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NAVIGATING IN THE AMBIGUOUS SUSTAINABILITY LANDSCAPE:

A conceptual discussion of corporate sustainability in the context of organizational decision making

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Summary:
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The empirical data indicate that engagement, dialogue and partnerships with stakeholders are key features of successful companies. On a conceptual level, this can be related to processes of organizational learning and how firms deal with uncertainty when making decisions. More specifically, the ability to reduce uncertainty linked to actions of external stakeholders seems to differentiate firms in terms of both business and sustainability performance.

Companies that outperform their peers have CEOs that emphasize investor dialogue in order to quantify and communicate the business value of sustainability. Thus, the role of investors in organizational change processes for sustainability is an interesting research topic. More generally, a promising research area is how and why stakeholder interactions differ between companies and especially how dialogue with external actors can enable the firm to tackle uncertainty and ambiguity inherent in corporate sustainability.

Key words: Sustainability, organizational decision making, UN Global compact
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NAVIGATING IN THE AMBIGUOUS SUSTAINABILITY LANDSCAPE: A conceptual discussion of corporate sustainability in the context of organizational decision making

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ABSTRACT

The purpose of this paper is to unveil conceptual insights on how firms manage *corporate sustainability,* i.e. how companies integrate social and environmental issues in their business decisions. It is argued that fundamental mechanisms in organizational decision-making processes as described by the *Behavioral theory of the firm* are imperative in order to understand and manage change processes for sustainability. A special emphasis is put on the role of top managers, and empirical findings from the *Accenture and UN Global Compact CEO study on sustainability* from 2013 are utilized in the discussion.

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1 INTRODUCTION

How do firms manage ambiguous demands from their stakeholders? To what extent do organizations incorporate social and environmental concerns in their decision-making processes? Such questions reflect a debated issue among scholars, and the topic is often referred to as *corporate sustainability* [1]. Furthermore, contemporary literature in the area identifies organizational mechanisms by which sustainability issues get integrated as a promising research area. More specifically, how firms make choices among a range of available sustainability policies is identified as a research gap[2]. Thus, this paper advocates organizational decision making as theoretical grounding. The overall aim is to deepen understanding of underlying organizational dynamics inherent in the concept of corporate sustainability and to discuss theoretical and practical implications.

2 OBJECTIVES AND SCOPE

Sustainability is a term widely used, and the reader must note the difference between corporate sustainability at micro level and the concept of sustainable development macro level. The concept of sustainable development is anchored in normative requirements and ethical values on how ensure the needs of future generations while ensuring social standards and safeguarding the natural environment. This is exemplified by the new Sustainable Development Goals under development by the United Nations[3].

Corporate sustainability reflects organizations that incorporate sustainable development, e.g. social and environmental concerns, in their business strategies[4]. The scope in this paper is micro-level analysis by combining the normative sustainability perspectives anchored in ethical values with a descriptive behavioral perspective from organizational science. This is done by applying the classical work of Cyert and March in organizational decision making, "*A behavioral theory of the firm"*[5].

Another highly influential scholar in this context is Herbert A. Simon. His classical work discusses the concept of organizational goals and emphasizes how sets of constraints influence decision-making processes. Further, he states that constraints and search criteria linked to executive roles in the organization are especially important when discussing goals and prioritization of resources[6]. Therefore, this paper focuses on the role of CEOs by analyzing their behavior through theoretical lenses.

3 A BEHAVIORAL THEORY OF THE FIRM

Cyert and March grounds their theory in a set of exhaustive variable categories along with a set of relational concepts. The categorization is shown in Table 1 and Table 2, and the following sections explain the theoretical concepts.

Table 1 Exhaustive variable categories in the behavioral theory of the firm

Variable categories		
Goals	Expectations	Choice

Table 2 Relational concepts in the behavioral theory of the firm

Relational concepts			
Quasi-resolution of conflict	Uncertainty avoidance	Problemistic search	Organizational learning

3.1 Variable categories

Organizational goals are evoked by problems and this influences what is regarded as important in the organization. In addition, responses to short-term pressures and the operational goals of subunits making decisions affect the overall organizational goals. Another important set of variables affecting the goals are those concerning aspiration levels. Essentially, three variables are identified, namely the organization's past goal, the organization's past performance, and the past performance of other comparable organizations.

