

## How to become sustainable considering ethical aspects

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## Abstract

*Is there a way for a firm to move forward from a position of reacting to the increasing demands of stakeholders to a position of acting – without losing sight of the target, i.e. balancing the economical, social and ecological dimensions of entrepreneurial action?*

*This contribution addresses, at a basic level, the options which companies have, in view of that question..*

*Two more questions present themselves: Does considering ethical aspects make a firm sustainable (i.e. does sustainability follow ethics)? Or, is the reverse true: a firm that acts sustainably acts ethically (i.e. ethics follows sustainability).*

*To answer these questions, the meaning of sustainability and ethics and their relation to strategic management will*

*be discussed. We suggest an approach to deal with the interface between sustainability, ethical management and strategic management in a pragmatic and practical way. That leads to a model for an integrated strategic path leading to sustainability. The focus is on the strategic analysis of the complex socio-economic environment of the firm and on suitable generic instruments.*

## Introduction

The evident shortcomings in the assumptions of the neoclassical point of view of business ethics (e.g. Friedman 1962, Friedman 1970) – above all the perfect and pareto optimal markets – would lead to “morally free zones” (Nelson 1994). When coming to (ethical) decisions, for many years particularly internationally- or globally-active companies have prioritised the concept of Shareholder Value (Rappaport 1999), driven by quarterly reporting for stock exchanges and their analysts. Hence the consequences following the non-consideration of groups also concerned has lead to discussions about unwanted ecological and social effects of business. But even corporate decisions with both positive and negative effects on different stakeholders result in classical ethical dilemmas. However one decides, one or more stakeholder groups are favoured, whereas others are disadvantaged. In the meantime a position is established, that longterm value enhancement for shareholders is only possible if one bears in mind the interest of society in general and of employees and environment in particular (Steinmann and Löhr 1991).

The concept of sustainability takes these ethical and temporal aspects into account and accordingly offers the theoretical framework for the question, why and respectively how a company can prepare for external claims. Provision for all relevant stakeholders and therefore adaptation of corporate targets and measures are tasks of strategic management. Similar to quality management systems a

constant and self revolving learning process should emerge with the help of a sustainable management system. Thus on the one hand corporations become economically-ethically-learning institutions, where decisions for ecological and or social aims are only possible, as long as economical objectives are achieved. “Corporate (as well as public) environmental protection can only be successful if it is economically sustainable.” (Sturm and Müller 2000) On the other hand there are no economical decisions, which do not require legitimation through ecological and social acceptance. In this context Ulrich speaks about three-dimensionality of sustainable development (Ulrich 2001), Thielemann about the “triple bottom line” (Thielemann 2001, Elkington 1997) and Schaltegger about a systematical approach of environmental and social management to reach economical objectives of sustainability and therefore an essential orientation on the concept of shareholder value (Schaltegger and Figge 2001).

The present contribution specifies the ways in which companies and management could respond to the increasing demands of stakeholders: What has to be done to get from a phase of reacting to a phase of acting without losing sight of an intended balance of interests between the economical, social and ecological dimensions of entrepreneurial action? Thereby two more topics have to be addressed: Firstly, how far does considering ethical aspects make a corporation sustainable (assumption: the more ethically, the more sustainable). Or opposite, secondly, whether a sustainably acting corporation generally acts ethically too (assumption: the more sustainable, the more ethical).

To answer these questions we will discuss the meaning and relevance of sustainability and ethics to strategic management. Based on an ethical continuum we will present an approach

to determine the interface between sustainability, ethical management and strategic management. Finally we will introduce a model of a sustainable integration path and an overview as well as some examples of instruments to follow this path.

## Key Aspects of Sustainability

The idea of “Sustainable Development“ has been an economic, political and scientific discussion point since the Brundtland-Report 1987. In most instances its effects on business has been confined to pressure upon changes caused by legislation and public opinion. One reason for the absence of changing the motivation in business has been a (mis)understood ecological and ethical orientation of the first conception: Development is sustainable, when it “meets the needs of the present without compromising the ability of future generations to meet their own needs.” (United Nations 1987).

## The Dimensions of Sustainability

Much of the debate based on this definition reflects theoretical black-or-white positions and is of little help for practical economic life. Instead of primacy of ethics or economy a compromise solution on a virtual ethics-business-continuum (Palazzo 2000) seems probable: “...ethics is not something value-added to business operations; it is integral, necessary, and central to managing successfully” (Weiss 1994). Thus in the long run an augmentation of company value only seems possible in accordance with the interests of society in general and employees and environment in particular. Financial success without acceptance of the relevant stakeholders is hard to visualise in a global and technological world with increased and accelerated transparency of information. Therefore, sustainability is the

objective of strategic and long range thinking companies. The way to reach this aim is defined as sustainable development, which relies on four principles (Bieker et al. 2001):

*Principle of maintenance of capital:* It is implicitness for business management, to base long term entrepreneurial activities on return/income rather than on capital. This postulation will be intensified under social and ecological aspects of business. Thus future (entrepreneurial) generations will have similar chances to be successful, too.

