

Sustainability Leadership in Business: The New Rules of the Game

Sustainability leadership in business presents one of society's greatest opportunities to make a positive impact on society and reverse the systemic behaviors causing harm to the environment. Businesses contribute to a disproportionate amount of environmental harm. Therefore, business leaders need to take accountability for decreasing the negative impact they cause to the environment. As stated by Albert Einstein, "*we cannot solve our problems with the thinking we used to create them*". Taking inspiration from this quote, business leaders must take accountability and look beyond what they have done in the past and what they are currently doing in order to solve the complex and increasingly critical environmental challenges facing society.

The systems and behaviors that led businesses to achieving success over the last few decades are now, more than ever, coming under scrutiny for the role they play in many of society's most severe and complex sustainability challenges. The current mainstream ways of doing business have led to the exploitation of employees, consumers, natural resources, and disadvantaged communities. This essay aims to explore the systemic behaviors that brought business to where they are now and outline how sustainability leadership in business can create a better collective future for humankind and decrease systemic environmental damage.

In the 2017 Carbon Majors Report of the Carbon Disclosure Project, it was revealed that "100 active fossil fuel producers are linked to 71% of global industrial greenhouse gasses (GHGs) since 1988, the year in which human-induced climate change was officially recognized through the establishment of the Intergovernmental Panel on Climate Change (IPCC)" (Barraclough, C., 2017). This groundbreaking data exemplifies clear systemic patterns within the modern ways of doing business that are causing vast damage to the environment and humankind. Another data point that supports the disproportionate impact businesses have on environmental harm is from the United Nations Environment Programme's (UNEP) Global Resources Outlook report in 2019. It states that "the extraction and processing of materials, fuels and food contribute half of total global greenhouse gas emissions and over 90 percent of biodiversity loss and water stress" (Nijman, S. (2019)). The data clearly outlines the need for businesses to step up and take accountability for the harm they are causing to the world.

In order to hold businesses accountable for their actions, we must look to those who are responsible for making decisions. These are the people who can directly have the biggest impact on an organization. Past and current business models and over-consumption have put society on a problematic trajectory that is not sustainable for the environment and humankind. While every member of society needs to take accountability for their impact on environmental sustainability, business leaders are in a prime position to embrace and deploy sustainability leadership within their organizations to solve the systemic issues that are posing the greatest threats to the environment. Organizations who can embrace and deploy effective sustainability leadership strategies will benefit from this by becoming more innovative and competitive.

It is vital to understand the purpose and responsibility of a business leader in order to understand how they can lead their organizations to become more sustainable. Milton

Friedman's article *The Social Responsibility of Business is to Increase its Profits* was published in 1970 and as the title may suggest, the article emphasizes the point of placing profits over social responsibility in business. Of business leaders who embrace social responsibility as part of their professional work, Friedman labels them as "unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades" (Friedman, M., 1970). Friedman is quite bold in his claims that the only responsibility of business is to increase profits within the rules of the game, which he defines as engaging in "open and free competition without deception or fraud" (Friedman, M., 1970). Continuing to do business in a way that is not sustainable and causes harm to the environment; surely this should be considered fraud and deception.

As this article was published over fifty years ago, the rules of the game have certainly changed, however, it seems that many businesses are either slow or reluctant to embrace their social responsibility in addition to their responsibility to earn profits. Of course businesses do not make decisions or carry out actions. These responsibilities inherently belong to the business leaders who are making decisions on behalf of the organization, and also indirectly to the employees who are carrying out their interpretation of the coverall strategy that is set by the leaders of the organization.

A counter perspective to Friedman's article is Michael E. Porter and Mark R. Kramer's article *Creating Shared Value*, published in 2011. The concept of shared value represents the purpose and responsibility that business leaders and organizations should strive for in creating a more sustainable future. Moving beyond the notion that businesses simply exist to increase profit, the new rules of the game are well explained in this passage:

"The concept of shared value, in contrast, recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that social harms or weaknesses frequently create internal costs for firms — such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through using new technologies, operating methods, and management approaches — and as a result, increase their productivity and expand their markets" (Kramer, M.R. and Porter, M.E., 2011).

