clear targets for sustainability objectives; and establishing targeted programs linking the objectives to business results. Eccles et al. noted that all companies were struggling to find appropriate metrics and tools for measuring sustainability and that collecting consistent, complete and precise data from across the value chain was challenging; however, they felt that one of the hallmarks of sustainable companies was their willingness to take on these measurement challenges proactively and aggressively.

Building and Maintaining a Supportive Corporate Culture

Eccles et al. argued that actions taken during the two stages described above to reframe and codify the company’s identity would reinforce, or even establish, a supportive corporate culture based on change capabilities, trust and innovation. They explained that leadership commitment and external engagement would provide the foundation for transformational change, employee engagement would foster trust and innovation and mechanisms for execution would ensure that change happens as innovations diffuse throughout the organization. At the same time, as the corporate culture becomes more supportive of sustainability it will increase the effectiveness of leadership commitment, external and employee engagement and the mechanisms for execution.

Eccles et al. found strong differences between sustainable and traditional companies with regard to the level of change readiness in the corporate culture, noting that almost all of the sustainable companies had a strong track record of implementing large-scale changes successfully. This is important because transformational change can take years, if not decades, to accomplish and the company must be comfortable with setting its direction, calibrating the risk and then pushing forward even without a precise plan. As it turns out the long path to sustainability actually involves a continuous series of incremental changes which also must be navigated carefully and effectively and sustainable companies were also stronger than traditional companies when it came to implementing incremental changes, which meant that they were able to build a chain of successes and

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100 Id. at 48.
internal confidence. Without strong cultural capabilities for embracing and executing both transformational and incremental changes a company’s push for sustainability may stall out and ultimately collapse as employees become disenchanted and external stakeholders lose patience with the perceived poor leadership of the organization.

Innovation was found to be another core cultural capability for becoming a sustainable company and the sustainable companies surveyed by Eccles et al. were able to identify and focus on the innovations in processes, products and business models that were necessary to improve financial performance along relevant environmental, social and governance dimensions. Companies with existing capabilities for innovation are obviously in a strong position; however, all companies can benefit from the new ideas that are generated during robust engagement with employees and external stakeholders. Eccles et al. noted that sustainable companies did a good job of promoting and facilitating learning, broad thinking and creativity, all of which are drivers of innovation. For example, sustainable companies provide for lateral communications so that employees can learn easily and efficiently from others in the organization and have access to different frames of reference and points of view as ideas are shared.

The third key element of the organizational culture for a sustainable company is trust on the part of every employee, which means that employees believe that organizational leaders and everyone else in the organization can be taken at their word and will do their best to deliver on commitments and processes. Without trust employees will be reluctant, if not completely unwilling, to take the risks associated with the level of innovation required in order to achieve the transformational changes associated with sustainability. Eccles et al. argued that companies can foster the requisite level of trust for sustainability initiatives by demonstrating that they value the contributions of employees, consciously aligning their actions with their values, honoring their commitments and basing decisions on what is good for shareholders and for the broader concerns of the organization and society. According to Eccles et al. leaders of sustainable companies understood the value that results when people within the company know that they can count on the integrity, competency, intentions and reliability of their leaders and coworkers. Trust builds the foundation for collaboration and teamwork since employees know that their efforts will be recognized and rewarded and working together for the “greater good” strengthens employee engagement and improves overall business performance.

**Sustainable Technology Ideas for Small Businesses**

Small businesses are often surprised to discover relatively simple ways that they can modify the way they carry out their businesses to contribute to improving the environment in which they operate. Among the possibilities are the following:

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101 Id. at 49.
102 Id.
103 Id. at 49-50.
104 P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 30.
• Reducing consumption of energy, water and other natural resources, and emissions of hazardous substances
• Using or producing recycled and recyclable materials, increasing the durability of products, and minimizing packaging through effective design (“reduce, reuse and recycle”)
• Training and encouraging staff to look for additional ways to reduce the company’s environmental footprint
• Using “green” (i.e., renewable energy) power electricity suppliers and energy-efficient lighting
• Joining or starting a local “green business” club that can help local firms access conservation grants and expertise for reducing waste, water use and energy
• Considering using video-conferencing to meet a potential supplier or customer rather than always physically travelling to meetings
• Establishing an environmental management system with objectives and procedures for evaluating progress, minimizing negative impacts and transferring good practices

