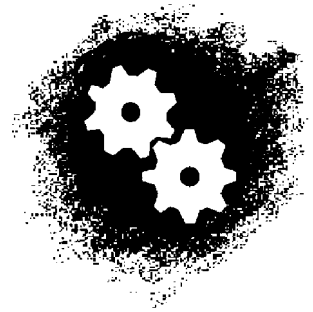


# CORPORATE SUSTAINABILITY – INTEGRATING ENVIRONMENTAL AND SOCIAL CONCERNS?



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This article presents a case of the early stages of an attempted integration of environmental management and corporate responsibility in a UK utility company, which may, in due course, develop into a more holistic orientation towards corporate sustainability. The company had made some deliberate attempts to link environmental and social responsibility issues. However, this integration was partial and contested within the company. The case shows that dealing with environmental soundness and starting to integrate environmental and social issues and management need not be a sequential process. Institutional and wider social factors are shown to play a strong role in influencing company thinking and actions in this area, seemingly sending rather mixed signals in this case. The case also highlights the role of sustainability champions in making links between the organization's

business purpose, its environmental performance and its social responsibility in terms of the long term sustainability of the region and the company's future. Copyright © 2004 John Wiley & Sons, Ltd and ERP Environment.

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## INTRODUCTION

This paper arises out of the author's long term research interest in the environmental strategic and organizational change (corporate 'greening') in some of the UK's utility industries (water and sewerage, and electricity distribution). With the focus on various aspects of environmental strategy and performance, empirical research was conducted in two phases over a period of seven years. Social issues or questions of corporate social responsibility were not initially included in the research design as the researchers felt that this would unduly confuse the subject. However, from the start it became clear that for many respondents environment was not as separate from other issues, such as

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health and safety or social issues, as the researchers had assumed. This was particularly obvious in the first phase of the research, where respondents frequently connected questions of environmental policy with those of health and safety policy. It was generally rather less obvious in the second phase of the research, where most respondents seemed to keep environmental, health and safety, and social issues relatively separate. This was in line with the researcher's questioning, which concentrated on environmental concerns. It was therefore interesting, and initially even somewhat surprising, to note that in one company in particular a number of respondents quite deliberately wanted to connect environmental and social issues. This was not so much because they were confounding various issues (something which seemed to have happened in a number of companies in the earlier phase) but because they felt that these issues ought to be considered together. Such a connection of social and environmental issues clearly corresponds to many understandings of sustainable development. The ways in which members of that company were connecting these issues therefore seem worthy of some further exploration and analysis, which is the purpose of the present article.

## LITERATURE REVIEW

Sustainable development has been variously defined by different authors and in the 25 years since the term first became commonly known it has taken on a number of different meanings, some of them, one suspects, fairly far removed from the ideas of those who first popularized the concepts, most notable among them the so called Brundtland commission (UNWCED, 1987). Gladwin *et al.* (1995) summarize a number of different definitions, which taken together establish biological/ecological, economic and social systems and processes as the three bases of the concept of sustainable development. These should then also form the bases

of any notions of corporate sustainability. One would assume that definitions of corporate sustainability would contain economic and ecological elements almost by definition but the inclusion of the social dimension may be less clear cut. In the following we shall therefore concentrate on the importance of social aspects in conceptualizations of sustainability.

Gladwin *et al.* (1995) develop the following definition of sustainable development: '[. . .] sustainable development is a process of achieving *human development* [. . .] in an *inclusive, connected, equitable, prudent, and secure* manner' (Gladwin *et al.*, 1995, p. 878). The social aspects of sustainable development are most clearly present in the first three elements, i.e. inclusiveness, connectedness and equity. 'Inclusiveness' suggests that sustainability 'embraces both environmental and human systems, both near and far, in both the present and the future. [. . .] Sustainability thus goes beyond ecological efficiency to also include social sufficiency; it goes beyond the "The Natural Step" [. . .] to include social and economic steps' (Gladwin *et al.*, 1995, p. 878). Discussing 'connectivity', the authors suggest that 'a nation cannot reach its economic goals without also achieving social and environmental goals' and that 'social equity and biospheric respect are required for enhanced welfare anywhere on the planet. [. . .] Efforts aimed only toward ecological health and integrity, in the absence of efforts to alleviate poverty, stabilize population, and redistribute economic opportunity, may produce trivial results at best' (Gladwin *et al.*, 1995, p. 879). Equity, i.e. the fair distribution of resources and property rights, which Gladwin *et al.* identify as a central dimension of nearly all definitions of sustainability, also has obvious social components, particularly in looking to provide for the needs of the least advantaged in society.

