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The sustainable effectiveness model:
Moving corporations beyond the philanthropy paradigm

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There is increasing agreement that we are at a moment in history when business as usual is inadequate. Corporations have to change the roles that they play in the world today to effectively address complex pressing global issues. Corporations are being asked to perform well financially, socially and environmentally. To play this "sustainable effectiveness" role, corporations need to adopt new approaches to how they organize and manage themselves.

Historically, corporations have argued that they can meet their social responsibilities through philanthropy and by providing jobs, both of which "require" corporations to be profitable. This argument is one articulated by the noted economist Milton Friedman—that corporations can best serve society by providing jobs and making gifts to charities and other "worthy causes." From an organizational design and management point of view, it is "relatively easy" to create an organization that can effectively deliver philanthropic gifts. The corporation simply needs to set up a foundation that assesses alternative philanthropic opportunities and determines which ones represent the best return on the organization's investments. For assessment criteria, organizations often look at issues such as the impact, visibility and social correctness of contribution. The rest of the corporation can do business in the way that maximizes profit. The latter does not have to worry about 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. In other words, its philanthropic activities are largely independent of the company's activities. All too often, of course, this separation means that the corporation's activities may be contributing to the very societal and environmental problems that they should be resolving. These problems range from environmental pollution to how employees are treated by their suppliers.

Goldman Sachs is a good example of a company that has successfully adopted this philanthropic model and at the same time is highly profitable. Since 2008, it has greatly increased the percentage of its earnings that it devotes to philanthropy. The *New York Times* described its contributions as "part of the price of reputation reclamation" since the firm along with most financial institutions was blamed for the financial crises that occurred in 2008. What Goldman Sachs did not do is to commit to changing the way its core business operates so that it will have a more positive impact on the environment and society. This would have required a massive change in the way Goldman is organized and managed. That said, such a change might have enabled the firm to take more actions that increased profits while simultaneously leading to more positive social and environmental outcomes.

The sustainable effectiveness model of how organizations should operate is very different from the philanthropic one. It argues that organizations should be managed in ways that produce positive results with respect to financial performance, environmental performance, and social performance. This "triple bottom line" approach creates a set of high and different hurdles than does the traditional model of maximizing profits and then sharing these profits with shareholders and worthy causes. In turn, it requires a different approach to organizational design and management in order to be effectively implemented.

The sustainable effectiveness approach requires that all major strategic and organizational decisions and actions be assessed and acted on in terms of their impact on profits, society, and the environment. Organizations need to able to assess the potential impact of these decisions and their implementation to ensure that they have the overall most positive impact on all three outcomes. In the sections that follow, we will examine the dimensions that corporations

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need to directly address if they wish to transition successfully to the sustainable effectiveness model.

DECISION-MAKING TO ACHIEVE CORPORATE SUSTAINABLE EFFECTIVENESS

It would be ideal if organizations could come up with actions that always have a positive impact in all of the triple bottom line areas, but sometimes this is not possible. As a result, organizations must settle for decisions that have significant positive impact on only one or two of the triple bottom line areas and may have some negative effects in the other. Based on its impact on a firm's financial performance and on the social and environmental performance of an organization, a decision can be classified as falling into one of the four boxes as shown in Fig. 1.

Two boxes in the grid have clear outcomes in terms of whether the decisions should be implemented. When outcomes are likely to have a positive impact on financial performance and a positive impact on social and environmental performance, such decisions are clearly sound to implement. Decisions that are likely to have a negative financial impact as well as a negative social and environmental impact are clear "non-starters." It may be worth further analyzing and exploring the latter to see if they can be changed so that they will have a positive impact in at least one area. However, if the decision remains one with a negative impact, it is best to abandon it and look for an alternative.

Decisions that lead to financial gain but have a negative social and environmental impact are often the most difficult ones for organizations to address. In traditional corporations, such decisions are typically implemented, even though they will have a negative impact socially and environmentally. In a sustainably effective organization, they may be implemented, but only after reworking and rethinking is attempted and no other satisfactory alternative can be found. A consideration, in this case, is the size of the negative impacts and the degree to which they can be mediated. One approach to handling these situations is to look at them as part of a portfolio of actions that includes outcomes that are negative from a financial performance but positive from a social and environmental impact point of view.

		Social and Environmental Impact: Negative	Social and Environmental Impact: Positive
Financial Impact	Gain	?	Implement
	Loss	Abandon	?