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In Practice: Tips for Marketing Eco-Friendly Products and Businesses

While the evidence remains mixed, more and more surveys are indicating that global consumers are willing to pay more for sustainable brands; however, in order to convert those who say they are interested into actual customers companies must build trust; establish a reputation for being environmentally friendly and supporting social values; demonstrate the health/wellness benefits of their products; source the inputs for the products in a responsible manner; use environmentally friendly packaging and make a real commitment to the communities in which they operate and sell their products. In order to be successful in reaching and converting customers who will pay more for environmentally friendly products, companies need to make some important changes in the marketing and overall customer engagement strategies. Here are some tips on how to get started, based on recommendations from several experts on marketing eco-friendly products and businesses:

• Use packaging that highlights social welfare and warm relations as virtues of green consumption. Green consumers want to feel connected to the brands they purchase from and are emotionally drawn to feelings of contributing to the solution of a particular environmental or social problem.
• Tell consumers why they should buy green products, which can be done through information cards, window displays and videos that educate consumer about the environmental and social effects of their purchasing decisions. Companies should also educate customers about how products are created including information on the company’s natural ingredients, earth-friendly manufacturing processes and policies regarding purchasing of inputs from developing countries and overseeing the environmental and social responsibility of suppliers.
• Manage reputation by complying with environmental and social regulations and not misrepresenting products as being green. Trust is essential for successfully marketing green products and one mistake, such as a public announcement of problems in the supply chain, can undo all the work done by the company and permanently tarnish the company’s brand. Surveys show that consumers quickly develop contempt for companies that have been found to engage in activities that harm the environment or demonstrate disrespect for human or animal rights.
• Persuade consumers that each person can make a difference. Ad campaigns showing people improving the environment are more likely to convince consumers to buy green products, and surveys
indicate that consumers enjoy feeling that their purchases are helping to address an environmental or social issue and that they are collaborating with others of the same mind.

- Provide regular feedback to consumers to show they are making a difference. This reinforces behavior from green consumers and motivates others to consider the environment when buying. Companies should post information on their websites and ask customers to provide e-mail or other contact information so that the company can send them personalized updates; however, when implementing this strategy the company needs to focus on informing customers as opposed to simply bombarding them with sales pitches.

- Rather than touting products as “eco-friendly”, companies should identify a specific “selling point” that should be a central focus of all of their marketing messages and, of course, be based on practices during the commercialization process. For example, companies might use phrases such as “low-energy solution”, “non-toxic ingredients”, “low waste (or emissions)” or “recycled materials”. Educational tools prepared for the products should provide consumers with the information necessary to verify these claims. A strong and verifiable selling point lets customers know exactly what the company stands for.

- Companies should make use of a variety of logos and insignias for their marketing and company branding that represent being “green”. Logos and insignias used with the permission of trusted independent bodies (e.g., Energy Star Rating logo) provide credibility and should be included on the company’s website, advertising, marketing materials, signage, business cards, packaging and vehicle graphics.

- Make sure that everything about your company, not just the features of the particular product or service, demonstrates a deep commitment to environmental and social responsibility. For example, print marketing materials, business cards and product instructions on recycled paper; promote local vendors and encourage customers to shop for the company’s products in their own neighborhoods so that purchasing the products also helps the business community in which the customer lives; deliver products using fuel-efficient vehicles and establish campaigns that provide for a portion of the premium charged for green products to be donated to assist a local environmental cause.

Companies should look beyond considering customers as sources of revenue to interactively engaging with them as partners in improving the company’s products and finding new ways to improve the company’s green profile and increase the impact of its efforts. Companies should seek out customer’s opinions and ideas on new products, set up meetings with customers in their own neighborhoods to try new products and hear what they have to say about the brand and, most importantly, continuously tell customers how much they appreciate their business. Another approach for attracting interest and support among customers is taking on a special social mission or cause, such as what Ben & Jerry’s Ice Cream did when it launched its initiative relating to Campaign Finance Reform; however, this type of strategy can be quite risky and alienate customers who enjoy the green aspects of the products but don’t necessarily agree with the specific cause or want the businesses they work with to get too partisan. Moreover, taking on a broader social cause is time-consuming and requires collection and analysis of extensive amounts of data and resources to become and remain an effective advocate of the cause.