Jennings and Zandbergen (1995) see sustainability in terms of the relation between the ecological system and the social system, where the social system contains human capital and the economic system. They take an institutional



approach, where sustainability is something that relates not so much to individual firms but to regional networks of organizations and other institutions. They suggest that members of modern societies seek not only economic development but also balanced social development within local eco-systems. This view of sustainability as a social good would imply that social issues have an important role to play in a company's contribution to sustainable development. Following their logic we might look for an integration of a company's environmental and social efforts mostly in terms of cooperation with other institutions and social actors in an effort to create regional and local sustainability.

Starik and Rands (1995) suggest a multi-level and multi-system approach to sustainability, which includes ecological, social-cultural, political-economic, organizational and individual elements, and describe characteristics of ecologically sustainable organizations at all these levels. At the social-cultural level, these characteristics include 'involvement with social-cultural elements to advance sustainability values, involvement in educational institutions' environmental literacy efforts, provision of environmental information to various media, dissemination of sustainability information from culturally diverse stakeholders, and attention to environmental stewardship values of organisational members' (Starik and Rands, 1995, p. 916). Similarly, Throop *et al.* (1993) suggest that business organization should look at environmental issues not only from a narrow, technical perspective, but must understand business's place within the wider bio-physical and social systems in order to make real progress towards sustainability.

Shrivastava (1995) links four aspects of ecologically sustainable development (population control, food security, ecological resource management and creating sustainable economies) to four corporate mechanisms (total quality environmental management, ecologically sustainable competitive strategies, technology

transfer and population impact control). Of the four aspects of ecologically sustainable development, population control and food security are perhaps the ones with the most obvious social component, particularly from the point of view of intragenerational equity between industrialized and developing countries. However, Shrivastava also suggests that companies can mostly contribute to ecological resources management and to creating sustainable economies and less (although not nothing) to population control and food security.

These conceptualizations of sustainable development and sustainable business all introduce a social component, in addition to an economic and ecological one, albeit to varying degrees. Most of the literature on this topic stresses ecological issues more than social ones, which is perhaps not too surprising, given that these authors felt that ecological issues were sorely under-represented in business strategy and were trying to redress that balance. Thus Shrivastava (1995) proposes a business charter for sustainable development, containing 16 points, only two of which have a noticeable social component. Sharma and Ruud (2003) point out that most researchers in the area have so far concentrated on the ecological dimension of corporate sustainability, sometimes combining this with concern for the economic dimension, in trying to establish whether better environmental performance of a firm would lead to better financial performance, but have only very recently begun to concern themselves with the social dimension.

It should also be pointed out that some authors are not convinced that the social elements of sustainability are an easily attainable or even an appropriate goal for business strategy. Fineman (2000) suggests that business organizations are not necessarily well equipped to deal with the demands of sustainability, and Lamming *et al.* (1999) state that sustainable development, precisely because it includes important social aspects as well as economic and ecological ones, is not an appro-



appropriate goal for business as they feel that business organizations cannot properly deal with such social issues. Instead, they argue, business organizations should focus on 'environmental soundness', which includes only the ecological and economic elements.

It is, of course, not certain that business as a whole has made much progress towards even this somewhat less ambitious goal of environmental soundness (Schaefer *et al.*, 2003). However, dealing with environmental soundness and dealing with the wider implications of sustainability are not necessarily a sequential process and some members of the company discussed here have spent some serious thought on the integration of the two aspects.

