Foundation for Sustainability

Introduction

The concept of "sustainability" is made difficult to understand because of the failure to indicate the *perspective* associated with its application and the hodgepodge of terminology that is used to explain sustainability. Let us see how this works. Assume that the basic unit of society is an *organization*. If we can define an organization, then we should be able to create a perspective for understanding how that organization can use the concept of sustainability. The definition would show how an organization at the community level addresses sustainability in its internal context to address the many forces at work in its external context. This would be a stewardship model. The organization would feel a responsibility to address the consequences of its operations within the community by changing how it operates so that it does not create unwanted impacts that create those consequences. This is a view of sustainability at the lowest levels of hierarchical organizations and will constitute the bottom-up component of the larger organizations "top-down" focus. If the organization is not part of a larger organization, it is still accountable to the neighborhood and community at the interface of its operations and the larger world in its external context.

To begin the examination of this proposition, we need to understand the concept of an "organization." The discipline of organizational development posits that the purpose of an organization is to achieve its objectives. There are other disciplines that help organizations meet their objectives. Organizations use *principles* and *culture* to make the objectives explicit in their day-to-day operations. Risk management is defined as the "effect of uncertainty on meeting objectives" where the effects pose both opportunities and threats. Risk management helps organizations deal with their external context. Many of us still think that "events" cause risk. They do! But more organizations fail by having their leaders make bad decisions! There are people that study *decision-making*, knowledge management and sense making that will help an organization meet its objectives. Organizations have operations – even families have "operations." It is important to have *systems* (i.e. the plan-do-check-act sequence) to make sure the organization operates in a way that it can meet its objectives. Finally, there is a special role for the practice of *sustainability* in all of this. Sustainability contributes to the setting of "responsible" objectives and it searches for the opportunities found in the internal and external context and develops them in a way to offset the threats faced by the organization.

Each element in the foundation for sustainability will be briefly described below. More detailed information will be presented once the course gets going and each of you start applying methods to build the structure of a sustainability program in the organization of your choosing. It is in this way that you will use action learning to really understand how sustainability (and the other foundation disciplines) can be used by any organization of any size in any location.

Organization

In this course, you will select an organization that operates in a community setting. It is important that you understand the concept of an organization and its purpose. Here are some definitions:

- Organizations[i] are
  o social entities that
  o have objectives (whether explicitly stated or not)
  o are designed as deliberate structures and coordinated activities, and
  o are linked to the external 'environment' (context).

- "An organization is the coordination of activities of a number of people for the achievement of some common purpose or objective(s), through the division of labor and function and through a hierarchy of authority and responsibility.[ii]

Organizations are made up of people who have a relationship with one another through that organization. The organization exists when these people interact with one another to perform functions that together contribute to the organization meeting its objective(s). Leadership and governance of the organization seeks to provide structure and coordinate its resources to achieve the organization's objectives. By meeting the objectives, the organization creates value for the people within the organization as well as those who are associated with the organization.

Organizational theory applies to all organizations, not just business organizations. A typology[iii]

1. **Social organizations** – families, houses of worship, civic groups, professional associations, school parent groups, neighborhoods, etc.
2. **Public sector organizations** – local government departments, government agencies, authorities, public utilities, public transportation, and public service providers (governance of the local government is excluded)
3. **Private sector organizations** – businesses (for profit and nonprofit), business associations, trade associations
4. **Non-governmental organizations and advocacy groups**

Organizational theory considers the behavior of individuals, but only in the aggregate. People are important, but they are not the primary focus since organizational theory is distinct form the study organizational behavior[iv].

Organizations can have a hierarchy. Consider a family being a part of an extended family. Businesses can have a corporate organization, coordinated business units based on business types or geographies, and a host of organizations that operate at the community level. We will focus on the lowest level of the organizational hierarchy – the organization that exists in a community setting. It is important to under the hierarchy since its influence will be captured when you characterize the internal context of the local organization.

