Organizational Design and Sustainability

A Guide for Sustainable Entrepreneurs

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

About the Author

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Organizational Design and Sustainability

§1 Introduction

Sampselle reported on the results of a 2010 survey reported in *Organizational Dynamics* that found that while over 75% of executives worldwide said they believed that sustainability was important to the financial success of their companies, only 30-40% of those executives were actually taking steps to embed sustainability into their core business practices.[1] In the same vein, a study by Accenture found that a majority of the chief executive officers who had embraced the United Nation's Global Compact principles had adopted policies on and programs for sustainability; however, of that group "comparatively few had made the necessary operational changes in their supply chains and distribution systems or established sustainability goals and controls for their lines-of-business."[2] These surveys indicate that while sustainability has become an important issue for larger companies, not surprisingly since consumers have confirmed that they would be willing to make purchasing decisions based on the level of social responsibility of the brands from which they are selecting, these companies are still struggling with understanding and implementing what Sampselle referred to as "sustainable organizational design principles" in their infrastructures and supply chains.[3]

Griffiths and Petrick did some of the earliest research on corporate architectures, or organization design, for sustainability and identified three key elements in the traditional organizational design of larger corporations that likely impede their ability to adapt to the specific requirements of sustainability[4]:

- Griffiths and Petrick argued that larger corporations rely on established task routines that promote the status quo and result in what they called "dynamic conservatism". As a result, new theories regarding the company's value to society and the proposed practices associated with those theories are generally seen as threats by entrenched interests in larger corporations who prefer to continue the heavy reliance on routines and "command-and-control" style management systems.

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[1] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016] (citing Mirvis, Googins and Kinnicutt "Vision, Mission, Values: Guideposts to Sustainability", Organizational Dynamics, 39 (2010), 316). For further discussion of sustainability and corporate social responsibility ("CSR"), see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[2] Id.

[3] Id. Sampselle explained that while "sustainable organization design" was often used to refer to organization designs that preserve financial sustainability, his meaning of the term was organizational design principles for "triple bottom line businesses" (i.e., businesses simultaneously pursuing profits, socially responsible treatment of the people in their organizations and environmental responsibility in the way in which they conduct their businesses). Id.

[4] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1573-1574 (see original text for additional citations to research on each of the identified impediments).

- The hierarchical "command-and-control" organizational structures generally used by larger corporation impede access, and assignment of value, to input from stakeholders of the corporation, all of whom are important actors in sustainability initiatives. Traditional organizational designs principles recognize just two stakeholders, the board of directors and the stockholders; however, sustainability is based on relationships with all of the company's stakeholders and engaging with them in formulating values and strategies for the company, scanning the environment and identifying opportunities for innovation.
- Corporations operating under traditional organizational design principles do not have departments with what they described as "specialized environmentally relevant knowledge to recognize, act on, and transfer to other parts of the organization".

Griffiths and Petrick noted that researchers had identified several conditions that were characteristic of "ecologically sustainable organizations" ("ESOs")[5]:

- Smaller corporate entities and structures that would be more responsible to environmental concerns and less powerful and less inclined to dismiss governmental and societal attempts to regulate them;
- Limited governmental regulation used to shape corporate environmental behavior to comply with ecological standards and adopt proactive environmental management practices (e.g., "total quality environmental management") to reduce waste and pollution;
- Devolution of increased power to individuals and local communities to enable them to create a citizen-inspired agenda for local ecological sustainability; and
- Active involvement of ESOs in creating self-sufficient communities where production and use are aligned with community needs.

At first blush, it would seem that achieving the characteristics of ESOs is a bridge too far for most large traditionally-organized corporations. However, many observers believe that large corporations can indeed "become much more efficient at modifying inputs, throughputs and outputs to reduce their negative impact on the ecology" and learn and embrace the potential competitive advantages associated with these improvements to their operation and product management systems.[6] The process will not be simple or easy and will require structural and cultural changes in order to empower employees and other stakeholders to have a stronger voice in identifying problems and creating and implementing solutions to social and environmental problems that could benefit from the application of the core competencies of the corporation.

Griffeths and Petrick effectively advocated for recognition of several attributes for organizational structures that would be need in order to institutionalize ecologically and sustainable practices: specific architectural processes that capture and use ecological information that is integrated into strategic decision making; specific architectural

[5] Id. at 1575 (see original text for additional citations to research on each of the identified characteristics).
[6] Id. at 1576 (see, e.g., P. Shrivastava, "The role of corporations in achieving ecological sustainability", Academy of Management Review, 20(4) (1995), 936; and E. Weizsacker, A. Lovins and L. Lovins, Factor Four: Doubling Wealth, Halving Resource Use (London: Earthscan Publications, 1998)).

processes that incorporate employee knowledge into strategic decision making; and specific architectural processes that rapidly respond to sustainability opportunities and threats.[7] Griffiths and Petrick also argued that there must be multiple and diverse entry points into the organization in order for companies to capture and use ecological information for strategic purposes and that companies that confine relevant information to specialist units will suffer because the information will not be diffused through the organization and thus will not be widely available for use in strategic decisions.[8]

§2 Design for sustainability using the Star Model

The Network for Business Sustainability ("NBS") and Canadian Business for Social Responsibility ("CBSR") collaborated on a workshop involving sustainability and human resources ("HR") professionals that involved the exchange of information on best practices for embedding sustainability into organizational culture. The workshop led to the creation of a framework that was based on the five elements of organizational design in the well-known "Star Model" developed and popularized by Galbraith and included strategic planning (e.g., incorporating sustainability into mission and vision statements), organizational structure (e.g., creating an executive position with responsibility for sustainability), human resource management (e.g., providing sustainability training to employees), processes (e.g., collecting and reporting data on sustainability performance) and employee rewards and incentives (e.g., incorporating sustainability into financial and non-financial rewards programs). This framework included certain "best practices for embedding sustainability in organization culture" which are briefly described in the following paragraphs.[9]

§3 --Strategy

Recommended best practices for "strategy" included establishing an agreed-upon definition of sustainability that is relevant to the company's business and its success. Feedback should be gathered from internal and external stakeholders in order to understand the many faces of sustainability and CSR. Experts should be recruited to provide information to various internal stakeholders, such as employees, so that they have a better understand of the types of innovation that are involved in sustainability programs. Experts can also facilitate dialogue with external stakeholders on setting a sustainability agenda and establishing reporting mechanisms. Once a definition has been agreed upon, sustainability should be integrated into the corporate vision and linked to the company's mission, values, corporate beliefs and goals. Companies should make an explicit effort to get everyone involved in some aspect of the sustainability program and embedding sustainability into the company's business practices should be added to lists of the company's top priorities alongside growth and profitability and included in the

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[7] Id. at 1581-1583.
[8] Id. at 1581.
[9] Network for Business Sustainability and Canadian Business for Social Responsibility, Embedding Sustainability in Organizational Culture: Framework and Best Practices. For further discussion of the "Star Model", see "Organizational Design" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org). See also J. Galbraith, Organization Design (Reading, Mass.: Addison-Wesley, 1977).

company's performance scorecards. When selecting sustainability projects, companies should focus first on developing their strengths and choose projects that are aligned with their core competencies. This makes it easier for companies to establish a leadership position in particular areas and secure executive support for expanding the initiative. Additional projects work best when developed with the input and support of employees and they should be allowed to participate in the restructuring of their jobs as needed to pursue the sustainability goals.

§4 --Structure

With respect to structure, key recommendations included making senior executives responsible, establishing accountability and using partners and collaborators to leverage the company's capabilities and achieve greater outcomes. Companies were urged to establish a CSR executive position that reported directly to the board of directors or the CEO and have that executive work regularly with a cross-functional CSR team that oversaw the sustainability initiative. In addition to support and formal structure at the top of the organization, other people from all around the company should be given sustainability roles and goals. Senior managers throughout the organization should "own" the performance metrics for the sustainability programs they oversee, which requires them to establish processes within their units for setting and tracking goals, and each manager and employee should have their CSR-related responsibilities formally incorporated into their roles. At the same time, however, employees should be invited to participate in defining their roles and setting their individual targets and the manner in which their performance will be measured and reported. Among the employee roles should be "sustainability champions" who proactively promote sustainability among their colleagues and serve as conduits for information and communication. Collaborations with NGOs and other community organizations are a good and efficient way to engage external stakeholders in sustainability initiatives.

§5 --People

NBS and CBSR explained that the "people" element in organizational design includes influencing and building the organization's human resources through recruitment, promotion, rotation, training and development. When communicating information internally regarding sustainability and the associated goals of the organization, it is important to be mindful of the specific audiences that are being addressed. Positive training that motivates employees to want to "do the right thing" is essential and should be incorporated into explanations of the business case for the initiative. Sustainability and human resources leaders should develop teachers and associates throughout the organization—"sustainability champions"—who can help generate grassroots energy among the workforce for sustainability programs. Perhaps most importantly, organizations need to engage their employees about issues that are fundamental to them such as pay, work-life balance and the overall working environment. Effective engagement includes giving employees permission to voice their concerns about sustainability goals and offer suggestions for improving the programs. Training and education should be used to ensure that employees are aligned about the sustainability goals and how they should be achieved so that decisions in the field can be made more efficiently and consistently.

§6 --Processes

Designing and implementing organizational processes for sustainability should begin by asking big, and difficult, questions about what the organization should look like in the future and the role that sustainability will be playing. Companies need to go beyond product characteristics to include the entire customer experience. The key recommendation for companies was to be proactive. Once a vision has been created, companies should publish targets to the outside world that include public commitments to sustainability-focused processes and objectively measurable outcomes. It is best if commitments are developed with input from the relevant stakeholders and stakeholders should be afforded an opportunity to comment and critique the company's commitments and the proposed methods for achieving those commitments. Results of the company's efforts should be shared internally and externally and should be accompanied by thoughtful analysis of why things went well and how processes can be improved. When reporting results, information should be collected directly from stakeholders about how they were impacted by the sustainability initiatives. When designing a reporting mechanism, companies were encouraged to take advantage of existing reporting frameworks that had already been developed and then customizing their own reporting processes (i.e., metrics, measurements, peer comparisons and benchmarking) to take into account the specific context such as industry conditions.

§7 --Rewards

Rewards are essential for motivating executives, managers and employees and aligning the personal goals of the workforce to the sustainability targets of the organization. Companies are encouraged to link compensation to CSR performance, typically in the form of bonus payments that can easily and objectively be computed after analysis of metrics on specific sustainability targets. While most incentives are monetary, other tools can be used to reward good work including recognition and celebration of ideas and successes and support, such as grants and prizes, for new projects that are suggested by employees. Companies may also motivate by committing to making charitable donations to worthy causes selected by employees and often allow employees to provide services to those charities during work hours while being compensated by the company. Another way to provide recognition to managers and employees is to underwrite their participation as presenters at industry conferences on sustainability, a practice that enhances the reputation of the company and the professional credentials of the person making the presentation.

§8 Strategic values integration

Sampselle argued that "[c]ompanies do best by incorporating the full range of stakeholders into the development and implementation of the company's core values and mission in pursuit of the vision (i.e., the picture of what success for the business will be at a particular time in the future)" and cited Kanter for the proposition that "[v]anguard companies go beyond the lists of values posted on walls and Web sites by using their codified set of values and principles as a strategic guidance system".[10] Sampselle noted that while these propositions may be true for all companies, they were especially important when considering sustainability initiatives, and went on to provide several illustrations of companies that had been successful at strategic values integration[11]:

- Wal-Mart used its core competencies in human resources management and logistics to orchestrate effective delivery of badly needed goods to the victims of Hurricane Katrina and then built on those activities to "launch into a far more expansive and significant green campaign that 'engages customers, suppliers, and staff in a war on waste, obesity, and global warming'." Wal-Mart has integrated socially responsible goals and objectives into its mission, values and strategy including improvements to its supply chain and aggressively moving to make healthier, greener products available to its customers.
- In the early 2000s IBM set out to refocus its culture and values and reached out to engage thousands of its employees in a dialogue—Sampselle described the process as "jams"—to collectively identify a new set of core values. The result was: "dedication to every client's success; innovation that matters, for the company and the world; and trust and personal responsibility in all relationships". What followed was the development of a "socio-commercial strategy" that integrated the company's commercial and community activities and unleased the company's impressive and innovative technologies to find solutions that would lead to a "smarter planet" and help connect entire ecosystems of organizations and interests to "work smarter".
- When a leader at Unilever reported that there were "too many unaligned programs and messages,'' the company decided to create a new brand identity that integrated its modern home-and-personal-care and food-and-beverage businesses underneath a single corporate umbrella and pursue a strategically oriented mission ''to add vitality to life by meeting everyday needs for nutrition, hygiene, and personal care brands that help people feel good, look good, and get more out of life". The result was a menu of sustainability initiatives that were consistent with the company's core competencies including a focus on the environmental relationship between consumption and obesity, environmental sustainability throughout its supply chains and ethical consumerism growth through interest in cause-related products and in brands' social responsibility.