*Principle of an enduring sustainable development:* By integrating short- and long-term objectives also those business activities shall remain possible, which are hardly realised at present because of the prevailing emphasis on discounted future results, although they are absolutely homogeneous. Payback periods in industry are often no longer than two to three years. This shortening of planning, decision and success horizons – forced by financial markets – optimises short-term financial results, but in many cases undermines the chances of profits in the future, because they are not enduringly sustainable (e.g. overfished oceans, clear-cut districts, farmland gone stale).

*Principle of economical and social-ecological value orientation:* Corporate success is sustainable, when it meets economical, ecological and social criteria. In this way a company is legitimated not only for its relevant stakeholders, but it also stabilises or increases the values in all of these three dimensions. Thus it will influence the practices of corporate evaluations for the purpose of buying/ selling of companies or management evaluation, especially if one presumes a regional, sectoral or situational exceptional position.

*The Principle of the cultural and thus ethical relativity:* However, there are different social, moral and economical developments in observable national economies and markets, which result in different sustainable development strategies (Dyckhoff 1994). Following a classification from *Hart and Milstein*, for example Austria belongs to the class of “consumer economy” with a kind of regional sustainability which is maintained by reduction enhancement of material (eco-efficiency), advance of services and a consequent recycling-orientation (Hart and Milstein 1999).

**Table 1: Sustainable development strategies and measures (Hart and Milstein 1999)**

Type	Definition	Sustainable Development Strategy
Consumer-Economy/ Market	Almost 1 billion global consumers with the purchasing power to afford nearly everything.	Reducing the corporate footprint (ecological impact which is relevant especially at mature technologies; e.g. automotive industry, chemical industry): Decrease material proportion, increase service proportion, cycle-orientation on waste (disposal, recycling)
Supply Economy/ Market	About 2 billion people worldwide are able to satisfy the basic needs; purchasing power is low; fast growth/industrialisation, migration into cities.	Avoiding a development where rapid growth of demand meets a stagnant material-/resource-offer: Avoid growing of quantities at production despite of growing demand; reduce growing of demand; avoid problems of urbanisation despite of urban growth.
Survival Economy/ Market	Around 3 billion people; heavy primary sector; poverty; unsupplied wants; no infrastructure; less investments.	Satisfying basic needs: Developing new business models (and products/services), to enable profits despite of satisfying basic needs; de-centralise goods and services at communal level (e.g. bank, telecommunication).

If these four principles describe the theoretical concept of sustainability, what does that mean to business? Results of a survey conducted by the Department of Industrial Management/FH JOANNEUM showed the understanding of sustainability in Austrian Business. The Objects of study – all Austrian companies with 100 or more employees – were interviewed with a structured questionnaire developed. Pretests with experts of the department and ten randomly selected companies were performed and led to slight changes of the instrument. In total 1.533 companies were addressed in 2002 by postal service and/or e-mail which resulted in

184 utilisable questionnaires corresponding a rate of return of 12 %. When talking about sustainability Austrian Business-(wo)men think about economical (59 %) and long-term oriented (36 %) success. Ecological (24 %) and social (16 %) criteria are significantly less important. There is a remarkable group of answers combined to “others” including quality, customer satisfaction and loyalty, high profile and stabilisation. One can see that there is a gap between the theoretical concept of sustainability and its practical understanding, especially as far as the triple bottom line and the cultural fit are concerned.

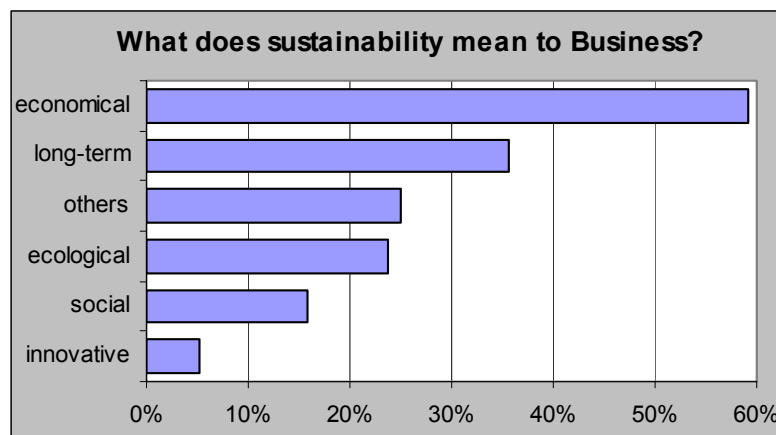


Figure 1: Sustainability in Business

## Business Ethics and Sustainability

Even though many contemporary authors describe the 1970s as the beginning of business ethics in the United States (Grabner-Kräuter 1997) – and at least ten years later in (Middle-) Europe – the origin of modern thinking in moral dimensions of business can be found in the first half of the 20<sup>th</sup> century and was reinforced in the 1960s and 1970s as the approach of corporate social responsibility (Carroll 1979; Dierkes, Zimmerman 1994), whose advocates “argued that ethical management requires more than

merely following the dictates of the law or signals of the market, the two institutions that otherwise guide business behavior” (Stark 1993). While some authors define corporate social responsibility (CSR) as related to the social contract between business and the society in general (e.g. Robin and Reidenbach 1989), the greenbook of the European Commission sees it as a concept to offer corporations a voluntary basis to integrate social and environmental aspects into their activities and relations to stakeholders (Autischer 2003). Whereas business ethics deals with the accordance between organisation or individual and the norms/rules

of moral philosophy (not society!). It became a managerial and therefore academic discipline in the 1970s to find solutions for ethical dilemma situations (Schlegelmilch 1990).

