

# Clarifying the Meaning of Sustainable Business: Introducing a Typology From Business-as-Usual to True Business Sustainability

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## Abstract

While sustainability management is becoming more widespread among major companies, the impact of their activities does not reflect in studies monitoring the state of the planet. What results from this is a “big disconnect.” With this article, we address two main questions: “How can business make an effective contribution to addressing the sustainability challenges we are facing?” and “When is business truly sustainable?” In a time when more and more corporations claim to manage sustainably, we need to distinguish between those companies that contribute effectively to sustainability and those that do not. We provide an answer by clarifying the meaning of business sustainability. We review established approaches and develop a typology of business sustainability with a focus on effective contributions for sustainable development. This typology ranges from Business Sustainability 1.0 (Refined Shareholder Value Management) to Business Sustainability 2.0 (Managing for the Triple Bottom Line) and to Business Sustainability 3.0 (True Sustainability).

## Keywords

business sustainability, corporate sustainability, triple bottom line, planetary challenges, corporate social responsibility, responsible leadership, purpose of the firm, sustainable development, sustainable business

## Introduction

While sustainability management is becoming more widespread among major companies, the impact of their activities is not reflected in studies that monitor the state of the planet. The consequence is a “big disconnect” between micro-level progress and macro-level deterioration. We respond to this disconnect by critically looking at how business sustainability (BST) has been discussed in the academic literature and in practice and by reframing the concept.

With this article, we address two main questions: “How can business make an effective contribution to resolving the sustainability challenges we are collectively facing?” and “When is business truly sustainable?” In a time when more and more corporations claim to manage

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sustainably, we need to distinguish between those companies that do and those that do not make effective contributions to sustainable development. In order to do so, we will clarify the meaning of BST by reviewing established approaches and by developing a typology that focusses on effective contributions for sustainable development (SD). This should help assess companies on their journey toward integrating BST into their strategies and business models. And it provides a framework for scholars and professionals to engage in the transformation of business, moving from business-as-usual to “true business sustainability.” We will not address the required changes in the underlying economic model or in the model of consumer behavior, although effective changes are clearly interrelated.

We start out by looking in more detail at this “big disconnect” between sustainable business on an organizational level and SD on a global level, and thus set the stage for our discussion of existing models of BST. We then develop a new typology for BST that will range from Business Sustainability 1.0 (Refined Shareholder Value Management) to Business Sustainability 2.0 (Managing for the Triple Bottom Line) and to Business Sustainability 3.0 (True Sustainability). In the last section, we present our conclusions and discussion.

## **Sustainable Business and Sustainable Development: The Big Disconnect**

The role of business in making our world a more sustainable place is at the center of the study of sustainability management. If we follow the studies monitoring the acceptance and integration of sustainability by big companies, there is a strong consensus emerging that sustainability is having and will continue to have a significant material impact on company strategies and operations. More and more business executives agree that sustainability-related strategies are necessary to be competitive today and even more so in the future. More and more executives report that their organizations’ commitment to sustainability has increased in the past and will develop further in the future. They report that benefits of addressing sustainability accrue not only to the environment and to society but also to the companies themselves, through tangible benefits in the form of reduced costs and risks of doing business, as well as through intangible benefits in the form of increased brand reputation, increased attractiveness to talent, and increased competitiveness (Haanaes et al., 2011; Haanaes et al., 2012; Kron, Kruschwitz, Haanaes, Reeves, & Goh, 2013; U.N. Global Compact & Accenture, 2010 & 2013). But somehow this good news is not reflected in studies monitoring the state of our planet. Here we learn that poverty has not been eradicated, inequity is growing, hunger and malnutrition still kills a child every 6 seconds, 1.8 billion people do not have access to clean drinking water and sanitation, 2.3 billion people do not have access to electricity, and a 4-degree warming scenario is now being accepted by international organizations like the World Bank and the International Energy Agency, while the international climate negotiations have failed to produce any consensus on effective global strategies to keep global warming at least below 2 degrees (Bakker, 2012; Gilding, 2011; U.N. Environment Programme, 2012; WWF, 2012).

What results from this discrepancy between micro-level progress and macro-level deterioration is a big disconnect between company activities and the global state of the environment and society. Although there are different reasons to explain this disconnect—after all corporations are not the only relevant actors in the global sustainability arena—the current situation should be considered as a wake-up call for business people and management scholars alike that their good intentions and actions have not been leading to significant sustainability improvements on a global level. In response to this disconnect, we critically look at how the concept of BST has been used in the academic literature and in the world of practice, and we then reframe this concept. In doing so, we do not assume this alone will solve the problem, but we believe that by clarifying

the meaning of BST, a better understanding of the impact business can have on global sustainability will set the discussion at least on the right track.

In looking at the BST debate in the academic literature, we find three conceptual challenges for addressing the disconnect: (a) the poor integration of the different topical streams in the BST discourse, (b) the missing integration of the societal macro level with the organizational micro level, and (c) the focus on business success as the dominating performance measure.

The BST discourse is segmented into *topical streams* addressing different subfields of BST, notably corporate social responsibility and environmental management, while an integrated BST perspective which looks at all three dimensions (the social, environmental, and economic) is still fairly new. Montiel and Delgado-Ceballos (2014) observed in a recent review of BST<sup>1</sup> research, published in 24 renowned academic journals between 1995 and 2013, that neither a standardized definition nor a standardized method to measure BST exists today. In looking at the temporal pattern of publication trends in academic journals, they report in particular that BST has only in the most recent period received more attention (53% of all articles published during 2008-2013) than social issues and environmental issues (33% and 14% during 2008-2013). While these different issues have produced their own streams of literature and specialized journals, they have only recently started to converge on BST as a tridimensional construct (e.g., Bansal 2005; Dyllick & Hockerts, 2002; Elkington, 1997; Hart, 1995, 1997). An integrated BST focus would not only help considerably to respond adequately to complex and interconnected sustainability issues, but it is also more challenging. The Montiel and Delgado-Ceballos (2014) study shows that the academic BST discussion is at a very early stage where a standardized definition, scope, focus, underlying theoretical approaches, and measures are still very diverse and highly debated. Also, most discussion on BST is taking place not in the academic management journals, but in practitioner management journals (*Academy of Management Perspectives*, *Harvard Business Review*, *California Management Review*, *MIT Sloan Management Review*). They conclude that “to date academic research has failed to effectively inform management practice about sustainable development.” We should add, however, that this is not specific to BST research, but expresses an open secret about most management research which neither reaches nor resonates with management practice (Bansal, Bertels, Ewart, MacConnachie, & O’Brien, 2012; Dyllick, 2015; Hambrick, 1994; Skapinker, 2008, 2011).