Figure 1 Impact Decision Matrix

A key factor that needs consideration when making decisions with a positive financial impact but a negative social and environmental impact is to ask how this decision will impact the public identity of the organization. If it leads to highly visible negative outcomes, in most cases, the decision should not be taken. In order for organizations to be sustainably effective, they must promote a corporate identity that centers on sustainable effectiveness. This is critical to attracting the employees who are motivated to work for a sustainable, effective organization as well as the customers that value social and environmental performance. If an organization undertakes more than a few actions that are not consistent with this identity, the corporation will quickly lose its credibility and its attractiveness to the public and to employees. It will end up being classified as simply another "profit only" focused organization.

Just as it may be necessary to make some decisions that have a negative impact on society and the environment, some decisions and actions that are expected to have a positive impact on social and environmental outcomes and a negative one on financial performance need to be made. These decisions are key to an organization developing an identity as a sustainable effective organization. But before they are made, it is important to try reworking them so that they will move into the positive financial impact zone or at least end up at a break-even point. This raises the whole issue of the size of an impact and the obvious point that no organization can survive large, negative financial results even if it achieves good social and environmental results.

If after rework, a decision cannot be moved into the positive from a financial point of view, then the issue becomes one of portfolio management. If this is an action or decision that is important because of how it reinforces the identity of the organization and has a significant impact in the social and environmental arenas, it may be worth making even though it may result in a financial loss. It is not a matter of philanthropy; it is a matter of what choices create an organization that operates over time as a sustainable effective organization.

Finally, it is important to note that many choices and their resulting actions may have a different impact on social issues than on environmental issues. Fracking, for example, may be profitable and benefit the local community by creating tax revenues and community resources but have a negative impact on the environment. Thus, in most decision processes a 3 by 3 table is the best way to think about the impact of an organization's actions—breaking the social and environmental dimensions into separate ones. The 2 by 2 table used here is useful for explanatory purposes but understates the complexity of the decision making that needs to take place in organizations and the importance of thinking in terms of the portfolio management perspective.

ORGANIZING FOR SUSTAINABLE EFFECTIVENESS

The organization design and management models that have dominated corporate thinking for decades were not created to face the challenges of sustainable effectiveness performance. They were created to maximize profits. Because of this, they cannot produce the kind of information that is

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needed to make sound decisions about organization design nor help to create organizations that perform in ways that are oriented to sustainable effectiveness. Accomplishing this requires changes all the way from the types of metrics an organization deploys to how an organization is structured, designed, and led.

Many organizations have attempted to become sustainably effective in a piecemeal manner—for example, by setting up a sustainability staff, group or by focusing on narrow initiatives such as recycling. They have discovered that this approach can produce some positive results, but generally fails to produce positive results in all three areas. Instead companies moving toward a sustainable effectiveness approach are finding that radical change is needed. This approach requires a new management system rather than just adjustments to the traditional one.

The leaders in taking a more "systems" approach to sustainable effectiveness include Unilever, Novo Nordisk, Nike, Gap, Patagonia, and Starbucks. For example, Unilever has recently released a 10-year sustainable effectiveness plan that entails working together with governments and NGOs (nongovernmental organizations) to tackle the world's most pressing challenges. Unilever CEO Paul Polman has clearly articulated many of the elements of this transformation. These elements are focused on what corporations need to do in order to make sustainable effectiveness the way the business itself operates rather than simply the responsibility of a staff function or department. Table 1 highlight the many aims of the Unilever Sustainable Living Plan.

The Unilever Plan goes well beyond tweaking how an organization should perform. In order to meet the many outcomes to which Unilever is committing, an organizational design and management approach is needed that is unique. A brief review of some of the design features that fit the sustainable effectiveness approach will make this clear and help to define how a sustainable effective organization should differ from a profit-focused corporation.

Table 1 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.
- Cooperating with other institutions in an unprecedented spirit of partnership.

Information Systems: One key design feature of sustainably effective organizations is their information systems. These systems must measure the organization's impact on employees, societies, and the physical environments in which they operate. Without measuring impact across all these dimensions, it is impossible to make high quality decisions about how to do business, how to source materials, what to produce, how to produce, with and through whom to produce and how to sell.

Gathering and reporting social and environmental impact information, in fact, is one area where there seems to be a relatively strong movement toward broadening the metrics that all corporations are managed by and that they report to the public and their stakeholders. The Global Reporting Initiative (GRI), which takes a triple bottom line approach, is now subscribed to by a large number of corporations. The Initiative metrics enable public reporting of the performance of organizations with respect to their environmental and social impact. These data can be used internally to help make decisions about how an organization operates and what products it produces. The data also can be used externally by investors, regulators, customers, and other stakeholders. It is hard to overemphasize the importance of having good metrics when it comes to creating organizations with a strong sustainable effectiveness orientation. Without the right metrics, even the best of intentions can be of no use, since it is hard to ascertain what the actions targeted at sustainable effectiveness are truly accomplishing. They also are needed to establish the identity of an organization as a sustainable effective one and to capture the talent, attraction and retention advantage, and the marketing advantages that come from having this identity.