In order to provide contrast to the actions of Wal-Mart, IBM and Unilever, Sampselle explained some of the pitfalls that must be avoided in order for a firm to achieve and maintain credibility as a sustainable business.[12] For example, many companies have been

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[10] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 2 (citing R. Kanter, SuperCorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good (New York, Crown Business, 2009)).

[11] Id.

[12] Id. at 2-3 (citing S. Beder, Nike's Greenwashing Sweatshop Labor, April 2002, http://www.organicconsumers.org/clothes /nikesweatshop.cfm; BP: Beyond Petroleum or Broken Promise? The Brand Positioning Workshop, http://www.brandingstrategyinsider.com/2010/06/bp-beyond-petroleum-

accused of "greenwashing", which Sampselle described as "openly stating values that they then fail to embody and embrace to the extent the public sees fit". Sampselle pointed to Nike's public celebration of the happiness of the workers in its Vietnamese factories in 1997, a story that was undercut when the *New York Times* reported that those workers were exposed to carcinogens at 177 times safe levels and being paid ridiculously low wages for work weeks that were far longer than permitted by local law. British Petroleum, generally known simply as "BP", is another case. For several years during the 2000s BP invested heavily in its "Beyond Petroleum" campaign, touting a commitment to "green energy". However, the reality was that BP was continuing its old ways: investing 93% of its resources in its traditional oil and gas activities. Sampselle quoted one the 2006 observations of one of the architects of the campaign: "I guess, looking at it now, 'Beyond Petroleum' is just advertising. It's become mere marketing -- perhaps it always was -- instead of a genuine attempt to engage the public in the debate or a corporate rallying cry to change the paradigm." Any hopes that BP had of successfully transforming its image were effectively destroyed a few years later in 2010 with the Deepwater Horizon accident and resulting devastation of the Gulf coastline. The damage for companies that can occur from greenwashing and sloppy implementation of sustainability initiatives is significant: highly publicized failures undermine the public's trust and drain the goodwill that surveys have shown to count for as much as 70% of the value of the largest companies.

Sampselle also cautioned companies about relying on "one-off" actions or campaigns as satisfying stakeholder expectations regarding the company's commitment to sustainability. He cited examples of companies that publicize their intent to make donations to worthy causes, noting that while these efforts are certainly admirable they often lack what Sampselle argued is the key element of effective sustainability practices: long-term strategic integration. One of the easiest ways for companies to venture into sustainability is by increasing their investment in philanthropic activities including donations of cash and non-cash assets to charitable organizations. In some cases, companies augment these investments by creating programs that allow their employees to volunteer with the designated charities. While philanthropy can generate good press, and usually makes employees feel better about the places they work for, it must become an embedded long-term commitment of the company and a starting point for fuller engagement with relevant stakeholders: people within the company working with the charities and the charities themselves, who may have innovative ideas about how the company's core competencies can be deployed to enhance the value that the charities provide to their constituencies.

§9 Organizational structures for sustainability

The alignment of organizational design and sustainability begins with the development of a sustainability strategy and accompanying goals and priorities. In order for the sustainability strategy to be effective and successful, it must align with the structure, competencies and culture of the company. Strategies are based on an overall vision for

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or-broken-promise.html; and J. Kenney, Beyond Propoganda, http://www.nytimes.com/2006/08/14/opinion/14kenney.html)).

the company and a set of commitments that serve as the foundation for strategies and tactics and bind all of the business units together to work toward a common purpose. Many options are available in terms of sustainability-related commitment topics such as climate change, waste reduction and management, resource consumption, education, human rights, community engagement and procurement (i.e., supply chain management). Commitments should be pursued through a combination of corporate policies, sustainability policies and employee initiatives.

Companies that are relatively new to sustainability often begin with a fairly simple "stand-alone" structure based on treating the sustainability program as a separate function like finance, operations or marketing.[13] A high level executive, often given the title "chief sustainability officer" ("CSO") will oversee the function and reports directly to the CEO from the same level in the organizational hierarchy as other C-level executives. The job of the CSO, who will be supported by various sustainability directors worked primarily inside the sustainability function, is to begin the difficult process of engaging the business units that are overseen by other C-level executives. The advantages of this type of structure is that it creates a group that is solely focused on and responsible for initiating and implementing sustainability-related activities and serves as a magnet for recruiting the specialized skills necessary for sustainable programs to be successful. However, a stand-alone approach has several critical drawbacks: sustainability is not integrated into the rest of the organization; limited buy-in from employees because they are not accountable to the sustainability function; and funding challenges since the function is typically focused on reducing costs as opposed to business development.

Companies often attempt to address and resolve some of the key shortcomings of the stand-alone structure by designing an "integrated structure" that recognizes and promotes reporting relationships between the sustainability directors, still sitting primarily in the sustainability function, and the business units. Advantages of this approach include enablement of organization-wide integration and the creation of direct ties between the sustainability experts and the business units, thereby allowing the sustainability expertise to be available for supporting sustainability programs in the business units. The enhanced access for the sustainability directors also encourages and improves employee buy-in, although there is still no formal accountability and the actions of employees with respect to sustainability are largely determined by the priorities of the leaders of their specific business unit. In fact, the main problem with this structure is that responsibility and accountability remain disperse; however, the structure can be helpful for companies with sustainability goals that are primarily focused on reducing costs and efficiency.

Another more advanced and dynamic structure for sustainability is referred to as an "embedded structure" and actually transfers the sustainability directors out of the sustainability function and into each of the business units and functions themselves. The sustainability director reports both to the leader of the business unit or function and back

[13] The discussion in this paragraph and the following paragraphs regarding alternative organizational structures for sustainability is adapted from H. Farr, Organizational Structure for Sustainability (July 14, 2011), http://abettercity.org/docs/events/BCBS%20Hayley%20Farr_28%20July%202011.pdf [accessed December 12, 2016]

to the CSO—a matrix structure that can cause issues with respect to authority. Advantages of the embedded structure include the ability to select and implement sustainability programs that drive business value and become part of the company's core business and the opportunities to encourage significant buy-in from all employees. However, the embedded structure makes it more difficult for the CSO to coordinate sustainability activities across the organization and efforts may be duplicated. An embedded structure is considered to be the most advanced of the basic structures for sustainability and generally makes sense for mature organizations that have a good basic understanding of sustainability already integrated into their business units and are looking for revenue-generating opportunities.

Regardless of the particular structure adopted by an organization to facilitate its sustainability initiatives, it is essential to have executive sponsorship and visible and proactive support from the CEO and other members of the executive team and the board of directors. The leader of the sustainability initiative should have a direct reporting relationship with both the CEO and the board of directors in order to send a signal to employees and other stakeholders about the important of the initiative and provide the initiative with access to the support and resources available from high-level executives and managers in other departments. Clear procedures regarding decision rights should be established, recognizing the integration of sustainability programs and goals often challenge existing decision rights. Sustainability initiatives will only be successful if employees are engaged and in order to achieve the requisite integration and employee buy-in, programs must be created to develop a basis awareness of the company's sustainability strategy, goals and priorities, educate employees about opportunities and support employee efforts. Sustainability performance must be integrated into day-to-day management activities and compensation programs and responsibilities, performance reviews and compensation models for all employees must be aligned with the company's sustainability objectives in order to encourage and reward contributions to innovation and creative problem solving.

One of the notable features about a sustainability-focused organizational structure is the emphasis on aligning the internal structure of the company with an external structure that is designed to promote direct, intense and continuous engagement with stakeholders. This begins with making sure that the core responsibilities for implementing the sustainability programs are vested in departments have close ties to stakeholders and the requisite decision-making powers with respect to issues related to the programs. Assessment of the organizational structure should reveal clear paths for stakeholders to express their concerns and pose questions to the company and provision should be made for both transparent goals for stakeholder relationships and metrics that can be used by both internal and external stakeholders to evaluate how well the structure is performing. Evaluation and reporting should be done on a regular basis, generally quarterly or bi-annually, and should be accompanied by informal face-to-face discussions among the managers of the sustainability initiatives and the employees reporting to them and members of the stakeholder constituencies they are serving. Performance measurement and reporting should be taken seriously and the results should be used to identify and implement the structural changes that will be needed as the sustainability initiative gains traction and becomes more embedded in day-to-day operations and decisions.

Designing Organizational Structures for Sustainability

The alignment of organizational design and sustainability begins with the development of a sustainability strategy and accompanying goals and priorities. In order for the sustainability strategy to be effective and successful, it must align with the structure, competencies and culture of the company. When designing the organizational structure for sustainability, several important principles need to be considered:

- While placement within the organizational structure is an issue, and may vary depending on the circumstances, there should generally be some form of formal sustainability function overseen by a single designated senior executive. While sustainability may be new to the company, leadership should be vested in someone who has the requisite credentials and experience working in the area. Science and engineering backgrounds are helpful and common and it is also a significant advantage if the sustainability executive has worked inside the organization since relationships and networking will be important in establishing the initiative and understanding how to integrate sustainability into existing operational habits.
- The sustainability initiative, and the accompanying changes to the organizational structure, must have executive sponsorship and the CEO must be a visible proponent of the sustainability vision for the company. Executive sponsorship accelerates engagement by employees and business units, but even better results can be expected if the CEO is proactive and assume personal leadership of a highly visible sustainability program.
- Structure is driven by the specific sustainability-related commitments that are made by the board of directors and members of the senior executive team following consultation with internal and external stakeholders. Examples of sustainability-related commitment topics include climate change, waste reduction and management, resource consumption, education, human rights, community engagement and procurement (i.e., supply chain management). Commitments should be pursued through a combination of corporate policies, sustainability policies and employee initiatives.
- The board of directors should also signal its support of the sustainability initiative by creating a separate committee dedicated to sustainability and corporate social responsibility or designating one director to provide oversight to sustainability-related initiatives. As is the case with the CEO, board members should do more than just oversee the ideas of others and should actively initiate or drive a sustainability-related initiative.
- As companies grow and the scope of the sustainability initiative expands, consideration should be given to creating other forms of organizational engagement such as executive sustainability advisory councils (i.e., members of the senior leadership team, including an executive sponsor, who reported to the CEO), mid-level employee sustainability councils, “green teams” and external advisory councils with representative from key external stakeholders.
- The sustainability executive should be supported by a cross-functional advisory team with members drawn from corporate communications, operations, legal, sales and marketing, human resources and EHS. Creation of such a team provides the executive with access to divergent views from throughout the company and also facilitates sharing of best practices and regular communications across internal organizational boundaries to make sure that everyone is aware of what is being done on sustainability and that programs are properly coordinated and aligned with the company’s strategic vision and stated goals for sustainability.
- The sustainability executive should also be supported by resources exclusively available to the sustainability function. Generally this includes managers for metrics and reporting, social programs and communications/public affairs/marketing. Internal support for day-to-day operation and reporting allows the sustainability executive to remain focused on strategic considerations and necessary outward communications with board members, the CEO and other executives, external stakeholders and the other forms of organizational engagement mentioned above.
- Staffing levels for sustainability-related activities are driven by a number of factors including the size and stage of development of the company, the importance of sustainability to the mission and overall

strategic goals of the company, risk and industry. These factors also influence the focus of sustainability activities, which generally include a mix of environmental issues, philanthropy and community relations, governance/risk/compliance, human rights and employee relations.

- The core responsibilities for implementing the sustainability programs should be vested in departments have close ties to stakeholders and the requisite decision-making powers with respect to issues related to the programs. Common choices include the corporate, legal or public affairs departments.
- The leader of the sustainability initiative should have a direct reporting relationship with both the CEO and the board of directors in order to send a signal to employees and other stakeholders about the important of the initiative and provide the initiative with access to the support and resources available from high-level executives and managers in other departments.
- An organizational structure should be selected that achieves the appropriate level of interaction with employees and creates value to the business. The optimal structure may change over time as the sustainability initiative gains traction and becomes more embedded in day-to-day operations and decisions.
- Clear procedures regarding decision rights should be established, recognizing the integration of sustainability programs and goals often challenge existing decision rights. It is important to identify the types of decisions that will need to be made, the parties that will be involved in making those decisions and the managers who will be entrusted with implementing the decisions.
- Sustainability performance must be integrated into day-to-day management activities and compensation programs and responsibilities, performance reviews and compensation models for all employees must be aligned with the company's sustainability objectives in order to encourage and reward contributions to innovation and creative problem solving.
- In order to achieve the requisite integration and employee buy-in, programs must be created to develop a basis awareness of the company's sustainability strategy, goals and priorities, educate employees about opportunities and support employee efforts.
- The internal structure should be aligned with the external structure that the company relies upon to engage with stakeholders since one of the most important aspects of a sustainability program is external accountability. External stakeholders need to know that their concerns and questions will be addressed and that begins with knowing how best to access the company.
- The sustainability strategy must include both transparent goals with metrics that can be evaluated by both internal and external stakeholders and provision for reporting on the results of the sustainability programs.

Sources: H. Farr, Organizational Structure for Sustainability (July 14, 2011), http://abettercity.org/docs/events/BCBS%20Hayley%20Farr_28%20July%202011.pdf [accessed December 12, 2016]; Corporate Responsibility Officers Association, Structuring and Staffing Corporate Responsibility: A Guidebook (2010); A. Longsworth, H. Doran and J. Webber, "The Sustainability Executive: Profile and Progress" (PWC, September 2012); and National Association for Environmental Management, EHS & Sustainability Staffing and Structure: Benchmark Report (November 2012).