The sustainability discourse is also located on *different levels*, with most of the SD discussions taking place on a macro level, focusing on the economy, society, or the world, while the BST discourse is located on the micro level of organizations. What is needed are approaches that effectively link both levels (Whiteman, Walker, & Perego, 2013). The sustainability challenges have been largely debated on a societal level, if we think of major milestones like the reports to the Club of Rome (e.g., Meadows, Meadows, Randers, & Behrens, 1972; Meadows, Randers, & Meadows, 2004), the Millennium Ecosystem Assessment (2005), the planetary boundaries approach (Rockström et al., 2009), or on the political level if we think of the UN World Summits for Sustainable Development and Social Development, and the UN Millennium Development Goals. A business approach to SD was pioneered by the World Business Council on Sustainable Development (WBCSD; 2010; see also Schmidheiny, 1992). They introduced eco-efficiency as the measure of BST (DeSimone & Popoff, 2000), reflecting a focus not only on the environmental dimension that dominated the debate at the time, but also at the business level. Much of the academic literature joined the discussion to develop a business approach to SD (an early milestone was the Special Topic Forum on Ecologically Sustainable Organizations in *The Academy of Management Review*, 1995). Clarifying a business approach to SD was an important contribution to legitimize and popularize sustainability management in the business world which included strategies, management systems, tools and performance measures. Although many early authors were addressing the BST-SD link (e.g., Gladwin, Kennelly, & Krause, 1995; Hart, 1995; Shrivastava, 1995; Starik & Rands, 1995), it later fell out of sight, with the BST and SD discourses

concentrating more and more on their respective levels.<sup>2</sup> The decoupling of the two levels probably reflects most obviously in the clearly separated meanings and measures of performance.

While the SD discourse concentrated on reaching the global SD goals (e.g., the U.N. Millennium Development Goals; <http://www.un.org/millenniumgoals/>) with *performance measures* addressing the degree of the SD goals being effectively reached, the BST discourse has focused on business value (win–win strategies). Different concepts have been suggested and used over time. The BST discussion centered first on *eco-efficiency* as a performance measure, thereby drawing a positive link between environmental improvement of processes and products and bottom line benefits (e.g., DeSimone & Popoff, 2000). More recently, the BST discussion has been concentrating on defining a *business case* for corporations which can take on very different forms, for example, risk reduction, cost efficiency, reputational effects, market differentiation, or market development (e.g., Schaltegger & Wagner, 2006; Steger, 2006). While the business case addresses a strategic level, eco-efficiency addresses a more operational level. What is common to both concepts is that BST is clearly focused on creating business value through sustainability management, while the contribution to achieving SD goals remains very vague at best. This applies also to the most recent mutation of business value, the concept of *shared value creation*, which promises to bridge business value and societal value and will be discussed in more depth later (Porter & Kramer, 2011). We conclude here that BST improvements cannot and will not contribute in any significant degree to improving the global situation as long as the two levels of BST and SD are disconnected and, even more importantly, as long as the performance measures remain disconnected.

This conclusion seems to be widely shared in the literature. Different authors concluded in their reviews that the focus of BST research is usually on the organization and how it can profit from BST with less consideration for the environment or society (Banerjee, 2011; Hahn & Figge, 2011; Kallio & Nordberg, 2006; Walsh, Weber & Margolis, 2003; Tregidga, Kearins, & Milne, 2013). Others deplore that these studies offer no radically new insights (Bansal & Gao, 2006) or fail to ask bold and important questions on the sustainability issues the world is facing (Starik, 2006). On an even more fundamental level Bansal and Knox-Hayes (2013) suggest that it may be the compression in time and space that occurs in the organizational world that creates an imbalance with the immutable temporal and spatial features of the natural world.

Considering this brief analysis of the BST discourse in the literature, some of the reasons for the “big disconnect” between company activities in the BST field and global SD results have become clear. The main reasons have to be seen in a decoupling of the micro-level and macro-level analyses and in the decoupling of the performance measures used. Keeping the different streams of the BST discourse separate does not help to devise adequate answers to the complex SD challenges of our time. This asks for a critical reexamination of established concepts and the development of new approaches to reconnect the micro level of BST and the macro level of SD.

## Differentiating Sustainable Business Models

The basic business process can be understood as a transformation of various inputs into different kinds of outputs. We will use this simple “input–process–output” model to analyze existing approaches for integrating sustainability into business (see Table 1). On the input side, we identify different *concerns* (or issues) that business chooses to consider and address. On the process side, we focus on various *organizational perspectives* that business takes. And finally, on the output side we find different *values* that business creates or preserves. A focus on inputs defines BST according to the relevant concerns considered by business (what?). A focus on process defines BST according to the organizational perspectives taken by business (how?). And a focus on output defines BST according to the values created by business (what for?).

**Table 1.** A Framework for Considering Different Approaches of Business Sustainability.

Input	Process	Output
Concerns What?	Organizational perspectives How?	Values created What for?