But what do morality and ethics mean in the context of sustainability? To start with, there is a difference between morality and ethics: Morality is the factual stock of norms in a definable culture group or area (Homann and Blome-Drees 1992). Thus it refers to the standards of behaviour by which people are assessed in their group-role; in other words: Morality helps the society, a group, a family to socialise an individual. It is not universal and calls in fact for regional, temporal and/or cultural pluralism. Ethics implies a methodically founded, principle-oriented philosophy of morality. It should define the framework to discuss what ought to be right and wrong from an interpersonal point of view. It seems to be clear that there is an ethical relativism, too (e.g. even human rights are not fully accepted around the world). In the German speaking countries business ethics are divided into “Unternehmensethik” and “Wirtschaftsethik”. Unternehmensethik (corporate ethics) includes all reasonable substantial and process-oriented norms, which are implemented as binding commitments to narrow/terminate conflict-relevant affects of the profit principle when controlling the corporate activities (Steinmann and Löhr 1989). Wirtschaftsethik (ethics of economy) enable the ethical reflection about the economical system and its institutions.

One can classify ethics according to perspectives, subject areas, ethical problems or methods. The latter classification is divided into descriptive, normative and Meta-ethics. Descriptive ethics record the morality of different groups and all activities derived out of it, so one gets a picture what is seen as moral and immoral in a specific society/group. Hence, we can develop a theory about ethical behaviour in different cultures. In sustainable practise one

could raise the question about relevant values/norms of company referring to the principles of sustainability. Whereas normative ethics address the reasoning of norms and values: Why does someone use an ethical argumentation? And how can he/she legitimate this opinion? As a result we get to know which measures and guidelines should be developed to become sustainable. Meta-ethics lead to statements about normative lingo and about form as well as reasoning of normative theories. Normative ethics themselves can be subclassified into two major theories: Deontology suggests that there are, at first sight, ideals that can direct our thinking. So the moral rightness of an action is judged by the correctness of the rule or principle, which guides the action without considering the consequences. Teleology or consequentialist theory measures the moral level based on the consequences of actions without considering the reasoning behind. When considering the whole society the theory is called utilitarianism (“the greatest good for the greatest number”).

What about becoming sustainable considering ethical aspects? The bridge from ethics to sustainability is evident when taking into account the question of long-term responsibility for environmental ethics (Jonas 1979). If we want to apply ethics to reach sustainability we will think teleologically, because it is merely the effect, which makes our activities sustainable. But we can also redesign the original question: Contrariwise, if we want use the concept of sustainability to become more ethical, it is more likely that we think in a deontological way. We use instruments deduced from the four described principles of sustainability to fulfil our duties, otherwise we would not need the loop way to ethics to reach our corporate goals. As a summary normative ethics is, in general, one practical aspect of (sustainable) strategic management.

Every theoretical concept, so then ethics, has to prove its relevance for practical (business) life. Which instruments can be applied by companies to respond to external demands referring to ethical behaviour? What kind of planning, organising and controlling methods are reasonable and useful to give employees action-related assistance in ethical decision situations? In the current discussion these questions are covered by the “new” concept of “ethics management” and the classical concept of strategic management.

### How Sustainability Can Work Out

How can a single company do its business sustainably without compromising its own competitiveness, then consequently its continued existence and its conservation or increase of value. The main drivers of sustainability – as an outcome – are management motives that fall into one or all of the following categories (Bieker et al. 2001):

- legitimation and acceptance through image and trust
- minimization and management of risks
- competitive opportunities (market, differentiation, innovation)
- improved productivity through ecological and social efficiency

These motives cannot be reduced exclusively to either ethics or business. Sustainability arises from the integration of ethical and business motives. Moreover, they need to be addressed at the strategic level of management. If not, sustainability will be seen as a mere add-on or window dressing. Therefore, we will have to show how those drivers can be integrated into strategic management (see also section 4).

While “risks”, “competitive opportunities” and “productivity” are based on long- and short-term business concepts, “legitimation” is founded on the fundamentals of ethical

reasoning. Business ethics can affect the corporate bottom line in a positive (e.g. rising turnover, because of ethically sensitive markets; declining costs because of higher motivated employees) and negative (e.g. declining turnover, because of ethically adverse markets; rising costs, because of additional activities) manner. Even so there is a good chance that business ethics discriminate single companies against their competitors, as long as these rivals do not have similar socially responsible activities.

In order to make sustainability work out, not only business ethics (corporate social responsibility) but also consumer ethics (consumer social responsibility) is necessary. Important keys of a conscious buying/ investing decision and therefore of sustainable consumption/economy are sufficiency – in the meaning of consumers cutting down their spending – and information about products, services and companies to bypass asymmetry of information. Despite a mainstream of price-oriented customers in the highly developed industrialised countries there are an increasing amount of people ready to include social and ecological criteria when making buying decisions. They not only ask for quality of products and services, but also for social and ecological quality of the offering firm. As long as the required information is not present in any case, consumer decisions are not possible in this regard. Therefore the asymmetric allocated information about sustainable products/services cause – in a worst case-scenario – the disappearing of high-quality products and services in the sense of sustainability. There are two potential correctives, which helps to inform consumers: Firstly, methods of producers that signalise the “real” quality to consumers, e.g. branding policy. Secondly, methods of the consumers that screen companies and products to find their “real” quality, e.g. ethics tests in

journals of consumerism or ethical shopping guides (Roth 2001; Schulz 2002; Tschandl 1994).