§10 --CSR structures and staffing among large companies

A study commissioned by the Corporate Responsibility Officers Association (www.croassociation.org) in 2010 included responses from 650 large, publicly traded companies on questions relating to corporate responsibility ("CR") processes, CSR structures and staffing, CSR budgeting; CEO and board engagement in CR; CR audiences and benefits; and future expectations for CR. Key insights regarding the structuring and governing of the CR function and current CR practices among those companies included the following[14]:

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[14] Corporate Responsibility Officers Association, Structuring and Staffing Corporate Responsibility: A Guidebook (2010), 7-9.

- 62% of the respondents reported having some form of "formal CR function" and 42% of the respondents reported that their CR function was overseen by a single designated senior executive (the senior executive went by a number of different titles, most often "corporate responsibility officer").
- One-third of the respondents that formalized CR set up a separate department for CR; however, where CR resided in the organization varied widely: corporate responsibility (32%); distributed (20%); Office of the CEO (14%); communications/government relations (12%); legal ((5%); marketing/PR (4%); operations (4%); other (3%); environment/health/safety (2%); philanthropy/foundation (2%); sustainability (1%); human resources (1%); and executive area (1%).
- 42% of the respondents had CR reporting directly to the CEO and thereafter the results varied widely as to reporting channels (i.e., legal lead (11%), communications lead (11%), CFO (5%), COO (4%)).
- As to the number of employees in the CR function, the range broke out as follows: 19% had one employee, 39% had two to four employees and 42% had five or more employees.
- While there was variation among the respondents as to which responsibilities should be included in CR the most common areas were sustainability and environment (82% of the respondents), philanthropy (64%), governance/risk/compliance (62%), human rights (52%) and employee relations (50%).
- 51% of the CEOs among the respondents had taken an active role in leading a specific CR initiative and 41% of the boards of the respondents had designated a director to provide oversight to CR-related initiatives; however, only 23% of the boards had actively initiated or driven a CR-related initiative during the previous 12 months.

The consulting firm PWC undertook a study of sustainability executives from 25 global companies recognized as leading on sustainability, including 18 companies from the US, three companies from Australia and one Canada-based company.[15] The companies were composed of members of the Sustainability Innovators Working Group and companies listed on the Dow Jones Sustainability Index as of September 2011. The study was conducted from March to May 2012 and included one hour discussions with the senior executive responsible for sustainability and a supplement, brief online survey. The most common title among the respondents was "sustainability", although some companies used other titles such as "corporate responsibility", "environment, health and safety" and "public affairs". Environmental programs/strategy was the most frequently mentioned

[15] A. Longsworth, H. Doran and J. Webber, "The Sustainability Executive: Profile and Progress" (PWC, September 2012). Nine of 23 respondents had a background in environment and other background areas included products/operations (4), legal (4), marketing and communications (3), public affairs (2), policy (1) and non-profit (1). The respondents included equal numbers of men and women. 17 of the 23 had a prior internal relationship with their companies before assuming their roles as sustainability executives and average tenure with the company was 13 years. Experience with the company was considered important to success given the need for an "insider's viewpoint" that was network-driven and dependent on an understanding of the organizational culture. Id. at 9.

responsibility associated with the position followed by social programs/strategy; community engagement; environment, health and safety ("EH&S"), and philanthropy.[16]

22 of the 25 respondents had formed a board committee focusing on sustainability, and other common forms of organizational engagement included executive sustainability advisory councils (18), mid-level employee sustainability councils (16), "green teams" (14) and external advisory councils (11). Executive sustainability advisory councils included members of the senior leadership team, including an executive sponsor, which reported to the CEO. Executive leadership is important for every sustainability initiative and formally establishing an advisory council consisting of executives is an important signal to the rest of the organization regarding the importance of the initiative. When an external advisory board was formed it generally provided influence and support to both the board committee and the executive sustainability council.[17]

The executive sponsor on the executive sustainability advisory council, who reported to the CEO, generally oversaw the activities of the chief sustainability officer ("CSO"), who in turn managed the company's core sustainability office. In other words, the CSO was usually one reporting level removed from the CEO, although a handful of companies provided for the CSO to report directly to the CEO. Direct reporting lines for the CSO among 23 respondents varied as follows: external affairs (i.e., public affairs, corporate relations and communications) (7); operations (4); strategy/innovation (4); legal (3); CEO (2); business support services (i.e., procurement, information technology, supply chain and risk management) (2); human resources (1) and finance (1).[18] Some respondents said they were satisfied with being part of operational function such as external affairs because of the access to support in crucial areas such as communications; however, others believed that the CSO should either be part of the strategic function or that the role of the central group should be reduced in favor of allocating more sustainability responsibilities and resources to the heads of the various functional groups.

Among the respondents, the median number of direct reports for the core sustainability office was three, usually managers for metrics and reporting, social programs and communications/public affairs/marketing; however, while the teams were generally small they had a critical impact on management and execution of the sustainability program. Internal support for day-to-day operation and reporting allows the CSO to remain focused on strategic considerations, providing that the managers in the office has the skills and personality to proactively implement activities falling under the remit. The sustainability office sometimes elicited help from specialists who could translate complex information and provide technical subject matters expertise to the CSO and other groups in other parts of the organization. In addition to the core sustainability office, important support for sustainability generally game from teams and groups involved with communications and branding.[19]

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[16] Id. at 10.
[17] Id. at 11-12.
[18] Id. at 18.
[19] Id. at 11-13.

Cross-functional management teams were responsible for oversight of various "green teams", each of which received influence and support from the resources in the core sustainability office. Members of the cross-functional management team also received influence and support from the CSO who in turn received feedback from mid-level managers most involved with sustainability programs; however, there generally was not a direct reporting relationship between the CSO and the cross-functional management teams. Advocates of mid-level management teams and employee councils were seen as a good way to distribute ownership and facilitate understanding throughout the organization; however, some respondents cautioned that too much decentralization might cause problems with respect to continuity, coordination and aligning programs with the company's strategic priorities and stated public goals for sustainability.[20] Due to these concerns it is important for the CSO to facilitate regular meetings and communications among the leaders of the mid-level management teams in order to share best practices and make sure that everyone is aware of what is being done with respect to sustainability.

Almost half of 18 respondents to questions about the schedule of reporting to senior leadership indicated that their companies had a quarterly reporting schedule (bi-annual reporting was the next most frequent response).[21] Respondents indicated that while formal reporting structures were useful in many ways, it was equally important for the leaders of the sustainability initiative to develop personal relationships and engage in networking to ensure that managers and employees throughout the organization understood the value of sustainability. One of the reasons many sustainability leaders are drawn from inside their companies after a significant number of years working with the company is that they have built relationships and understand how the business works, which means they know the pressures that other managers are facing and can be trusted by those managers to develop solutions that share risks and capitalize on opportunities.

§11 --Structures and staffing for environmental, health and safety

In 2012 the National Association for Environmental Management (www.naem.org) issued a report on the results of a survey of the organizational structure, staffing levels and responsibilities of the function that supported a company's environmental, health and safety ("EHS") and sustainability goals.[22] The survey consisted of online questionnaires to full time, "in house" corporate EHS and sustainability professionals and qualitative interviews with senior EHS and sustainability leaders across different industries. The results reflect the views of 199 senior leaders (i.e., managers, directors and vice presidents) working within combined EHS and sustainability functions at U.S.-based companies with revenues ranging from $250 million to $50 billion. Among the key findings described in the executive summary to the report were the following:

[20] Id. at 12.
[21] Id. at 14.
[22] National Association for Environmental Management, EHS & Sustainability Staffing and Structure: Benchmark Report (November 2012).

- Most of the respondents managed EHS through a single consolidated, centralized function. Two-thirds of respondents reported a governance structure that centralized authority and policies, and one-third also incorporated a centralized budget process.
- The function generally reported into one of several core areas: legal, operations, human resources or the C-Suite.
- While there were multiple approaches to organizing the EHS function, the most common department structure tended to be one that integrated EHS at the corporate and facility levels.
- Staff levels were driven largely by perceived EHS risk, industry and structure. Companies that identified as operating under a high degree of EHS risk (e.g., companies in the utilities, extractives and chemicals industries) tended to have larger staff sizes. Decentralized structures tended to require higher staff levels per total employees, as did small and mid-sized companies; however, companies with higher revenues reported fewer EHS staff per total employees.
- EHS budgets (normalized by total employees) were largely driven by employee needs such as salaries, benefits, expenses and travel. Because of this interdependence, the same factors that influence staff levels also influenced budgeting. In other words, high-risk companies, or those with decentralized EHS structures, tended to have more staff and therefore, larger budgets.
- EHS and sustainability professionals were highly credentialed, seasoned leaders with 79% of the respondents having worked in the field more than 15 years and strong backgrounds in science or engineering.
- The EHS function generally took the lead in regulatory compliance, auditing and information management and was primarily responsible for setting environmental goals, waste management, pollution prevention, regulatory tracking/compliance/disclosure and due diligence.[23] Data management and EHS management information systems were also key areas of responsibility, likely driven by the growth in external reporting of environmental metrics.
- EHS professionals also played a key role in sustainability and respondents indicated that the EHS function either led, or shared responsibility for, the majority of activities including establishing sustainability strategy and tracking and reporting the sustainability metrics.
- Most of respondents reported they were managing sustainability through a cross-functional team with members drawn from corporate communications, operations, legal sales and marketing and EHS. These teams were most often led by the EHS function or a combined EHS and sustainability function. When sustainability was assigned to a stand-alone department, EHS was most often in the lead, followed by stand-alone sustainability department.

§12 Complete and partial organizing for CSR

[23] Specific environmental management areas mentioned in the survey included EPA compliance, hazardous materials, waste disposal, spill prevention/control, permitting, air pollution, storm water, waste recycling, chemical management, carbon foot printing, site remediation and industrial emissions reductions.

Rasche et al. set out to examine how corporate social responsibility ("CSR") is organized and why certain organizational forms are used frequently to coordinate CSR activities, while other forms are less widespread.[24] In particular, they were interested in how and why companies might choose among popular CSR initiatives such as cross-sector partnerships, internal codes of conduct or signing on to multi-stakeholder or industry-wide standards when deciding how best to pursue a CSR-related goal such as combatting human rights abuses. They argued that companies (through their boards of directors and senior executives) and other CSR "organizers" (e.g., non-governmental organizations ("NGOs"), governments and standard-setters) generally choose between two distinct types of "organizing" when it comes to CSR. The first type is a "complete" organization, which is feasible when the organizers have access to all of the elements needed to achieve organized orders (i.e., membership, hierarchy, rules, monitoring and sanctioning). The second type is a "partial" organization, which is used in instances when the organizers do not have access to all of the organization elements. Illustrations of partial organizations include cross-sector partnerships between companies and NGOs and CSR standards evolving from multi-stakeholder consultations.

The arguments made by Rasche et al. were grounded in the work of Ahrne and Brunsson, who believed that an organization could be understood as a type of decided social order in which one or more of the following five elements existed: membership, hierarchy, rules, monitoring and sanctions.[25] Rasche el al. noted that much of the research on organizational design and structure had traditionally focused on what happens inside the boundaries of formal organizations[26], such as corporations, and that these formal organizations possessed all five of the above-mentioned elements and thus could be characterized as "complete" organizations[27]:

- Formal organizations make formal decisions about who can or cannot become members of the organization, such as decisions about which persons to hire as employees and long-term independent contractors. The composition of the organization's membership defines its "identity", described by Ashforth and Mael as a "perceived oneness with the group"[28], which is important to the identification and

[24] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651. For further discussion of sustainability and corporate social responsibility ("CSR"), see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[25] G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011), 83.
[26] Well-known works of formal organizations include J. March and H. Simon, Organizations (New York: Wiley, 1958); H. Mintzberg, The structuring of organizations, (Englewood Cliffs: Prentice Hall, 1979); and K. Weick, The social psychology of organizing (Reading: Addison-Wesley, 1979).
[27] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 652-653.
[28] B. Ashforth and F. Mael, "Social identity theory and the organization", Academy of Management Review, 14(1) (1989), 20, 35.

development of organizational activities that are congruent with how members view themselves and the organization.[29]

- Formal organizations generally establish a hierarchy based on explicit assignments of authority to certain individuals or groups of individuals to make decisions, both formally and informally, on certain matters related to the operation of the organization and related rights to oblige others to comply with central decisions.
- Formal organizations coordinate their activities through the issuance of rules and procedures that members are expected to follow in carry out their day-to-day activities on behalf of the organization. These rules are intended to serve a number of important purposes including maximizing "consistency" throughout the organization and alerting and educating members as to what will be considered to be responsible behavior in the context of the organization.[30] Larger organizations often adopted codes of conduct or ethics; however, organizations can establish rules using other formal and informal mechanisms including "standard operating procedures" and contracts.[31]
- Formal organizations supplement their rules and procedures by establishing formal and/or informal monitoring mechanisms to ensure that members are complying with the codes and rules and to measure the effectiveness of those codes and rules. Organizations use a variety of tools for monitoring including internal audits, "whistleblower" procedures and accounting systems and self-monitoring can be encouraged by setting the appropriate culture of compliance within the organization.
- Formal organizations seek to motivate members to comply with the rules and procedures through the implementation of positive (i.e., rewards for complying with the codes and rules) and negative (i.e., termination of employment, fines, verbal warnings and legal actions) sanctioning mechanisms. Codes and rules do not themselves sanction the actions of organizational members, but only contain warnings and promises of sanctions in the event that a violation of the code or rule is discovered. It is up to the organization itself to impose the sanctions and it is the enforcement record of the organization—or at least the perception of the members regarding the enforcement record--that will impact the efficacy of this element.

