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Designing organizations for sustainable effectiveness

A new paradigm for organizations and academic researchers

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Abstract

Purpose – The purpose of this paper is to examine design features that enable an organization to address today's complex and increasingly pressing global issues in ways that are sustainably effective. It identifies key social and environmental issues and reviews research examining how organizations can respond to them.

Design/methodology/approach – Research and theory on the interface between organizations and their environments are reviewed and evaluated. Proposals are offered with respect to organizing and designing to be sustainably effective.

Findings – There is a significant knowledge gap about how organizations can perform in sustainably effective ways. The globalization of business, increased stakeholder expectations, and environmental issues have created major challenges for corporations. Research that focusses on creating a sustainable future is needed.

Practical implications – Leaders need to help their organization envision new strategies and purposes, and companies will have to develop new capabilities and fundamentally alter their designs.

Originality/value – Important new points about the types of outcomes organizations need to produce and how they can be structured and managed in order to produce them.

Keywords Strategic management, Sustainability, Corporate social responsibility, HR strategy, Organization effectiveness, Organization design

Paper type Viewpoint

There is increasing sentiment that we are at a moment in history when business as usual is inadequate and that effectively addressing today's complex pressing global issues and building a sustainable global economy requires corporations to change the roles that they play in the world. The requirements of the global economy and the escalating population of the globe are approaching the "carrying capacity" of the physical resources provided by the earth on which we live. The global economy has seen rapidly developing economies in many nations, increased affluence and consumption, and aspirations and expectations for material comfort that have dramatically increased resource demand.

Globalization has been accompanied by a growing and highly visible division between the haves and have-nots within and between countries and the associated potential for social unrest. Even in developed nations, the disparity between the haves, and the have-nots, has grown immensely in the last decades (Hart and Christensen, 2002; Brown, 2008; Reich, 2013). Aging and declining populations in developed nations and youthful, growing populations in poor nations portend tensions and discontinuities in the global economy. Near term and longer term impacts of global economic growth are widely believed to demand adaptive and mitigative measures in order to avoid or ameliorate ecological, social, and economic disruptions.

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Companies are increasingly being asked to perform well financially, socially, and environmentally in order to help improve global economic, social, and environmental conditions. Much of the public believe that being socially and environmentally responsible is the right thing for companies to do and that companies should play their part in addressing the important challenges facing their communities, countries and, humanity in general. Reputational risk is increasingly associated with companies that flaunt this sentiment. Through time, companies can only be as healthy and sustainable as the environments and social contexts that they rely on for natural and human resources (Mohrman and Shani, 2011; Mohrman and Worley, 2010). Because of this, social and environmental degradation and depletion represent major risks to organizations and society.

An increasingly voiced perspective is that a market shift is occurring that should make ecological and social sustainability a matter of corporate strategy and business fundamentals (Hoffman, 2011). Laszlo and Zhexembayeva (2011) argue that this fundamental shift is the result of three forces: first, the impact of declining resources on the security of the value chain; second, transparency that has opened companies' performance in these areas to global scrutiny; and third, increasing expectations by customers and other stakeholders. In their view, profit, ecological, and social domains are consequently being integrated in a single value creation space (p. 25). This opens up significant market opportunities to companies that align their strategies and operations with this new market reality.

Until recently the dominant manifestation of organizational social responsibility has been philanthropy: contributing some of the profit of the firm to the communities in which it operates. This "bolted on" or parallel form of social responsibility does not require any change the way the firm operates and in fact does not significantly impact profitability, nor the firm's ecological and social outcomes. There is an emerging agreement that this is not an adequate corporate response and that in order to be sustainably effective in the changing landscape, corporations need to embed sustainability in their strategies and operations, and that doing this requires adopting new approaches to how they organize and manage.

In this paper we will describe what is being learned about how corporations need to operate in order to achieve sustainable effectiveness, and the implications of it for how they should be designed. We will conclude by arguing that developing knowledge to enable this transition requires a reorientation in the conduct of organization research.

Sustainable effectiveness

We start with the assertion that an organization's sustainability depends on the health of the natural and social eco-systems in which it operates, and that the way the organization functions impacts the eco-systems in ways both positive and negative. Thus, for reasons of long-term self-interest, the definition of sustainable effectiveness must include the accrual of profit and the creation of wealth, but also on having a positive impact on the natural and social contexts in which it operates. This includes domains that have previously been considered to be externalities, i.e. areas where others – governments, customers, and societies and communities – have historically been expected to absorb the cost that the corporations do not want to incur.

The starting point: compliance and philanthropy

Historically, organizations have argued that they can meet their social responsibilities by performing the right acts of philanthropy and providing jobs, both of which depend

on profitability. This argument is based on the view that the purpose of a corporation is to create wealth for shareholders, and that they can best serve society by providing jobs and making gifts to charities and other "worthy causes" Friedman (1970). For Friedman (1970), these contributions are not about corporate responsibility. They are about capitalism and its focus on maintaining what has subsequently come to be referred to as the "social license to operate" in order to be able to continue maximizing profit.

Corporations operating with a limited financial view of purpose often adopt a compliance approach deciding how to deal with social and environmental issues, and manage only for profit maximization. Often the way a company does business contributes to societal and environmental problems that are not adequately addressed through regulation. Potential negative impacts range all the way from environmental pollution to poor treatment of employees and customers and social injustice. Manifestations include the huge wealth gap between corporate executives and the average worker in the companies, the societal costs of poverty that result when many companies regularly pay workers at levels well below poverty levels, and the human rights violations that may occur as companies move work to low-wage countries where there are often few workplace standards to protect workers and ensure social justice.

Historically, the environmental and social costs of corporate practices have been viewed as "externalities" – as costs to be paid by the community and society at large in return for the jobs that companies provide. Indeed, companies have become good at negotiating subsidies in return for moving into a community, and governments eager for employment have become increasingly willing to use taxpayer money to subsidize highly profitable companies in return for the very jobs that Friedman described as the corporations' return to society.