## From Theory to Strategy

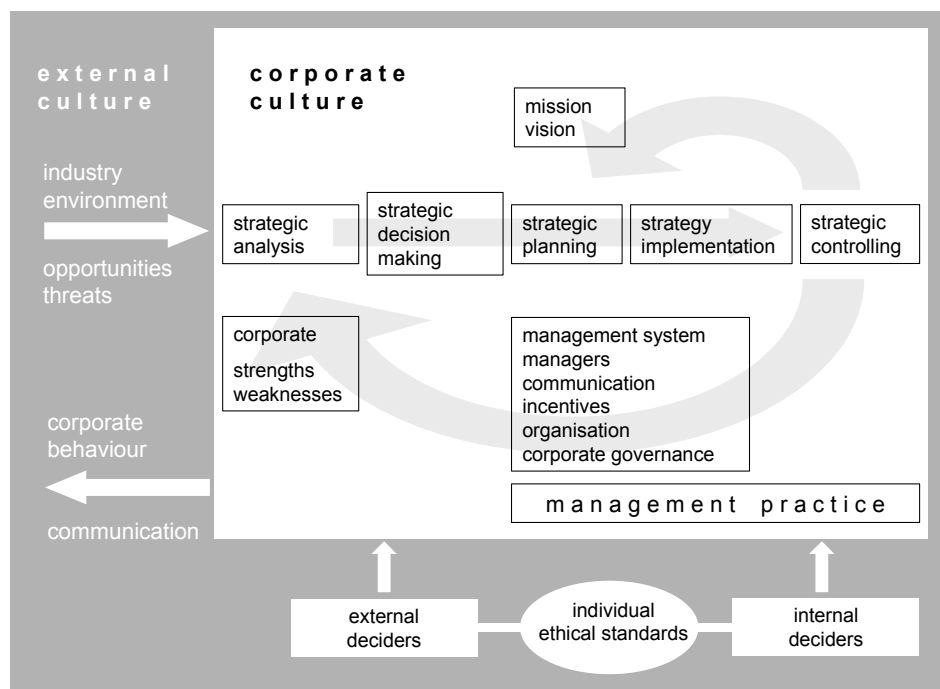
The sustainability definition of the Brundtland report (see section 2), though widely publicized, hardly assists practitioners. Put in a nutshell, it means “learn to last”. Those who are in the business of doing business need more than that, because they must bridge the gap from theory to practice, by managing a process that leads to sustainability. The bridge is strategic thinking and strategic management.

## Strategic Thinking and Strategic Management

Decision makers must give practical answers to seemingly paradoxical questions: What does it mean, for this firm, to become lasting? How can we learn to last, before we have had any experience of it? How can we learn, when in the long term, we may have no chance to learn from

our errors, because we might not survive them? As strategy implementation has to take place in a rapidly changing environment, strategic decisions may be assessed only from a future perspective. They will be answers to questions for which there is no precedence. Sustainability issues add to those challenges, they do not cause them.

For managers, all that is good news and bad news. The good news is that sustainability is about thinking strategically, which is what they should be doing anyway. The bad news is that it is not an add-on charitable activity. There is no escape from the necessity to challenge the existing equilibrium of competitive forces, and to readjust it, which is what managers should be doing anyway. Sustainability must be woven into the fabric of the company, leaving room for review, renewal and refinement within the core business.



*Figure 2: Strategic management activities are embedded in the corporate culture and influenced by the external culture.*

A strategy explains how a business will compete in its industry in order to meet given objectives – in a given socio-economic context (Andrews 1971), which keeps changing all the time. Strategic management (see Figure 2) has to assure the consistency of strategy with corporate culture and the external culture:

in the strategic analysis of external and internal factors

in strategic decision making

in management practice, i.e. mission, vision, strategic planning, strategy implementation, strategic controlling and management system

Figure 2 indicates that the context of strategic management is wider than the immediate industry environment, because individual ethical standards of the deciders are influenced by the external culture. Vice versa, corporate behaviour influences external culture (e.g. by corporate communication and by qualification of

employees). It also indicates the two interfaces between strategic management and that wider context: the external and internal deciders and strategic analysis.

Strategic analysis is part of the strategic thinking of the deciders. It is the starting point that makes or breaks the strategic process.

### Strategic Analysis of the Socio-economic Context

Strategic analysis starts by investigating the socio-economic context: Managers need to understand its structure, know the key factors and anticipate new developments. That context – including expectations of ethical and sustainable practice – determines the limits of what a firm may successfully accomplish (Andrews 1971). It is defined by business as well as cultural factors, both, internal and external to the firm. Thus, four fields are distinguished (see Figure 3).