Rasche et al. emphasized that while complete organizations were characterized as such because they had the ability to draw upon on all five elements as they designed their formal organization, in practice there were differences among them with respect to the extent to which each of the elements were deployed and/or the overall balance of the elements in the organizational design chosen to address a particular organizational task.

While formal organizations are obviously important, not all types of organization that can be identified occur within the boundaries of formal organizations, nor is it necessary for all of the five elements mentioned above to be available to organizers in order to launch and maintain an organization. The concept of "partial" organization includes organizations that only use selected elements (i.e., one or several of the five elements of

[29] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 654.
[30] Id.
[31] Id.

formal organizations are missing) and which are forged outside and among formal organizations.[32] One example provided by Rasche et al. was organizations, such as associations, organized by formal organizations. In those instances, organization occurs through membership and members will be expected to adhere to certain rules; however, many associations dispense with monitoring of members' behavior and sanctioning members for failure to comply with the rules of the association.[33] Another example of a partial organization is the rankings of schools that have become so popular. These rankings are based on efforts to monitor and measure schools' behavior based on explicit rules and a drop in performance against any of the metrics results in sanctions to a school in the form of a drop in its ranking; however, the schools included in a ranking scheme are not organized and connected through formal membership or hierarchical controls.[34] Rasche et al. noted that while it is arguably difficult to distinguish partial organizations from networks and institutions, both of which also develop and flourish outside the boundaries of formal organizations, the difference is that networks and institutions are "emergent social orders" while partial organizations, like complete organizations, come into being as a result of deliberate decisions by their organizers (i.e., individuals and/or other organizations).

§13 --Corporate social responsibility

According to Rasche et al., corporate social responsibility, or "CSR", is an essentially contested concept that has attracted a diverse range of views regarding its scope and application.[35] According to a definition proposed by the European Commission in 2011, CSR should be viewed as "the responsibility of enterprises for their impacts on society".[36] However, Rasche et al. observed that "CSR has varied enormously by context, particularly the context of place, or national business systems" and that "the most important characteristic to note in CSR is its susceptibility to change".[37] In the context of considering how CSR initiatives are organized, the most interesting change has been a shift from CSR principally being a more ''corporate-centered'' to a more

[32] Id. at 653.

[33] W. Coleman, "Associational governance in a globalizing world: Weathering the storm", in J. R. Hollingsworth and R. Boyer ((Eds.), Contemporary capitalism: The embeddedness of institutions (Cambridge: Cambridge University Press. 1997), 127.

[34] M. Sauder and W. Espeland, "The discipline of rankings: Tight coupling and organizational change", American Sociological Review, 74(1) (2009), 63.

[35] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 653 (citing J.-P. Gond and J. Moon, "Corporate social responsibility in retrospect and prospect" in J..-P. Gond and J. Moon (Eds.), Corporate social responsibility: A reader (London: Routledge, 2011), 1). For further discussion of corporate social responsibility ("CSR"), see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[36] Id. (citing European Commission, A renewed EU strategy 2011–2014 for corporate social responsibility, COM (2011) 681 final (Brussels: European Commission, 2011)).

[37] Id. (citing D. Matten and J. Moon, "'Implicit' and 'explicit' CSR: A conceptual framework for a comparative understanding of corporate social responsibility", Academy of Management Review, 33(2) (2008), 404; and J.-P. Gond and J. Moon, "Corporate social responsibility in retrospect and prospect" in J..-P. Gond and J. Moon (Eds.), Corporate social responsibility: A reader (London: Routledge, 2011), 1).

‘‘corporate-oriented’’ concept.[38] Specifically, in the early 1960s, when CSR was first emerging, it was generally thought of a matter of corporate discretion, wholly apart from law or public policy, meaning that companies decided on their own on how to implement CSR initiatives and the CSR was typically conducted through “complete” organization (i.e., centered inside the formal boundaries of the company). Recently, however, the responsibility for defining the conception of CSR has broadened beyond the company itself to include numerous actors in the environment in which the company operates: government, civil society, professionals and other businesses. As such, the spotlight has shifted to how the actions and practices of the company impact its supply chain, workers, use of resources and the consumption and disposal of its products and services, and the aforementioned actors have organized their interests in the practices of companies through “partial” organization (e.g., membership rules for partnerships, standards setting, and methodologies for monitoring and imposing sanctions of company misbehaviors).

While CSR has become more “corporate-oriented”, companies continue to deploy the strategies and methods of complete organization to CSR, not surprising since companies remain ultimately responsible for their actions relating to CSR. For example, more and more companies are explicitly integrating CSR principles and goals into their missions and strategies, and investment in internal CSR capacity (i.e., personnel and technologies) has increased.[39] However, organizational practices must now take into account the interests and concerns of external actors who bring with their own ideas and expectations regarding norms and standards and the role of companies in pursuing their business objectives in a way that incorporates community benefit alongside traditional economic goals. As such, the details of complete organization for CSR in companies are often based on external standards, including an increasing volume of laws and regulations and popular global standards for CSR reporting, and companies have also recognized that they are no longer the sole actor with respect to CSR and must rely on partial organization to gain access to complementary resources that have been developed by and/or with others, such as knowledge and legitimacy (e.g., publicly adopting the GRI standards and participating in GRI working groups on sustainability and reporting).[40] All this means that companies must become more adept at understanding and balancing both “complete” and “partial” organizational techniques when developing and implementing their CSR initiatives.

§14 --Organizing CSR through complete organization

[38] J. Moon, Corporate social responsibility: A very short introduction (Oxford: Oxford University Press, 2014).

[39] Id. at 654 (citing J. Moon, “The institutionalisation of business social responsibility: Evidence from Australia and the UK”, The Anahuac Journal (Mexico), 5(1) (2004), 40; K. Bondy, J. Moon and D. Matten, “An institution of corporate social responsibility (CSR) in multi-national corporations (MNCs): form and implications”, Journal of Business Ethics, 111(2) (2012), 281; and R. Strand, In praise of Corporate Social Responsibility bureaucracy (Copenhagen: Copenhagen Business School PhD Series (26.2012))).

[40] For further discussion of the role of CSR in gaining legitimacy for organizations, see also T. Emtairah and O. Mont, “Gaining legitimacy in contemporary world: environmental and social activities of organisations”, International Journal of Sustainable Society, 1(2) (2008), 134.

A good deal of the research on organizational strategies relating to CSR has been done with a focus on the internal design decisions among formal organizations, such as multinational corporations, that have access to all of the organizational elements associated with "complete" organizations.[41] The uses of each of these elements, including the balance among them, varies among companies and will depend on factors specific to each company; however, studies have provided interesting insights into how these elements impact internal organization for CSR.[42]

Membership is the first element of formal organizations and membership decisions by companies determine who is allowed to join the organization and who will be excluded.[43] Traditionally, membership in companies was granted to people who attained employment status; however, more and more companies rely on independent contractors who often remain affiliated with companies for significant periods of time and develop the same sort of "corporate identity" as employees. Rasche et al. pointed out that this identity, described by Ashforth and Mael as a "perceived oneness with the group"[44], can be an important guide to the identification and development of organizational activities that are congruent with how managers and employees view themselves and the organization.[45]

Basu and Palazzo believed that an organization's membership influenced its identity orientation and that the resulting orientation would be an important determinant of the strategies and priorities in the organization's strategy for organizing its CSR activities.[46] They suggested it was reasonable to distinguish among three organizational identity orientations: "individualistic", which emphasized individual liberty and self-interest); "relational", which emphasized partnering with stakeholders; and "collectivistic", which emphasized the role of the organization as part of society at large. They went on to predict that companies that had developed a relationship identity orientation through its membership decisions were more likely to emphasize CSR activities that were based on forging strong links and relationships with key stakeholders. In contrast, companies with an individualistic identity orientation were likely to choose CSR activities that allowed them to demonstrate that their performance was "best in class". Rasche et al. noted that as CSR practices and activities develop within an organization it may influence the composition of the membership (i.e., companies that build a reputation for being

[41] D. Jamali, M. Zanhour and T. Keshishian, "Peculiar strengths and relational attributes of SMEs in the context of CSR", Journal of Business Ethics, 87 (2009), 355.

[42] The discussion of the studies below is adapted from A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 654-656.

[43] G. Ahrne, Social organizations: Interaction, inside, outside and between organizations (London: Sage, 1994).

[44] B. Ashforth and F. Mael, "Social identity theory and the organization", Academy of Management Review, 14(1) (1989), 20, 35.

[45] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 654.

[46] K. Basu and G. Palazzo, "Corporate social responsibility: A process model of sensemaking", Academy of Management Review, 33(1) (2008), 122.

"socially responsible" see changes in their available talent pool as prospective employees want to work for a "sustainable" business show more interest in joining the company).[47]

The second element of formal organizations is "hierarchy", which Ahrne and Brunsson explained as implying ''a right to oblige others to comply with central decisions''.[48] Rasche et al. noted that the rights associated with hierarchy can be exercised in both formal and informal ways and are generally disbursed among various individuals and/or groups within the organization.[49] In most cases, CSR activities are supported by central decisions and key policies associated with those activities are defined by senior management of the organization; however, it is not necessarily the case that CSR management is conducted using a "command-and-control" approach. One of the key factor in how "hierarchy" plays out in practice is the dominant leadership style used for the organization's CSR activities: "transactional" leaders will lean heavily on formal power and use of explicit rewards to ensure performance while transformational leaders rely less on formal incentives and prefer to use inspiration motivation and individual consideration to drive organizational strategies such as CSR.[50] Of course, decisions are of little use unless they are obeyed and organizations generally use "monitoring" and "sanctioning", each of which is discussed below, to measure compliance and whether or not the decisions are achieving the goals set for the CSR initiatives.

The third element of formal organizations is the explicit rules that members are expected to follow. These rules are intended to serve a number of important purposes including maximizing "consistency" throughout the organization (i.e., decisions that are made in one part of the organization will be executed in the expected manner in other parts of the organization and decisions on similar issues will be made in consistent manner regardless of where in the organization a decision maker is sitting) and alerting and educating members as to what will be considered to be responsible behavior in the context of the organization.[51] Studies conducted among large multinational corporations indicate that many of them have codified their rules in the form of "codes of conduct" or "codes of ethics", which Langlois and Schlegelmlch defined as ''a statement setting down corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibility to employees, shareholders, consumers, the environment, or any other aspects of society external to the company.''[52]

[47] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 660.
[48] G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011), 83, 86.
[49] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 655.
[50] R. Strand, "Exploring the role of leadership in corporate social responsibility: A review", Journal of Leadership, Accountability and Ethics, 8(4) (2011), 84. See also N. Pless, T. Maak and D. Waldman, "Different approaches toward doing the right thing: Mapping the responsibility orientations of leaders", Academy of Management Perspectives, 26(4) (2012), 51.
[51] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 655.
[52] C. Langlois and B. Schlegelmilch, "Do corporate codes of ethics reflect national character?: Evidence from Europe and the United States", Journal of International Business Studies, 21 (1990), 519.

Interestingly, studies have shown that the content and language of codes tends to converge across organizations, suggesting that many organizations bring a "cut and paste" mentality to the ritual of code preparation and raising the legitimate question of whether codes are merely a symbolic act.[53] Researchers have found that codes are more closely integrated with organizational decision making processes when they are developed in conjunction with external stakeholders and/or external stakeholders exert pressure on organizations to take their codes seriously.[54] The impact of codes also increases when organizations aggressively integrate them into routine activities and feature them in training programs and performance expectations.[55].

In addition to codes, organizations can establish rules using other formal and informal mechanisms including "standard operating procedures" and contacts.[56] For example, while codes of conduct and ethics lay out sweeping general principles, it is common for organizations to develop and implement more detailed policies and procedures relating to topics considered to fall within the scope of CSR such as corporate governance, compliance and risk management, human resource management, environmental management, social contributions, supply chain management and community engagement. In addition, organizations typically require that their employees and independent contractors enter into agreements that cover not only compensation but also the expectations of the organization as to how employees and contractors will act with respect to protection of organizational property and compliance with the aforementioned organizational policies relating to CSR topics (e.g., internal organizational policies prohibiting discrimination, harassment etc.).