Giving back through philanthropy does not equate to managing an organization in a way that covers the costs to society that result from the way they do business. There is no doubt, for example, that Goldman Sachs is very good at making money. And, since 2008 it has greatly increased the percentage of its earnings that it devotes to philanthropy. The *N.Y. Times* (Craig, 2013) has described its contributions as "part of the price of reputation reclamation" since it like most other financial institutions was blamed for the financial crises that had occurred in 2008. What Goldman and many other financial institutions have not done is commit to changing the way their core business operates so that it will have a more positive impact on the environment and society. Financial institutions have also steadfastly resisted regulations that would require that they operate in ways that would be more transparent to the societies and customers they serve – regulations intended to discourage behavior that introduces risk and instability into the financial system upon which individuals and organizations throughout the world depend.

From an organizational design and management point of view, it is relatively easy to create organizations that can effectively deliver philanthropic gifts. They simply have to set up and fund a foundation that assesses alternative giving opportunities and determines which ones represent the best return on an organization's investments. The rest of an organization can do business in the way that maximizes profit. It does not have to worry about the decisions that are made with respect to philanthropic gifts, and it does not have to change the way it does business in order to serve society and the environment. Yet, it is day-to-day operations and decisions that almost always result in its most important social and environmental impacts.

As organizations have started to embrace a responsibility for social and environmental outcomes, the notion of corporate philanthropy has itself come under

scrutiny. "Unfocussed" philanthropy is beginning to be understood as the transfer of profits from shareholders to other stakeholders, often without creating value for either (Laszlo and Zhexembayeva, 2011). Porter and Kramer (2002) have advocated a more strategic approach to charity that links it to the company's core business as well as to the key interests of stakeholders. This approach is evident in companies like Salesforce.com, a developer of cloud-based CRM software that has its foundation manage one of its business units for the benefit of the community. The company contributes free products (although charging for upgrades to non-profits in the community). It also commits 1 percent of Salesforce.com employees' time to volunteering on projects that improve the effectiveness of non-profits through the application of the Salesforce.com software. It builds networks of non-profits so they can learn from each other and together can develop new applications for the software and suggest product improvements (Benioff, 2009).

Many other companies have also more tightly linked their philanthropy and employee volunteerism to their core business. They engage employees in mission-related community service and leverage the human and social capital of the organization and its knowledge assets to optimize the value delivered in all three domains: financial, social, and environmental. IBM's emphasis on "innovation that matters" has led to a socio-commercial strategy that uses its commercial, environmental, and social capabilities to build a "smart world" in key areas like education, community development, and infrastructure planning (Mirvis *et al.*, 2010, p. 319). Community service activities allow IBM'ers to apply their expertise in these areas to help solve real world problems such as improving the communication and coordination capabilities of aid workers and governments in disaster settings. Engagement in them is seen as valuable developmental experience for leading in today's world, and has a positive impact on attraction and retention (Aguinis and Glavas, 2013; IBM, 2008).

This evolution of philanthropy is part of a broader value migration (Laszlo and Zhexembayeva, 2011) in which many companies are developing strategies that focus on sustainable value generation that simultaneously focusses on delivering value to shareholders and to the other stakeholders. Unilever, Novo Nordisk, Nike, Gap Inc, Patagonia, Intel, and Starbucks are among the companies frequently mentioned as leaders in this approach. These companies are working to integrate the focus on profitability with a focus on social and ecological outcomes. Laszlo and Zhexembayeva (2011) posit that sustainable value entails embedding the concurrent pursuit of profit and sustainability into the very core of an organization, thereby harnessing the profit motive in service of market-based solutions to global problems. In their view this requires the development of a strategy that deals not only with customer, capital, and competitive factors, but also with achieving security of the value chain.

The journey to sustainable effectiveness

For decades we have seen social and ecological issues as governments' problems to solve, and indeed public policy is a critical part of what it will take to solve them (Grayson and Nelson, 2013). But a global pattern of rising public sector deficits and reduced public spending means that companies and individuals can no longer expect the public to pay for their externalities. Some predict that governments will assume a new role in convening others to find solutions (Googins *et al.*, 2007) and will look to businesses and non-profits to work together to achieve economic, environmental, and societal objectives (Lacy *et al.*, 2010). Even the regulatory role of government has been weakened, as firms operate across many borders, yielding a globally integrated economy while global society is politically divided and unable to deal with issues that

are inherently global in scope (Sachs, 2008). No global governmental agency exists that can counteract the undesirable social, economic, and environmental consequences of the global economy. Furthermore, no one sector and certainly no single organization can solve these problems or create a sustainable future (Mirvis and Worley, 2013). In the eyes of some, the sustainability of capitalism itself depends on corporations stepping up to work with other stakeholders in attacking these problems (Grayson and Nelson, 2013).

The transition to sustainable effective organizations is best described as a journey. Grayson and Nelson (2013) see the evolution of corporate social responsibility as driven by the changing contexts in which corporations operate. The early stage focussed largely on philanthropy and the license to operate. The second phase is focussing on the increasing globalization of the economy and increased focus on the ecological and social costs that have accompanied the creation of wealth and economic development. Grayson and Nelson refer to the issues of supply chain sustainability and human rights as the "globalization package" (p. 47). Globally they have identified over 110 national and international generalist corporate responsibility business coalitions (and many more specialist, industry-based coalitions) where companies come together to learn about and collaborate to advance standards and practice.

Many forces have led companies to consider a larger set of responsibilities in order to achieve the license to operate on the broad global stage, including:

- the formalization in 2000 of the UN principles of responsible development as the global compact;
- significant attention through the World Economic Forum's corporate citizenship work;
- international summits seeking to achieve international commitment to address the challenges of climate change; and
- increasing public awareness, the proliferation of NGO's concerned with these issues, and social protests of the 1990s.