Organizational expectations are seen as the result of drawing inferences from available information. Important variables are those that affect either the process of drawing inferences or the process by which information is made available. Regarding the process a special emphasis is put in variables affecting search activity within the firm. Past experience on success rate and the amount of organization slack in the firm is closely linked to intensity and success of search. Search direction is determined by the nature of problem at hand along with location in the organization where search is focused.

Organizational choice takes place in response to a problem, uses standard operating rules, and involves identifying an alternative that is acceptable. Important variables are those that influence the definition of a problem within the organization, those that influence the standard decision rules, and those that affect the order of consideration of alternatives. Generally, past experience and past record of organizational slack will affect the variables.

3.2 Relational concepts

Quasi-resolution of conflict reflects that conflict is never fully resolved within in an organization. This is linked to the process of which goals are formed. Goals can be seen as a series of more-or-less independent constraints imposed on the organization through a process of bargaining among coalitions of people. Coalitions continuously change people leave or join the organization. In addition, decentralization of decision making and sequential attention to goals permit the firm to make decision with inconstant goals under most conditions.

Uncertainty avoidance captures the mechanism that organizations avoid uncertainty by solving short-term problems instead of long-term strategies. Decisions are based on day-to-day feedback, and firms only engage in plans that can be made self-confirming through control devises and negotiating with the external environment. This means that the firm seeks to make external conditions endogenous and controllable in order to minimize uncertainty. In short, firms achieve a reasonable manageable decision situation by avoiding planning where plans depends on predictions of uncertain future events.

Problemistic search conveys that search is motivated by a problem and is directed towards finding a solution to that problem. Furthermore, search us simple-minded and is based on a simple model of causality until driven to a more complex one. Finally, search is biased because of unresolved conflicts within the organization. This means that bias reflects variations in training, experience, and goals of participants in the organization. In general search activities have a goal and are interested understanding only insofar as such understanding contributes to control, e.g. problemistic search is engineering rather than pure science.

Organizational learning reflects adaptive behavior over time and especially with respect to three different phases, namely goals, attention rules and search rules. Adaption of goals concerns aspiration levels, and is a function of past period goals, experience related to those past goals and experience of comparable organizations. Adaption in attention rules happens generally in two ways. First, when firms change criteria over time to which they are measuring performance. Second, this happens when firms change parts of its comparative environment to which it pay attention. The final phase regards search rules, and this reflects that firms adapt rules according to success or failure with alternatives.

4 EMPIRICAL BASIS

The empirical findings are drawn from the publicly available report from the CEO study done by the consulting company Accenture in collaboration with UN Global Compact[7]. In the following, a summary of general trends will be given. Furthermore, a special emphasis will be put on a group of companies outperforming competitors both on traditional business metrics and sustainability aspects.

4.1 General findings and trends

All of the CEOs in the study represent members companies of UN Global Compact which is a sustainability initiative comprising of ten principles within human rights, labor issues, environmental aspects and anti-corruption. Details regarding methods are given in Table 3 and Table 4.

Table 3 Study details

In-debth interviews	Survey population
107	1000

Table 4 Origin of survey respondents

Europe	Americas	Asia pacific and Australasia	Middle East and Africa
526	201	187	86

The main trend in the period of 2010 – 2013 is that CEOs seem to have adopted a more cautious approach towards sustainability reflecting a sense of frustration. This is a named the *plateau effect* and illustrates companies not being able to scale their business efforts towards sustainability. Many are stuck with incremental achievements. Furthermore, business leaders are signaling that they cannot progress without radical changes in market structures and systems. In addition there seems to be a refocus on short-term issues, and sustainability may be slipping down the agenda of top managers. Even though many leaders are growing skeptical there are some that are intensifying their commitment. These are named *transformational leaders* in the study.

4.2 Transformational leaders

By analyzing the business and sustainability performance of 77 companies it was possible to classify CEOs in different groups. Accenture assessed business performance by using their “High Performance Business Methodology”. Sustainability performance was evaluated on the basis of the following rating systems: RobecoSAM, the Carbon Disclosure Project Leadership Index, the FTSE4 Good Index Series and the Global 100 Most Sustainable Corporations.

21 companies were regarded as able to combine sustainability leadership with market outperformance in their industry. These companies seem to have found ways to turn sustainability in to competitive advantage by linking environmental and social issues to quantifiable business cases.