### *Focusing on Concerns*

Some of the early concepts of BST focused on specific concerns such as (a) “integrating short-term and long-term aspects,” (b) “consuming the income not the capital,” and (c) “being accountable for the impacts of business decisions and activities.” Let us consider these in more detail.

While the relevant planning horizons for companies have become shorter and shorter, mainly driven by pressures from the financial markets, developments in the sustainability field typically require a much longer time horizon. Demographic processes, urbanization, resource depletion and renewal rates, time lags in climate change, and ozone depletion are only some examples of phenomena that exist across long-time horizons. If sustainability concerns are to be taken into consideration by companies, then *long-term aspects need to be given at least equal weight as short-term aspects*. This logic is well exemplified in the decision by Paul Polman (2012) after he had come in as new CEO of Unilever. It was his initiative to end quarterly reporting and inform hedge-funds and short-term investors that “you don’t belong in this company” as they are not aligned with Unilever’s longer term strategy to both double revenue by 2020 while significantly reducing the company’s environmental footprint.

The second consideration requires business to *live off the income and preserve the capital base* (Dyllick & Hockerts, 2002) which companies have usually considered as good financial management. Yet the same holds true for natural and social capital which also deserves to be preserved even though this is not equally accepted or institutionalized. In times when environmental and social capital becomes scarce or strained, sustainable business has to take these, as well as economic capital into consideration. All three should form the foundation for a balanced sustainable business practice.

“Being accountable for the impacts of business decisions and activities,” a third concern, is captured in how the ISO 26000 standard on social responsibility (which can be interpreted here as an alternative term for sustainability) defines this approach. This ISO (2011) standard explains that

The essential characteristic of social responsibility is the willingness of an organization to incorporate social and environmental considerations in its decision-making and be accountable for the impacts of its decisions and activities on society and the environment. This implies transparent and ethical behavior that contributes to sustainable development, is in compliance with applicable law and is consistent with international norms of behavior. It also implies that social responsibility is integrated throughout the organization, is practiced in its relationships and takes into account the interests of stakeholders.

Without any doubt, accountability for the impact of decisions is an important aspect of BST, just like the other two concerns—integrating short-term and long-term aspects, and consuming the income not the capital. They all address an important part of BST that promises to contribute to SD, but there are other approaches that focus on organizational perspectives and values created that we will now look at.

### *Focusing on Organizational Perspectives*

Other approaches for integrating sustainability into business focus not on the concerns, but on the organizational perspectives used by business. These include “managing risks and opportunities” and “embedding sustainability throughout the organization.”

Some authors base their BST strategies on the dual need of *managing risks and opportunities* which can be located on an operational or a strategic level (Schaltegger, 2006; Steger, 2004, 2006). Others focus on managing the downside by reducing costs (e.g., resource efficiencies, regulatory burden) or risks (e.g., business risks, supply-chain risks) and building the upside by increasing revenues, market share, or reputation (Esty & Winston, 2009; Nidumolu, Prahalad, & Rangaswami, 2009).

“Embedding sustainability throughout the organization” has been another prominent perspective considered to be of key importance for integrating sustainability into business. Authors who assume this perspective, argue that simple bolt-on sustainability will not suffice to effectively manage the sustainability risks and opportunities for a company. Business will need to embed sustainability throughout the organization, including strategies and operations, governance and management processes, organizational structures and culture, as well as auditing and reporting systems (Belz & Peattie, 2012; Eccles, Miller Perkins, & Serafeim, 2012; Epstein, 2008; Esty & Winston, 2009; Laszlo & Zhexembayeva, 2011; Smith & Lensen, 2009).

The ISO 26000 guidelines (2011) emphasize that the regular activities of organizations constitute the most important aspects to be addressed by a socially responsible (sustainable) management, and not particular projects or activities. It should be an integral part of the core organizational strategy, with assigned responsibilities and accountability at all appropriate levels. And it should be reflected in decision making as well as in implementation. In addition, social responsibility (sustainability) should be based on an understanding of the broader expectations of society and an identification of and an engagement with relevant stakeholders. These are considered to be fundamental conditions for business to move beyond isolated or partial strategies and to be able to make significant contributions to SD on a broader level.

### *Focusing on Values Created*

A third type of approach focuses neither on concerns nor on organizational perspectives, but on the particular values created or preserved by a business. They look at the output of the business process for defining BST, not on the input or the process. Different outputs discussed in the literature are “integrating economic, ecological and social value creation,” “creating shared value,” and the “reemergence of social purpose.”

In many approaches, BST has been associated with the creation of *economic, ecological, and social value*, or at least with the prevention of their destruction. Elkington (1997) introduced the concept of the “triple bottom line” as a new business objective, which measures more adequately the multidimensional business contributions to sustainability. Although very suggestive at first sight, it has remained to a large degree unclear how the trade-offs between economic, ecological, and social values are to be measured and compared. Another issue may be seen in the many forms of corporate greenwashing or the more subtle forms of merely symbolic forms of BST as described by Bowen and Aragon-Correa (2014).

Emerson (2003) introduced the concept of “blended value” that combines a company’s creation of revenue with the generation of social value. Porter and Kramer (2011) suggest that we need to redefine capitalism around “creating shared value,” not just profit, thereby elevating the discussion to a fundamental level of the purpose of business and the economic system as a whole. Shared value creation is defined as creating economic value in a way that also creates value for society by addressing its needs and challenges. Ideally, the starting point for business planning thereby is society and its problems, rather than business itself, to unlock business opportunities in society.