In the second phase, companies' core operating principles and value propositions begin to migrate to recognize this expanded set of responsibilities, and ultimately a focus on sustainability becomes embedded in the strategy, routines, and operations of the company (Aguinis and Glavas, 2013; Aguinis, 2011). Embedded sustainability can be contrasted with "peripheral" or "bolted on" (Laszlo and Zhexembayeva, 2011) corporate social responsibility that focusses on activities that are not integrated into an organization's strategy, routines, and operations.

Some companies have entered a third phase that entails an expansion of purpose to include responsibility to contribute to the solution of systemic problems. This phase moves beyond internal focus to include involvement in a broader knowledge/action network to tackle complex problems that have technical, organizational, and social/political elements. These are often industry-specific problems that can only be solved by combining highly specialized knowledge and contributions from different stakeholders. The work of Starbucks, Green Mountain, and others who worked with NGO's to develop a Fair Trade approach to procurement in developing nations falls into this category. Other examples include the collaborative work of Gap Inc, and other apparel manufacturers in collaboration with their vendors, SAI and other NGO's, and local governments, to develop local capability to foster human rights in factories in the developing world (Worley *et al.*, 2010).

The stakeholder perspective

Attaining sustainable effectiveness requires contributing value to an expanded set of stakeholders. Value is defined as the contribution to the sustainable well-being of societal stakeholders who are impacted by the activities of the organization, including but not limited to the traditional focus on shareholders (e.g. Maas and Boons, 2010; Freeman *et al.*, 2010). Accepting responsibility to deliver value to all stakeholders means a shift from seeing activity designed to contribute to the environment or to society as a cost, to seeing it as part of the value that the firm yields (Figge and Hahn, 2005). For example, rather than seeing pollution mitigation as a cost of doing business, it is seen as value contributed that creates healthy communities in which to operate. This is a significant departure from a world view that applying shareholder resources to societal issues represents a moral hazard.

Stakeholder theorists (for a review see Freeman *et al.*, 2010) posit that traditional management mindsets and the single focus on profit maximization are not suited to deal with the turbulence in today's society nor to chart a path through a complex environment where business activities both positively and negatively impact other stakeholders. They believe that to thrive in today's environment, businesses must solve three problems (pp. 4-5). First, what constitutes value and how is it created in a world of ever-shifting relationships and uncertainty, and where the impacts of capitalism go well beyond the market and have impact on all aspects of the social and natural world? Stemming from this is the second problem, how to reconnect ethical considerations to business decision making and capitalism to deal with the damaging impact of capitalism when it is driven solely by economic considerations. The third problem is how to build a new managerial mindset that puts business and ethics together and enables managers and organizations to deal with turbulence, globalization, and the ethical issues that they face. Stakeholder theory posits that by focussing on its relationships with and value delivered to groups and individuals who can affect it or are affected by it, a business steps up to the inherently ethical nature of all managerial decisions and increases the value it delivers. Such a framework for managerial work helps managers integrate business and ethics in the complex world they face.

The concept of shared value has been defined by Porter and Kramer (2006, 2011) as a proactive and strategic approach to achieving business value by reconceiving markets and products and conceptualizing and enhancing productivity and efficiency in value chains and clusters of activity, in order to solve broader socioeconomic and environmental challenges. While building their framework of sustainable value, Laszlo and Zhexembayeva (2011) also rely heavily on an expanded definition of value that addresses the large system and includes shareholders and other stakeholders, and that seeks the market opportunities inherent in sustainability challenges. They provide a framework to improve competitive positioning by crafting strategies that embed sustainable ways of operating while pursuing fundamentally new market opportunities afforded by the changing environment and by introducing discontinuous innovation that contributes to the solution of global problems. The processes they describe for moving forward to create sustainable value are inherently multi-stakeholder, participative processes that build in the needs and aspirations of an entire network of stakeholders.

Networks of action

As companies have explored ways to create sustainable value, they have become increasingly engaged in multi-stakeholder, cross-organizational partnerships and relationships, not only with the intention of soliciting input from other stakeholders to inform organizational direction, but also to collaborate around learning and action.

Drawing on institutional theory, Hoffman (1999) uses the chemical industry to show the importance industry fields, in which organizations evolve in concert with the demands and institutional forces in their environments and in interaction with each other and with other stakeholders. Chemical companies have collaboratively participated in a DuPont initiated consortium through which standards for chemicals have been set and knowledge shared (Hart and Milstein, 1999). With increasing awareness of the negative consequences of chemicals, the public has responded with greater and greater demands for environmental responsibility. DuPont and others have responded by establishing community advisory boards and other ways to relate to/partner with their various stakeholders, and in so doing have adopted strategies to meet financial, environmental, and social expectations (Hoffman, 1999).

Grayson and Nelson (2013) see a trend toward the formation of industry-specific cross-disciplinary and cross-sector action networks to deal with increasingly complex challenges that demand highly specialized understanding and expertise. Practice Greenhealth and Healthcare Without Harm, for example, are consortia of healthcare organizations that promote an industry-wide focus and cross-industry and cross-sectoral research programs to address issues such as the development of safe, biodegradable, or recyclable plastics for healthcare. This is an area where any one healthcare system does not have resources nor the knowledge, but where they can collectively interact with and put pressure on medical device and plastics suppliers to invest and innovate.

Similarly, solving complex problems such as fostering human rights along a supply chain requires new forms of collaboration among an expanded set of stakeholders. One company alone, no matter how much investment it is willing to make, cannot build a reliable global supply chain for organic, fair-trade cotton or coffee beans, or reverse the depletion of palm trees due to overfarming. Companies have to partner with many "on the ground" agencies, NGO's, community groups, educators, and farmer representatives (Worley *et al.*, 2010).

