1 Definitions

Introduction

The World Commission on Environment and Development (WCED) was created by the United Nations in 1983 to address growing concern about the accelerating deterioration of the human environment and natural resources and its consequences for economic and social development. In its 1987 report, *Our Common Future*, the WCED coined the most-often-quoted definition of *sustainable development* as the “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” This definition placed equity across generations and over *time* at the core of economic development.

Scholarship inspired by the WCED report focused on unpacking the elements of sustainable development, identifying its drivers and barriers, and ascertaining the role of business in addressing the global social and environmental challenges in this domain. For example, in 1989, Karl-Henrik Robèrt, a Swedish oncologist, translated the WCED definition into four system conditions for sustainability via the Natural Step Framework. These conditions called for eliminating humanity’s contribution to (i) the progressive buildup of substances extracted from the Earth’s crust, (ii) buildup of chemicals and compounds, (iii) physical degradation and destruction of nature and natural processes, and (iv) conditions that undermine people’s capacity to meet their basic human needs (*Natural Step*, n.d.).

The central elements of sustainable development as proposed by WCED and the Natural Step Framework are fairly similar. However, these macro systems concepts are easier to visualize at a global, national, or a societal level, but are much more difficult to operationalize, measure, and implement at the firm level of analysis that is the central focus of most strategy and organizational scholars. Unpacking the elements of
the WCED definition, however, provides some guidance for operationalization at the firm level of analysis. The definition calls for businesses to adopt three sustainability related principles: (i) sustainability of resource extraction – should not exceed the capacity of natural systems to regenerate resources such as forests, fisheries, soil, and clean water; (ii) sustainability of waste generation – should not exceed the carrying capacity of natural systems to absorb them; and (iii) sustainability of social equity – business activities should have a positive impact on poverty reduction, distribution of income, and human rights. Hence, this definition is relevant to the role of business in sustainable development, as defined in this monograph.

John Elkington, the founder of the consulting firm SustainAbility, coined the term triple bottom line, arguing that firms needed to measure three separate bottom lines: profits, people, and planet (Elkington, 1997; The Economist, 2009). Since then, the term sustainability or corporate sustainability began to distinguish a firm’s triple bottom line strategy from its traditional economic performance. The urgency and necessity of firms to consider their performance on triple dimensions of profits, people, and planet is increasingly driven by global reports of climate change, rising seas, and air and water pollution brought to the attention of organizational leadership by extensive news coverage of United Nations Conventions such as the 2015 Paris Agreement, award-winning documentaries such as An Inconvenient Truth (2006) and its sequel An Inconvenient Sequel: Truth to Power (2017), and increasing number of businesses committing to the UN’s Sustainable Development Goals (SDGs). While many business leaders and decision makers are persuaded of the need to do something meaningful to contribute to the conservation of our planet and reversing the negative trends in atmospheric destruction, the impact of such actions on the other two ‘p’s of organizational profits and people is far from clear. Thus, decision makers wrestle with uncertainty while making decisions for their firms.

In this monograph, sustainability refers to a firm’s strategy and investments intended to achieve performance on a triple bottom line; that is, generation of financial returns on investment that are satisfactory for shareholders and investors, enhancement of social justice and human welfare, and reduction of negative environmental impacts or generation of positive environmental impacts (refer to Table 1.1 for an overview of terms). Further, in order to narrow the scope of the
monograph to a manageable set of literature, we focus mainly on environmental sustainability; that is, strategies, actions, and practices undertaken by business with regard to their interface with the natural environment. While we do not completely exclude discussions of social impacts of business since in several contexts (especially the emerging low-income markets) where social and environmental issues are closely intertwined, these are less central to the review and discussion.