## METHODOLOGY

As mentioned in the introduction, this paper is based on part of a larger study, looking at pro-environmental strategy and organizational change in seven companies in the UK water and sewerage, and electricity distribution, industries. The data presented here concentrate on one of these companies, a multi-utility company with both water and sewerage, and electricity distribution, interests. Unlike many others in these two industries, the company remains British owned.<sup>1</sup> Like many UK utility companies, the company has made efforts to diversify outside the heavily regulated UK utility markets, either into non-regulated domestic markets or into international

<sup>1</sup> The water and sewerage, and electricity, industries in the UK were privatized in 1989, initially to much hostility from the press and the public. The industries were privatized as regional monopolies initially but efforts have been made to make these markets more competitive. This has gone further in the electricity industry. Additionally, the electricity industry was disintegrated, with electricity generation, distribution and supply being privatized in separate firms, although some re-integration has taken place subsequently. Both industries are regulated by an industry regulator, which essentially sets prices (OFWAT for the water industry; OFGEN for the electricity industry). Environmental regulation is carried out by the Environment Agency. The water and sewerage industry is subject to extensive, industry specific environmental legislation, mostly emanating from the European Union. Electricity distribution is also subject to environmental legislation, which is, however, mostly general rather than industry specific.

markets. Despite its status as a multi-utility company, the water interests of the company are more extensive than its electricity interests and most respondents were from the water side. The company operates in a region of the United Kingdom that used to be dominated by old heavy industry and that has suffered from the associated environmental problems, in terms of air and water quality, and from industrial decline.

Data collection was mostly in the form of semi-structured interviews. Although a larger number of respondents were interviewed (12 in phase 1 and six in phase 2) the data presented here concentrates on those respondents who made the connection between environmental and social issues and explores their views in depth. Although this is only a small number of respondents, their reasoning is often very interesting and can form the basis of some theory building. Most interviews were tape-recorded and later transcribed. In one case this was not possible as the respondent was not comfortable with the idea. In this case, extensive notes were taken during and immediately after the interview and written up as soon as possible afterwards. This interview data was supplemented by company documents, such as environmental and social reports.

## FINDINGS

The case study company had made some deliberate attempts to link environmental and social responsibility issues. This had, among other things, resulted in a joint environmental and social report. Some managers in the company had campaigned for a further integration of environmental and social policies and of the respective strategy and management panels, but a decision had been made not to do so at this time. There was a feeling that the company had made some achievements on the social responsibility side and that this was being externally recognized.



[We have] moved into the top team on corporate social responsibility. It had a number of successes. One the ACCA award for the best environmental report, and in the following year it won the 'Business in the Community' award for best company in terms of impact on society. We were runner-up in the European award for environmental reporting, as well. [Environmental Manager, UK utilities division]

The fact that the company had given some thought to the relation between and integration of environmental and social issues was also shown by the fact that the strategic planning director opened the interview with the question of whether my research looked just at environmental issues in a more narrow sense or also at wider social issues and then went on to explain that the company was now increasingly thinking about them as part of the same theme.

Before, [we] used to have a fairly large number of policies dealing with relatively specific aspects of the environmental and social agenda. This has now been whittled down to three, more comprehensive policies: better regulation, environmental protection, and social responsibility. [Group Strategic Planning Director]

The environmental manager seemed to be the one who had given most thought to an integration of social and environmental issues as part of a sustainability agenda, which, for him, focused mostly on the environmental, social and cultural, and economic regeneration of the region in which the company operated. Although he admitted that much of the company's social engagement, in particular, had not always been well focused, he felt that the company's main organizational purpose, i.e. investment in and running of part of the regional utility infrastructure, its statutory and voluntary activities in environmental programmes and its social responsibility engage-

ment all fitted well together in terms of aiding the regeneration of the region. Improved environmental quality, where the company had a big role to play, particularly in terms of cleaning up polluted rivers, and a revitalized social and cultural scene, to which the company could contribute through its social engagement, would lead to an improved image for the region, which would attract more business, which in turn would impact positively on the company's long-term financial prospects. This manager seemed to have thought quite clearly through the linkages between the company's organizational purpose, its environmental performance and its social responsibility engagement, thus establishing sustainability, with all its three elements, as important for the region's and the company's long term future.

