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THEY TALK THE TALK, BUT DO THEY WALK THE WALK? SUSTAINABILITY ACCEPTANCE IS LOW IN GERMAN AND NEW ZEALAND FIRMS

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Overview

Through the International Sustainability Acceptance Measurement (ISAM), we intend to better understand the level of acceptance of sustainability as a practical management tool in business around the world (www.worldreply.com). It was observed by others that sustainability concepts often stay on a rather general level where it is hard to identify specific indicators and the potential for future development.ⁱ In an effort to contrast the level of sustainability in the ISAM countries, the participating universities analyze their respective country data and then co-operate to benchmark and compare this information around the globe. This makes the ISAM work one of the few world-spanning efforts to look at the practical implementation of sustainability.

Background

“Sustainability“ as a term considers the long-term value creation, and it should contribute to managerial decision-making in modern enterprises, in recognition of the responsibilities to stakeholders. Following the apparently overly myopic focus on financial statements as the exclusive indicators of business health, the Triple Bottom Line reporting standard has been established to expand the transparency of corporate reportingⁱⁱ. In a more traditional definition, sustainability is the act of exploiting natural resources without destroying the ecological balance of a particular area through global resource depletion and environmental pollutionⁱⁱⁱ, and we speculate whether the emphasis on physical resource conservation has shaped the discussion about sustainability in business to focus too narrowly on firms with heavy involvement in physical resource extraction and use. It is obvious now, that activities that consume too many non-renewable resources, produce too much pollution, or harm people are not sustainable in the long run^{iv}, and expect that stakeholders are being made aware of these future constraints. We are mindful that a large majority of business in industrialized ‘first world’ countries are no longer overt resource users. They do not excavate mountains, dam rivers and emit noxious fumes from their factories. Many German businesses report that their activities affect neighbours not at all or to a minor extent^v. Our concern is that managers in these comparatively ‘clean’ businesses may not be sufficiently informed as to the application of sustainability characteristics in their firms and, thus, may disconnect from an engaging discussion of this issue. Even “white collar” businesses use

resources, affect climates and create waste; and a lack of focus on sustainable operations likely causes social, environmental and financial hardship for them and their stakeholders. Rather than adopting the general notion that sustainability relates mainly to physical resources, we support the suggestion that the concept of sustainable development is rooted in the management tradition, that is, it emanated from the professional management paradigm.VI

A number of companies believe that the entire concept of sustainable development is an abstract and only theoretically possible goal of business operation. VII VIII Some businesses are critical of the sustainability debate as they believe it will impede their competitive growth and profit performance,IX and without doubt many firms will view any ‘new’ reporting standard as a burden. We want to elevate the discussion of sustainability to include practically relevant action items where managers can see their peers and where competitors take notice.

The following analysis is focused on responses from 155 German managers, mainly from firms in the State of Hesse and including the Frankfurt metropolitan area, and 366 New Zealand managers from a nationwide review. We thank the bifego Institute in Germany for their help with distributing the survey.

The term “sustainability” began getting widespread international attention in the Future Report of the International Commission for Environment and Development, which was established in 1983 by the United Nations as an independent body of experts.X This, generally known as “Brundtland Report”, initiative introduced the frequently cited definition for the now highly relevant sustainability discussion: “Sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs.” In an environment of aggressive worldwide competition among the large export nations and their trade blocks, new rules in one economic region usually attract the attention of the other trade partners, with an interest to comply or a fear of surrendering a competitive edge. Therefore, it is of great interest to determine how and to what extent sustainability practices have been accepted worldwide.

Even earlier, in 1972, the concept of sustainability in business was introduced by researchers at the Massachusetts Institute of Technology, in research commissioned by the Volkswagen Foundation in 1972. Their results were published as the First Report of the Club of Rome, with alarming predictions over the expected decline of living standards as a result of disregard for sustainable resource management, and the concurrent increase in world population numbers.^{xi} The Brundtland Report was one of the foundations for the widely attended Environment Conference in Rio de Janeiro in 1992, where a global action program for sustainable development was agreed upon as “Agenda 21”.^{xii} Modelled after the Brundtland Report, this program set goals for individual countries to create their own sustainability action plans. Subsequently, in Johannesburg in 2002, another action plan was ratified among nations as a platform for national and Europe-wide sustainability strategies.^{xiii}

The German government ratified its national strategy for sustainable development in 2002^{xiv}, and formed a parliamentary committee in March 2004 to focus on sustainability efforts in Germany. Researchers there are now being challenged to include sustainability issues in their work; since then a new directive, “Research for Sustainability”, was published in June 2004.^{xv} The four key areas in this plan are “Regional Utilization”, “Resource Management”, “Social Activities” and “Industry and Economy”.^{xvi} The German Minister for Education and Research considers that the development and export of innovative technologies for sustainable business operations are essential drivers for German enterprises. There is no doubt that the careful management of resources will be a critical factor for the long-term sustainability of businesses.^{xvii}