**Sources:** Adapted from L. Rakowski, “Attract Customers by Showing They Make a Difference”, Network for Business Sustainability (September 26, 2017), available at https://nbs.net/p/attract-green-consumers-by-showing-they-make-a-differen-9b4eb5d7-c11c-49b2-8e6b-544f8c4ff00a; and D. Seltzer, Green Marketing Ideas to Promote Eco-Friendly Businesses (Small Business Marketing Tools), available at http://www.sbmarketingtools.com/green-marketing-ideas-to-promote-eco-friendly-small-businesses/

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**Material Issues**

Emerging standards, including the GRI, also attempt to ensure that companies remain focused in their sustainability reporting by emphasizing “materiality”, which means that reporting should be confined to coverage of topics that reflect the company’s significant
economic, environmental, and social impacts; or substantively influence the assessments and decisions of its stakeholders. The authors of the GRI publication urged companies to take into account current topics and issues that represent significant risks for the company and its areas of operation; the main sustainability interests, topics and indicators raised by stakeholders; the main topics and future challenges for the company’s sector or region as reported by peers, competitors or expert bodies with recognized credentials in the field; and relevant laws, regulations, international agreements or voluntary agreements with strategic significance to the company and its stakeholders. The engagement process and the identification of key interests of each of the company’s stakeholders provides the basis for the disclosure and reporting committee to identify and recommend to the entire board for approval a list of the issues that are most material to the company for strategic development and sustainability reporting. These issues become the centerpiece of the organization of the company’s sustainability report. Examples of materials issues that might be selected include the following:

- **Employee health and safety**: Ensuring our employees work in a safe environment, which meets or exceeds relevant regulatory expectations, addresses health and safety concerns as they arise and mitigates opportunities for reoccurrence of incidents
- **Product quality and safety to customers**: Choosing materials from quality sources, complying with current “good manufacturing practice”, and delivering fit-for-purpose, safe products to customers that adhere to, or exceed strict regulatory standards in all jurisdictions served by the company
- **Corruption and bribery**: Business must be conducted with transparency, and free from unethical persuasion in every aspect of the company’s business from identifying product sources, through development of new products, transactions with regulatory bodies and sale to customers
- **Ethical purchasing and human rights in the supply chain**: Responsibility to partners to ensure our product line is free from human rights concerns such as forced labor and trafficking, unsafe labor standards and unfair treatment
- **Compliance**: Responsibility to drive compliance with legal and regulatory requirements applicable to our global business including training programs, continuous improvement and striving for best-practice
- **Resource use and waste management**: Includes energy usage during manufacture and logistics, water usage and waste as a by-product of manufacture

**Strategic Collaborations**

Publicly acknowledging the value and importance of multiple stakeholders and proactively supporting stakeholder engagement is an important element of the board’s responsibilities for shaping the company’s framework for accountability, control, and risk management and directors should take steps to embed stakeholder engagement in the

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company’s overall governance framework. Researchers on corporate sustainability from the MIT Sloan Management Review and The Boston Consulting Group (“BCG”), noting that while 90% of executives believed that stakeholder collaboration was essential to sustainability success, only 47% said their companies collaborated with stakeholders strategically. The researchers noted that companies that were walking the talk on sustainability were much more likely than other companies to be involved in more collaborations with a more diverse group of collaborators and identify more reasons to collaborate in order to achieve their sustainability goals. In addition, companies that did the best job with respect to strategic collaborations enjoyed the benefits of top management support and a solid process infrastructure for partnering that included ensuring that each stakeholder relationship was launched with clearly defined roles, reporting frameworks, clear governance structures and thoughtful and complete due diligence on prospective partners. While strategic needs, such as making the value chain more efficient, were the most common motivators for stakeholder partnering, companies should view collaboration as a valuable tool for expanding their understanding of sustainability issues and a driver of the innovation and business model transformation that is necessary for long-term value creation. For example, while a company can make a modest impact on its own small piece of the value chain by working with supply chain partners to develop and integrate a technological solution to a particular issue, it can leverage its innovation through collaborations with nonprofits and governmental bodies to make the solution more widely available, thus expanding environmental and social impact, and ultimately create a significant new revenue stream.

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106 For detailed discussion of stakeholder engagement, see A. Gutterman, Stakeholders and Stakeholder Engagement: A Guide for Sustainable Entrepreneurs (Oakland CA: Sustainable Entrepreneurship Project, 2019), which was is available at www.seproject.org.


108 Id. at 18.
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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