The fourth element of formal organizations is "monitoring", which generally occurs as a means for ensuring compliance with the codes and rules established by the organization and measuring the effectiveness of those codes and rules.[57] Monitoring of the effectiveness of codes is required under the laws of certain countries, at least for publicly-held corporations, and companies have generally moved toward greater reliance on internal audits to monitor compliance with their codes. In addition to audits, companies rely on indirect monitoring strategies such as establishing and encouraging "whistleblower" procedures that allow organizational members to report the misconduct of others including code violations. Accounting systems are also a good way for companies to identify and track corrupt behavior. When members are aware of the organization's attempts to monitor compliance, a message that should be sent continuously from the very top of the organizational hierarchy, they often internalize the

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[53] L. Holder-Webb and J. Cohen, "The cut and paste society: Isomorphism in codes of ethics", Journal of Business Ethics, 107(4) (2012), 485.

[54] J. Stevens, H. Steensma, D. Harrison and P. Cochran, "Symbolic or substantive document? The influence of ethics codes on financial executives' decisions", Strategic Management Journal, 26(2) (2005), 181.

[55] Id.

[56] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 655.

[57] L.-E. Petersen and F. Krings, "Are ethical codes of conduct toothless tigers for dealing with employment discrimination?", Journal of Business Ethics, 85(4) (2009), 501.

resulting pressures to comply and effectively self-monitor their actions, thus reducing the overall costs of compliance initiatives.[58]

The fifth element of formal organizations is "sanctioning", which are typically combined with monitoring in the organization's overall efforts to ensure compliance with its codes and rules. While most of the research on sanctions has focused on negative sanctions, such as termination of employment, fine, verbal warnings and legal actions, organizations should also consider positive sanctions in the form of individual rewards for persons who fulfill their duties and responsibilities with respect to a CSR activity.[59] Codes and rules do not themselves sanction the actions of organizational members, but only contain warnings and promises of sanctions in the event that a violation of the code or rule is discovered. It is up to the organization itself to impose the sanctions and it is the enforcement record of the organization—or at least the perception of the members regarding the enforcement record--that will impact the efficacy of this element. In some cases, sanctions are not explicitly used as organizational element; however, members may still assume that sanctions exist because they are so tightly associated with the use of rules and monitoring.

§15 --Organizing CSR through partial organization

Rasche et al. pointed out while many organizations have organized their CSR activities internally using all or most of the elements of formal organization, it is also commonplace for organizations to engage in CSR outside and among formal organizations that "partial organizations" in those instances where the organizers do not have access to all of the organization elements.[60] They focused on CSR standards evolving from multi-stakeholder consultations and cross-sector partnerships between companies and NGOs as examples of CSR-focused partial organizations that rely on certain organizational elements and disregard or are not able to employ others.[61] Rasche et al. argued that being able to ignore organizational elements can be advantageous for organizing CSR in certain instances and that it was important for CSR organizers to understand when and how partial organization is the preferred organizational strategy.

Rasche et al. noted that partial organizations are less formal and thus easier to promote to potential actors who would otherwise be reluctant to collaborate, such as organizations that regularly compete with one another in the marketplace.[62] Partial organizations also

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[58] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 655.
[59] Id.
[60] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 656.
[61] For further discussion, Rasche et al. recommended J. Austin and M. Seitanidi, "Collaborative value creation: A review of partnering between nonprofits and businesses: Part I. Value creation spectrum and collaboration stages", Nonprofit and Voluntary Sector Quarterly, 41(5) (2012), 726–758; and A. Kourula and S. Laasonen, "Nongovernmental organizations in business and society, management, and international business research: Review and implications from 1998 to 2007", Business and Society, 49(1) (2010), 35–67.
[62] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 659-660.

provide organizers with more flexibility to identify common ground that can be used for the foundation of a CSR initiative. This often allows organizers to create change more quickly than attempt to convince organizations to radically change their internal formal organizations. For example, the introduction of a type of partial organization, the "standards" developed under the umbrella of the International Integrated Reporting Framework (integratedreporting.org), has been a catalyst in moving companies away from traditional "sustainability reporting" into "integrated reporting".

§16 ----CSR standards

Rasche et al. began by explaining that "standards, in their most general sense, reflect rules for common and voluntary use, decided by one or several people or organizations".[63] One of the strongest trends in the CSR field has been the emergence of a plethora of standards ranging from broadly defined principles such as the United Nations Global Compact to narrowly defined certification standards and guidelines such as Social Accountability 8000, the Global Reporting Initiative and ISO 26000 (an effort by the International Organization for Standardization to guide organizations on how they can operate in a socially responsible manner). Rasche and Esser observed that while one can identify differences among the CSR standards and such standards are intended for a variety of purposes, the consistent thread among them is that they are "voluntary predefined rules for assessing, measuring, and communicating social and environmental performance".[64]

As to the first element of formal organization, "membership", it is important to note that few of the popular CSR standards impose substantial restrictions on which organizations are allowed to adopt their rules, although some sector specific initiatives are practically limited to organizations operating in a particular industry and/or to "listed companies". There are differences, however, in the processes that standards use to sign up new members. Many standards require that organizations go through a formal sign up or application process if they are interested in receiving the specific benefits associated with being related to the standards. This type of "closed" membership strategy affords reputational advantages to the members that are admitted, advantages that are often protected by allowing members to exclude others whose performance may not adhere to the standard's requirements. Other important standards, such as ISO 26000 or the Global Reporting Initiative, do not have application requirements (although organizations can register their reports with the GRI). The FTSE4Good Index considers all listed companies; however, inclusion in the Index (i.e., "membership") is based on monitoring of performance by the organizers of the Index. Rasche et al. pointed out that dispensing with membership as an essential organizational element can be advantageous to

[63] Id. at 656 (citing N. Brunsson, A. Rasche and D. Seidl, "The dynamics of standardization: Three perspectives on standards in organization studies", Organization Studies, 33 (2012), 613, 616). For further discussion of CSR-related standards, see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[64] A. Rasche and D. Esser, "From stakeholder management to stakeholder accountability", Journal of Business Ethics, 65(3) (2006), 251.

organizers of the standards because it lowers barriers to entry and thus promotes acceleration of adoption.[65]

The second element of formal organization, "hierarchy", is conspicuously missing from CSR standards that are essentially voluntary and thus have no mechanism for forcing any organization to adopt and comply with the standards. When an organization does decide to adopt a standard the responsibility for compliance lies primarily with organization itself and not with the organizers of the standard. Abbott et al. pointed out that delegation of implementation authority to the followers of the standard, as opposed to those who set the standard, is a characteristic of "soft law", a phrase that has become famous among advocates of CSR.[66] The lack of hierarchy has advantages and disadvantages for CSR standards. Ahrme and Brunsson pointed out that it does afford adopters with more flexibility to customize and fit the rules of the standard into their specific organizational context; however, Behnam and MacLean argued that misuse of this flexibility is a real danger and that the results of customization may be that organizations are not actually "walking their talk".[67]

In contrast to contextually specific rules that are generally found in formal organizational approaches to organizing CSR, the rules found in CSR standards are less precise because they are generally intended to serve as "universal" guidelines applicable across national borders and in different geographical and socio-cultural areas. In fact, many standards are based, at least in part, on international treaties such as widely recognized and respected conventions promulgated under the watch of the International Labor Organization. Universal rules are a great opportunity to raise the bar of accountability and responsibility across the globe and encourage a leveling of the playing field among organizations operating in and competing from different parts of the world; however, by definition, universal rules do not fit every situation and organizations adopting standards will also need to invest time and effort in finding the best ways to apply and interpret those standards in the specific circumstance.[68]

Rasche et al. pointed out that many CSR standards do not include "monitoring" or "sanctioning" mechanisms or requirements (e.g., ISO made it clear that its ISO 26000 standards are not certifiable and do not contain monitoring or sanctioning mechanisms).[69] The use of monitoring and sanctioning is often a highly political decision and organizers of CSR standard need to weigh the additional burdens on members against the potential

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[65] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 656.

[66] K. Abbott, R. Keohane, A. Moravcsik, A.-M. Slaughter and D. Snidal, "The concept of legalization". International Organization, 54(3) (2000), 401–419.

[67] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 656 (citing G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011); and M. Behnam and T.L. MacLean, "Where is the accountability in international accountability standards? A decoupling perspective", Business Ethics Quarterly, 21(1) (2011), 45–72).

[68] Id. at 656-657 (citing G. Ortmann, "On drifting rules and standards", Scandinavian Journal of Management, 26(2) (2010), 204).

[69] Id. at 657.

benefits, a difficult question to answer given that auditing practices are often sloppy and may not render results that guarantee higher levels of compliance.[70] Some standards setters rely on and permit professional certification bodies to conduct audits, understandable from the perspective of the standards organizers but a further complicating factor for organizations seeking alignment with the standards given the cost and time required to deal with the certification body.[71] In the limited situations where the standard setters have themselves achieved a high level of legitimacy the pressures on members increase to the point where they are driven to comply since public disclosure of violations of the standard is seen as risky from a reputational perspective. Rasche et al. described this as "implicit sanctions through reputation mechanisms". As noted above, the FTSE4Good Index relies on monitoring as its gateway to membership as opposed to application processes.[72] Finally, standards setters may provide for some form of monitoring but not get actively involved with imposing sanctions for failure to comply with the standards.

§17 ----Cross-sector partnerships

Rasche et al. described "partnerships" in a CSR context as ''collaborative arrangements in which actors from two or more spheres of society (state, market, and civil society) are involved in a non-hierarchical process, and through which these actors strive for a sustainability goal''.[73] Cross-sector partnerships share the common feature of collaboration from actors across business government and civil society; however, they appear in many different forms and seek to achieve a wide range of purposes including agenda setting, policy development and implementation, market creation and dissemination of knowledge.

As for membership in cross-sector partnerships, Rasche et al. noted that while at least two partners are required, not every organization can become a partner and not every collaboration results in a partnership.[74] As organizations consider partnership opportunities they are generally looking for partners who can forge mutually beneficial relationships that include clear goals, senior level commitment, frequent communication, involvement of professionals, a shared commitment of resources and an evaluation of

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[70] D. O'Rourke, "Monitoring the monitors: A critique of corporate third-party labor monitoring" in R. Jenkins, R. Pearson and G. Seyfang (Eds.), Corporate responsibility and ethical trade: Codes of conduct in the global economy (London: Earthscan, 2002), 196. See also A. Rasche, "The limits of corporate responsibility standards", Business Ethics: A European Review, 19(3) (2010), 280; and A. Rasche, "A necessary supplement': What the United Nations Global Compact is and is not", Business & Society, 48(4) (2009), 511.

[71] D. Gilbert and A. Rasche, "Discourse ethics and social accountability: The ethics of SA 8000", Business Ethics Quarterly, 17(2) (2007), 187.

[72] R. Slager, J.-P. Gond and J. Moon, "Standardization as institutional work: The regulative power of a responsible investment standard", Organization Studies, 33(5–6) (2012), 763.

[73] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 657 (citing M. van Huijstee, M. Francken and P. Leroy, "Partnerships for sustainable development: A review of current literature", Environmental Sciences, 4(2) (2007), 75, 77).

[74] Id. at 657.

progress.[75] Creation and development of cross-sector partnerships plays out over several stages beginning with selection and then moving through design and institutionalization.[76] While many CSR partnerships are enduring, some have changed their form of partial organization over time and become something different, such as the partnership between WWF and Unilever that eventually became a standard for assessing and certifying sustainable fisheries overseen by the Marine Stewardship Council.[77]

Cross-sector partnerships are, almost by definition, largely non-hierarchical organizational forms and rely largely on achieving consensus among participants in arriving at decisions.[78] However, while formal hierarchies are rare among cross-sector partnerships, there after often significant power differences among the partners in terms of their access to information and/or their influence during the negotiation process leading up to decisions. Rasche et al. provided the following observation from Nikoloyuk et al.: ‘‘[t]he successful development of supply chain partnerships for sustainability tends to involve […] a high concentration of powerful agents and the marginalization of smaller and less powerful agents.’’[79]

Cross-sector partnerships generally have some formal internal rules; however, studies have shown that there are often no clear guidelines on how to operate inside these partnerships or how to assess the overall performance of the partnership.[80] While this situation provides the partners with flexibility to design their partnership to suit their specific needs, it also creates a risk of inefficiency and lack of productivity that will cause participants to abandon the partnership.[81] External rules sometimes come out of negotiations with NGOs on self-regulation; however, the process requires a lack of hierarchy among the partners in order to have a level playing field for participating in the development process.[82]

Many cross-sector partnerships are formed without explicit attention to monitoring and sanctioning. In those cases, the members of the partnership develop their own methods

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[75] B. Googins and S. Rochlin, “Creating the partnership society: Understanding the rhetoric and reality of cross-sectoral partnerships”, Business and Society Review, 105(1) (2000), 127.

[76] J. Selsky and B. Parker, “Cross-sector partnerships to address social issues: Challenges to theory and practice”, Journal of Management, 31(6) (2005), 849.

[77] A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, Journal of Business Ethics, 115 (July 2013), 651, 660.