In academic literature, the term environmental sustainability is most frequently used in niche journals such as Business Strategy and the Environment, Greener Management International, Journal of Industrial Ecology, Organization and Environment, and Sustainable Development while the focus of corporate response and strategies on social issues is often the focus of journals such as Business and Society where the more commonly used term is corporate social responsibility, or CSR. However, its usage in strategy and management journals is more limited. In the traditional strategy literature, the term sustainable is most commonly used in reference to long-lasting competitive advantage or the “economic performance” element of the triple bottom line. In the domain of financial performance, more recently, scholarship on impact investing and corporate philanthropy has emerged. The bottom lines focused on people and the planet have gained momentum in the management literature starting in the late 1990s. Even so, to avoid empirical complexity, most academic research focuses on only one of these dimensions – people or the planet via either CSR or corporate environmental strategy.

The social and environmental research streams are largely addressed by researchers in the two divisions of the Academy of Management – Social Issues in Management (SIM) and Organizations and the Natural Environment (ONE). More recently, scholarship on the social dimension of sustainability is gaining momentum in the Organizational Behavior (OB) division (e.g., El Akremi et al, 2015). While there is a great deal of overlap, each research stream tends to use different terms to refer to the elements that make up the concept of sustainability. For example, terms like CSR or corporate citizenship focus on the social dimension of sustainability; while others like corporate greening or corporate environmental strategy focus on the ecological dimension.

Two terms have been used in the literature to describe the organizational strategies focused on each of the three triple bottom line dimensions. These are Corporate Philanthropy and Impact Investing (for the
profit dimension), CSR and Corporate Citizenship (for the people dimension), and Corporate Greening and Corporate Environmental Strategy (for the planet dimension). While our focus in this monograph will be to understand patient investments in proactive environmental strategies (PES) by family and non-family firms, understanding the differences between these terms is helpful in delineating the extant literature that is relevant for embedding the discussions in this monograph. Table 1.1 summarizes various terms used in the literature, sometimes without a clear separation or delineation. Following Table 1.1, we briefly elaborate on the more commonly accepted definitions or usage of each of these terms.

Key Terms in the Sustainability Literature

Corporate Philanthropy
Extant literature uses the term corporate philanthropy to describe a firm’s actions to mitigate negative social and environmental impacts. Corporate philanthropy usually refers to corporate giving or donations intended to tackle government failures in addressing social needs, problems, and challenges. A distinct stream of literature uses the term strategic philanthropy (e.g., Porter and Kramer, 2002; Post and Waddock, 1995). This concept argues that firms can engage in philanthropy to further their strategic interests. That is, they develop a strategic plan to give away resources with nothing apparent in return in order to garner intangible benefits such as goodwill or legitimacy or license to operate. Even though strategic philanthropy is undertaken for a strategic business purpose, it does not require the firm to change its core strategy or develop goals to achieve triple bottom line performance.

Impact Investing
Since 2009, a diverse community of investors, business leaders, and researchers have coalesced to form the Global Impact Investing Network (GIIN). This nonprofit organization defines impact investments as “the investments into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return” (GIIN, n.d.). This initiative provides an infrastructure to support the activities and research related to impact investing. While
micro-level impact investing efforts at individual, household, and community levels are gaining momentum, scientific research on this topic is in early stages (e.g., Bugg-Levine and Emerson, 2011). However, with the
emergence of a specialized niche journal focused on related research – the *Journal of Sustainable Finance and Investments* – scholarly interest in this topic is expected to grow. Jackson (2013) considers it as one of the most promising and creative areas of development finance.

Our interest in this monograph is to understand the factors that enable or hinder the core thinking of key decision makers regarding environmental strategies of ongoing firms rather than on how and where a business invests or spends its profits. Thus, while we acknowledge the importance of financial profitability dimension of sustainability, building related theory is beyond the scope of this monograph.