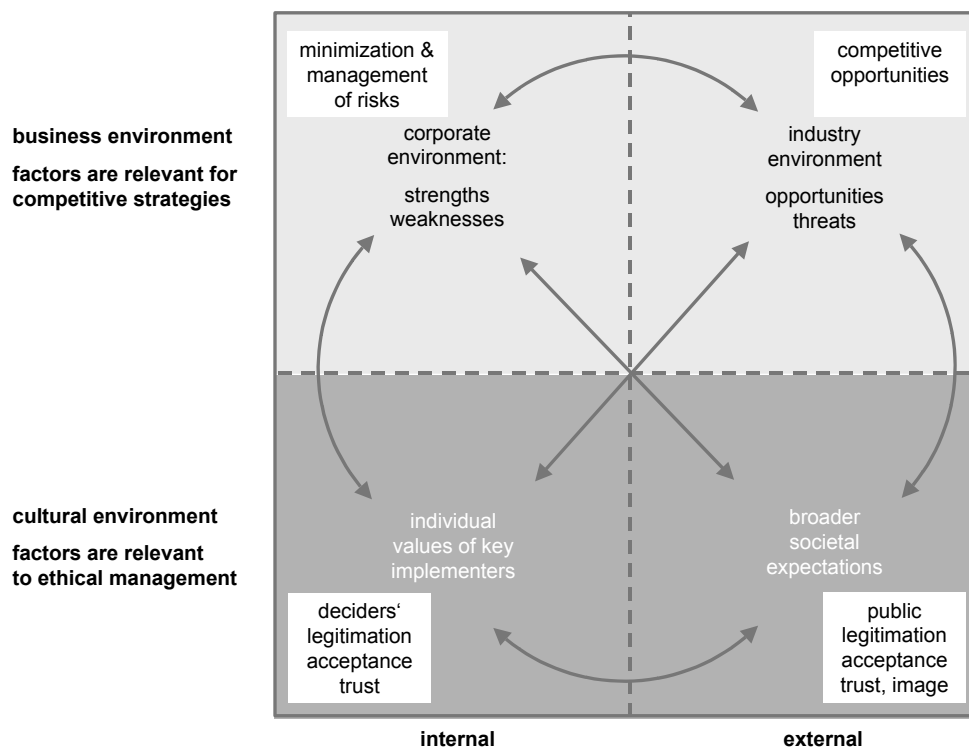


Figure 3: The structure of the socioeconomic context of a firm (according to Andrews 1971). Arrows indicate interactions. Intra-field interactions have been omitted. Sustainability drivers (see Section 2) are superimposed (black on white).

Competitive strategic analysis focuses on business factors (upper half). If strategic analysis is intended to make the firm sustainable, it must also include the cultural factors (lower half).

Among the internal business factors (upper left) are a firm's strengths and weaknesses (assets, skills, resources, technology, brand identification etc.). External business factors (upper right) are the opportunities and threats resulting from the forces driving industry competition, i.e. substitutes (products or services), potential entrants, suppliers, buyers and industry competitors (Porter 1980).

Among the cultural factors, the internal ones (lower left) are the personal values of the key decision makers and implementers, their motivations and needs. External cultural factors (lower right) are the broader societal expectations and claims. They reflect widespread public and social concerns, ethical standards and values. Ethical management predominantly relates to those factors (Tschandl 2001).

As the factors defining the socio-economic context are interdependent and change over time, the context is highly complex and cannot be understood by looking at each factor in isolation. Figure 3 indicates that each sustainability driver (see Section 2) falls into one of the four fields, adding to the complexity of the system. Referring to Section 2 (see also Figure 1) one might ask how much corporate awareness there is for the relevance of the context and for sustainability as a strategic task. Analytical instruments for complex dynamic system will be discussed in Section 5.

## Integrated Corporate Sustainability

Ethical behaviour and the attainment of competitive advantage are not directly related, because they originate from separate motives. A firm may be commercially successful without

paying attention to ethical issues. It will concentrate on the business environment (Figure 3, upper half). Its strategy guides day-to-day action towards gaining and maintaining competitive advantage. On the other hand, it is conceivable to behave highly ethically, with little or no commercial success. Ethical management relates day-to-day actions to a cultural context that is a wider and more far-reaching than the immediate business environment (Figure 3, lower half). We propose that sustainability integrates competitive strategy and ethical management, thus giving rise to a new strategic dimension of corporate behaviour. Central to this model is the assumption that ethical management and competitive strategy are compatible, though incommensurable.

## The Model of Integrated Corporate Sustainability

Our first point of departure was that sustainability requires strategic thinking (see section 3.2). Our second point of departure is that ethics is not a value added to business operations but integral, necessary and central to successful management (see section 2.1). Our third is that a competitive strategy is also not something value-added to business operations; but it is integral, necessary and central to managing successfully, too. Corporate sustainability is an attribute that emerges, if and when management integrates ethical management and competitive strategy. In our model, the ethical and the strategic dimensions are two orthogonal axes (Figure 4). The line bisecting the included angle indicates a "development path" that is equidistant from either axis.

The ethical axis represents a development continuum, measuring the degree of proactive ethical autonomy. Onto this axis, four prototypical phases of ethical policy continuum (according to Tschandl 2001) may be mapped:

We label them “classical” (i.e. only committed to profit), “reactive” (i.e. law abiding), “anticipative” (i.e. smart as to take early advantages of socio-economic trends) and “proactive” (i.e. ethically autonomous and trend-setting).