[78] M. van Huijstee, M. Francken and P. Leroy, “Partnerships for sustainable development: A review of current literature”, Environmental Sciences, 4(2) (2007), 75.

[79] A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, Journal of Business Ethics, 115 (July 2013), 651, 657 (citing J. Nikoloyuk, T. Burns and R. De Man, “The promise and limitations of partnered governance: The case of sustainable palm oil”, Corporate Governance, 10(1) (2010), 59, 70).

[80] Id. (citing K. Babiak and L. Thibault, “Challenges in multiple cross-sector partnerships”, Nonprofit and Voluntary Sector Quarterly, 38(1) (2008), 117).

[81] N. Egels-Zande´n and E. Wahlqvist, “Post-partnership strategies for defining corporate responsibility: The business social compliance initiative”, Journal of Business Ethics, 70(2) (2006), 175, 176.

[82] A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, Journal of Business Ethics, 115 (July 2013), 651, 657 (citing J. Nikoloyuk, T. Burns and R. De Man, “The promise and limitations of partnered governance: The case of sustainable palm oil”, Corporate Governance, 10(1) (2010), 59, 70).

for assessing whether or not the other members are performing and the "sanction" for non-performance will likely be reduction of cooperation with a partner that is not complying with the rules set for the partnership.[83] One of the challenges for monitoring cross-sector partnerships is how to determine the "value creating ability" of the partnership and then using that metric as a way to gauge the effectiveness of the partnership. Since each partner has their own ideas about the value and purpose of the partnership, each of them may be applying a different measure of performance.[84] Ba¨ckstrand noted that partners also closely monitor the results of other partners to determine whether they are fulfilling the expectations associated with the partnership and argued that accountability, measurable targets and timetables, and reporting and monitoring mechanisms are important elements for successfully organizing partnerships.[85] The flexible character of monitoring, and the general way in which cross-sector partnerships are constructed, complicates the element of sanctioning within those partnerships, and studies have shown that sanctions for non-compliance are often restricted to expulsion from the partnership.[86] While expulsion may seem like a relatively weak sanction and may difficult to apply, it nonetheless can have serious consequences for the impacted partner from the perspective of reputation and credibility.[87]

§18 Organizational architectures for sustainability

Sampselle argued that the traditional bureaucratic organizational design still used by many large companies was ill-suited to identifying opportunities to capture values-oriented trends in a values-oriented context.[88] Many of these companies, such as IBM, already had the requisite technology and other core competencies to take on significant sustainability initiatives; however, they lacked the appropriate organizational design to deploy their resources in a manner that allowed them to interact efficiently with their various stakeholders. The experiences of large companies like Wal-Mart, IBM and Unilever illustrate that it is important to introduce smaller organizational structures into the mix that facilitate mobilization of local communities to work on issues that will contribute to sustainability in their communities.

In general, Griffeths and Petrick believed that alternative organizational architectures are necessary and important for effective sustainability initiatives by virtue of the ways in

[83] Id. (citing G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011), 83, 94).
[84] B. Googins and S. Rochlin, "Creating the partnership society: Understanding the rhetoric and reality of cross-sectoral partnerships", Business and Society Review, 105(1) (2000), 127.
[85] K. Ba¨ckstrand, "Multi-stakeholder partnerships for sustainable development: rethinking legitimacy, accountability and effectiveness", European Environment, 16(5) (2006), 290.
[86] A. Rasche, F. de Bakker and J. Moon, "Complete and Partial Organizing in Corporate Social Responsibility", Journal of Business Ethics, 115 (July 2013), 651, 657 (citing P. Glasbergen, "Understanding partnerships for sustainable development analytically: The ladder of partnership activity as a methodological tool", Environmental Policy and Governance, 21(1) (2011), 1, 7).
[87] Id.
[88] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 8.

which they improve the way that organizations collect, process and diffuse knowledge of a technical and specialized nature and translate this knowledge into innovative solutions necessary for maintaining a sustainable business.[89] The specific alternative organizational architectures they recommended—network organizations, virtual organizations and communities of practice—are briefly described below. While organizational designers could implement these architectures over entire organizations, they are probably most useful at the level of groups and business units as valuable tools for gradually yet purposefully redesigning traditional organizations to pursue the benefits of sustainability.[90]

§19 --Network organizations

Network organizations have been widely touted as a viable and powerful alternative to traditional organizational structures based on vertically integrated hierarchies.[91] Network organizations can take a variety of different forms and offer companies the advantages of large size with the ability to remain small. Network organizations generally retain centralized control over major strategic decisions; however, smaller and relatively independent nodes of the network, which can be separate business units or cross-functional project teams, are allowed to operate with considerable autonomy in carry out the activities necessary to execute those decisions. The overall result for the entire organization is a flatter hierarchy, reduced reliance on formal rules and individual nodes that have greater access to information and the ability to achieve economies of scale due to their connections with other nodes in the network.

Griffeths and Petrick argued that "[a] major strength of network architecture lies in its ability to grow (by adding on new firms), whilst keeping the constituent units small, flexible, responsive and innovative".[92] They felt that networks were well suited to the pursuit of sustainability because they were generally able to respond quickly to changes in market conditions and provide the flexibility required to meet the evolving requirements of customers. In addition, networks structures have been adept at developing new products and services that have transformed markets. It is important to note, however, that efficient operation of networks requires skills that are different than those used to manage traditional hierarchical organizations. In particular, time and effort must be invested in coordinating the activities of each of the nodes in a network and Griffeths and Petrick emphasized that the success of networks is "strongly dependent on the skills, dexterity and knowledge base of their employees".[93]

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[89] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1580.
[90] Id. at 1578.
[91] For further discussion of networks, see "Organizations and Networks" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[92] Id.
[93] Id. at 1579.

According to Griffeths and Patrick, there are two primary ways in which network architectures are relevant to sustainability.[94] First, as noted above, networks have been shown to be an effectiveness design element for organizations committed to competing based on the development and commercialization of innovative products and services, something that is particularly important in emerging markets based on "green technology". Second, since networks are particularly reliant on the free flow of information and communication among the nodes within the network, they are appropriate for capturing and diffusing all of the information that is relevant to the sustainability outcomes. Sampselle observed that network organizational design could be seen in Unilever's localized supply chain and distribution initiatives and IBM's organic outreach efforts at various NGOs to discover market opportunities.[95] Networks are also useful for responding rapidly to sustainability opportunities and threats by supporting and enabling ongoing transformation of the company's activities.

§20 --Virtual organizations

Griffeths and Patrick explained that virtual organizations could be seen to be designed on two levels.[96] At the first level, a virtual organization is an organization with a limited life used for discrete, limited term projects. For example, a virtual organization might be formed to solve or address specific issues and when the work is completed it will disband and participants will return to their prior activities. Researchers have noted that while virtual teams have certain advantages, they present challenges in terms of structure, technology and functioning of work.[97] At the second level, a virtual organization can appear to be large but remain small in terms of number of employees and other proprietary resources. The hallmark of these types of virtual organizations, such as Amazon in its early days, is flexibility, nimbleness and the ability to compete on speed. They rely heavily of technology operated by a small staff of highly trained and committed employees and use strategic alliances with other organizations for key functions such as warehousing and distribution. Griffeths and Patrick observed: "These organizations will tend to leave a minimal environmental footprint, however they will need to be responsible for the environmental impacts of their suppliers and distributors rather than take the attitude that it is none of our responsibility how they operate."[98]

Sampselle observed that virtual organizational design principles were exemplified by the "jams" organized by IBM involving thousands of its employees worldwide to provide

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[94] Id.
[95] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11.
[96] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1579.
[97] For further discussion of "virtual teams", see A. Townsend, S. DeMarie and A. Hendrickson, "Virtual teams: echnology and the workplace of the future", Academy of Management Executive, 12(3) (1998), 17; and N. Ebrahim, S. Ahmed and Z. Taha, "Virtual Teams: A Literature Review", Australian Journal of Basic and Applied Sciences, 3(3) (2009), 2653.
[98] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1579.

input of new sustainability goals.[99] Team-based organizational architectures, based on project teams and virtual teams and using new technologies, have been adapted by companies looking to foster the generation and use of employee knowledge in developing and implementing sustainability initiatives. Four "working groups" at Volvo, essentially virtual project teams with members drawn from throughout the formal organization, were instrumental in developing that company's environmental programs. Specific interests of these groups included developing structures and systems that could capture the benefits of product recycling; structuring organizational systems for acquiring and diffusing environmental information; reviewing production processes for environmental efficiencies; and meeting applicable regulatory standards relating to environmental management.[100]

§21 --Communities of practice

Griffeths and Patrick described communities of practice as having "amorphous and in some cases fluid structures that form around areas of interest, expertise and/or project orientation".[101] A common example of a community of practice is a group of professionals working in a common field who come together on a relatively informal basis to gather and share information, pass on knowledge and contribute to the development of their field of expertise. The end product of this process, which has become easier to achieve due to the development of communications technologies, is innovative solutions that can be deployed and commercialized within the formal organizations where the community members work. Communities of practices may be found within a formal organization or may develop independently and draw on participants from different organizations who share common interests. Key features of communities of interest highlighted by Griffeths and Patrick included the following[102]:

- Reliance on architectures that enable them to take on new members, acquire new information and bind people together based on common interests, desire for learning and an enhanced ability to achieve collective and individual goals;
- Reliance on both formal and informal processes for skills development and learning;
- Reliance on a core or nucleus of people who are responsible for creating and sustaining the community's collective memory; and
- Absence of hierarchy, with member status based on expertise and contribution to the development of leading ideas rather than position or authority.

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[99] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11.

[100] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1581 (citing J. Maxwell, S. Rothenberg, F. Briscoe and A. Marcus, "Green schemes: corporate environmental strategies and their implementation", California Management Review (39(3) (1997), 118).

[101] Id. at 1580. For further discussion of communities of practice, see "Organizations and Networks" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[102] Id.

Sampselle argued that Herman Miller's implementation of "cradle-to-cradle" design principles was emblematic of communities of practice organization design principles and the impact they could have on sustainability. In that instance, Herman Miller supported the communal efforts of organic committees of engineers and chemical analysts to determine the ideal chemical makeup of product components, and then leveraged the findings of those communities to develop its own overall environmental strategy.[103] Griffiths and Petrick argued that communities of practice could be used as entry points into the organization in order for companies to capture and diffuse ecological information for strategic purposes.[104]

§22 Alternative legal architectures for sustainability-oriented businesses

Another potential impediment for sustainability initiatives that require investment of resources in activities that may appear to be unrelated to the traditional focus of corporations on maximizing profits for the stockholders is the fiduciary duties of the directors of the corporation. For example, when Henry Ford proposed to use surplus profits to hire additional employees to fight unemployment and increase benefits for employees rather than distribute such profits to the stockholders of Ford Motors, the Michigan Supreme Court, writing in 1919, found that Ford's actions would breach his fiduciary duty of good faith to the corporation.[105] The Court explained: "A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the non-distribution of profits among stockholders in order to devote them to other purposes." The Court also made it clear that "it is not within the lawful powers of a board of directors to shape and conduct the affairs of a corporation for the merely incidental benefit of shareholders and for the primary purpose of benefiting others".

The fiduciary duties described in cases such as the one described above complicate efforts of directors to authorize sustainability initiatives that, by their very nature, are intended to create benefits for stakeholders other than stockholders that may well adversely impact stockholder value, at least in the short term, and deprive stockholders of distributions of surplus profits.[106] In an effort to free directors of these constraints, and thus promote more aggressive and entrepreneurial sustainability efforts, lawmakers in

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[103] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11-12 (describing the decision in Dodge v. Ford Motor Co., 170 N.W. 668 (Mich. 1919)).

[104] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1581.

[105] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11.

[106] For further discussion of fiduciary duties of directors, see "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

more than half of the states have passed legislation that permit organizers to form special purpose corporations that are explicitly allowed to operate in a responsible and sustainable manner as a means for not only maximizing stockholder value but also providing benefits to society in general.

Maryland was the first state to adopt legislation recognizing a "benefit corporation", which the statute described as a corporation formed to create a material positive impact on society; consider how decisions affect employees, community and the environment; and publicly report their social and environmental performance using established third-party standards."[107] In Maryland, a benefit corporation must create a "general public benefit", which was defined as a material, positive impact on society and the environment, as measured by a third-party standard, through activities that promote a combination of specific public benefits including providing individuals or communities with beneficial products or services; promoting economic opportunity for individuals or communities beyond the creation of jobs in the normal course of business; preserving the environment; improving human health; promoting the arts, sciences, or advancement of knowledge; and/or increasing the flow of capital to entities with a public benefit purpose.

While it is conceivable that a traditional for-profit corporation could pursue many of the "public benefit" activities mentioned above, the actions of the directors would be hamstrung by above-described case law that has clearly and continuously proclaimed that the directors' duty of good faith to the corporation requires that they carry on the business of the corporation so as to maximize the profits of the stockholders. The statutes creating benefit corporations allow directors to consider the interests of stakeholders other than the stockholders. For example, while the Maryland statute did not create a separate duty of the director to the beneficiaries of the public benefit purposes of the corporation, it did mandate that directors must consider the effects of any action or decision not to act not only on the stockholders but also on the employees and workforce of the benefit corporation and the subsidiaries and suppliers of the corporation; the interests of customers as beneficiaries of the general or specific public benefit purposes of the benefit corporation; community and societal considerations, including those of any community in which offices or facilities of the corporation or the subsidiaries or suppliers of the benefit corporation are located, and the local and global environment.