It is not enough for organizations to just measure and publicly report their overall sustainable performance. Organizations need to drill down into their operating and business units when it comes to measurement and communication. Employees throughout the organization need to receive data about the impact of their part of the organization on the environment, society, and profits. It is only with this kind of information that they can make informed decisions about what the organization does and how it does it. The traditional measures that many organizations emphasize——budgets, productivity, and costs——clearly are insufficient. They tell nothing about how the organization is impacting its employees and the society in which it operates, not to mention the environment.

Organization Agility: Closely related to the issue of information systems is the design of an organization. In order to be sustainably effective, organizations need to be designed to be agile and externally focused. Agility is critical, given that the world is changing rapidly. As a result, the demands on organizations are changing rapidly. Not only are the financial marketplaces undergoing rapid change, but many of the environmental and social considerations that organizations face are changing frequently and rapidly. Thus organizations need to be highly agile on an ongoing basis to

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deal with the rapidly changing environments in which they operate.

A second demand for agility comes from the focus in sustainable effective organizations on performing well in three areas. In order to attain and maintain the optimum balance across the three, organizations may need to continuously adjust how they produce and deliver products and services. They cannot simply focus on one performance area. Building agility into an organization therefore requires supportive structures and management practices. These practices include a flexible goal setting process, a support talent management system and the right leadership and reward practices.

External Focus and Stakeholder Involvement: Sustainable organizations need to be in close touch with their environment, but with not just a few people in an organization or a single function. Rather, the entire organization needs to be familiar enough with what is happening in its environment so that individuals at all levels can see the need for change and help guide it. Being in close touch with the environment is the best way to give people the information they need about how the organization is impacting its physical and social environments. It can call attention to critical issues about the overall performance of the organization as well as suggest ways to improve the organization's performance. Finally, it is an essential way to assure that employees realize why change is needed.

There are multiple ways to create high levels of contact between the members of organizations and their environments. Some involve organizational structures and others involve the use of information technology. For example, organizations can create structures that place a high percentage of the employees of an organization in direct contact with customers, stakeholders, and regulators by putting them in customer contact roles. Typically this is best done by structuring relatively flat organizations that are made up of small business units organized around customers rather than around functions.

A more recent approach to creating richer stakeholder interaction is to utilize network and multi-stakeholder partnerships and relationships. The intention of these networks is to solicit input from stakeholders and to inform stakeholders of the directions that organizations are taking. For example, the medical and other industries have created multi-stakeholder advisory groups and collaborative groups that participate in setting standards for chemicals. They also have used these groups to share knowledge with respect to the chemicals in the environment and to encourage stakeholders to learn more about the industry. Unilever has established community advisory boards and other means to relate to various stakeholders and to test out ideas on how best to meet national environmental and social expectations. Healthcare is another area where organizations can do a considerable amount to create meaningful networks that serve the joint purpose of bringing information into organizations about what a community expects and educating the community on what the healthcare industry can deliver.

Corporations need to reach out and involve stakeholders in shaping how they operate. This is the only way companies can be sure that they are going to be able to meet the demands that society has for them. In some markets, organizations may need to partner with each other and collaborate with NGO's in order to build the knowledge, experience and legitimacy that will bring the corporate behavior in alignment with sustainable performance and performance that is related to local norms and capabilities. Overall, the ways of organizing need to show employees and local communities that their operations are not those of a corporation whose mindset is simply, "We are solely responsible to our shareholders, not our stakeholders."

Rewards and Performance: It is not always true that organizations get the performance that they reward, but more often than not they do. Thus, if an organization wants to be sustainable effective the prescription is obvious: reward sustainable performance. Of course, this is much easier said than done. Effectively rewarding sustainable performance means first and foremast having clear, valid measures of sustainable performance.

Once it is decided what should be measured, it is necessary to determine what units within an organization can be measured accurately (e.g., business units, functions, plants). In for-profit organizations, most organizations think of rewarding individuals for performance with financial rewards of one kind or another. Frequently used alternatives include salary increases, bonuses, stock, and in some cases promotions. Any of these can be an effective motivator of sustainable performance. The key is that they have to be important to the individuals being rewarded. They also have to be able to be delivered relatively soon after the performance takes place in a manner that establishes the relationship between the reward and the performance.