The competitive axis represents a strategic continuum, according to some measure of competitive advantage. Onto this axis, suitable indicators of competitive advantage may be mapped (e.g. the profit margins for those processes that make the industry participants' businesses profitable). Following the systematic approach of the McKinsey-Portfolio, one has to score each indicator of these two axes (e.g. 1-5 points). The score sum of all indicators yields a percentage of the maximal possible score sum and can be plotted on the graph. There will be an added benefit when two or more evaluators discuss why their evaluations differ for any given indicator.

A firm that enacts a strategy in which ethical and competitive issues are integratively balanced will

fall on the development path. In order to proceed, a firm will have to define both, its future competitive advancement and its ethical advancement and how they will be integrated into its new strategy (“A” in Figure 4). Alternatively, firms may be found at a distance from the development path: either in position “B” (with a competitive gap) or in position “C” (with a sustainability gap). Development along the prototypical development path depends on ethical and competitive anticipation and proactivity. These are strategic skills. Managers must abandon purely historical, empirical or retrospective approaches and tools in favour of an anticipative, projective and proactive approach. Therefore the model is process oriented rather than static. The central idea of the model is that it weaves sustainability into a firm’s fabric right from the beginning. In that sense it is descriptive. It does not indicate how the integration is to be achieved. In that sense it is not prescriptive. Instruments will be discussed in Section 5.

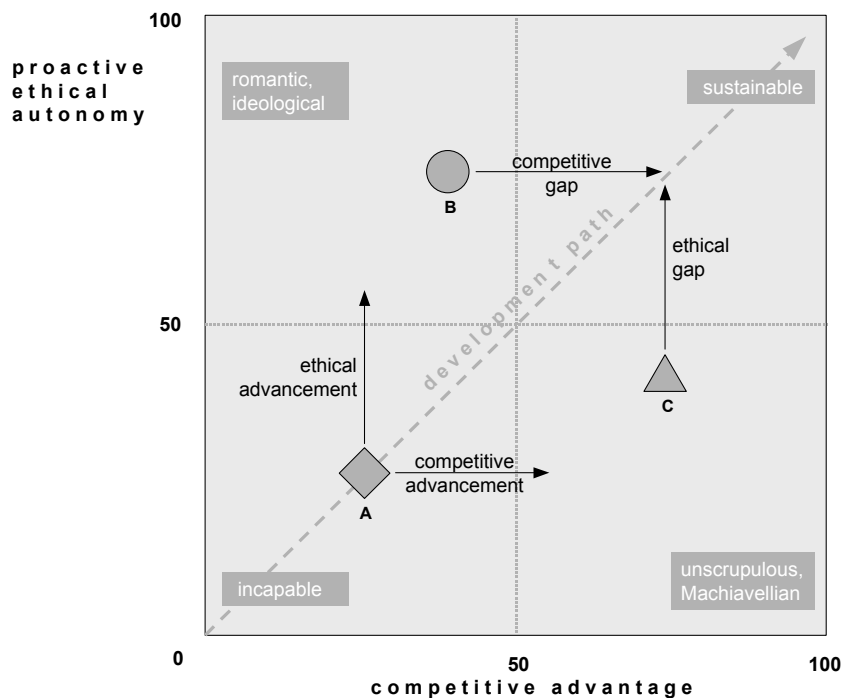


Figure 4: The Integrated Sustainability Model.

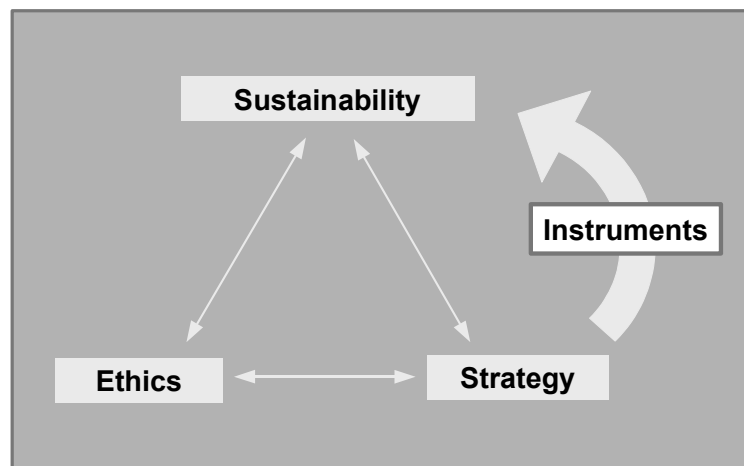
## Instruments

How can strategic (integrated) sustainability be assured? By analogy to a proposal by Thommen (1984), who subsumes elements and instruments supporting a credibility strategy under an ethics program, we shall highlight only those instruments, which assist managers at starting the strategic process towards strategically integrated sustainability.

Whether the starting point is ethics or competitive advantage, the objective is to proceed on the development path. Therefore, the choice of instruments is governed by the need to analyse a wide and complex

environmental context before feeding the findings into a strategy. This means choosing strategic instruments (see Figure 5), which 1) facilitate environmental analysis and 2) offer methods for investigating of the environmental factors an integrated and anticipative way. Managers will accept such instruments only if they assist them in making better strategic decisions. They seek improvements in any or all of the following abilities:

detect early weak signals from “under the horizon”, heralding ethically or competitively relevant developments, ask new questions and “think the unthinkable” anticipate, define and develop new capabilities.