When Delaware, the recognized leader in statutory and case law innovations in the area of corporate law, passed its statute in 2013 recognizing "public benefit corporations", the Governor made the following observations[108]:

> "Delaware public benefit corporations will function like and enjoy all the same benefits as traditional Delaware corporations and they will have three unique

[107] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 12-13 (see Maryland Corporations and Associations Article §§ 5-6C-01 through -08).

[108] J. Markell, "A New Kind of Corporation to Harness the Power of Private Enterprise for Public Benefit", Huffington Post (July 22, 2013), http://www.huffingtonpost.com/gov-jack-markell/public-benefit-corporation_b_3635752.html [accessed December 7, 2016]

features that make them potential game changers. These three features concern corporate purpose, accountability, and transparency.

Corporate Purpose: Delaware public benefit corporations will have a corporate purpose ‘to operate in a responsible and sustainable manner’. In addition, to provide directors, stockholders, and ultimately the courts, some direction, they are also required to identify in their certificate of incorporation a specific public benefit purpose the corporation is obligated to pursue. The overarching language helps ensure that a public benefit corporation serves the best long term interests of society while it creates value for its stockholders. The requirement to identify a specific public benefit purpose gives managers, directors, stockholders, and the courts, important guidance to ensure accountability, while preserving flexibility for business leaders and their investors to choose the specific public benefit purpose they feel will drive the greatest total value creation.

Accountability: Unlike in traditional corporations, whose directors have the sole fiduciary duty to maximize stockholder value, directors of public benefit corporations are required to meet a tri-partite balancing requirement consistent with its public benefit purpose. Directors are required to balance ‘the pecuniary interest of stockholders, the best interests of those materially affected by the corporation’s conduct, and the identified specific public benefit purpose.’

Transparency: Delaware public benefit corporations are required to report on their overall social and environmental performance, giving stockholders important information that, particularly when reported against a third party standard, can mitigate risk and reduce transaction costs. Given the trend in public equity markets toward integrated ESG (Environmental, Social and Governance) reporting and the growing private equity market for direct impact investing, this increased transparency can help investors to aggregate capital more easily as they are able to communicate more effectively the impact, and not just the return, of their investments.”

In California, a “benefit corporation” may be formed for the purpose of creating general public benefit, defined as a material positive impact on society and the environment, taken as a whole, as assessed against a third-party standard that satisfies certain requirements.[109] A benefit corporation may also identify one or more specific public benefits as an additional purpose of the corporation including, without limitation, providing low-income or underserved individuals or communities with beneficial products or services, promoting economic opportunity for individuals or communities beyond the creation of jobs in the ordinary course of business, preserving the environment and improving human health. Directors of benefit corporations are required

[109] See Ca. Corp. Code §§ 14600 et seq.. The California Social Purpose Corporations Act authorizes and regulates the formation and operation of a “social purpose corporation”, which may be formed for special purposes, in addition to any other lawful purpose, including, but are not limited to, charitable and public purpose activities that could be carried out by a nonprofit public benefit corporation. See Ca. Corp. Code §§ 2500 et seq.

to consider the impacts of any action or proposed action upon specified considerations including, among others, the shareholders and employees of the corporation, customers of the corporation who are beneficiaries of the general or specific public benefit purposes and the environment. In addition, directors of benefit corporations are allowed to consider the impacts of those actions on, among other things, the resources, intent, and conduct of any person seeking to acquire control of the benefit corporation. California benefit corporations must prepare an annual benefit report which includes, among other things, a statement indicating whether, in the board's opinion, the benefit corporation failed to pursue its general public benefit and any specific public benefit, a description of the ways in which the benefit corporation pursued those benefits, the extent to which those benefits were created and the process and rationale for selecting the third-party standard used to prepare the benefit reports.

§23 Comparing organization of CSR in large and small firms

Baumann-Pauly et al. noted that debate and research regarding corporate social responsibility ("CSR") had focused primarily on large multinational corporations ("MNCs").[110] They explained that this emphasis could be attributed to a number of factors. First, MNCs are often implicitly considered capable of assuming responsibility for implementing CSR-related organizational practices and structures that will enable them to interact with civil society and, in fact, the evidence shows that MNCs have played a leading role in developing codes of conduct and corporate policies addressing important global issues such as human rights and labor standards in their supply chains and climate change. Second, practical CSR initiatives coming out of multi-stakeholder initiatives such as the UN Global Compact, the Global Reporting Initiative and industry-focused associations working on sustainability issues are typically designed primarily for large firms with the human and financial resources necessary to implement the required procedures in the business operations. Finally, MNCs have become prolific reporters of their CSR activities and their interactions with selected stakeholders and civil society.

Baumann-Pauly et al. argued that it was important to have a better understanding about CSR in small and medium sized enterprises ("SMEs") due to the significant role that SMEs play in both the developed and developing world in terms of employment and overall contributions to the economy.[111] CSR activities in SMEs are also directly related to the actions of MNCs due to the large number of SMEs that are embedded in the global supply chains maintained by SMEs. Baumann-Pauly et al. noted that the little research that had been done had resulted in a general impression that MNCs were more advanced at implementing CSR when compared to SMEs[112]; however, they felt that it was necessary to challenge those impressions by critically analyzing public perceptions of

[110] D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011), 2-3.
[111] Id. at 3.
[112] Id. (citing J. Campbell, "Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility", Academy of Management Review, 32(3) (2007), 946; and A. McWilliams and D. Siegel, "Corporate Social Responsibility: A Theory of the Firm Perspective", Academy of Management Review, 26 (2001), 117).

CSR in both MNCs and SMEs through an assessment of the actual implementation of CSR practices at the organizational level.

Baumann-Pauly et al. conducted an empirical study of five MNCs and seven SMEs from Switzerland, all of which were selected based on their likelihood to present data-rich cases on CSR implementation.[113] All of the MNCs (ABB, Credit Suisse, Nestle, Novartis and UBS) had announced that they had joined the UN Global Compact at the time that it was launched in 2000, putting them among the first MNCs worldwide to make a formal and public commitment to implementing the CSR principles set out in the UN Global Compact, an initiative that had received strong support from the Swiss government and some Swiss MNCs. All of the SMEs in the study (CPT, Mammut Sports Wear, Remei, Stuco, Sherpa Outdoor, Switcher and Vestergaard Frandsen) had less than 25 employees and were from the textile industry, which the researchers noted had a long CSR history and was considered to be a model for consideration and implementation of CSR initiatives. By selecting companies from a single country the researchers hoped to eliminate any issues with regard to inter-case compatibility that might arise because of differences in regulatory, political and cultural context. The study was conducted over a three year period between 2007 and 2010.

One of the most interesting and useful tools coming out of the work of Baumann et al. was the framework they suggested for assessing CSR among MNCs and SMEs. They were especially interested in assessing the organizational embeddedness of CSR in daily business practices to determine whether firms actually "walked the talked" with regard to CSR, an important question given that some researchers had argued that while many MNCs had heavily promoted their CSR commitments the reality was that they were not to be found in day-to-day practices (a phenomenon described as "building up a CSR façade").[114] Focusing on daily business routines was also a good way to see whether researchers were correct in their assumptions that SMEs would have difficulty implementing CSR due to their relative lack of financial and human resources and assumed inexperience with the formal management systems thought to be necessary in order for CSR initiatives to succeed.[115]

Baumann et al. explained that their assessment framework was developed from an organizational learning model that Zadek created based on his empirical work with Nike that identified five stages that businesses typically go through before they fully implement CSR: "denial", "compliance", "managerial", "strategic" and "civil".[116] Each

[113] Id. at 8-9.
[114] Id. at 5 (citing S. Banerjee, Corporate Social Responsibility: The Good, the Bad, and the Ugly, (Cheltenham: Edward Elgar, 2007); R. Sims and J. Brinkmann, "Enron Ethics (Or: Culture Matters More than Codes)", Journal of Business Ethics, 45 (2003), 243; and G. Weaver, L. Treviño and P. Cochran, "Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices", Academy of Management Journal, 42 (1999), 539).
[115] Id. (citing H. Jenkins, "A Critique of Conventional CSR Theory: An SME Perspective", Journal of General Management, 29 (2004), 55; and A. McWilliams and D. Siegel, "Corporate Social Responsibility: A Theory of the Firm Perspective", Academy of Management Review, 26 (2001), 117).
[116] Id. at 6 (citing S. Zadek, 'The Path to Corporate Social Responsibility", Harvard Business Review, 82 (2004), 125).

stage, beginning with "denial" and progressing through "civil", represents a progressively higher degree of embeddedness of CSR (i.e., organizational integration of CSR principles into daily business routines). Baumann et al. assessed implementation along three dimensions: commitment to CSR, internal organizational integration of CSR and the external engagement and interaction with actors of civil society, and took care to adapt the indicators for each of these dimensions to the specific, and quite different, organizational characteristics of MNCs and SMEs (e.g., for "commitment" the MNC indicator was "commitment" and the SME indicator was "awareness"; for internal organizational integration of CSR the MNC indicator was "structural and procedural" and the SME indicator was "internal skills and capabilities"; and for external engagement and interaction the MNC indicator was "interactive" and the SME indicator was "external collaborations").[117]

§24 --Commitment to CSR

With respect to the "commitment to CSR dimension", the MNCs were accessed on the basis of strategic integration and leadership support and CSR coordination. In turn, SMEs were assessed on the basis of issue awareness and social connection attitude.[118] Among the MNCs, the researchers found just one company (ABB) that had advanced to the strategic stage of implementation, as evidenced by a mission and vision statement that emphasized that each business decision would take into account economic, social and environmental aspects and would be made after involving all stakeholders in the decision making process. While other MNCs stated that they linked their commitment to CSR to their long-term success, they did not explain how stakeholders would be involved in the process and did not confirm that CSR principles would be respected regardless of the economic consequences to the company.

In contrast, the researchers found a high level of awareness for global CSR issues among the SMEs in the survey and managers and employees in those companies demonstrated a high level of perceived connectedness to raised problems in their supply chains. The researchers observed that the relatively small size of the SMEs reduced the hierarchy in their organizational structures and made it easier for them to integrate new issues into day-to-day business activities. Leaders in SMEs were better positioned to drive and reinforce their overall vision for the company among all of the employees. The small size of the companies also allowed them to implement a strategic understanding of issues and take an integrated look at the CSR landscape when make decisions about products (i.e., consideration for <u>both</u> environmental and social responsibility could be built into each step of the product development and commercialization process).

§25 --Internal organizational integration of CSR

For the "internal organizational integration of CSR" dimension, MNCs were assessed on the basis of incentive systems, training, complaints channels, evaluation and reporting. In turn, SMEs were assessed on the basis of organizational culture, daily practices and

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[117] Id. at 7-8.
[118] Id. at 9-10.

processes, employee involvement and transparency.[119] The researchers noted that consistent handling of CSRs in MNCs requires the drafting and implementation of formal CSR policies and procedures and the sheer size of the companies created challenges in embedding those policies and procedures across all of the daily operations occurring on a global basis. MNCs struggled to find the time and resources to effectively implement their CSR policies and efforts needed to be made to ensure that managers are trained, incentive systems are aligned, grievance procedures are drafted and implemented, CSR information flows freely throughout the company and processes for evaluating the CSR initiative are created and followed. One of the MNCs, Novartis, stood out as being farther along and the researchers noted that almost all its employees had completed courses using CSR e-learning tools and that the company was in the process of developing follow-up CSR training manuals and reviewing standardized incentives systems for bonus payments and promotions. Novartis had also appointed an ombudsperson who was in charge of the grievance process.

Among the SMEs, the researchers found that “responsibility in general and engagement in CSR was particularly strongly embedded in the company culture of the interviewed SMEs, often implicitly rather than explicitly” and that their employees were strongly involved in shaping their company’s CSR agendas and highly aware of CSR issues.[120] The highly level of employee awareness was attributed to the small size of the organizations, flat hierarchies and lack of organizational complexity. The researchers reported on several innovative ways that SMEs had approached disclosure and transparency such as an online tracking system of all of their products along the entire supply chain. Interestingly, the relative lack of human and financial resources among SMEs did not appear to be an impediment to adopting CSR practices and companies in this group used both self-developed requirement sheets for suppliers or their own audit checklists and/or established certification schemes like SA8000 or ISO14001. One of the interviewees at Remei commented: “the advantage for SMEs is that they can act much quicker. We have shorter ways and are closer to the issue, and we can act out of conviction, rather than just due to profitability reasons.”[121] Remei was one of the SMEs that used its supply chain tracking system as a competitive advantage in terms of demonstrating transparency and proudly promised its customers that social and environmental sustainability was traced and independently audit across the the company’s entire value chain.