Group, corporate, and individual incentive plans can all be designed to reward sustainable performance and to have a positive impact on the employees' behavior. Motivation theory argues that the most effective measures are those that measure individuals and reward them according to their performance. The reality, of course, is that in many situations it is impossible or nearly impossible to develop any kind of reasonable measures of how well an individual performs financially, socially and environmentally. Often measuring all of these dimensions requires aggregating people together and focusing on measures of how well a business unit performs. This does not necessarily mean that it is not worth undertaking. Tying rewards to the performance of multiple people does decrease the line of sight between an individual's behavior and his or her reward. This usually means that there is less motivation than there would be if there is a direct tie between the individuals and the rewards they receive for their performance. Nevertheless, this is not a fatal limitation when it comes to motivating sustainable performance—particularly, if there is a high level of interdependency among the people doing the work. Rewarding collective behavior often is preferable because it not only motivates the effort by individuals, but it also motivates them to work with each other to achieve the collective results.

Key to an effective performance measurement system for sustainable performance is quality of the data. The dilemma is that high quality data is often hard to create or obtain. The availability of data should drive the determination of the kind of measures used and what kind of performance-based reward plan is instituted. If valid measures are available for individuals, it is appropriate to reward individuals. If they are not, then it is appropriate to reward the next higher level of aggregation and so on.

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In many traditional organizations, incentive plans are in place that reward sales, productivity, profitability. The problem with respect to sustainable performance is that the three dimensions reward only those behaviors that drive financial return. The effect of this is to indirectly discourage considering the social and environmental impact of what individuals and organizations do and how individuals and organizations act in order to obtain their financial results. Yet adding measures of sustainable performance to simple financial measures can make it even more difficult for individuals to "perform well." In order to get the right incentives, reward systems need to consider more factors. Yet inevitably this approach produces a more complex set of measures, making it less clear what individuals need to do in order to earn a financial reward. Thus, in the case of a reward system that is driven by sustainable performance measures, it is particularly important to educate the members of the organization on how the plan operates and what they can do to make it produce rewards for them.

One final point is in order. If an organization cannot create a performance reward system that clearly ties sustainable performance to rewards, it is better that it have no pay-for-performance system at all. If organizations do not have a comprehensive measurement package with a clear connection between it and rewards, organizations end up giving rewards based only on limited measures of individual and organizational effectiveness. This is usually worse than giving no reward for performance because it inevitably directs all decisions and efforts toward maximizing financial return. Of course this is what should not happen in an organization that intends to be sustainably effective.

Leadership: The challenge for an organization focusing on sustainable performance is motivating employees at all levels to focus on making decisions and taking actions that consistently reinforce sustainability. A critical factor in achieving this alignment is the degree of commitment modeled by the organization's leaders. It begins with their articulation of a compelling rationale of the need for sustainable performance. It needs to appear in the corporation's overarching vision and mission as well as in goals set throughout the year. It is critical that leaders articulate what it means to be a sustainable performance organization in both strategic and in tactical choices. Rich and concrete examples are often needed to illustrate when these choices are the "right ones" and when they are inappropriate. Examples of the key measures of performance under a sustainable effective framework need to be described precisely, and how decisions will be made and explained—when there are no alternatives that produce positive results in sustainable effectiveness—needs to be clarified. In addition, senior leaders themselves must model in their own decisions and in their rewards a consistent commitment to sustainable effectiveness. A single visible exception holds the potential to create deep skepticism about the leadership's commitment to a new sustainable orientation and ultimately erode any investments in that direction. If there are exceptions, senior leaders must prepare a highly persuasive case as to why exceptions were required.

A critical factor is that sustainable performance organizations cannot be led by just a great leader at the top or a handful of leaders elsewhere. The types of ongoing challenges and critical choice points that organizations face in order to accomplish sustainable effectiveness require shared leadership. The complexity of the task and the many difficult decisions to be made mean that leaders at all levels must be deeply engaged in the task. Decision-making needs to be distributed throughout the organization, so that decisions can be made by individuals who possess the best information about the effects on multiple stakeholders and how decisions can be best implemented. In some cases, the best person to lead may be the manager of a unit, but in other cases it may be a subject matter expert or an individual whose role required they interface extensively with the community.

One thing is clear—sustainable performance organizations need more as well as different types of leaders than do profit-focused organizations. Simply managing under a sustainable effective orientation will not produce the right adaptive responses. The flat "high surface area" structures of sustainable organizations operate most effectively when they have a shared leadership approach.