Shared value creation may be a useful first step to put to rest the stalemate created by the opposing views of shareholder value management (Friedman, 1970; Rappaport, 1986/1998) and stakeholder value management (Freeman, 1984). By reconnecting business to society, it would

help to overcome the Friedmanian fallacy of business seeing itself and being disconnected from society (Muff et al., 2013). However, shared value creation is unlikely to be a sufficient approach for solving societal problems, as it is limited to those issues and concerns that promise economic value for business (Crane, Palazzo, Spence, & Matten, 2014).<sup>3</sup> Dyllick and Hockerts (2002) asked for business to look “beyond the business case” and go beyond eco-efficiency or socio-efficiency to become eco-effective or socio-effective, while developing effective solutions to address the real sustainability issues their societies are facing. Recent developments related to social business, social entrepreneurship (Sabeti, 2009), impact investment, benefit (B-) corporations (Rae, 2012), Corporation 2020, or the Economy for the Common Good movement in Europe (Felber, 2010) point to alternative organizational models.

Other authors have developed broader models to connect corporations better to the required macroeconomic changes. Sukhdev (2012) introduces “Corporation 2020” as a new model of business and a kind of corporate agent that society would need to forge a sustainable economy. Goal alignment with society and a “reemergence of social purpose” are essential features of Corporation 2020. Financial capital accretion is one key objective for Corporation 2020, but there are other objectives as well. Important goals for the corporation are not only defined by its shareholders but also by its stakeholders—those who are impacted by the corporation. Corporation 2020, instead of being a “machine” maximizing financial capital for its shareholders, while seeking to externalize as many costs as possible, maximizes different forms of capital, financial, human, social, and natural capital, for its shareholders and its stakeholders. It is rewarded for this by tax relief, policy incentives, staff commitment, and customer loyalty. In order to bring about Corporation 2020, economic structures and incentives have to be aligned to make the new thinking mainstream. Sukhdev suggests four political conditions that should serve as enabling conditions to bring about Corporation 2020: measuring and disclosing the externalities of corporations, limiting financial leverage, taxing resource use instead of profits, and making advertising accountable to prevent greenwashing.

Changing the business purpose to the common good may be too radical for existing commercial businesses, but developments like Corporation 2020 and the emergence and broad support for social businesses and social entrepreneurship (European Commission, 2011) demonstrate that there is a need for new organizational forms with a clear social purpose. Their emergence and further development offers new perspectives for “true business sustainability” through new or hybrid business organizations with a purpose that reaches beyond shared value creation.

In concluding our overview of existing approaches to BST, we realize there have been many different attempts to frame BST in the broader context of SD. They mostly have fallen short of reaching this ambitious goal. They include approaches based on partial or incremental improvements of an existing strategy instead of an approach that looks at all kinds of concerns, organizational perspectives, and values created. They include attempts that are oriented primarily toward increasing shareholder value by reducing the business footprint rather than creating sustainable value in its broader meaning. Often, such approaches are based on an inside-out perspective, demonstrating how business is contributing to the improvement of some sustainability issue. What is rarely done, however, is to look at the relationship of business and society the other way around, by asking how business can contribute effectively to solving global challenges. Such an outside-in perspective may be the crucial step needed for business to move to full-fledged or true sustainability.

## Introducing a Typology for Business Sustainability

Sustainability demands an integration of social and environmental issues with economic issues. What this exactly means and what the consequences are for business is far from clear. While many companies have started to consider longer term, social and environmental aspects in their

business, they rarely ask themselves what their contribution to resolving sustainability issues on a regional or global scale could be and should be. Such a positive contribution to society and the planet, however, lies at the heart of a truly sustainable business.

We now develop a typology of BST based on the above systematic analysis of different approaches in the literature. In deriving the different types we will use the three previously introduced elements of the business process model, the relevant concerns considered (inputs), the values created (outputs), and the organizational perspectives applied (processes). Based on these three elements, we present a typology of BST by using the current economic paradigm as a starting point to clarify the differences. Starting out with “business-as-usual” we develop three increasingly relevant types of BST, which we call *Business Sustainability (BST) 1.0, 2.0, and 3.0*. As we move up from 1.0 to 2.0 and 3.0, the relevance and the contribution to resolve sustainability issues increases, with Business Sustainability 3.0 representing what we consider to be “true BST.”

### ***Business-as-Usual: The Current Economic Paradigm***

The current economic paradigm, or “business-as-usual,” is based on a purely economic view of the firm and business processes. The underlying assumption is that typical economic concerns (e.g., access to cheap resources, efficient processes, striving for a strong market position) are pursued to produce economic value in the form of profit, market value or, more generally, shareholder value. Such an approach typically results in significant externalized costs that are not understood, measured, or declared. The perspective is inside-out, with the business and its objectives as the starting point and main reference for all planning and action. The main beneficiaries of the economic values created are shareholders, complemented by management and customers. Economics Nobel Prize winner Milton Friedman (1970) has created the appropriate description for the current economic paradigm by stating bluntly “the business of business is business.”

### ***Business Sustainability 1.0: Refined Shareholder Value Management***

A first step in introducing sustainability into the current economic paradigm results from recognizing that there are new business challenges from exchanges that are outside of the market. Extra-market challenges result from environmental or social concerns which are typically voiced by external stakeholders like NGOs, media, legislation, or government. They raise environmental and social concerns that create economic risks and opportunities for business. These new challenges are picked up and integrated into existing processes and practices without changing the basic business premise and outlook. Even if sustainability concerns are considered in decision making and actions, business objectives remain clearly focused on creating shareholder value. The view of Business Sustainability 1.0 is very well captured by SAM Group and PricewaterhouseCoopers (2006) in their definition of corporate sustainability:

Corporate sustainability is an approach to business that creates shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

This view on BST is mostly considered as representing sustainability management, although it is only a kind of refined version of shareholder value management (Hahn & Figge, 2011). In our view, it is only a first yet insufficient step toward true BST.

What does BST 1.0 look like in practice? We will use two different industries to illustrate the different forms of BST, banking and food, and we will look at three different aspects separately: governance, processes, and products/services.