If society can accept the concept of creating shared value as the new rules of the game, the focus then shifts to how leaders can achieve this within the current ways of doing business. The simple response is that they cannot. Due to the systemic cycles that are ingrained into society and the current ways of doing business, the path forward is not easy and may seem dire. However, this is where business leaders can take inspiration from Einstein. A more sustainable future can be achieved by using new ways of thinking to solve problems.

Kramer and Porter identify the following opportunities for businesses to create shared value:

- Reconceiving products and markets
- Redefining productivity in the value chain
- Enabling local cluster development

The first step in working towards these opportunities is for leaders to make sustainability an integral part of their company values and overall business strategy. While leaders set the strategy and overall direction of a company, it is the employees who carry out the day-to-day objectives. It is important that employees understand that the greater purpose of the company is driven by both social needs and economic sustainability. Leaders can effectively deploy this concept by directly linking sustainable thinking to every objective within the organization. That is the *how*. Purpose-driven values can help business leaders achieve the *why*. Organizations should have shared values in order to create shared value. Achieving this will require new skill sets and ways of thinking, “such as a far deeper appreciation of societal needs, a greater understanding of the true bases of company productivity, and the ability to collaborate across profit/nonprofit boundaries” (Kramer, M.R. and Porter, M.E., 2011).

Organizations who are successfully working towards creating shared value are fostering innovative cultures within their organization. The concept of biomimicry has been labeled as an innovative path towards achieving more sustainable outcomes in business and society overall (Kennedy, E. *et al.*, 2015). As defined by the Biomimicry Institute, biomimicry “is a practice that learns from and mimics the strategies found in nature to solve human design challenges—and find hope” (*What is Biomimicry?* 2023). While biomimicry has limitations, it does highlight an example of how organizations are using innovative thinking to look beyond their current ways of doing things.

Infrastructure design provides an example of how biomimicry can lead to increased innovation and shared value. Biomimicry firm Biomimicry 3.8 developed a set of “Life’s Principles” for infrastructure leaders, engineers and designers to assess the sustainability of projects from an environmental and social perspective (Kennedy, E. *et al.*, 2015). By learning from the natural environment around us, society can use nature-inspired principles to create more sustainable infrastructure that is good for the environment, as well as current and future generations. “Nature has long withstood disturbances within and beyond previous experience. Infrastructure resilience theory and practice are assessed against Life’s Principles identifying alignments, contradictions, contentions, and gaps” (Helmrich, A. *et al.*, 2020). By understanding these opportunities and limitations before an infrastructure project is launched, it can be better understood “what is possible and useful, rather than what is possible, but harmful” (Kennedy, E. *et al.*, 2015).

Infrastructure design is what creates the society we live in; covering everything from electricity, to buildings and roads, and much more. If the industries that shape infrastructure design can embrace more sustainable development practices, natural ecosystems and society as a whole will greatly benefit. According to the World Wildlife Fund, “when infrastructure goes wrong — when it’s poorly considered, planned, designed, developed or maintained — we endanger wildlife, wild places, and our own communities” (*When infrastructure goes wrong for nature and people*, no date). If a proposed infrastructure project offers strong potential for profit, but harms the environment or does not benefit the local community, the organization(s) responsible for the project need to take accountability for making the right decision to either not move forward with the project or move forward with the project in a way that aligns with sustainable development principles. Even if it goes against the current way of doing business, prioritizing both economic

and social needs are the new rules of the game and everyone must get on board if we want to create a more sustainable future.