Talent Management: There are two areas of talent management that need to be carefully designed and managed to create successful a sustainable performance organization. The first is the talent attraction approach. The second is the talent development processes. The key element of the talent attraction process is the employer brand that the organization presents to job applicants. It shapes who is likely to apply for jobs and the expectations employees have when they join the organization. In order for an organization to be sustainably effective, is critical that individuals understand what the culture of the organization is like and the kind of performance that is expected of them. Potential employees must realize that they are joining an organization that is committed to sustainable performance. If they do not, they are very likely to turn over soon after joining or remain but as unhappy, disgruntled employees.

If it is made clear to job applicants that sustainable performance is the goal of the organization, it can help to attract the kind of individuals that are needed to staff an effective sustainable performance organization. Increasingly, younger people want to work for sustainable performance organizations. They believe in the commitment to sustainable performance, and as a result they are attracted to organizations that share their commitment to sustainable performance. This emphasis can lead to a larger selection pool and provide individuals who are hired a realistic expectation of what their work will be like once they join the organization.

Whole Foods and Unilever are good examples of corporations that have established themselves as sustainable effectiveness organizations. Their focus on sustainability is built into their advertising and into their recruiting materials. They also issue annual reports to their shareholders that cover their sustainable performance. Their advertising frequently mentions their environmental and social programs.

Once individuals join an organization, it is imperative that the training and development programs focus on what is needed to work in a sustainably effective manner. For example in the case of the package delivery company UPS, drivers are trained in how to operate their trucks in an energy efficient manner. Employees also need to be trained and developed to support the organizations' initiatives relating to the external world and implementing sustainable management processes and practices. This often means developing

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key social skills as well as technical skills that relate to issues concerning the environment, financial performance, and key societal issues. In addition, employees need knowledge with respect to the meaning and impact of their organization on sustainable effectiveness.

Human Resources Organization: The human resources (HR) organization in a sustainably effective organization needs to be significantly different than those typically found in financially focused organizations. Research shows that in most organizations the human resources function is largely absorbed in the elements of effective HR administration, and as a result the function makes few contributions to the strategic and talent management directions of the organization. If the function does make contributions to these areas, it is primarily targeted at how human capital and talent management affect the financial bottom line.

What is needed in a sustainably effective organization is an HR function that is focused on the relationships between talent management and the sustainable effectiveness of the organization. As already noted, this involves careful selection and development programs for employees, as well as designing and managing reward systems that focus on sustainable performance. But these are not enough.

The HR function needs to be a full partner in the development of the strategy in organizations by contributing expertise with respect to how capable the organization can be at executing possible sustainability strategies, what it takes to implement these strategies, and how they will affect the employees and their commitment to sustainable effectiveness. The HR function also needs to be able to contribute to the evolution, implementation, and evaluation of the business strategy. These are not roles that HR usually takes in a profit-focused organization.

All too often HR only helps to administer and implement their organization's business strategy. This is simply not acceptable in an organization that is trying to achieve sustainable effectiveness. Most of the organizational designs, policies, and practices that are required to create a sustainable effective organization involve the human capital of the organization. The HR function needs to help formulate a business strategy to ensure that there is a strong focus on how it will affect the quality of life of its employees.

To play this more strategic role, the HR function needs to be staffed and positioned so that it is not just a "business partner." It needs to be a strategic partner that both contributes to the corporation's business strategy and facilitates implementation of the strategy. In most cases, it requires HR being headed by someone who is capable of operating as a strategic business executive.

CONCLUSION

In this article, we have argued that organizations wishing to successfully adapt themselves to the paradigm of sustainable effectiveness cannot do so by simple means. While the traditional approach of structuring a philanthropic function or arm to the corporation has been one means of addressing sustainability, it is falls seriously short in its efficacy if an organization truly wishes to be sustainable. As we note at the start, the "sustainable effectiveness" model of how organizations should operate is very different from the philanthropic one. It argues that organizations—as a whole—should be managed in ways that produce positive results with respect to financial performance, environmental performance, and social performance. To achieve successfully, this "triple bottom line" outcome requires a different approach to organizational design and leadership. At the most foundational level, the sustainable effectiveness approach requires that all major strategic and organizational decisions and actions be assessed and acted on in terms of their impact on profits, society, and the environment. Such a complex orientation will require organizations to rethink not only how they are structured and make decisions, but also how they organize and measure performance, how they attract and retain talent, how their leaders articulate and set goals, how they train leaders at all levels, and how they organize their human resources function.

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