Taking *banking* and looking at issues of governance first, BST 1.0 means introducing new rules for compliance in areas like corruption or money laundering, in dealing with politically exposed persons or regimes, ethical codes, compensation schemes for management in the long-term or pursuing stakeholder dialogues. New or integrated banking processes may be introduced for energy and climate management, sustainable purchasing, green IT, building and infrastructure, diversity, old age employment, or home office solutions. In the area of products and services sustainability concerns may be integrated into project finance, asset and credit management, into increasing fee transparency or by introducing new products in areas like microfinance or student loans.

Taking the *food industry* as another example BST 1.0 means introducing sustainability into its governance structures by responding systematically to stakeholder concerns, not only by developing policies and codes covering major issues in sustainable sourcing, product development and safety, marketing and communication but also by creating organizational, managerial, and board structures for effective management, control, and auditing. With regard to processes, procedures for energy and water efficiency, for greenhouse gas reduction, sustainable sourcing, manufacturing, and transport need to be implemented. In particular, not only sustainable and fair sourcing has recently been a major concern, if you think of palm oil, soy, cocoa, coffee, tea, meat or fish but also procedures for verification and certification. And with regard to products, BST 1.0 means for the food industry to reduce their environmental footprint and improve their social value and nutritional quality (e.g., reduce sugar, salt, saturated fats, calories), to minimize waste and packaging, as well as to provide transparent and verified information to consumers.

The underlying objective of these activities remains economic, however. While introducing sustainability into business will generate positive side-effects for some sustainability issues, their main purpose is to reduce costs and business risks, to increase reputation and attractiveness for new or existing human talents, to respond to new customer demands and segments, and thereby increase profits, market positions, competitiveness, and shareholder value. Business success still is evaluated from a purely economic view and remains focused on serving the business itself and its economic goals. The values served may be somewhat refined, but still oriented toward the shareholder value.

### ***Business Sustainability 2.0: Managing for the Triple Bottom Line***

A further step in introducing sustainability into business acknowledges that sustainability is more than just recognizing the relevance and need to respond to social and environmental concerns, in addition to economic concerns. Business Sustainability 2.0 means broadening the stakeholder perspective and pursuing a triple bottom line approach. Value creation goes beyond shareholder value and includes social and environmental values. Companies create value not just as a side-effect of their business activities, but as the result of deliberately defined goals and programs addressed at specific sustainability issues or stakeholders. These values are not only addressed through particular programs, but they are also measured and reported about. This view of BST 2.0 is well captured by the definition used by the Network for Business Sustainability (2012):

Business sustainability is often defined as managing the triple bottom line—a process by which firms manage their financial, social and environmental risks, obligations and opportunities. These three impacts are sometimes referred to as people, planet and profits.

BST 2.0 clearly is more ambitious than BST 1.0 and represents a big step forward in making sustainability a respected and integrated business topic. It allows business to align the concerns it addresses with the values it seeks to create by relating economic, environmental, and social concerns to the triple bottom line values of sustainability. While this shift is a quantum leap in the

value created from refined shareholder value to creating social, economic, and environmental values, it is not yet, what we understand as “true sustainability.”

Applied to *banking*, BST 2.0 means contributing sustainability values through programs and actions taken in the areas of governance, processes, and products/services. Instead of positive side-effects resulting from actions addressed at specific concerns in these fields, results are the outcomes of purposeful action. Not only fighting corruption, money laundering, or tax evasion but also stakeholder dialogues are pursued deliberately with the goal of making measurable contributions in these areas. Objectives are defined and their achievements are managed, measured, and reported. Programs and activities with regard to banking processes are pursued not only with the goal of making measurable contributions, for example, to reduce the CO<sub>2</sub>-footprint or to improve diversity across all levels of employees but also by voluntarily limiting top management compensation as well as the variable part of the compensation of hedge-fund managers. The activities are typically embedded into the organizational and management structures. Banking products and services are created and offered around specific objectives in areas such as financing sustainable construction, healthy living, regional and urban development, or financing business projects for markets and entrepreneurs where new forms of collaboration and financing (e.g., microfinance) are needed. Also, responsible investment products are not only developed but also actively marketed and promoted by trained customer service representatives to achieve defined market objectives.

Looking at BST 2.0 in the *food industry* means introducing sustainability into its governance structures. This requires that sustainability objectives are integrated into the planning and reporting cycles to define specific objectives for projects and brands, and ensuring that goals are achieved through adequate forms of incentives and accountability. Also, reporting about the achievements in a transparent and externally verified way is an important element. Processes and transparent procedures for reducing greenhouse gases, energy, water use, and waste from manufacturing, transportation, and offices need not only be implemented but also measured and reported on. Objectives and achievements with regard to sustainable sourcing must be measured and communicated. In other words, BST 2.0 means not merely that the environmental footprint is minimized but that a positive footprint is made and measured over the whole product life-cycle and per consumer use, to improve the social and nutritional quality, and to limit waste and packaging in an innovative and clearly defined and controlled way. Objectives and achievements, including information concerning sustainable consumption and improved health and welfare, are to be reported on.

The underlying objective for BST 2.0 firms is to invent, produce, and report on measurable results within well-defined SD areas while doing this in an economically sound and profitable manner. The value proposition of business is broadened to include the three dimensions of the “triple bottom line” (people, planet, profit). However, the perspective applied is still inside-out.

### ***Business Sustainability 3.0: Truly Sustainable Business***

A truly sustainable business reflects on questions that go beyond those so far considered. It reflects on questions such as “How can business contribute with its products and services to resolve pressing sustainability issues in their societies?” or “How can business use its resources, competencies and experiences in such way as to make them useful for addressing some of the big economic, social or environmental challenges that society is confronted with, e.g. climate, migration, corruption, water, poverty, pandemics, youth unemployment, sovereign debt overload, or financial instability?”