New ways of organizing reflect the new reality that it is no longer possible to draw a boundary around the operations of a corporation and say "we are solely responsible to our shareholders." Corporations contributing to the sustainability of emerging markets need to move from a compliance to a development orientation. They partner with each other and collaborate with NGO's and local governments and community leaders in order to build the knowledge, experience, and legitimacy that will bring behavior into alignment with formal policies in their plants, and impact local norms, capabilities, and prevailing attitudes toward workers.

At the city or regional level, local firms, governments, NGO's, and citizens are starting to band together and create synergies that allow the area to become economically self-sufficient, green, and socially sustainable. An example is the city of Cleveland. The Mayor's Sustainable Cleveland 2019 initiative is a highly participative, ten-year, city-wide, multi-sector focus on reinvigorating Greater Cleveland, which has seen decline as its industrial base over the past several decades. The goal is to rebuild a robust "green" city with a sustainable economy (Worley and Breyley-Parker, 2011). This initiative has been the umbrella for many cross-organizational, cross-sectoral focusses including many multi-stakeholder initiatives such as a large network of intersecting activities aimed at building a robust local foods industry (Mohrman *et al.*, 2013).

Governance

Collaborative multi-stakeholder relationships, proliferating cross-functional initiatives within a firm, decisions that cut across governmental jurisdictions, and the pressures

inherent in transparent information and reporting all test the adequacy of our traditional governance approaches. The change in values and operating logic from the emphasis on unilateral control with a single objective function to managing for system-wide sustainability is perhaps most exemplified when responsibility to non-traditional stakeholders becomes formalized in new forms of governance. These have emerged in implicit recognition of the insufficiency of our current delineations of companies with their hierarchical control and nations with their power to centrally impact commerce, health and safety, and social development within a country.

New cross-organizational and network forms of "soft" governance have been emerging, including voluntary industry specific and multi-sectoral collaboratives and global compacts. Over 8,000 corporations, two-thirds of them from developing countries, have signed on to the UN global compact, agreeing to the ten principles for sustainable development, and to auditing and public reporting in these areas. Multi-sectoral participants come together to generate standards, designate third party auditors, and agree to transparency of performance metrics such as in the area of human rights. They are guided by a principle of collaborative interaction to foster system-wide health and sustainability, and their legitimacy stems from agreement among the members (see Worley and Breyley-Parker, 2011). The effectiveness of such multi-party management approaches relates to the capacity of the parties to harmonize stakeholder interests and to agree to mutual accountability and governance (Mirvis and Worley, 2013). The Global Reporting Initiative (GRI), the most widespread sustainability reporting standard, is itself a case in point. It advances from one version to the next with the input and agreement of a group of organizations who make these decisions on behalf of the members. Although reporting is technically voluntary and there are no sanctions attached, many organizations care about adhering to the framework.

Companies leading the way

Many leaders of major global corporations have recognized the new reality, and are leading their corporations to change the way they operate in order to contribute to the solution of global issues and to develop strategies that enable sustainable effectiveness. A major impetus for progress is general recognition that we are facing a world characterized by scarcity. For example, Jeff Immelt, Chairman and Chief Executive Officer of General Electric, believes that the next decades will be about technologies and economies that address issues of scarcity (Mirvis *et al.*, 2010). Patrick Cescau, former Group Chief Executive Officer of Unilever, believes that companies need to plan for a future "where resources are under threat and externalities need to be paid for" (Cescau, 2008). Intel's core vision includes "the enrichment of lives of every person on earth." One of its key strategic areas is to "care for our people and planet" (Corporate Responsibility, 2011). This focus has underpinned its relentless pursuit of higher efficiency semiconductor chips, based on co-founder Gordon Moore's early recognition that scaling up the electronics industry was only possible if the amount and size of materials are continuously and dramatically reduced. Currently computers have 17 times the amount of computer power compared to early generations and consume 50 percent less power. Intel chips that power them are made with 40 percent less water (Aguinis and Glavas, 2013).

A close examination of the elements of company transitions to sustainable effectiveness shows how fundamental and discontinuous they are, both for individual companies and for industries. In leading the way toward establishing a sustainable

way of operating, these companies are repurposing themselves (Googins *et al.*, 2007). Their purpose changes from the narrow focus on exploiting resources to make quarterly profit for shareholders to include a broader scope of outcomes and stakeholders and a future-oriented time horizon. Expanded purposes incorporate system outcomes and are appropriate in a volatile and uncertain world in which environmental, social and economic dynamics, costs, and benefits cannot be disentangled.

Unilever recently released a ten-year sustainable effectiveness plan that entails working together with governments and NGOs to tackle the world's most pressing challenges (Unilever PLC, 2010). Unilever CEO, Paul Polman, has clearly articulated many of the elements of this transition, elements that are focussed on what corporations need to do in order to operate in a sustainably effective manner.

This sustainable living plan (see the list below) goes well beyond tweaking how Unilever is organized and managed. Implementing this strategy will require an organization design that is very different than traditional designs. Indeed it points to a rather different way to think about organization design and management. A brief review of some of the design features that fit the sustainable effectiveness approach will make this clear and show how a sustainably effective organization differs from a corporation that focusses solely on profit.

Unilever sustainable living plan:

- abandoning the traditional corporate goal of maximizing short-term profits for shareholders;
- changing product mix and characteristics to reduce environmental impact;
- sourcing raw materials and agricultural products that are fair-traded and certifiably sustainable;
- influencing consumer behavior to encourage sustainable consumption;
- reducing the use of water and energy;
- addressing issues of land rights, pollution and community development wherever in the world a company operates;
- achieving gender parity;
- developing leaders who are able and willing to operate in a world of cooperation and openness, and with holistic thinking;
- moving from rules-based societies and organizations to principles- or values-based ones;
- adopting holistic business models in which ethics, social responsibility, and sustainability are integrated into global corporate strategies and creating organizational cultures built around doing the right thing (as opposed to treating responsible practices as inessential add-ons);
- working with governments to develop concrete policies and programs that effectively address human and environmental needs; and
- cooperating with other institutions in an unprecedented spirit of partnership.