According to Accenture leaders of transformational companies are more likely to

- Measure and reward sustainability in employee performance assessments and remuneration
- Regard environmental and social issues as important to the success of their business
- Believe in the transformational potential of partnerships with NGOs and others
- Reject traditional perceptions of sustainability as philanthropy
- Engage investors on sustainability

Furthermore, the quantitative analysis highlights areas where there was a significantly difference between the CEO groups. Transformational leaders were compared to a global average, and out of seven areas, “Partnership & Collaboration” and “Engagement & Dialogue” were the ones to have more than twenty percentage points in difference. Thus, these are included in this paper. Table 5 shows the comparison through percentage of respondents that answered “Strongly agree” and “Agree” on the statements.

Table 5 Comparison of transformational leaders with global average

Area	**Example actions**	**Statement from the study**	**Transformational leaders**	**Global average**
Partnership & Collaboration	Cooperate with industry peers to develop voluntary standards. Partner with NGOs and other groups to maximize on-the-ground impact.	“*Cross-sector partnerships will be instrumental in enabling in delivering positive social and environmental outcomes over the next five years*”	100%	78%
Engagement & dialogue	Work with investors to quantify and communicate the business value of sustainability.	*“Investor interest is currently an incentive to invest in sustainability”*	76%	52%

5 CONCEPTUAL ANALYSIS AND DISCUSSION

The general trend in the CEO study is an increasing frustration when it comes to concrete results and business relevance of sustainability issues. This can be connected to *organizational choice* and *problemistic search*. Selecting alternatives and solutions will be characterized by satisfying behavior based on known problem-solving practices. Thus, frustration will emerge when standards procedures do not work. Furthermore, there seems also to be tendency for favoring short-term actions. This is typical behavior reflected by *uncertainty avoidance* and that firm steers away from long-term planning.

A crucial aspect is how firms adapt to past experience through trial and error. This will determine whether or not the firm learns how to overcome shortcomings in search and attention rules. An explanation for the “plateau effect” could therefore be that *organizational learning* is lacking, and that the firm is not able to develop functioning routines and problem solving mechanisms. Such dynamics are closely connected to *organizational expectations* because past experience will influence how firms frame sustainability issues in decision-making processes. Organizational barriers could emerge if past experiences have proved limited success. In the study this was illustrated by the frustration among CEOs. The notion that sustainability issues cannot be managed without radical changes in market structures and systems can also be seen as an example in this regard.

By analyzing transformational leaders the Accenture study conveys that firms are on different levels when it comes to linking sustainability with business practice and traditional decision making. The empirical data indicate that engagement, dialogue and partnerships with stakeholders are key features of successful companies compared to global average. Interestingly, by trying to control expectations from external actors the firms negotiate and set the agenda which is behavior predicted by the theory as *uncertainty avoidance.* A tolerable uncertainty level can also be seen as prerequisite for internalizing and thus managing environmental and social issues in the organizational decision-making processes. In other words, if a company lacks ability to reduce uncertainty linked to expectations of stakeholders, it will most probably perform below average on sustainability issues in its industry.

6 CONCLUDING REFLECTIONS

One of the core insights from applying the behavioral theory of the firm is that organizations have a natural tendency to avoid uncertainty and to favor known routines and practices. The empirical study revealed that companies employ different strategies in this regard.

One possible strategy in the context of sustainability is to avoid stakeholders such as NGOs, investors and governmental agencies as long as possible. However, well-performing companies with effective routines and procedures seem to reduce uncertainty through dialogue and partnerships. Such an analytical observation is in line with recent empirical research on corporate sustainability because stakeholder engagement is identified as a key factor for performance both in terms of societal and financial value creation [2].

An inference to be drawn from the conceptual analysis is that competency building as a result of learning processes over time is needed to manage environmental and social issues. The reasoning being the organizational maturity within corporate sustainability enables the firm to engage in constructive partnerships and dialogue with external stakeholders. This probably results in positive feedback which again frames future organizational expectations.

An interesting area for further research is how and why stakeholder interactions differ between companies and especially how dialogue with external actors can enable the firm to tackle uncertainty and ambiguity inherent in sustainability issues. More specifically, the role of investors in organizational change processes for sustainability seems to be a promising research topic.

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