**Corporate Social Responsibility (CSR)**

Carroll (1979: 500), provided an early conceptualization of CSR: “Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organizations at a given point in time.” Building on this conceptualization and other definitions in the literature, El Akremi, Gond, Swaen, De Roeck and Igalens (2015) developed and validated a thirty-five-item scale to measure employees’ CSR perceptions. These authors define CSR as “an organization’s context-specific actions and policies that aim to enhance the welfare of stakeholders by accounting for the triple bottom line of economic, social, and environmental performance, with a focus on employees’ perceptions” (El Akremi et al., 2015: 623). Notable progress is being made in the CSR literature to assess a firm’s legal and ethical responsibilities toward its stakeholders.

Since societal perspectives about negative impacts of business operations are constantly evolving, firms need to address a moving target. For example, from the Industrial Revolution through the thirties, child labor was a norm in a wide variety of occupations not only in the United States but in most developed countries of the time. Today, while over 200 million children are still engaged as laborers in the world, such practices are abhorred by the International Labor Organization of the United Nations. Amidst such changing expectations, the CSR literature aims to understand firm activities directed to mitigate what society deems negative or unacceptable behaviors toward its employees or the community in which it operates. This may involve investments in its own operations and/or via philanthropy. However, CSR does
not necessarily imply that a firm will fundamentally change its strategy and operations to generate positive social or environmental impacts.

**Corporate Citizenship**

Corporate citizenship is used to describe a firm’s role in, or responsibility toward, society. Broadly, it refers to “the portfolio of socioeconomic activities that companies often undertake to fulfill perceived duties as members of society” (Gardberg and Fombrun, 2006: 330). Since corporations are granted “the legal and political rights of individual citizens through incorporation,” they also are ascribed, explicitly and implicitly, “a set of responsibilities” (Gardberg and Fombrun, 2006: 330). These authors provide examples of corporate citizenship as including “pro-bono activities, corporate volunteerism, charitable contributions, support for community education and health care initiatives, and environmental programs – few of which are legally mandated, but many of which have come to be expected by government hosts and local communities” (Gardberg and Fombrun, 2006: 330).

Matten and Crane (2005: 173) argue for a broader definition of corporate citizenship as “the role of the corporation in administering citizenship rights for individuals” indicating that the corporation is not only a citizen itself but administers citizenship for “traditional stakeholders such as employees, customers, or shareholders,” and “wider constituencies with no direct transactional relationship to the company.” Regardless of a narrower or broader definition, the term corporate citizenship includes elements of corporate action and strategy similar to CSR. It is no surprise therefore that the two terms are often used interchangeably in practice to describe a firm’s social and community initiatives. Regardless of how these terms are actually used by firms, or are defined by scholars, CSR or Corporate Citizenship do not imply that the firm will change its core operations or strategies. Usually, these terms are used to describe a firm’s practices and actions to mitigate the impacts of its operations that society deems negative.

**Corporate Greening**

While the terms CSR and corporate citizenship emphasize social actions and impacts, corporate greening is used to describe corporate actions to
address environmental impacts of a firm’s operations. It refers to actions adopted by a firm for risk reduction, reengineering, and cost-cutting (Hart, 1997). Thus, greening usually refers to organizational practices but rarely refers to corporate strategy, innovation, or technology development (Hart, 1997). Like CSR and corporate citizenship, the term corporate greening describes reduced negative environmental impacts but does not imply a change in core operations or strategy to generate positive impacts. Just as societal expectations of appropriate social practices have evolved, societal expectations of environmental pollution continuously evolve. For example, societal perceptions about emissions of waste from manufacturing facilities have changed substantially over the last five decades. Visual representations such as smokestacks represented economic development in the 1950s, but they now represent air pollution in most societies across the world.