The organizational design challenge

The prevailing short-term profit logic has evolved over time and organizations have continued to add elements, such as the development of standard processes, new

analytic and incentive approaches, new pricing schemes and business models carefully designed to support the capabilities needed to maximize profit. As with all core organizational capabilities, profit maximization is reflected in organizations' routines and organizational frameworks, communication channels, and problem-solving approaches (Henderson and Clark, 1990), and in their interactions with the various elements of the environment. New capabilities are required to expand the value that the company delivers to multiple stakeholders as it implements a sustainable effectiveness strategy, such as the one now guiding Unilever. These will require changes to all aspects of the organization.

There will not be one best approach to achieve sustainable effectiveness, but rather, a set of principles will underlie the transition. Healthy systems require diversity. Different organizations face different sustainability challenges and opportunities to impact on the sustainability of their contexts. Manufacturing firms are substantially altering their carbon footprints by creating closed loop product life cycles in which only heat and biodegradable wastes are returned to the environment. Product innovation firms are inventing new green materials and products that vastly reduce toxicity and the amount of energy required to build and operate infrastructural capabilities. Yet there are some capabilities that commonly have to be developed to deliver sustainable value.

Among the dynamic capacities organizations need to develop are: first, managing ecologically and socially efficient supply chains; second, designing, developing, implementing, and disseminating innovations that radically decrease negative impact on the natural and social environment and substantially increase positive impact; third, participating in a network of activity in order to do the first three; and fourth, managing continual change. Progress will require the implementation of new patterns of interaction within organizations and with many other stakeholders, and new organizational and inter-organizational designs (Mohrman and Worley, 2010).

In order to be sustainably effective, organizations need agile designs that support a strong external focus (Lawler and Worley, 2011). The world is changing rapidly, and the demands and impact of organizations are changing rapidly. Financial and product marketplaces are changing rapidly, technology is moving forward at a lightning pace, and many of the environmental and social considerations that organizations face are changing frequently and rapidly (e.g. the new focus on fracking). The ability to reconfigure the organization on an ongoing basis in order to deal with a rapidly changing environment (Williams *et al.*, 2013) is a fundamental capability to achieve sustainable effectiveness.

Designing an organization involves the deliberate configuration of the organization's structures and processes to accomplish its purposes and strategies. Redesign to accomplish new purposes occurs intentionally over time and requires continuity and shared focus to allow capabilities to grow and become embedded in the way the firm operates and performs (Dosi *et al.*, 2000). Just as social and environmental outcomes cannot be peripheral to the core business, the development of the capacity for sustainable effectiveness cannot be a series of bolted on one-shot initiatives led by temporary task teams whose work is separate from the business units of the organization. Social and environmental responsibility must be integrated into all aspects of the organization to yield business decision making of organizations to support the growth, innovation, cost reduction, and differentiation required for economic viability while simultaneously achieving sustainability goals (Epstein, 2008; Maas and Boons, 2010).

We can conceptualize the design challenge using the organization design framework articulated by Jay Galbraith (1994) that specifies that an organization

can best achieve its strategy if its major designable elements fit with it and reinforce each other. Sustainable value strategies must be tailored to the company, the core competencies it is leveraging, and the areas where it determines it can best position itself strategically. The appropriate design depends on a company's strategy and the core competencies that it is building on as the basis for its sustainable value approaches.

GE's "eco-imagination" strategy is aimed at having a dramatic impact on the global consumption of electricity through the development of innovative products. Developing innovative products is the company's core capability, and the company is integrating the sustainability focus in this arena. Radically decreasing electrical consumption must become a major focus in the design of its products. GE, therefore, must design itself with structures and lateral connections that bring a constant stream of sustainability-related innovative ideas into its product divisions. They must generate new knowledge, achieve the cross-functional collaboration required to develop and commercialize innovative products to achieve that strategy in dramatically different market contexts, and build and motivate the talent to do this well.

In contrast, IBM's smart planet focus builds on its core competencies of technology and consulting, and aims to provide solutions to its customers' context-specific sustainability problems. For cities, this may include the reduction of congestion, crime, and energy use in large urban areas. Its various customers have different needs and criteria for effective service depending on their own industry and where their greatest social, financial and ecological sustainability challenges and opportunities lie. IBM's core work processes involve the development of tailored systems that combine knowledge and perspectives from across its technology groups, from the industries it serves, and from many partner and stakeholder groups – and operate in tight connection to clients and their business and effectiveness models. IBM has to design structures, linkages, and processes to bring these many perspectives together flexibly, and develop human resource management practices that develop the competencies for successful multi-functional and multi-stakeholder collaboration.

Intel aims to dramatically reduce energy and water consumption through continual innovation and optimization of its product and process technologies and its work processes such as the fabrication of chips by creating closed loop manufacturing processes. It designs around technical tasks and process connections needed to make its products and its processes more resource effective. It organizes around, develops and rewards highly focussed advanced technical skills and achievements, and the generation and combination of knowledge to continually improve product and process sustainability.

For every company, structures and processes must be designed to support the strategy and key work processes and capabilities necessary to carry it out effectively. Given the focus on multiple stakeholder outcomes, we do expect to see some common structures and processes:

- carefully designed linkages to the corporation's stakeholders: those who made the firm, those who contribute to its success, and those who bear its consequences (Freeman *et al.*, 2010);
- structures and processes to enable dynamic integration across functions and organizations to enable life-cycle product and service sustainability;
- governance mechanisms to develop a shared value proposition;
- network connections to other actors in the eco-system for knowledge sharing and action collaboration to solve complex problems; and

- robust environmental sensing mechanisms to guide ongoing reconfiguration of the activities in the organization system and eco-system for more sustainable performance.