Let's now focus on the organization's objective(s). An objective is a desired state that the organization is seeking to attain. The objective represents a result or end point toward which the organizational efforts are directed[v]. It is important to define and articulate the organization's strategic intent by determining how the organization can meet its overall mission and the associated objectives. Strategic intent means that all of the organization's energies and resources are directed toward a focused, unifying and compelling objective(s).

The organization's mission describes the organizations shared values and beliefs and its reason for existing. To be effective, it should include a statement of the outcomes the organization is seeking. The mission communicates legitimacy to the people within the organization and its external stakeholders. All organizations need to achieve a sustainable competitive advantage. This is what sets the organization apart from others and provides it with a distinct edge for meeting needs within its value chain (i.e. suppliers and customers).

It is important to see the mission and objectives as providing the basis for developing more specific operating objectives.[vi] This helps establish the ends sought through the operating processes and procedures of the organization and explain what the organization is trying to accomplish. Operating objectives must be tied to the organizations strategic objectives in the mission. The rule of thumb is to have two or three strategic objectives and to have a similar number of objectives at the operating level. Operating components of any organization should never have their own objectives (e.g. sustainability goals). Every action in the organization must contribute to the organization meeting its overall objectives.

Understanding organizational objectives and strategies, as well as have them coordinated with operating objectives, is the first step toward understanding organizational *effectiveness*. Effectiveness is the degree to which an organization realizes its objectives. It is also important to consider the *efficiency* of the organization at the operational level. Organizational efficiency is a measure of the resources used (including human capital) to produce a unit of output (i.e. product or services). Indicators of effectiveness can be both qualitative and quantitative. The indicators measure the effects of performance and are lag indicators. Organizations need lead indicators to drive the lag indicators to be successful over the long term. This will be discussed more in the measurement and monitoring sections of this course. Some people like to align the concepts of effectiveness, efficiency and *efficacy* when evaluating the ability of an organization to meet its objectives. The term, efficacious, is defined as having the power to produce a desired effect – meeting the objectives.

Principles and Culture

Many of you are familiar with guiding principles and core values. Every organization has them, whether they are explicitly articulated or not. When you research these terms, you find that often the principles are presented from the perspective of the member of the organization so that they can contribute effectively to the maintenance of the culture of that organization. Let's consider for a moment that the principles are for the organization – not worded for the members. This would be a way to let outside stakeholders know what the organization stands for. In the

corporate world the sustainability or corporate responsibility program often states how the organization as a whole (often the "brand" promoted by the organization) stands for. But we need something more practical and that works at the level of an organization in a local community setting. The field of risk management presents eleven principles that need to be considered in every organization. They include the following:

- We exist to create and protect value for our members and our stakeholders
- Sustainability is an integral part of how we operate, not a bolt-on effort
- Sustainability is embedded into how all decisions are made every day
- Sustainability helps us address uncertainty posed by our external operating environment
- We see sustainability as a systematic, structured and timely consideration that guides all of the activities that take place within the organization every day
- Our understanding of sustainability is based on the best information from the knowledge of our members and the collective wisdom of our entire value chain and all of its external stakeholders
- Our sustainability efforts are tailored to our organization to help us meet *our* objectives
- We take human and cultural factors into account in our sustainability efforts
- Our vison of sustainability is dynamic, interactive and responsive to changes in our external operating environment (external context)
- We use sustainability to help us innovate so that we can continually improve in our quest to meet our objectives

Successful organizations have implicitly followed these principles for generations. It is an important part of transparency for the organization to explicitly state its principles so that stakeholders, internal and external to the organization, can see if the organization is true to its ideals.

An organization's culture consists of a set of values, norms, principles and understandings that is shared by members of that organization. Culture is instilled in each new member as a way to think, feel and behave while participating in that organization. The culture is even important to members of the organization's value chain and the external stakeholders in the community. For this reason, everyone participates in the organization's culture. By making the principles explicit, the organization will be in a better position to articulate its culture to the stakeholders.