Innovation and new ways of thinking are an integral part of decreasing the environmental harm caused by businesses. By adapting to the needs of current and future generations, organizations are putting themselves in a prime position for competitive advantage and ensuring their business models are set up for longevity. Leaders must also strategically consider the impact that external forces such as governing bodies and consumer opinion can have on their business. Governing bodies are increasingly focused on regulating the harmful behaviors of companies and the attention of consumers has drastically shifted towards what companies are doing and how they are doing it. This regulatory and social environment has created a glaring need for leaders to future-proof their organizations against external forces that can derail their business.

In a 2022 CEO Study conducted by the IBM Institute for Business Value (IBV), it showed that sustainability is top of mind for business leaders. However, execution of these beliefs is lacking within their organizations. Of the CEOs surveyed, 51% listed sustainability as a top challenge for their businesses over the coming years, but only 23% are currently executing company-wide sustainability strategies (Nelson, J., 2022). In the 2019 Fortune 500 CEO Survey, only seven percent believe they should “mainly focus on making profits and not be distracted by social goals” (Murray, A., 2019). The data from these surveys indicates that business leaders understand the need and feel the pressure to become more sustainable and purpose-driven based on social needs, however there is a gap in executing and delivering upon these beliefs (Nelson, J., 2022).

If leaders do not choose to prioritize the implementation of effective environmental, social, and governance (ESG) strategies, they may eventually be forced to. From an environmental sustainability standpoint, the concept of placing an economic value on our planet's natural capital is gaining momentum. For too long, businesses have been able to carry out the exploitation of natural resources with little to no regulatory interference. As humankind has become more knowledgeable about the fatal dangers of diminishing our planet's natural capital, more focus is being placed on what natural resources companies are using and how they are sourcing them.

The main objective of placing a value on natural capital is to save our planet's life supporting systems to sustain the ability for humans to live on earth. This surely sounds like a worthy mission for society and business to rally around. Yet, this concept has been met with mixed reactions given that it goes against the systematic ways of doing business that are focused on maximizing profits. If businesses are not willing to prioritize the environment and social needs of humankind, governing bodies need to intervene and force them to.

The European Environment Agency released a report in 2019 called 'Natural Capital Accounting in Support of Policymaking in Europe' which outlines their framework for statistically tracking natural capital accounts (EEA Report, 2019). While the report goes into ample technical details, at a high level, the framework establishes an aligned methodology and approach for managing the planet's stock of natural capital. This also serves as a guide for business leaders to understand how they need to structure sustainable policies and governance within their own

organizations to address natural capital challenges. The report acknowledges the need to invest in support and education on natural capital for businesses and the public.

The natural capital framework is a promising opportunity to curb systemic behaviors that are harming the wellbeing of humans and damaging the environment. It can force businesses and society to think twice before over developing and over consuming without considering the impact on the environment and future generations. An example of a recent policy proposal aligned with this concept is the Carbon Border Adjustment Mechanism (CBAM) in the European Union (EU). This is the EU's proposed solution to curb the carbon emissions produced by businesses outside of their own jurisdiction, given that they already have measures within the EU. Through this act, imports entering European borders will be taxed based on the carbon produced from their production. It will be implemented in a phased approach. "The EU aims to get to net-zero emissions by 2050, and the CBAM is one of its initiatives towards reducing greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels (Janarthanan, J., 2023). This is an example of regulation being enacted to hold organizations monetarily accountable for the damage they are causing. While the CBAM is a complex plan and has certainly been met with some criticism, bold actions are needed in order to solve the increasingly serious environmental challenges facing society.

The sustainability challenges facing society are profound and will only become more complex, expensive and devastating as time goes on. One of the biggest areas of opportunity to make a positive impact on these challenges is sustainability leadership within business. Leaders who embrace and implement sustainability leadership within their organizations can have a substantial impact on reversing the systemic behaviors that cause a disproportionate amount of environmental damage. As stated by Albert Einstein, "*we cannot solve our problems with the thinking we used to create them*". The rules of the game have changed and businesses must adapt. In order to see new outcomes, new ways of thinking and doing business are needed — and this starts with new ways of leading.

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