Robust management processes enable these structural and work process elements to accomplish sustainability purposes. These include processes for establishing strategies and aligning goals and direction, metrics and reporting, and accountabilities throughout the organization, decision-making norms and processes, and communication.

Strategy

Both Epstein (2008) and Laszlo and Zhexembayeva (2011) have developed frameworks for determining what strategies for sustainable value delivery build on the firm's business model and core competencies, offer the best potential for significantly impacting outcomes, allow for the management of risk, and are synergistic with financial outcomes. Epstein emphasizes the interplay of sustainability goals with business goals and more traditional accounting-based assessment of the firm. Laszlo and Zhexembayeva emphasize finding ways to the firm can move toward significant enough change to more squarely position itself to deliver sustainable value to its multiple stakeholders. Their typology of ways to position delivering social and environmental value with respect to the profit making concerns of the organization ranges from risk mitigation to aggressively working to change the standards and expectations in the contexts in which they operate.

Future-oriented environmental scanning processes are integral to the establishment of sustainability strategies (Stead and Stead, 2009; Epstein, 2008). Shell's scenario planning examines the trajectories of various market forces, community interests, and national, cultural and political trends. Nokia's "World Map" looks at trends, needs, and opportunities to make a difference across the globe. Organizations will have to find ways to analyze highly intertwined institutional settings in order to plan effectively (e.g. Oikonomou, 2010).

Metrics and reporting

Progress has been made measuring environmental impact and relating it to the firm's economic outcomes through the application of various activity-based accounting approaches, life cycle costing, and full cost approaches. Measuring carbon and water footprints are becoming increasingly common, and in many industries, this is expected by the industry and its stakeholders. Yet, organizations accustomed to using financial accounting metrics as the touchstone for alignment and performance management processes struggle with establishing and getting agreement to substantive metrics for environmental and social impact.

The GRI is a well-recognized global organization that provides standards and a framework for reporting sustainability information. It has evolved through a multi-stakeholder process. Its objective is to bring together a broad spectrum of interests to reach a consensus on the content of the guidelines (Eccles and Krzus, 2010). Other frameworks have been generated and are used by particular groups of companies and other stakeholders. An example is the Climate Disclosure Standards Board's (2013) framework for disclosures about climate change-related risks and opportunities.

Publicly reporting overall impact is important but not sufficient. Organizations need to drill down into their operating and business units' performance. Employees

throughout the organization need to get data about the impact of their part of the organization on the environment, society, and profits. They can then make informed decisions about what to do and how to do it in a more sustainably effective way. Traditional measures of budgets, productivity, and costs clearly are insufficient. They tell nothing about how the organization is impacting its employees and the society and environment in which it operates.

Just as important as having qualitative and quantitative measures of social and environmental impact is providing these in a format that enables stakeholders to look at the full set of outcomes and get an integrated sense of all the aspects of performance and how they fit together. Companies including Novo Nordisk, BMW, Unilever, and United Technologies have developed reporting methodologies that provide a broad overview and allow stakeholders to do deeper dive investigations and analyses. This "One Report" format enables integration and transparency, and analysis of the full set of outcomes (Eccles and Krzus, 2010). Using the power of the internet, companies can truly open up their performance on achieving integrated value to scrutiny, providing a basis for meaningful multi-stakeholder input.

Participative planning

Data and analysis are necessary but not sufficient for planning for sustainable value creation. Change in this area relies as much on inspiration as it does on analysis. Large-group processes that bring all the stakeholders together to generate a vision of what is possible and desirable, and to bring their aspirations, beliefs, values, and energies to bear on creating strategies and innovative approaches to expand value are recommended by Laszlo and Zhexembayeva (2011); Cooperrider *et al.* (2008), and others. This combination of perspectives and knowledge helps the system escape from its hidebound ways of functioning that are dominated by the sole focus on profitability.

In order to design sustainable approaches to health care delivery, systems such as Alegent in Nebraska (Worley, 2012) and Fairview in Minnesota (Winby *et al.*, 2014) have built large group, multi-functional, and multi-stakeholder approaches into their core management systems of strategizing, designing, and implementing new approaches. They view this large group capability as a competitive advantage because of the breadth of knowledge and perspectives that come together, and because it taps the energies of the stakeholders and designs reflect greater awareness of various stakeholders' perceptions of valued outcomes. A virtual variant of this approach is IBM's formulation of its values and its strategies through electronic "jams" involving thousands of employees and customers around the globe (Palmisano, 2013).

Decision making

The sustainable effectiveness approach requires that major organizational decisions and actions are based on their impact on profits, society, and the environment. Decision-making norms, routines, frameworks, and rights should be designed to be compatible with the key principles and logic of managing for sustainable effectiveness. Specific features include articulation of criteria to guide key sustainability-related decisions and the processes for making them, including who gets involved and how, and clarifying the ultimate decision-making authority.

Making decisions intended to deliver value financially, socially, and environmentally is a difficult leap in complexity for most business managers, and a relatively uncharted territory. Engaging with and considering multiple stakeholder perspectives and differing preferred outcome sets makes the task even more complex. Data-based

decision frameworks and heuristics that are sensitive to the expanded set of purposes are essential to the management of uncertainty and risk. These frameworks provide a core set of data and analyses that, along with the sustainable value strategy and criteria that the firm has articulated, enable adherence to the values of collaboration, involvement, and diversity, and to the acceleration of change (Epstein, 2008).

The "sweet spot" for an organization is when delivering societal and environmental value aligns with the financial imperatives of the firm to deliver value to owners, such as in instances when customers are demanding and willing to pay more for fair trade products or products that are completely recyclable. The development of innovative products, such as small and efficient generators with a much broader market potential in emerging markets aligns customer interests in lower cost and lower polluting infrastructure with the company's interests in building growth markets for its products. Such a convergence also is present when adopting sustainable practices, such as lower energy consumption, results in lower costs.