Other respondents had not made these links as clearly. Some considered environmental and social issues mostly in terms of external recognition and legal obligations, although recognizing that these issues were going to be important for the company in the long term as they were seen as important by society in general and by the government. Yet other respondents considered environmental issues less in terms of a larger (sustainability) picture and more in terms of concrete operational issues, such as discharges from sewage works or oil pollution from electricity distribution equipment.

The respondents also pointed to a certain degree of contestedness, both of the environmental agenda per se, and of the integration between environmental and social issues, within the company. While the environmental manager was in favour of a greater integration of environmental and social policies and strategy as well as the corresponding advisory and strategy panels, a decision had been made at the top to keep them separate for the moment.

I believe that bringing them together is the right way to go. What we haven't actually done, well, we're at the stage of trying to battle that one out, is to integrate our social



and environment policies. And in fact, the decisions that have been made to date are tending to keep the two things separate. [...] [And we] set up a thing called the public policy forum, which is still there and is now an important part of the way in which both environment and social matters are managed. And, I think, it's got a fairly high profile, it's chaired by the chairman. [...] And meanwhile environment, if you like, looked after itself. [...] I certainly wasn't happy with the fact that the environment committee wasn't meeting at all, and I suggested that it should be reinstated as a sustainable development panel [...] but, in fact, the decision was made not to do that and it's been reconstituted as an environment panel. [Environmental Manager, UK utilities division]

Different reasons were offered for this. The strategic planning director felt that dealing with social issues was more difficult than dealing with environmental and regulation issues, and this could make integration more difficult.

The third policy area, social responsibility, is more difficult because the industry is becoming more competitive. The regulators, OFGEN and OFWAT, are both looking towards more competition and one of the results is that they demand the removal of cross subsidies, which is likely to affect more vulnerable customers hardest. Essentially, the government is trying to have it both ways: they want the greatest possible degree of competition and free markets *and* social inclusiveness, and to some extent these are incompatible. [Group Strategic Planning Director]

On the other hand, the environmental manager pointed to different interpretations within the company as to where the company's strengths lay and which actions were most successful in

promoting the company's image in the wider society.

Perhaps [the chief executive] saw us as being on fairly strong ground on the environmental side, and possibly on weaker ground on the corporate social responsibility side. And so he felt it was better to go with our strengths. [...] I think that in reality a lot of the external credit that we've got has been because of the social side, I mean, we've done our bit on the environment side but I don't think that it's environment that's pushed us through, I think it was that combination. [Environmental Manager, UK utilities division]

Despite the current halt to further integration, the environmental manager felt certain that greater integration would happen in the future. There was also some external pressure for this to happen, most notably from an external member of one of the advisory panels, who had expressed his marked preference for a 'sustainability' panel with a wider remit.

We have a number of external members on the public policy forum. Initially that had been conceived in more strictly environmental terms but the external advisors wanted some social aspects in there. Otherwise they were not happy to serve on the forum. There is still a focus on environmental, rather than social issues, due to the complexity of social issues, but it seems the external members who wanted more social aspects involved have decided to work on it from within. [Group Strategic Planning Director]

It should be noted that not only the integration of environmental and social issues but also the priority given to these concerns were to some extent contested in the company. Several respondents felt that these issues were not currently given as much attention by top management as they had been given in the past and



as they deserved. Instead, some top managers were thought to be mostly concerned with efficiency gains and cost control, following the latest review by OFWAT, the water industry regulator, which was generally seen as 'tough' throughout the industry. The company was going through a reorganization, involving some job losses, and people's minds – at all levels – were thought to be occupied by this, rather than environmental issues. Environmental issues were also not generally thought of as a source of competitive advantage. This is illustrated by the following quote.

I don't think we've understood that yet. Some companies look at it from that point of view and see the advantage before we see it, the pound signs that it takes. I don't think we're there yet. In fact, I know that we're not there yet. Yes, there is that way of looking at it but I don't think we have the environment high enough on our agenda to approach it from that point of view. [Internal Environmental Compliance Officer, UK utilities division]

## CONCLUSION

What can we learn from this case? Given the limited empirical basis and the highly exploratory nature of the paper, it is clearly not possible to generalize from this case. However, some factors seem to emerge that have influenced the – partial, incomplete and to some extent contested – integration of social and environmental issues in this case and that may also be influential in other cases.