When you are with members of an organization, there are a number of observable behaviors, as well as stories and 'ceremonies' that are shared. These discernable elements of culture reflect the deeper beliefs and values that are present in the minds of the members of that organization. Culture provides people with a sense of organizational identity and generates within each member a commitment to beliefs and values that are common to that organization. Culture is behind the vision and strategy of the organization. It contributes to the success of that organization by attaining the objectives.

Culture also helps the organization address how it adapts to an uncertain world. It plays an important role in creating a climate that enables learning and innovative response to challenges, competitive threats and new opportunities. A strong culture encourages adaptation and change

that enables the organization to enhance its performance by literally energizing and motivating members around shared sense of achievement of the objectives and a higher mission for the future of the organization. Culture shapes and guides behavior so that everyone's actions are aligned with the strategic priority of meeting the organization's objectives.

Risk Management

Risk is defined as the effects of *uncertainty* on an organization's ability to meet its objectives.[vii] An *effect* is a deviation from what was expected to happen. The effects associated with operating in an uncertain external environment can be positive (*opportunities*) or negative (*threats*). Some sustainability practitioners still use the phrase "risk and opportunity." However, this is an investment term and should not be confused with managing opportunities and threats. Many of you are already aware of a SWOT (i.e. strengths, weaknesses, opportunities and threats) process for deriving a strategy for the operation. Now you can see that the strategy is a form of risk management. It is important not to think of risk management as being preoccupied with threats (unfortunately still referred to as "risks"). We will spend a lot of time looking at the opportunities.

Risk can be associated with an *event* and its *consequences*.[viii] These events can be incidents or accidents. Events can also be earthquakes, intense storms, or an insurrection of some kind. In risk management, we tend to look at risk in terms of the consequence to the organization rather than an impact. An event can also consist of something not happening, such as a drought (not enough rain). As you would expect, consequence is defined as the outcome of an event. The consequence can help an organization (opportunity) or create a negative effect (threat). Consequences can be expressed qualitatively or quantitatively. For a number of reasons, it is much more difficult to express an impact with the same degree of clarity. The level of risk is expressed by the likelihood that particular consequences will be experienced by the organization. Technical details, but important to know since risk management is very important to an organization's ability to meet its objectives.

We will see that making decisions can have consequences for an organization. Good decisions can help the organization meet its objectives. Bad decisions can create negative consequences. Decisions are not events. This is why the term, 'event', is no longer in the definition of risk.

The organization's objectives and *uncertainty* give rise to risk.[ix] Uncertainty is about not having enough information about a risk to an organization. You can find uncertainty in the internal and external operating environment (context) of an organization. During the first full week of the course, you will be using a PESTLE (i.e. political, economic, social, technological, legal, and environmental) tool to understand the external environment of an organization and the kinds of uncertainty that is created in each category. Each element of the PESTLE can be evaluated using the SWOT tool to find the opportunities and threats that the organization needs to contend with in the risk management program. Assumptions and presumptions (e.g. how will the members of the organization behave as a result of an event) create common sources of uncertainty. Uncertainty changes over time due to competition between organizations, market trends, new information, and changes in the underlying factors.

Management involves how the organization is directed and controlled in pursuit of its objectives.[x] Risk management is an essential tool that should be used by the management of an organization as it involves coordinated activities to deal with the effect of uncertainty on the organization's objectives. In order to be effective with risk management, it is important that it be fully integrated into the organization's system of operation. You will remember that this is mentioned as one of the principles of an organization.

Decision-Making

As mentioned in the principles, risk management helps decision makers make informed choices, prioritize actions and distinguish among alternative courses of action so that the organization can meet its objective in an uncertain world. Organizations have leaders who make decisions using both rational and intuitive processes. All of the members of an organization are also called upon to make decisions as they participate in the operations. The processes by which decisions are made in organizations are influenced by a wide range of factors. Researchers have described a model referred to as the *knowing organization*[xi] that enables these organizations to use information to adapt to internal and external changes associated with the context within which they operate. This model looks at how people in organizations work with information to accomplish three outcomes: 1. Create a means for sensing change in the external operating environment; 2. Develop new knowledge and new capabilities to deal with that change; and 3. Make decisions that commit resources and capabilities to help the organization meet its objectives.