There is an important concern that acting only where there is clear convergence of financial and sustainability outcomes may lead to incrementalism in the changes that are made (Louche *et al.*, 2010), and may give the impression that it is possible to pick and choose when to act in a sustainably effective manner and to do it within a business-as-usual framework. Creating Blue Ocean strategies and generating disruptive change requires the ability to be informed by but move beyond data and analytics, and to envision new business models, new technological systems, and new services and products that deliver sustainable value (Laszlo and Zhexembayeva, 2011). As with any disruptive innovation, in the short term, implementing these strategies may not lead to immediate performance benefits and may even entail a decrease in performance, but great gains are to be had when the company starts to reap the benefit of such changes (Christensen, 2003).

Adding a time element to the measurement of value can result in greater potential convergence between investing in social and environmental outcomes and sustainable economic returns for the firm. For example, the investment in water pollution mitigation and preservation costs money now but helps assure viable communities and markets in which to operate into the future, healthy employees and families, and a good reputation that diminishes the likelihood of a political backlash against the company. Similarly, firms that focus on creating work systems that promote the health and development of employees and provide them a platform for contributing to the well-being of their families and communities are simultaneously developing their own performance capabilities and delivering social value well beyond gainful employment.

Case studies of companies that are leaders in the implementation of sustainable value approaches almost uniformly stress that this is not a top down process. The success of the transformation depends on engagement and on instilling deep within the organization an understanding of the strategy and the values that underpin it. Employees make decisions daily in their jobs, their volunteer work, and in their personal lives that have social and environmental impact. Organizations rely on employees to inject these considerations into the decisions they make and to be a source of innovative ideas and innovative practice. Ideas often come from the periphery of an organization and from work units deep within an organization that are confronting the day-to-day challenges of sustainable functioning and seeing the opportunities to improve work processes and product design for the environment and for safety (Schroeder and Robinson, 2010).

Many activities oriented toward increasing sustainable functioning require building new connections within and across organizations to carry out projects that cut across

reporting lines, resources, and perspectives that are not present in a single team or unit. This requires entrepreneurial behavior and reaching across many boundaries, and cannot be constrained by rigid decision processes. Organizations need to "learn their way" to becoming sustainably effective, by doing small tests of new approaches (Laszlo and Zhexembayeva, 2011; Williams *et al.*, 2013). Self-organization at all levels in an organization can have positive influence on the economic and social outcomes of work, as individuals and teams are able to develop and use capabilities to do work better and deliver more value (Kira and van Eijnatten, 2008). This behavior has to be enabled, by organizing resources for agile deployment, creating pathways, and mechanisms for innovative ideas to be considered and resourced, methodologies for investing in or sunsetting new approaches that seem promising or that do not pan out, and for sharing and leveraging learning. Sustainable effectiveness demands a high-involvement, high-performance workplace (Lawler and Worley, 2011; Russo, 2010; Schroeder and Robinson, 2010) in which employees are treated as stakeholders of the corporation and engaged in socially responsible jobs (Googins *et al.*, 2007).

Communication and information sharing

A corollary of many of the principles and design features of sustainable effectiveness is that robust multi-directional communication and reporting processes and transparency norms are required to build a sustainably effective organization. These underpin the establishment of the trust and legitimacy that are required to support effective collaboration and involvement, the sharing and leveraging of knowledge, and the motivation to invest time and energy in achieving outcomes that make a difference.

Dispersing decision making across and deep within an organization constitutes a significant change of norms for traditional organizations. They are not designed to face the challenges of triple bottom line performance. They manage to a single financial objective in part by partitioning the work of the organization and driving from the top to optimize the piece parts of the system. Information is largely financial, and is collected about each of the piece parts.

Information sharing is changing, as more and more organizations are expanding their focus. They are collecting quantitative and qualitative data about performance of the system and throughout the organization on social and environmental outcomes. They are including these measures in their KPI's and balanced scorecards, and opening the organization's performance information not only to all employees, but to all stakeholders. Novo Nordisk even provides a way for stakeholders, including employees, to do deep dives so they can independently analyze the data (Eccles and Krzus, 2010) – in hopes that this will stimulate enthusiasm, innovation, and experimentation.

People processes and reward systems

The reputation and practices of companies with respect to corporate social responsibility are important in attracting and retaining employees, and are a source of identification with the organization. People practices are a gauge for employees of the credibility of a company's stated intent to deliver sustainable value. Employees increasingly expect socially responsible jobs and work, including opportunities to grow and develop and to contribute to the environment and further social justice. Perceived fairness of the distribution of opportunities to learn, develop and contribute, and of outcomes such as pay and promotions within the firm are manifestations of the company's orientation to social justice (Lawler, 2003). These are indicators to employees of the integrity of the firm's claims to care about fairness and how people

are treated. Social sustainability within a firm, including its approaches to the negative consequences of work and work-life conflicts is an important determinant of the firm's overall contribution to society (Docherty *et al.*, 2002, 2008). These are the same issues faced by western manufacturing firms which rely on vendors in developing nations who may or may not adhere to global human rights standards.

Internal people practices consistent with the values of collaboration, involvement, fairness, and diversity provide a foundation for the broader application of these core values of sustainable effectiveness. People are the carriers of purpose and values, and ideally they are also carriers of the skills and competencies required for more sustainable functioning. They determine how sustainably an organization operates through their day-to-day actions and decisions. There has been a recent flurry of attention in the Industrial and Organizational Psychology world to ways the discipline can make a substantial contribution to organizations' sustainability strategies by researching talent management practices (Aguinis and Glavas, 2013; Jackson *et al.*, 2012; Murphy, 2013). These issues range from helping attract and develop individuals with competencies that are required to lead and work in the new environment to the challenges of activating those skills through goal setting, rewards, recognition, and alignment. Rewards is a critical area. Embedding sustainability in an organization requires including sustainability goals in the targets not only for the organization as a whole, but also for the groups and individuals in the organization. Intel, for example, has incorporated its corporate responsibility goals into its compensation system (Barrett and Niekerk, 2013). In a process guided by a cross-functional and cross-facility "Green Team," Cleveland clinic has included sustainability goals in its performance dashboard for all organizational units (Mohrman *et al.*, 2013). The team works to achieve consensus among the members about what goals are material to the well-being of the organization and its stakeholders before it includes them.