Our view of BST 3.0 may be defined as follows:

Truly sustainable business shifts its perspective from seeking to minimize its negative impacts to understanding how it can create a significant positive impact in critical and relevant areas for society

and the planet. A Business Sustainability 3.0 firm looks first at the external environment within which it operates and then asks itself what it can do to help overcome critical challenges that demand the resources and competencies it has at its disposal.

As a result, a BST 3.0 firm translates sustainability challenges into business opportunities making “business sense” of societal and environmental issues. This follows the line of thinking suggested by the late Peter Drucker who commented on the business challenge of sustainability: “Every single social and global issue of our day is a business opportunity in disguise” (as cited in Cooperrider, 2008).

Having already figured out how to improve their operational effectiveness by introducing energy savings and social benefits to their supply chains, or improve their products and services, the truly sustainable organizations ask themselves more challenging questions such as

1. Which of the burning environmental, societal, or economic issues could be resolved by dedicating our wealth of resources, competencies, talents, and experiences?
2. What are the benefits and contributions of our products and services to society and the environment?
3. How can we transform our operations to provide solutions (products or services) in a direct and measurable way to the burning issues in nature and society?
4. How can we open up and develop our governance structures to respond more effectively to society’s concerns?
5. What can we do individually? And where do we need to engage in sector-wide or cross-sectorial strategies?
6. Where do we need to engage in activities to change the rules of the game to bring together the divergent demands of the current economic system and the demands of SD?

BST 3.0 firms see themselves as responsive citizens of society. Truly sustainable business shifts its perspective from seeking to minimize its negative impacts to understanding how it can create a significant positive impact in critical and relevant areas for society and the planet. BST 3.0 represents a very different strategic approach to business. It turns around the traditional “inside-out” approach used by business and applies an “outside-in” approach instead, much like social businesses do.

The organization starts out by reviewing pressing sustainability challenges that society faces, and then engages in developing new strategies and business models that overcome these.<sup>4</sup> The potential for contributing positively will vary largely between companies, their resources, strategies and purposes, and it will vary between different industry sectors and societal contexts. Making a positive contribution to overcome sustainability issues and thus serving the common good becomes the main purpose of a truly sustainable business. In this perspective, the values created change from the triple bottom line to creating value for the common good, defined as that which benefits society and the planet as a whole. This stands in contrast to the private good of individuals or groups. In order to create value for the common good commercial businesses have to find ways to do this in an economical way. This will be much easier for social or hybrid businesses, where financial constraints are less stringent and the economic equation may look different.

Truly sustainable firms engage on different levels of action to increase their sustainability impact and to ease conflicts between financial demands and societal needs. As long as they act on an *individual company level* they can innovate their processes and products or improve their systems of governance and transparency. Impact and reach of their activities, however, will remain limited. By engaging on a *sectorial or cross-sectorial level*, businesses can change the common approaches and practices shared by all members in an industry and along supply chains. They can do this by creating transparency, sharing best practices, defining common rules, and setting standards. These collaborative partnerships will increase the impact and outreach of their sustainability strategies.

In order to create new space for economic and sustainable solutions and to scale-up the impacts, truly sustainable businesses will also have to engage in *changing the rules of the game*. After all, big sustainability problems like climate change, availability of water, and loss of biodiversity cannot be solved by business alone. Also, businesses are often punished by financial and consumer markets when they engage in serious sustainability strategies, as many soft drink companies are experiencing when looking for alternatives to address the causes of obesity. Such companies will not be able to address the real sustainability issues they are confronted with as long as the rules of the game are not changed. Engagement for changing the collective rules of the game may take many forms and range from changing accounting rules and standards for disclosing and internalizing sustainability risks and impacts, informing and educating customers about unsustainable choices and practices, to lobbying for taxes on resource consumption, emissions or for stricter standards for public health.

*Banks* need to address the enormous challenges to finance sustainable infrastructures for a world populated by 9 billion people of which an ever-increasing number live in mega-cities. They will have to shift funding from unsustainable investments to strategic projects of regional relevance (securing of water, food, etc.). According to the outside-in logic, banks start out evaluating relevant sustainability challenges in their societal contexts. They then evaluate and decide what challenges they can and want to contribute to. The choice will be among such issues as wealth and income inequalities, youth unemployment, old age assurance, climate change, energy efficiency and renewable energies, sustainable construction and living, new models of sustainable tourism, old-age provisions, assisted living, financing public health, education, or integrating of foreigners and migrant workers. Products and services will include packages of information and consultation, new forms of collaboration, public–private partnerships, new forms of financing and collaterals like microfinance, crowd financing, or people funds (e.g., [www.kickstarter.com](http://www.kickstarter.com)). Also, banks will have to address the challenges of systemic risks created by their collective behavior for societal groups (e.g., homeowners, students) and whole countries (e.g., Greece, Spain, Ireland, Iceland, Switzerland, the United States). The effectiveness of their strategies is measured by the contributions they make and the values thereby created for the different stakeholders and for the business itself.

*Food companies* will need to evaluate sustainability challenges and define the relevant issues for them, taking into consideration their exposure as well as their competencies to solve them. The choice will be among issues like alleviating poverty, access to clean and affordable water, providing healthy and affordable nutrition, or supporting smallholder farmers and distributors in developing countries. In developed countries, the issues are more oriented toward fighting overconsumption and obesity, providing healthy products for different ages, contributing to public health and healthy life-styles, sustainable agriculture, production and consumption, or fighting food waste. Products and services not only include healthy and balanced products but also new forms of health-related information and education for consumers, provided collaboratively with scientific and public organizations, and they may also include restraints from misleading and aggressive marketing. In developing countries, the emphasis of services and products will also relate to fighting hunger, securing human rights, supporting smallholder farmers and distributors, securing the availability of water, energy, and public health. In order to deliver organic or fair-trade products to the markets (e.g., textiles, coffee, tea, cacao, bananas, chicken), whole supply chains will have to be reconstructed and controlled, reaching from Third World farmers, to traders, processors, and end-user markets. Rule-changing strategies can be seen in the creation of new institutions securing sustainable supplies like the Marine Stewardship Council for fish and fisheries and the roundtables on sustainable soy or palm oil. They set new standards for sustainable practices and create transparency through certification. This changes the rules of the game for all or most competitors.