Without a clear understanding of how to sense and deal with changes in the external environment, organizations are unable to thrive and grow in this uncertain world. It is important that organizations use information to make sense of changes in their external environment. Many things can happen in the PESTLE categories that affect the organization's performance. Change in the external context continuously generates signals and cues. Unfortunately the management of many organizations can miss these signals. The short term goal of *sense making* is to find the way to understand the dynamics of the external context so that the organization can continue to act and function. The long term goal is to ensure that the organization adapts and continues to thrive so that it can meet its objectives.

Organizations must generate new *knowledge* all the time to help it perform sense making over the long term. This knowledge is developed in the leaders and other members of the organization. The organization exists because of its ability to integrate and channel these sets of knowledge into activities and outcomes that are meaningful and valuable. Only when the organization is able to continually refresh its knowledge and extend its capability to deal with uncertainty and manage the opportunities and threats can it be able to meet the objectives in the longer term.

These two capabilities are useful when the organization searches for and evaluates information in order to make *decisions*. In the day-to-day existence in an organization, decision-making is muddled by the jostling of interests among internal and external stakeholders, the biases and

idiosyncrasies of individual decision makers, information being so hard to find, and the lack of time and resources.[xii] Sound familiar? Despite these complications and the uncertainty that accompanies organizations in a changing world, an organization must keep up with these changes in order to maintain its external legitimacy with its stakeholders. All organizational actions are initiated by decisions and all decisions are commitments to action. Many researchers maintain that management is decision-making. They believe that the best way to analyze an organization's capability of success is to analyze the structure and processes of decision making. The organization that is able to effectively integrate sense making, knowledge creation, and decision making should be prepared to deal with the threats and opportunities identified within its risk management program.

Systems

To be successful, an organization must have systems to ensure the efficient use of resources, decision-making based on factual evidence; and engagement of stakeholders so their interests can be addressed. Management is defined as coordinated activities that direct and control an organization.[xiii] The term 'management' sometimes refers to people with authority and responsibility for the conduct and control of an organization. When talking about systems, management refers to establishing activities, policies, objectives, strategies, plans and governance activities to help the organization meet its objectives. An organization can achieve sustained success by consistently meeting its objectives over the long term.

Whether done formally or casually, successful organizations use what is referred to as the plan-do-check-act (PDCA) model. It helps the organization's leaders to plan, establish, implement, operate, monitor, review, maintain, and continually improve the effectiveness of the systems in use. Planning establishes the operating policy, objectives, operational controls, processes and procedures that are tailored to the organization (see the principles) in order to align the operations with the organizations objectives. The "do" step provides for the implementation and operation of controls, processes and procedures. Checking is about monitoring and reviewing performance against the objectives, reporting the result to management for review, and enabling them to make decisions on actions to remedy problems and improve the process. Finally, the act helps maintain and improve the process by taking appropriate action to adjust the process to enable continual improvement and to review the policy and objectives to ensure long-term success.

The system is the mechanism for an organization to deliver its objectives in a controlled, coordinated, optimized and sustainable manner. The organization needs to start with a clear understanding of what is needed and what is possible. Its objectives and context have a substantial influence on the elements needed in these systems. An organization should engage its stakeholders to understand their *interests* in the organization. This engagement will create a need for transparency and accountability on the part of the organization. For many organizations, this can require a difficult change in its operating culture as it has to adapt to new behaviors and ways of thinking in order to be successful over the long term.

An organization must manage its opportunities and threats. Risk-based thinking must be pervasive throughout the operations of the company and maintained through the use of these systems. Management systems are not popular, but they are necessary if the organization wishes to be successful in addressing the uncertainty of operating in a changing world.

