

Leading the Way Towards the Sustainable Enterprise

In the 2005 book *The Sustainable Enterprise: Learning from DJSI Leaders*, IESE Professors Joan Enric Ricart and Miguel Ángel Rodríguez, and researchers Pablo Sánchez and Lara Ventoso study the impact of sustainability on corporate governance, stakeholder relations, strategy and other management systems. For inspiration, they analyze the actions of the companies that are showing the way: the 18 market leaders from the Dow Jones Sustainability Index.



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Businesses play a pivotal role in the development of society and nature. Sustainable

development cannot exist without sustainable companies. Yet, "sustainable enterprise" (SE) is a relatively new concept and most top executives and managers do not yet have the tools they need to transform their company into a profitable business that also contributes to the well-being of the social and natural system to which it belongs.

The book [*The Sustainable Enterprise: Learning from DJSI Leaders*](#) by [Joan Enric Ricart](#), Miguel Ángel Rodríguez, Pablo Sánchez and Lara Ventoso of IESE Business School provides business leaders with the tools. The authors define a sustainable enterprise and explain how it differs from the traditional enterprise model. They do so by analyzing 18 market sector leaders of the Dow Jones Sustainability Index (DJSI).

Sustainable development implies a total change in companies' value systems. Instead of maximizing shareholder value, a company's goal becomes sustainability. In this context, sustainability has a double meaning: Like any living system, the company's objective is to survive, though not at any price; along with this will for survival is the company's ability and desire to contribute to the well-being of the social and natural system to which it belongs. This sense of belonging and contributing leads to openness. Sustainable enterprises are open to the social and natural system - and to a wide array of stakeholders.

Building on these ideas, the authors create a framework that guides their research of the 18 leading DJSI companies. The framework consists of four components: attributes and roles of top corporate governance bodies; corporate strategy; relationship with stakeholders; and managing systems.

Ricart, Rodríguez, Sánchez and Ventoso explore what the leading companies of the DJSI's market sectors are doing to advance towards sustainable corporate governance. They study how the companies' strategies embody sustainability, and the ways in which they establish a fruitful dialogue with their stakeholders. They analyze the benefits of sustainability and look at how different managing systems and procedures can foment new approach.

Not surprisingly, the authors find that sustainability profoundly impacts the leading companies' governance systems, which in turn spawns other changes. Almost all the leading companies consider sustainability to be a board responsibility, while only half of other companies do so. In these firms, sustainability is a core value and a strategic issue, and one or more directors are generally knowledgeable about sustainable development. SEs discuss sustainability regularly at board meetings, and sustainability board committees are more and more common.

A second important finding is that leading companies make great efforts to integrate the values of sustainable development into strategy, both at the formulation and implementation level. Most importantly, the governance structure of SEs ensures that sustainability is embraced by corporate strategy. The companies also use various mechanisms to keep the values alive within the organization, including a code of conduct that promotes sustainability.

The profound effects of sustainability lead to new relationships with stakeholders at all management levels. While leading companies have to develop a whole set of capabilities to become SEs, the authors focus on one: dialogue with stakeholders. Ricart, Rodríguez, Sánchez, and Ventoso discuss how stakeholders influence firm decisions, and they explore the different processes and mechanisms commonly used by DJSI sector leaders. What they find is that leading companies have regular meetings with stakeholders. They develop partnerships with them, and assign responsibility at the board and senior management level. In SEs, stakeholder dialogue is a regular activity, involving a company's directors. The authors observe that dialogue enhances two strategic assets: reputation and innovation.

Sustainability values also affect organizational routines and procedures. Four of a company's key systems are especially impacted: human resource systems, environmental, health and safety systems, research and development systems, and supply chain management systems.

In human resources, sustainability is increasingly reflected in recruiting processes, training programs, rewards systems and communication policies. Environmental, health and safety policies, as well as management systems, are already standardized and widely adopted by leading companies, but new elements are being included to extend the systems' scope and contribution towards real sustainability.

Research and development is a challenging area, and though companies are trying out various ways to introduce sustainability concepts, no one dominant approach has taken hold. Another area with great potential is the value chain system.

Using the new paradigm of SEs that emerges from their research, the authors compare it to the traditional approach and what they consider a "middle of the road" attitude towards sustainability. Some of the 18 DJSIW leading companies under study are closer to becoming true SEs than others.

To make progress, the authors suggest changes that companies need to make. They focus on the new values and purpose that must drive the transformation process in governance, strategy and other management systems.

Ricart, Rodríguez, Sánchez and Ventoso believe that in a few years sustainability values should start affecting all corporations in much the same way as the quality movement transformed businesses in the 1990s.

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