One conclusion to be drawn is that dealing with environmental soundness and starting to integrate environmental and social issues and management need not be a sequential process. This does not yet appear to be a case of a company making a full attempt to integrate environmental and social responsibility under the overall guidance of the principles of sus-

tainable development (at least in the understanding of this term by most environmentalists). However, the thoughts regarding an integration of social and environmental issues also go beyond the trivial, and the connections between economic, environmental and social issues in terms of the sustainable development of the region in which the company operates have been thought through quite well by at least some members of the organization.

It is probably not very surprising that some members of the organizations should have thought through this connection and what it means in terms of sustainability far more clearly than others, nor that the person whose thinking appeared most advanced in this respect should be the environmental manager. Environmental managers are normally environmental champions, and taking on the role of social responsibility champion and sustainability champion, in the sense of the discussed connection between the issues, seems a natural extension of the role.

Another conclusion is that this company is strongly influenced by institutional and wider social factors in its thinking and actions in this field. This has been documented for corporate environmental management and engagement before (e.g. Schaefer and Harvey, 2000; Hunt and Raman, 2000) and, again, it should probably not surprise us that this is also the case with regards to connecting social and environmental concerns. Stakeholder recognition and public image were interpreted variously as supporting the connection of social and environmental engagement and as supporting a concentration on environmental issues only. The views and actions of external members of the environmental advisory panel were more generally seen as a push for greater integration and the definition of the role of the panel as a 'sustainability' panel rather than a narrow environmental one. Finally, the role of government and the industry regulator were described as quite ambiguous and often hindering social policy actions rather than demanding or supporting them. The institu-



tional and social field was thus interpreted as giving rather mixed signals and there clearly was no company wide understanding of unambiguous pressures towards an integration of social and environmental issues as part of a sustainability agenda.

As in all organizational change and decision processes, personal and political factors play an important role. Personal values and priorities, particularly of top management, have a strong influence on policy decisions and on the organizational culture with respect to environmental management, corporate responsibility and management for sustainability. Not surprisingly, the role of champions also emerges. It is interesting that the environmental manager also seems to act as social responsibility champion and, by making the connection between the issues, as sustainability champion. This may well be the reason why the environmental manager was the one who had thought most clearly through the links between the organization's business purpose, its environmental performance and its social responsibility in terms of the long term sustainability of the region and the company's future. Being able to make such links would seem to be useful in persuading others and thus in fulfilling his role of sustainability champion, particularly given the degree of contestedness of both the priority given to environmental and social issues and the desirability of connecting them.

It is an interesting question whether the company looked at these issues from a strategic perspective. In so far as the long term ability to comply with legislation and an attention to public image can be regarded as a strategic concern the answer may be yes. However, the company did not regard environment, social responsibility or sustainability as a source of competitive or commercial advantage and thus probably did not look at these issues as strategically as some other companies. It is probably fair to say that company strategy was not guided comprehensively by sustainability considerations.

This company thus represents an interesting case, which allows us to observe early stages of an attempted integration of environmental management and corporate responsibility, which may, in due course, develop into a more holistic orientation towards corporate sustainability. For this to happen, however, it would seem that the company needs to not only fully integrate its environmental and social policies and activities but perhaps also give these issues greater priority overall. Although it is difficult to generalize from a single case we suspect that this situation may be more typical for companies considering the integration of these issues than a fully developed holistic approach guided throughout by principles of sustainable development.

Future research in this area should further explore and test the factors that have emerged from this case, including companies' conceptualization of corporate sustainability in economic, environmental and social terms; the way in which moves towards corporate sustainability and the integration of economic, environmental and social concerns this implies are embedded in and framed by the specific institutional field (regulatory regime, competitive situation, wider social trends, government actions etc.) in which a company operates; the role of individual actors and political processes within the company, including the emergence of sustainability champions, and the role of sustainability considerations in corporate strategy.

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