In New Zealand, the Parliamentary Commissioner for the Environment reports that the country could have been a leading light in sustainable development by 2002, but is not.^{xviii} Specific guidelines are recommended for the future, to support the implementation of sustainability rules, largely centered around the use of natural resources. The New Zealand Business Council for Sustainable Development expands the application of sustainable management to the establishment of a sustainable supply chain^{xix}, which arguably is applicable to a much larger population of firms than a singular focused discussion on resource use. The Sustainability Council of New

Zealand shows 12 current publications, all of which focus on land use or seed contamination, issues likely to escape the attention of many New Zealand firms.XX

Sustainable enterprise management is one of the “key challenges for management teams worldwide”.XXi Prior research asked the question why do companies adopt corporate sustainability practices, and answered that companies either feel obliged to do it; are made to do it, or they want to do it.XXii Recent reporting in New Zealand indicates that Governments may not be the best drivers to influence sustainability practices. XXiii We believe, as a basis for this global research attempt, that knowledge given to business managers about the level of acceptance of sustainability in other firms, throughout the same or differing industries, could be the first step to the introduction of sustainability as a competitive feature in businesses.

Methodology

Firms were invited to submit their data by invitation from other firms, through industry organizations, from universities and business schools and from interest groups. The link to the internet-based survey was e-mailed to prospective firms, or was available as a link on home pages, or printed in newsletters and the media. The national researchers in each country formed alliances with government agencies, foundations, media and other groups to distribute the survey.

In Germany, the Bifego Institute worked together with the Hessian Technology Foundation (TSH) to distribute the ISAM survey. Participants in this study were approached by TSH in March 2004 with an invitation to submit their data. 91% of the participants requested a copy of the study results, indicating significant interest in this topic. 153 completed surveys demonstrated that this topic is relevant for discussion. In New Zealand, both Waikato University Management School and UNITEC distributed the survey to New Zealand businesses, without constraints as to their size, location or other criteria, and 366 responses were analyzed. The total response rate for German and New Zealand firms were comparable at 31%.

Through an internet-based survey instrument translated into local language (www.worldreply.com/isamcountries), the firms were asked a series of

questions which related to the areas and the extent of understanding, planning for or implementation of activities related to or supportive of sustainability. In addition, key demographic data was collected to allow appropriate benchmarking among firms in similar industries, size ranges, activity profile and geographic locations. Ownership details, differentiating the firms by shareholder distribution and composition of the leadership, enabled a review of sustainability practices based on whether the firm was family-owned or owner-operated.

Study Results

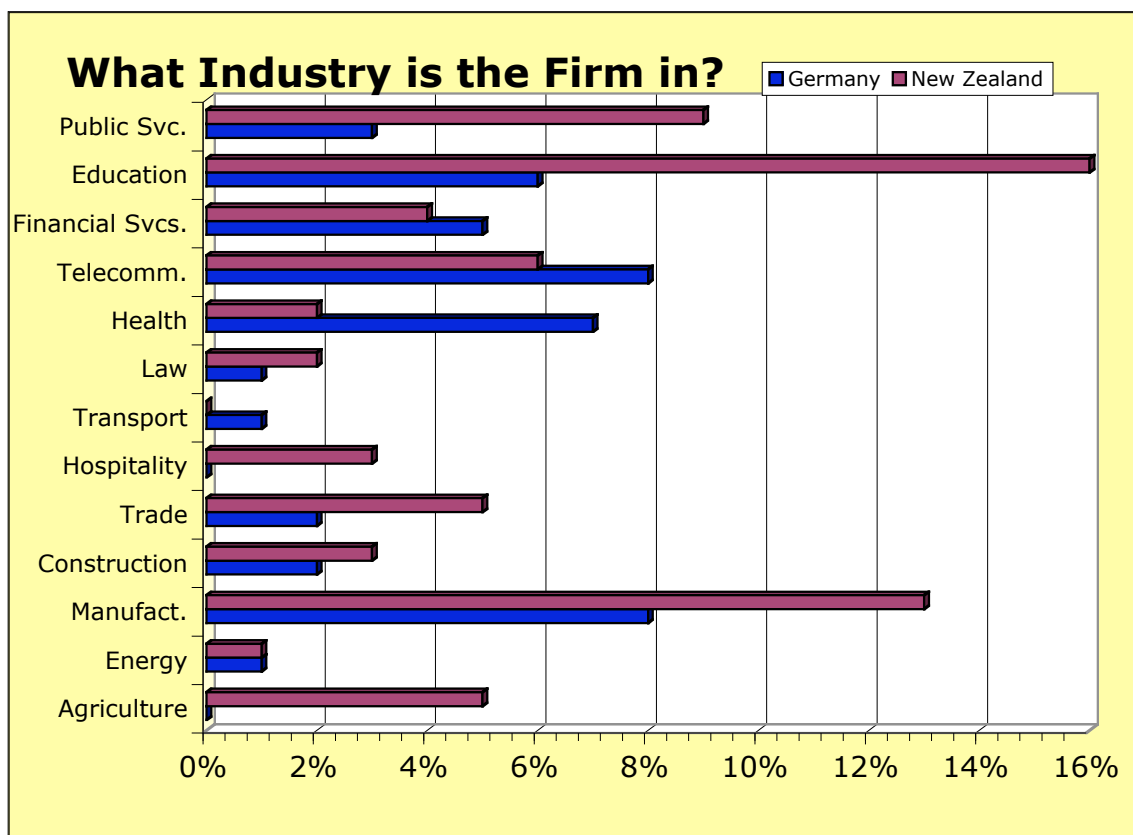


Table 1

Due to the different methods of distribution in both countries, the samples show heterogeneity in the industry representation of each country and thus does not permit an easy comparison by industry groups. In New Zealand, public service firms, education providers and manufacturers are over-