§26 --External engagement and interaction

For the “external engagement and interaction” dimension, MNCs were assessed on the basis of the quality of their stakeholder relationships and participation in collaborative CSR initiatives. In turn, SMEs were assessed on the basis of collective action and network involvement.[122] The researchers found that while the MNCs acknowledged the need to listen to many voices to earn their license to operate in reality they lacked

[119] Id. at 10-12.
[120] Id. at 11.
[121] Id.
[122] Id. at 12-13.

systems to document and coordinate processes for stakeholder engagement and that stakeholder involvement had generally been limited to superficial encounters, such as annual stockholders' meetings, and ad hoc interactions triggered by a crisis situation. What was lacking among the MNCs was a proactive approach to dialoging with stakeholders. The MNCs were also not strongly involved in CSR initiatives, although one of the companies had already developed a high profile in working on developing human rights standards for companies operating in repressive regimes and another was in the early stages of engagement in the UN Global Compact Water Mandate. In sharp contrast to the situation among the MNCs, the SMEs were found to be "strongly engaged in external collaborations in the form of collective action wither with other SMEs or with civil society to jointly approach and solve global CSR challenges".[123] Representatives of the SMEs believed that because of their relatively small size it was important for them to work together on CSR issues and become and remain involved and engaged with appropriate networks at the industry level (e.g., helping to set industry standards) and beyond in other multi-stakeholder initiatives.

§27 --Overall assessment

Overall, Baumann-Pauly found that the implementation of CSR among the MNCs that they survey varied considerably. Some of those companies had just begun implementation of CSR while others were already quite advanced. While all of the MNCs demonstrated a strong commitment to CSR, this commitment had not yet translated into systematic integration of CSR principles into all area of the organization. Reporting functions were strongly developed among all of the MNCs; however, several of the MNCs lagged behind with respect to conducting impact assessments of their CSR activities and installing internal grievance procedures. In addition, as noted above, the MNCs generally had done little to establish interactive ties with external stakeholders. In contrast, the SMEs in the survey generally demonstrated strong internal implementation of CSR-related practices and had aligned their corporate functions with CSR through informal or implicit principles. The level of engagement between SMEs and their external stakeholders was also highly developed and the SMEs consistently tapped into the expertise of external stakeholders in making crucial decisions.[124]

Comparing the MNCs to the SMEs, Baumann-Pauly observed that the relative strength of MNCs appeared to be in developing and publicly disseminating extensive CSR commitments and creating and publishing CSR reports while SMEs were stronger in implementing CSR-related practices in organizational processes.[125] They argued that these differences in approaches could be explained by focusing on the relative organizational costs (i.e., the relative share in total firm costs) for implementing and communicating CSR in MNCs and SMEs. They explained that the size and scope of operations of the MNCs made it expensive in terms of time and resources to embed CSR in all of their operational functions and that being a global enterprise created challenges for MNCs with respect to developing stable stakeholder relationships. Given these

[123] Id. at 13.
[124] Id. at 14-15.
[125] Id. at 4-5 and 18-21.

implementation costs, MNCs opted to invest in externally communicating CSR—the "CSR-façade" mentioned above—by establishing a central CSR department that was responsible for public relations and collecting and publishing the data expected of companies that engage in formal CSR reporting practices. In contrast, extensive formal reporting was relatively costly for SMEs; however, it was generally easier and less expensive, in relation to MNCs, for SMEs to integrate organizational CSR practices given their small number of employees and their flatter organizational structures. This did not mean that SMEs were not reporting on the CSR activities to external stakeholders. In fact, reporting did occur on an informal basis in the context of discussions with stakeholders that were often crucial for SMEs in terms of providing them with access to expertise regarding CSR that was not available internally.

§28 Sustainability executives

The PWC study of sustainability executives discussed above not only collected information on the organizational structures of sustainability functions, but also provided extensive insights on important questions regarding the responsibilities and activities of sustainability executives, the key factors that support and enable the success of sustainability executives in large enterprises and the challenges that the respondents see in the future for their positions and organizations.[126]

§29 --Responsibilities and activities of sustainability executives

The responsibilities and activities of the sustainability executives from the surveyed companies, and the average percentage of their time spent on each area, broke down as follows: core business and operations (19%); external engagement (21%); internal engagement (32%) and developing strategy (28%)[127]:

- Core business and operations activities were further broken down into working on operational improvements (5%), supporting product and service sustainability efforts (5%) and engaging suppliers/sourcing (9%).
- External engagement activities were further broken down into developing partnerships with external groups (12%) and reporting externally to stakeholders (9%).
- Internal engagement activities were further broken down into communicating and socializing the case for change (8%), supporting senior executives/C-suite management/board of directors (10%), engaging employees and the business units in the organization (8%) and measuring progress and reporting internally (6%).
- Strategic development activities were further broken down into identifying and analyzing sustainability issues (12%), developing sustainability strategy (9%) and developing the business case for sustainability (7%).

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[126] A. Longsworth, H. Doran and J. Webber, "The Sustainability Executive: Profile and Progress" (PWC, September 2012). For further discussion of other members of the executive team, see "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[127] Id. at 15.

When asked about the future, respondents indicated they expected their responsibilities to broaden from strategy development to a range of exceptional challenges including more emphasis on working internally on operational improvements and working with stakeholders outside the company to develop partnerships.[128]

§30 --Key factors supporting and enabling success of sustainability executives

The holders of the sustainability leadership position surveyed by PWC provided insights into the key factors that support and enable their success in large business enterprises[129]:

- No matter where the sustainability leadership position reports, broad access to and a view across the entire business is critically important. Some of the leaders were indifferent to reporting lines as long as their position was endorsed and sponsored by key executives; however, others felt that the position would have the most impact by being seen as a strategic function. Wherever the position was located, internal support from the hosting function was important (e.g., support from the communications and branding teams when the position worked out of the external affairs group).
- The most frequently cited "essential tool" for success is a thorough understanding of how the business works. Understanding the business is crucial for achieving and maintaining credibility internally and for being able to continuously make the business case for sustainability. Respondents recommended that sustainability leaders be visible to investors so that investors know that the leader understands and is prepared to advance both the business and sustainability goals of the company.
- Data matters to the sustainability executive and is important as a support for strategy and a guide for execution. Data also ensures accountability and measures results; however, data can be distracting and it is important to know what really must be measured. The methods used to present data should be carefully considered and the presentation should be designed to change people's minds about the value of sustainability and illustrate how sustainability can achieve the goals that are most important to a particular audience.
- The business case requires a strategic vision and narrative to inspire understanding, commitment, and action. The business case should include a story that goes with the vision and the data and a readily identifiable means for implementing the steps outlined in the case. Presentation of the business case is important and sustainability leaders must have the requisite communication and intercultural skills to effective translate the business case using the language of business and persuade the audience to take action on the sustainability agenda.
- Robust employee engagement is viewed as critical for realizing value from the sustainability strategy. Companies must engage their employees in the sustainability initiative to motivate and excite them so that they will invest their efforts in the activities necessary for sustainability to succeed. In turn, engaged employees can

[128] Id. at 16.
[129] Id. at 18-29.

transform the organizational culture toward innovation and adopting fresh techniques and methods suited to achieving the sustainability agenda.

- Executives say sustainability "grants permission" for change and empowerment and thinking "outside the box" by viewing problems through a "sustainability lens". Among other things, sustainability opens new avenues for cross-functional cooperation, collaboration and information sharing.
- The sustainability executive looks ahead, scans the external environment and translates relevant issues for the business. Sustainability leaders must be able to identify opportunities and threats in the company's external and internal environments and provide input into how sustainability programs can address those issues in the company's overall strategy.
- The sustainability executive often thinks iconoclastically and finds success through orthogonal approaches. Many times the sustainability leader will take positions that are not popular with other leaders who are still clinging to traditional cultural values and strategic goals that are profit-centric. Sustainability leaders are change catalysts pushing the company in new directions and must be prepared to lose their jobs rather than continue to go along with the status quo.
- Sustainability practitioners share knowledge, which speeds the pace of change. The sustainability profession is characterized by an unusually high level of borrowing and sharing of professional best practices, techniques, approaches, and information. Sustainability leaders must develop access points to that knowledge and then be able to adapt them to the circumstances in the particular companies.
- Leading sustainability requires passion, patience, and a long-term perspective, and sustainability leaders need to be nimble (i.e., able to seize opportunity when it presents itself), passionate about their work and the company's goals, resilient (i.e., able to accept and rebound from failure and pushback), persistent (i.e., willing to repeat the same message ad nauseam), aware and able to anticipate future risks and strategic opportunities and patient (i.e., understanding that change takes time).

§31 --Challenges for sustainability leaders

The most commonly mentioned challenges mentioned by sustainability leaders were in the area of "continued integration", with specific questions about how they continued to build relationships with senior leadership, what it will take to fine-tune operation and how best to maintain the momentum and the spotlight on sustainability.[130] Of particular interest was how to use innovation to drive deeper integration into their product line and sustainability leaders were focused on minimizing life cycle impact on product and finding ways to use sustainability to differentiate the products and service offerings of their companies. Other challenges, in order of frequency of mention, included[131]:

- Leverage and engagement: How can we leverage successes to continue to push forward? How can we engage meaningfully with stakeholders, partners and industry peers? What will it take to engage employees in the post-green-team era?

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[130] Id. at 34.
[131] Id. at 34-35, 40.

- Strategy development, both foundational strategy and transformational/visionary strategy: How can we identify strategic priorities? What is the best way to reaffirm commitment to strategy and goals? How can we maintain the link between the sustainability and the corporate strategies? What will it take to mitigate non-traditional risk? How can we take actions now to position ourselves strategically long-term? How can we tackle transformative change?
- Choice, paring, and specialization: Are we tracking and reporting the right metrics? We can't do everything, so how do we prioritize our efforts? What adds value? How do we ensure meaningful results?
- Articulating the value: What will it take to overcome short-term perspectives of success for critical long-term programs? How can we motivate investment and access capital today? How can we demonstrate the value of new technologies to customers?
- Scaling the effort: How do we successfully integrate overseas acquisitions? How do we expand our teams across the world? How do we develop regionally specific strategies? How do we mitigate a global footprint?

Proudest Accomplishments of Sustainability Executives

The consulting firm PWC undertook a study of sustainability executives from 25 global companies recognized as leading on sustainability, including 18 companies from the US, three companies from Australia and one Canada-based company. The companies were composed of members of the Sustainability Innovators Working Group and companies listed on the Dow Jones Sustainability Index as of September 2011. The study was conducted from March to May 2012 and included one hour discussions with the senior executive responsible for sustainability and a supplement, brief online survey. The goal of the study was to gather insights into what the role of the sustainability executive looked like at the time of the survey and what it would look like in the future demand, how sustainability executives characterized the key factors that supported and enabled their success in large business enterprises and what challenges senior sustainability executives saw ahead. The respondents were also asked to identify their proudest accomplishments in the following areas:

Initiative-Specific Successes

- Achieved carbon neutrality, which enhanced credibility and signaled the company's commitment to this issue set
- Put into place the Environmental Excellence Tool to evaluate performance at sites around the globe
- Worked throughout the supply chain to launch a "sustainable seafood initiative" in the U.S.
- Developed standards for external manufacturers and built meaningful relationships along their supply chain
- Created a field model to scale out sustainability programs to subsidiaries globally
- Instituted "Design for the Environment" principles to foster innovation in products and packaging

Impactful Engagements

- Branded an engagement program to communicate internally and to show the value of sustainability to key drivers of success
- Engaged stakeholders to take an interest in packaging and encourage accountability
- Fostered innovative and close collaboration and partnerships with NGOs and educational institutions
- Branded a successful employee engagement program, "Healthy Future and Me"
- Engaged the supply chain to improve the nutritional value of the product and reduce the environmental impact

Strategic Milestones

- Created vivid narratives around the sustainability story so that it resonates around the company
- Witnessed acknowledgement from senior leadership that sustainability isn't an impediment to selling their product, but an imperative part of their sales
- Undertook the process of benchmarking greenhouse gas emissions, electricity, and waster usage; setting public facing goals; and publishing their first non-financial report
- Reoriented the company's goals from internally to externally focused in an attempt to better engage customers in their sustainability mission
- Guided an EH&S program as it transformed into a company-wide sustainability and corporate responsibility practice
- Successfully embedded corporate responsibility strategy into the business model and created an integral link between brand success and sustainability
- Set time-bounded sustainability targets which motivated people to work towards a common goal together
- Connected the pillars of the company by linking each to sustainability in a global capacity
- Shifted the entire vision and direction of the company through analysis and insight into the future

Source: A. Longsworth, H. Doran and J. Webber, "The Sustainability Executive: Profile and Progress" (PWC, September 2012), 31.

References and Resources

The Sustainable Entrepreneurship Project's Library of Resources for Sustainable Entrepreneurs relating to Organizational Design is available at https://seproject.org/organizational-design/ and includes materials relating to the subject matters of this Guide including various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts. Changes to the Library are made on a continuous basis and notifications of changes, as well as new versions of this Guide, will be provided to readers that enter their names on the Project mailing list by following the procedures on the Project's website.

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