Sustainability

Sustainability is still in its nascent state. The practice of sustainability can become more mature if it is closely aligned with the other foundation elements as described above. Perhaps the most important point to be made here is that sustainability can be defined from the perspective of the organization. Having a definition that is tied to a tangible perspective is a major step forward for this concept. I had proposed such a definition a few years ago:

> Sustainability is the capability of an organization to transparently manage its responsibilities for environmental stewardship, social well-being, and economic prosperity over the long term while being accountable to its stakeholders.[xiv]

This definition takes a stewardship position. The organization would use sustainability within its internal context and will address areas in the external context when in its sphere of influence. This perspective brings an element of proactivity to the organization that will be helpful in the quest to meet its objectives. Sustainability is adept at addressing the opportunities (positive aspects of risk) when other functions in the organization are too busy trying to manage the threats – a reactive position.

The concept of acting responsibly is at the very core of the practice of sustainability. An organization is *responsible* for the impacts of its decisions and activities on the community (i.e. society) and the environment through its transparent and ethical behavior so that

- it contributes to sustainable development including the health and welfare of society
- takes into account the interests of it stakeholders
- is in compliance with applicable law and consistent with the prevailing norms of behavior, and
- is integrated throughout the organization and practiced in all of its relationships.[xv]

A commitment to sustainability help the organization set responsible objectives. The engagement of stakeholders helps the organization better understand the external operating environment. This engagement process requires the organization to have a degree of openness about its decisions and activities that affect the community (society), the economy and the environment. The organization is also compelled to communicate these decisions and activities in a clear, accurate, timely, honest and complete manner. Some would say that in the age of digital media, every organization needs to be transparent. However, when practiced in this manner, the organization gets something back in the form of some active sense making and knowledge that will enable it to make better decisions.

The engagement with stakeholders also demands the organization to be accountable for its operations. This involves being answerable for decisions and activities to the governing bodies, legal authorities, the key stakeholders, and the community at large. However, this leap of faith help build trust in the community and can lead to the organization securing its' license to operate.

A Credible Foundation

These elements all work together to help the organization meet its objectives. There are no fancy names, euphemisms, slogans or colors associated with these practices. More information on these important elements of sustainability will be presented throughout the course as you are busy building the structure of an enduring sustainability program in an organization of your choice using an action learning platform. Please get involved in the activities each week by working with your cohort team to learn the skills that you need to help the organizations to which you belong become sustainable and meet their responsible objectives over the long term.

End Notes

[i] Daft, R.L. (2013) *Organization Theory & Design*. Mason, Ohio:South-Western Learning, Centage Learning.

[ii] Schein, E. (1965). *Organizational Psychology*. Englewood Cliffs, NJ: Prentice-Hall.

[iii] British Standards (2011). *Guidance for Community Sustainable Development*. BS 8904. London: British Standards Institution.

[iv] Ibid, Daft, RL (2013)

[v] Ibid, Daft, RL (2013)

[vi] Ibid, Daft, RL (2013)

[vii] International Organization for Standardization (ISO). (2009). *Risk Management – Principles and Guidelines*. ISO 31000., Geneva, Switzerland: International Organization for Standardization

[viii] Ibid, ISO (2009)

[ix] Standards of Australia and New Zealand (AS/NZS). (2013*). Risk Management – Guidelines Companion to ISO 31000:2009.* Sydney, Australia: SAI Global Press

[x] International Organization for Standardization (ISO). (2013). *Risk Management – Guidance for the Implementation of ISO 31000*. ISO/TR 31004. Geneva, Switzerland.: International Organization for Standardization.

[xi] Choo, CW. (2006). *The Knowing Organization: How Organizations Use Information to Construct Meaning, Create Knowledge, and Make Decisions*. 2nd Edition. New York: Oxford University Press.

[xii] Ibid, Choo (2006)

[xiii] International Organization of Standardization (ISO). (2009a). *Managing for the Sustained Success of an Organization: A Quality Management Approach*. ISO 9004. Geneva, Switzerland: International Organization of Standardization.

[xiv] Pojasek, R. B. (2010). Sustainability: The Three Responsibilities. *Environ. Quality Management*, 21 (3), 93-100.

[xv] International Organization of Standardization (ISO) (2010). *Guidance on Social Responsibility*. ISO 26000. Geneva, Switzerland: International Organization for Standardization.