The key characteristics of our BST typology are summarized in Table 2.

**Table 2.** The Business Sustainability Typology With Key Characteristics and Shifts.

BUSINESS SUSTAINABILITY TYPOLOGY (BST)	Concerns (What?)	Values created (What for?)	Organizational perspective (How?)
Business-as-usual	Economic concerns ↓	Shareholder value	Inside-out
Business Sustainability 1.0	Three-dimensional concerns ↓	Refined shareholder value	Inside-out
Business Sustainability 2.0	Three-dimensional concerns	Triple bottom line ↓	Inside-out
Business Sustainability 3.0	Starting with sustainability challenges	Creating value for the common good	↓ Outside-in
<b>The key shifts involved:</b>	1 <sup>st</sup> shift: broadening the business concern	2 <sup>nd</sup> shift: expanding the value created	3 <sup>rd</sup> shift: changing the perspective

As companies move to more ambitious and more effective levels of BST, three important shifts take place:

1. The relevant concerns considered by business shift from economic concerns to three-dimensional concerns (social, environmental, and economic) related to the sustainability challenges we are collectively facing.
2. The value created by business shifts from shareholder value to a broadened value proposition that includes all three dimensions of the triple bottom line (people, planet, profit).
3. The shift in fundamental organizational perspectives, from an inside-out perspective with a focus on the business itself to an outside-in perspective with a focus on society and the sustainability challenges it is facing. This moves the value creation perspective from the triple bottom line to creating value for the common good.

Each of these shifts has different consequences. A shift in concerns broadens the business agenda to include nonbusiness concerns in planning and actions. A shift in values created broadens the output and purpose of business activity to include nonbusiness goals. But only a shift in organizational perspective, from inside-out to outside-in, will allow a company to develop the strategies and the business models needed to make relevant contributions to overcome societal and planetary challenges, thereby contributing to the common good. This last shift is what we consider to be the sign of true BST.

### Conclusions and Discussion

We hope that this article provides a basis for clarifying the meaning of BST. In order to achieve this we have made three contributions in particular. First, we provide a connection between the discussion about BST and the global challenges of SD. Linking business contributions to the global sustainability challenges enables us to assess their value for society and the planet. As a result, we will be able to differentiate between notable improvements to the triple bottom line on

one hand and contributions to improve or resolve relevant societal, environmental, and economic challenges on the other hand. Second, we provide a framework for the analysis of existing and emerging sustainable business models, differentiating between (a) the concerns considered by business, (b) the organizational perspectives taken, and (c) the different values created by sustainable business. Using this framework, we have analyzed and categorized major conceptual contributions to the BST debate. Third, we suggest a typology of BST, linking business-as-usual to Business Sustainability 1.0 (Refined Shareholder Value Management), Business Sustainability 2.0 (Managing for the Triple Bottom Line), and Business Sustainability 3.0 (Truly Sustainable Business).

This typology demonstrates that what has commonly been considered as “business sustainability” can be categorized into very different types. As part of this typology, we provide an answer to the question of what it means for an organization to be “truly sustainable,” namely, to solve the sustainability challenges we are collectively facing and thus to create value for the common good. We are not aware that the field of BST has brought forward a similar typology so far, and we hope that this article will launch a discussion on the meaning and types of BST.

While we are suggesting and portraying a progression in this typology toward a truly sustainable business, we do not seek to minimize or neglect achievements and contributions made by organizations that are currently operating in the BST 1.0 or 2.0 modes. It may well be a major challenge for large, existing businesses and industries to embrace the fundamental shift required to move on to BST 3.0. Operating in the BST 3.0 mode has deep consequences in many aspects of business and management. Some if not many of them run deep. They span not only the fields of governance, strategy, and business models but also culture and leadership. These consequences can only be mentioned but cannot be further discussed in this article (e.g., Eccles, Ioannou, & Serafeim, 2012; Eccles & Serafeim, 2013; Haanaes et al., 2011; Haanaes et al., 2012; Kron et al., 2013; Moffat & Newton, 2010; Pless, Maak, & Waldman, 2012).<sup>5</sup>

Business Sustainability 3.0 raises crucial questions in two different areas: How do we ensure that the business contributions to solving sustainability challenges and thereby creating value for the common good will indeed be done effectively and efficiently? And how realistic is it to expect commercially oriented businesses to refocus on sustainability challenges and value creation for the common good or will this be the domain for social businesses?

Dogmatic positions expressed by liberal economists like Friedman or von Hayek, which are reflected in the normative position of the shareholder value approach, question the legitimacy as well as the competency of business to address and solve social issues. The reality looks very different: Businesses today are expected by stakeholders and society to include social issues and they do in fact include them in their decisions. They do this to varying degrees and with highly variable impacts which are rarely evaluated according to clear metrics and remain mostly vague and hard to assess. Furthermore, businesses have the right to exercise their proper judgment in considering social issues, as exemplified by the “business judgment rule.” This rule asserts the right of corporate directors to address societal concerns as they relate to their business, as long as their decisions are made in good faith, with the necessary care, and with the reasonable belief that they are acting in the best interests of the corporation. One could claim that corporations indeed have all the necessary insight and knowledge about sustainability issues, maybe even more so than other societal actors. More importantly, corporations have the resources to effectively address such issues.

The question however remains: How do we ensure that business contributions addressing sustainability challenges will be indeed effective and efficient? Good business judgment is likely to limit business engagements in areas of little expertise. Yet to ensure effectiveness and efficiency we will need to create and develop the conditions in two interdependent areas: transparency and metrics. In order to evaluate, compare, and improve the business contributions to overcome sustainability challenges transparency is required with regard to decisions and actions taken by companies. But also transparency related to the effects and impacts of the actions taken.