Corporate Environmental Strategy

Corporate environmental strategy refers to a firm’s strategy to manage the interface between its business and the natural environment (Aragón-Correa and Sharma, 2003). Since the nineties, a significant stream of literature in ONE has emerged around corporate environmental strategy. For example, based on a comparative case study of seven companies in the oil industry, Sharma and Vredenburg (1998) distinguish between firms following proactive versus reactive environmental strategies. Proactive environmental strategy for a firm refers to a “consistent pattern of environmental practices, across all dimensions relevant to their range of activities, not required to be undertaken in fulfillment of environmental regulations or in response to isomorphic pressures within the industry as standard business practice” (Sharma and Vredenburg, 1998: 733). Firms pursuing a reactive environmental strategy may comply with the prevailing laws, lobby against environmental regulation, and even excel in specific areas in reducing environmental impacts, but their focus and consistency in pursuit of environmental strategy is limited (Sharma and Vredenburg, 1998). Proactive environmental strategy, on the other hand, implies changes in a firm’s strategy to prevent negative environmental impacts at source rather than just reducing them after the
negative impacts such as pollution are generated (Russo and Fouts, 1997).

Sustainable Business

A sustainable business is one that has altered or developed, or is in the process of altering or developing, its strategy and operations in accordance with the principles of sustainability. These principles encompass the triple bottom line: above industry average performance on financial, social, and environmental metrics. The sustainable firm’s business model and strategy are designed to achieve not only its economic or core objectives (e.g., for a nonprofit organization, the core objective may be the delivery of health care or clean water rather than profits), but also its social and environmental performance. Hence, a sustainable business is significantly different from a firm that does not fundamentally change its business model and strategy but rather acts responsibly by adopting practices to mitigate the negative social and environmental impacts of its existing operations. As compared to the terms already discussed, sustainable business, as used in this monograph, has fundamental implications not only for business strategy but also for the core operational and business model of the firm.

It is unlikely and perhaps impossible for any organization to be completely sustainable by itself. While sustainability is a journey on which an increasing number of organizations have embarked, networks of firms are forming industrial ecosystems to use each other’s wastes so as to ensure that no pollution leaves the network. A good example of this is the Danish Klundborg Symbiosis, a partnership between eight public and private companies in Kalundborg (Denmark) that use the circular approach to production. This approach builds on the principle that a residue from one company becomes a resource for another thereby benefiting the local economy, environment, and society (for more details, please see www.symbiosis.dk/en).

Sustainability Strategy

At the firm level, a sustainability strategy aims to achieve its short-term financial, social, and environmental performance without compromising its long-term performance on these three dimensions. This means
that the firm needs to create value for its stakeholders in the present while investing in strategies and resources to improve the social, environmental, and economic performance desired by its stakeholders (including its shareholders) in the future. In this process, the firm has to manage the uncertainty related to the evolving and changing definition of “value” over time for its various stakeholders (El Akremi et al., 2015). Hence, the temporal orientation of the dominant coalition or the top management team of a firm becomes an important determinant in understanding its environmental strategy. Temporal orientation is the distance into the past or future that an individual or a collective considers in their cognitive processes, behaviors, and decision-making (Bluedorn, 2002).

Effectively addressing sustainability challenges by an existing business requires it to effect changes in its strategy, and perhaps also its business model and organizational design and structure. These are deep-rooted changes that may require investments in new technologies, entry into unfamiliar market segments such as lower-income markets in developing countries, and building new capabilities that may yield returns over longer term as compared to investments that firms normally make in incremental product innovations and entry into adjacent new markets. In order to build such capabilities, the strategic decision-making unit of the firm, whether the dominant coalition in family firms or the top management team in non-family firms, needs to be aligned in their vision about the firm’s future business, their values toward the role of business in environmental preservation, and need to garner the support of their critical stakeholders.

What drives firms to undertake such investments that are likely to pay back over a longer term? What factors determine the top management team’s strategic time horizon and expectations of return on investments? This monograph examines these factors within the context of ongoing businesses. While firms may also undertake investments in social sustainability initiatives, such as fair trade in its supply chain, we narrow our focus in this monograph on investments aimed to address major environmental sustainability challenges such as climate change, clean water, and renewable energy, amongst others, and refer to such investments and initiatives as a proactive environmental strategy (PES). We use the term patient capital for such long-term investments thereby distinguishing them from short-term investments.