We know from earlier movements to establish high-involvement/high-performance systems based on the broad distribution of resources, responsibility, and benefits, that this type of transition requires people throughout the organization and across organizations to learn new ways to operate and on the use of participative processes to put in place the design features to support it (Lawler, 1986; Mohrman and Cummings, 1989; Pasmore, 1988). Strong leaders can create a context with clear strategies, mission, and values. Organizational designs can be put into place that foster a focus on sustainable value. But putting in place the work systems to make these a reality can only occur through widespread self-organization, learning, and engagement (Mohrman, 1998). People practices and work system design are critical elements of the transition.

Implications for research

Our theories of organizing coevolve with the societies, economies, and ecologies that are the focus of our knowledge creation activities. The social sciences examine human artifacts – the political and economic systems, organizations, communities, and societies that humanity has created as people have pursued survival and other purposes. The variety and forms of these artifacts and their operating characteristics have changed through time, as new problems have been solved in order to accomplish changing purposes. Theories have evolved to keep pace with this change, although practice has tended to precede advances in theory (Pfeffer, 2007; Mohrman and Lawler, 2011). This lagging role of academic research and theory development has meant that academic research focusses on the past and, all too often, has not been useful to practitioners charged with creating the future.

Given the urgency of transitioning to a sustainable world, and the criticality in this transition of corporations becoming sustainably effective, academics cannot afford to lag behind. We have to accelerate our own reset. Changes in organizing models are emerging as organizations become aware of the limits of current approaches, and their threats to a sustainable future. Academic research can help accelerate the transition only if academics collaborate with practitioners to understand these new approaches, and more importantly, to provide a knowledge base to guide them rather than simply understand them after the fact.

To meet this challenge, academic frameworks must be tested against the new reality and altered as needed to provide more powerful understandings of current dynamics shaping our world. Just as the traditional mindset in organizations, the social sciences developed during the height of the industrial era that entailed scientific and organizational breakthroughs to harness seemingly unlimited resources in order to create wealth and profit. Economists have studied and modeled the dynamics of economies where each individual and organization pursued its own interests, as the infrastructure for a global economy emerged that enables commerce and the movement of wealth around the world. Management and organizational scholars have studied organizational forms that developed over time to increase efficiency, growth, reach, and exploitative capacity of that economy and to address human needs and purposes. Political scientists have studied the role of the nation state in the regulation of economic activity and the distribution of its benefit, the changing bases of power and legitimacy, and the breakdowns that have occurred within and between populations and governments as various actors position themselves for benefit. Sociologists have studied groups and social interactions, and the relationship between those with and without power as societies have unfolded. The perspectives of each of these disciplines is potentially useful but each may need to adjust its assumptions rapidly to fit with the changing realities faced by the individuals, organizations, societies, economies, and polities that it studies. Just as important, these disciplines have to join together to get leverage on complex systems that involve all of these elements.

We believe that to contribute knowledge useful in crafting a sustainable future, the purposes of research and theory must change. Positivistic social sciences grew up to understand and explain the unfolding of institutions, economic systems, and individual and collective behavior – not to influence it. For management and organizational research, Sumantra Ghoshal (2005) advocated a fundamental change in purpose when he stated that researchers in business schools should be creating knowledge that makes the world a better place. He pointed out that values are inherent in all theory and research, and he decried not only prevailing, supposedly "objective" methodologies but also the prevailing economics-centric theoretical base underpinning much organizational research. In his view, the emphasis on short-term shareholder value and the basic assumptions that economic self-interest should drive organizational activities result in minimal attention being paid to other human values. These include the values of preserving natural environments and building sustainable societies.

Conclusion

The interplay among the economy, environment, and society occurs at all levels. The sustainability challenge must be confronted by the nations, corporations, NGO's and governments, and by the citizens, employees, consumers, factories, shops, networks, families, communities, and regions whose behavior and activities comprise the reality we confront. The change is system-wide, occurs at all levels of analysis, and is non-linear and uncertain.

Organizations are key actors in the eco-systems that have to change, and many are stepping up to the plate. Yet even in the area of environmental sustainability, where there has been great progress over the past decades driven by advances in the hard sciences and engineering, and many accomplishments, we still face the challenge of scaling them up for global impact amidst a burgeoning population and global economy.

It is indisputable that science and technological advances are needed, but we also face the challenge of building new organizing approaches that incorporate attention to the environmental and social impacts of human activity into the operating values and logic of organization and communities. The transition challenge is fundamentally a social one – of repurposing and behavioral change (Hoffman, 2010), and of implementing scientific and technological advances in practice (Ting Chang *et al.*, 2010).

Burgeoning complexity related to global interconnectedness and rapid change yields organizational, societal, ecological, and economic landscapes that are difficult to predict and navigate, and impossible to control. Individuals, organizations, families, communities, and governments deal with only one certainty: that the actions they take and the decisions they make today must prepare them for an uncertain future. For organizations, achieving sustainable effectiveness requires agility informed by frameworks of thought and action in which actors see themselves as contributing to, operating within, and dependent on the larger systems of which they are part, and take future scenarios into account while acting in the present. As organizations change to address this broadened understanding of their roles, academics need to adopt different frameworks and approaches to developing knowledge to support the change.

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