*Figure 5: Relationship between Sustainability, Ethics, Strategy and (strategic) Instruments to reach Sustainability.*

## Overview

We focus on instruments generally suited to facilitating a) strategic environmental analysis and b) drawing conclusions from anticipated developments in the environmental context (Table 2a). They are followed (Table 2b) by instruments of ethical management, which can provide starting points for the positioning of

firms on the ethical management axis of Figure 4. They are grouped according to reactive, anticipative (“smart”) and proactive firms (see Tschandl 2001) and can be regarded as specialized applications of the more generic analysis instruments highlighted at the top of the table (further instruments of sustainability see Schaltegger et al. 2002).

**Table 2a: Overview of generic strategic instruments at the start of the strategic process.**

application group	focus	instrument
strategic	performance and control by owners	corporate governance
environmental strategic analysis	developments, trends, early (weak) signals (ethical and competitive)	environmental scanning & monitoring
	identification of key environmental factors (ethical and competitive)	systems analysis, systems thinking
	challenging strategies, asking new questions (ethical and competitive)	scenario analysis (scenario planning)
internal strategic analysis	strategic capabilities (ethical and competitive)	capability scenario analysis

**Table 2b: Overview of ethical management instruments**

application group	focus	instrument
ethically reactive	legal compliance	internal legal compliance audit
ethically anticipative	analysis	vulnerability checklists, internal ratings, ethical risk indicators, environmental scanning
	decision making	ethical maxims (IV-Test), process model for decisions, ethical quickestest, operational expense of decisions
ethically anticipative	weight of ethical issues	priority flow-diagram
	internal vs. external requirements	action checklists
	ethical trends and their impact	priority matrix
ethically proactive	corporate culture, socialisation	corporate philosophy
	supplementary to corporate philosophy	ethical standards (codes)
	embedding corporate philosophy	training, ongoing education
	deployment of corporate philosophy, top-down	ethical goals and strategies
	recruiting	ethical potential of employees
	information flow, bottom-up	ombudspersons, advocating, bypassing
	controlling	ethic committees, whistleblowing

## Generic Strategic Instruments

### Corporate Governance

The intentions and the influence of those who own the firm and assess its performance (the external deciders in Figure 2) will determine how easily sustainability strategies are conceived and implemented. This is evident from comparing the governance systems between different countries. Broadly speaking, the heterogeneous shareholder structures in Great Britain and the USA have favoured the development of “outsider systems”. There, by and large, the markets assume the functions of checking and coordination. This contrasts with the “insider systems” of Europe and Asia, with their networks of relationships between Corporations and Finance Institutions and their institutionalised control mechanisms. Whereas insider systems are characterized by close relationships and trust, the more anonymous outsider systems appear to react more flexibly when technological or economic conditions change. The relative advantages or disadvantages are industry specific and vary with economic and technological cycles. Becoming sustainable considering ethical aspects may be easier for pioneer firms in insider systems (due to strong and direct ownership influence on strategic decisions). Firms in outsider systems may jump on the bandwagon, as soon as the commercial success of Integrated Sustainability will have been demonstrated.

### Environmental Scanning and Monitoring (strategic analysis)

Integrated Sustainability as a strategic approach hinges on paying attention to future developments within the socio-economic environment. Although the future cannot be predicted, sensitisation to early indicators (weak signals) of new developments and the

implementation of appropriate systems will become increasingly important (Ansoff 1976; Krystek and Müller-Stewens 1993). Such systems may assure that screening and monitoring activities are carried out regularly and consistently and that the results are heeded by management. The priority matrix, an instrument of ethical management for anticipative firms (see Section 5.1), is an apt example of environmental scanning and monitoring. It is not restricted to ethical issues. By analogy, the principle can be applied to any field in the socio-economic environment.

Although the logics and the benefits of environmental scanning and monitoring benefits are compelling, effective systems are not widely used. The reasons are many: “methodical overkill”, preoccupation with day-to-day activities, perceived lack of legitimation (because results are often qualitative and subjective), a rigid structure of planning processes (leaving little room for “whistleblowing”) and finally, the fact that such systems are rarely assigned sufficient priority by top management.

### Systems Analysis, Systems Thinking

This is a method of investigating the interaction between a complex environment and the firm. It was developed by Vester and tailored to management problems by Gomez and Probst (1996). The behaviour of complex systems cannot be described unambiguously. Systems analysis proceeds in three steps and is best carried out in a team of managers, possibly reinforced by external experts: 1) definition of the problem and taking stock of all relevant factors, 2) analysing interactions and cross-impacts between the factors, leading to an understanding of the factors as a network, 3) identification of active factors (by which the system can be influenced) and passive factors (indicators of the state of the system).

Subsequent steps, often described under the heading of systems analysis, are application

steps. The most important application of systems analysis at the strategic level is scenario analysis (see below). Systems analysis forms the basis for systems modelling and simulations.

Systems analysis is extremely powerful as a basis of all serious and penetrating analysis of complex systems. The most important system in the strategic context is the system of forces driving industry competition (Porter 1980). Also, it forms the basis of environmental scanning and monitoring decisions. It is not widely used, however, because it does not yield quick, unambiguous answers. Moreover, many managers shy away from analysing complexity, because it is time consuming (Reibnitz 1991).