Beyond communication and reporting on such contributions, external assurance will be of essence to satisfy the need of transparency. The work of the Global Reporting Initiative may serve as a good starting point. Effective reporting will need to focus more on depth and materiality, possibly at the expense of the breadth of issues. Furthermore, an effective assessment of the business contributions to sustainability issues requires adequate metrics and measures to assess and compare their impact. In this field, more work is required in order to come up with issue-specific metrics that reliably indicate improvements. In this area, the Sustainability Accounting Standards Board, which is developing industry-specific metrics on the materiality of sustainability issues, should offer a promising starting point ([www.sasb.org](http://www.sasb.org); Eccles & Serafeim, 2013)

Becoming a truly sustainable business clearly is a challenge for companies, particularly for commercial business. Is it indeed realistic to expect commercially oriented corporations to focus their strategies on solving sustainability challenges and creating value for the common good? There are different issues to be considered in answering this question. First, solving sustainability problems the world is facing can be considered a strategic challenge like many other business challenges. For example, there is no reason to believe, that developing renewable energy technologies is more challenging and less rewarding than exploring oil fields in the deep sea or in arctic regions. Another example is nuclear energy, where handling it safely and economically over the whole life-cycle has shown to be a lot more challenging and costly than expected. And industry yet needs to acknowledge and address the substantial new risks involved in large-scale experiments related to the exploitation of gas and tar sands. Business has always explored new opportunities in new fields and has come up with innovative and economic solutions. We need to ask the question, however, why companies seem to have much less problems accepting high risks in certain highly unsustainable business areas than in some other more sustainable areas?

Second, Peter Drucker has rightly pointed out that social and global issues are “business opportunities in disguise.” Embracing these new opportunities may well require changes in the current rules of the game. But this also is not so new and not so different from what we have known for a long time, although industry pressures to keep up unsustainable rules still seem to dominate. For example, global subsidies for fossil fuels are still outnumbering by a factor of 6 those for renewable energies (International Energy Agency, 2011), and all attempts in changing this situation have been failing. This tilted situation strongly favors entrenched and unsustainable technologies while effectively preventing new and more sustainable energy solutions from taking their place at a much faster rate.

Without any doubt, there is significant room for commercially oriented businesses to become truly sustainable, although such an approach requires a fundamentally different strategic approach. It requires companies to start thinking and acting from the outside-in and remain focused on contributing to solving sustainability challenges, even if there are more economically attractive, but unsustainable alternatives available. As long as such outside-in strategies provide not only positive contributions to sustainability challenges but also offer a satisfactory economic value for the shareholders, such a strategic approach is feasible for commercial businesses. These strategies then fall into the domain of shared value creation.

There are, however, limits for commercial businesses to follow the true sustainability route, in particular when they have to live up to strong shareholder value-oriented pressures from financial markets. A key reason may be one of timing, with financial markets being very short-term oriented while true sustainability strategies—like many other strategies also—usually need a longer term perspective. Another reason for such limits may be a difference in fundamental value orientation. True BST cannot be achieved by solving sustainability issues incidentally or opportunistically, as such initiatives are typically cancelled as soon as the prospects for economic gain diminish. Instead, true sustainability requires a solid foundation in pursuing social benefits as a worthy cause as such, as it is the case with social businesses. May be it helps also to remind ourselves of the fact, that many big and successful corporations started out as social businesses, with, for example, Henri Nestlé providing baby-food to help mothers who were unable to

breastfeed and William Lever, a founding father of Unilever, helping to make cleanliness, hygiene, and health common place in Victorian England.

We agree with Peter Bakker (2012), president of the World Business Council for Sustainable Development, that business has both the opportunity and the responsibility to play an essential role in responding to and solving the societal and planetary sustainability challenges. But this will only be the case when business starts to live up to its possibilities by using its immense resources in a truly sustainable way. This may lead to a world, where business one day may indeed be celebrated for its contribution to society and is no longer criticized for achieving economic success at society's cost.

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### Notes

1. They speak of "corporate sustainability." We prefer to use the term *business sustainability* instead to prevent a particular reference of the former term to the corporate level. In our view, a reference to business seems to be crucial, although both terms are often used interchangeably.
2. We would like to point to two truly impressive addresses from recent presidents of the Academy of Management, that address the link to the societal macro level and our responsibility as scholars: Anne Tsui (2013) and Jim Walsh (2011).
3. For a deeper discussion of the critique by Crane et al. (2014) on the shared value approach by Porter and Kramer (2011) see the different contributions in *Financial Times* (2014).
4. We are grateful to an anonymous reviewer pointing out that there may be more a circular arrow going outside-in and inside-out as well. In this view, a company looks at what is happening with the pressing social and environmental issues in the world, but then also looks at what they have internally as abilities to lessen one or more of these issues. This circular arrow would mean that a company would regularly look at what they can do to better utilize their capabilities to make a more sustainable impact on improving the world.
5. We outline in a follow-on article (Muff & Dyllick, 2014) how this business sustainability typology may be applied to organizations by considering the various dimensions of ownership, governance, strategy, and culture, thus providing an organizational roadmap toward BST.

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## Author Biographies

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**Katrin Muff** has been serving as the dean of Business School Lausanne since 2008, where she implemented a values-based approach based on sustainability, responsibility, and entrepreneurship. Her international business experience includes nearly a decade with Alcoa in Europe, the United States, and Russia. She worked for Iams Pet Food and has cofounded an incubator for early-seed start-ups. She has cofounded the World Business School Council for Sustainable Business and led the 50 + 20 Initiative, a vision of management education for the world. Her research focusses on the convergence of responsible leadership and sustainable business, with particular interest in transformational learning environments.