Integrated Sustainability relies strongly on systems analysis as an input to scenarios, trend anticipation and strategic decisions. Therefore systems analysis and systems thinking will gain acceptance. The quality of the results will be determined by the knowledge of the participants, by the intensity of their interactions and by the requirement that the persons who draw the conclusions also participate in the analysis.

### Scenario Analysis

Among the many instruments aimed at environmental anticipation (Delphi method, trend extrapolation, cross impact analysis, scenario analysis), we emphasize scenario analysis. It is highly versatile, because it can be interfaced with systems analysis and environmental scanning and monitoring.

Scenario analysis is not a rigid prognostic scheme. It integrates subjective and/or intersubjective elements, it includes qualitative information and, if needed, integrates the experience of experts. The method (also called scenario planning) was popularized primarily by Hermann Kahn (RAND Corporation, Hudson Institute) and originally applied to military problems. It was pioneered for corporations by

Royal Dutch/Shell (Bood and Postma 1997, De Geus 1988, van der Heijden 1996, Schwartz 1991, Shoemaker 1993, Shoemaker 1997). The central idea is that participants create multiple plausible pictures of the future, for a given field of investigation, and based on a central question that cannot be answered right away, because the uncertainties and the complexity of the situation seem prohibitive. Scenarios are artificial models of the future, frequently rendered in the form of stories which play in the future, based on assumptions, which are clearly pointed out and may be questioned.

In the context of Integrated Sustainability, the focus of scenario analysis will be the impact, which socio-economic factors have on industry competition on the one hand and/or on internal business factors on the other. In the latter case, scenarios forms the basis for core capability scenarios (see below, Shoemaker 1992, Shoemaker 1993, Shoemaker 1995), which go beyond the heuristics offered by SWOT instruments.

Scenarios are hypotheses - not predictions. They form a plausible platform, from which managers may look back on developments that have not yet happened, discovering their present options, their hidden assumptions, and most importantly, new questions.

Scenario analysis can be applied at any level or scope - from company to individual. It is a systematic process that typically proceeds in defined steps (Reibnitz 1991), which also form structural framework of scenario projects. The key resource, apart from the implicit knowledge of the participants, is time. Nevertheless, the quality of the results can be no better than the input provided by the participants.

Scenario analysis is extremely powerful, because it creates conditions that move the strategic conversation from the present to the future, from problems to solutions. It combines creative

dialogue with purpose and focus. Its open and exploratory process traces and challenges hidden assumptions. Thus, it provides access to the implicit knowledge of the participants. Two pitfalls must be avoided: Occasionally managers evaluate scenarios by “right or wrong” criteria and, decision makers show a tendency to focus on a single scenario, which best reflects what they deem right anyway (Reibnitz 1991).

### Core Capability Scenarios

Initiatives towards integrated sustainability will require a revision of the internal strengths and weaknesses in order to identify those capabilities that must be developed or strengthened. Core capability scenarios combine scenario thinking with the concept of strategic business areas (Lombriser and Abplanalp 1997). Compared to SWOT instruments, core capability scenarios (Shoemaker 1992) give more methodical guidance as to how factors should be selected: In a two-dimensional matrix the strategic business areas are entered as rows, whereas different scenarios (previously created) are represented as columns. In the next step, all capabilities are identified and listed: those which the firm actually possesses and/or those which would be required for any given combination of business area and scenario. The strategically most valuable and robust capabilities are determined by counting how often a certain capability shows up in any row. The results of this instruments depend critically on the quality of the input data: well defined strategic business areas and scenarios.

### Conclusion

The present contribution deals with the question, how corporations can get from a phase of reacting to a phase of acting without losing sight of an intended balance of interests between the economical, social and ecological dimensions of entrepreneurial action. This balance of the

triple bottom line is a core principle of the concept of sustainability, which is also described by preservation of capital, a long-term perspective and the cultural and thus ethical relativity, whereby the latter broadens the current discussion. Considering ethical aspects to become sustainable, we have to take into account the two ethical main concepts of deontology and teleology. If we want to apply ethics to reach sustainability we will think teleologically, because it is merely the effect, which makes our activities sustainable. If we want use the concept of sustainability to become more ethical, it is more likely that we think in a deontological way, because we use instruments deduced from the four described principles of sustainability to fulfil our duties. Normative ethics – as practical aspect of (sustainable) strategic management – combines the approaches of strategic and ethical management to reach sustainability objectives.

To bridge the gap from theory to practice – by managing a process that leads to sustainability – we suggest a process of sustainable strategic management and a strategic analysis of the socio-economic context. Sustainability integrates competitive strategy and ethical management, thus leading to a new strategic dimension of corporate behaviour. The proposed model of integrated corporate sustainability with its two dimensions, the ethical and the strategic, shows a “development path” that results in competitive advantage and proactive ethical autonomy. Thus sustainability can only work out considering corporate social responsibility and consumer social responsibility.

Besides an overview about ethical management instruments some generic strategic instruments at the start of the strategic process – corporate governance, strategic scanning and monitoring, system analysis, scenario analysis and core capability scenarios – are presented.

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