represented and, in Germany, health providers were represented disproportionately, and a large number of German firms (52%) indicate “Other” industries. In neither country was one industry representation dominant, and most responses are from businesses traditionally not engaged in resource-intensive production.

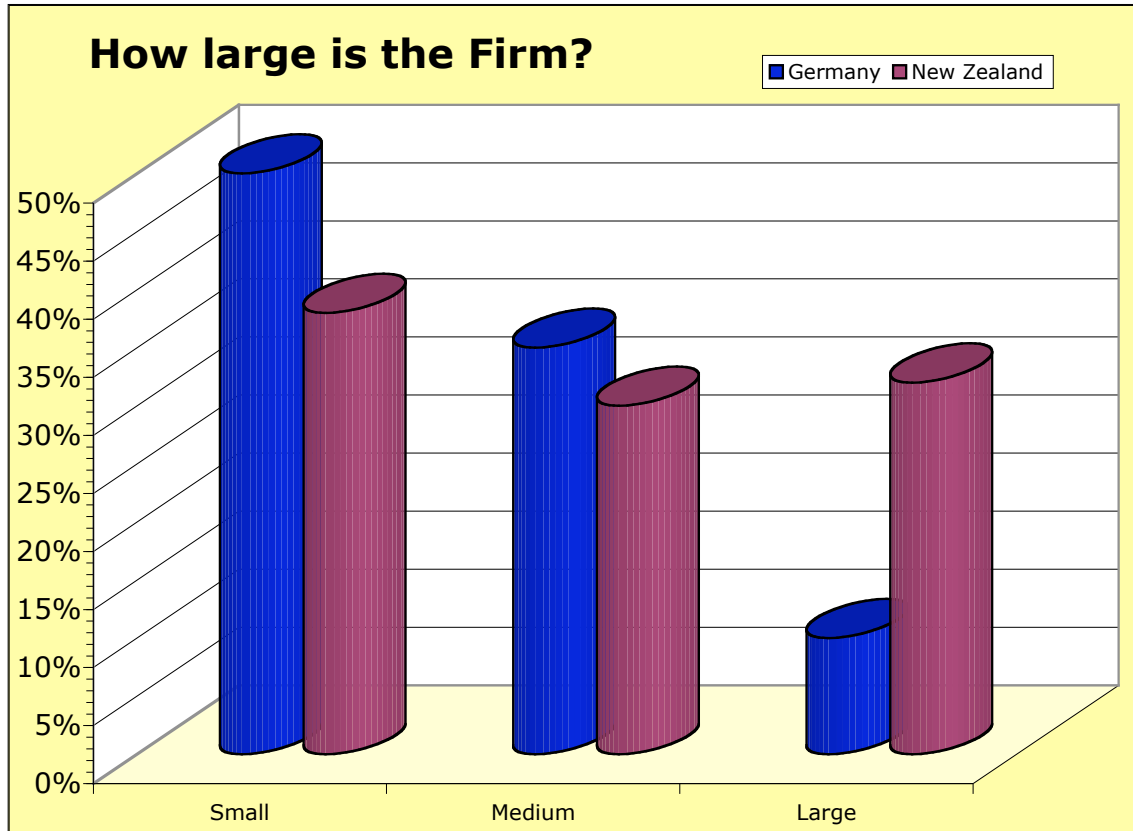


Table 2

For both countries, small and medium sized firms are represented about equally, while in New Zealand a significantly larger number of firms rank themselves as ‘large’ in their respective industries.

The acceptance of the various elements of sustainability in a firm was measured through a range of indicators. A subjective ranking of the importance of sustainability within the respective industry segment and among the management, set the scene to understanding how well the topic had been considered by the firms and their competitors. Basic knowledge of various elements of sustainability were tested to understand which parts of the term had found a ‘home’ in the firm. We then tried to understand which

operational tactics were used when considering sustainability in the firm, and how well the firm used sustainability as a competitive feature in promotional materials, annual reports and other media, such as newsletters. Lastly, the survey attempted to gauge to what extent plans for sustainable operations had been implemented and were found in practice. Our underlying premise is that business has much to do to contribute to sustainable development, including engaging in areas with which it previously did not concern or involve itself.^{XXIV} We, therefore, intentionally drafted a range of questions which touched on different areas of sustainability application in practice, hoping that some of the areas where we felt sustainability considerations applied, had resonated with the surveyed firms.

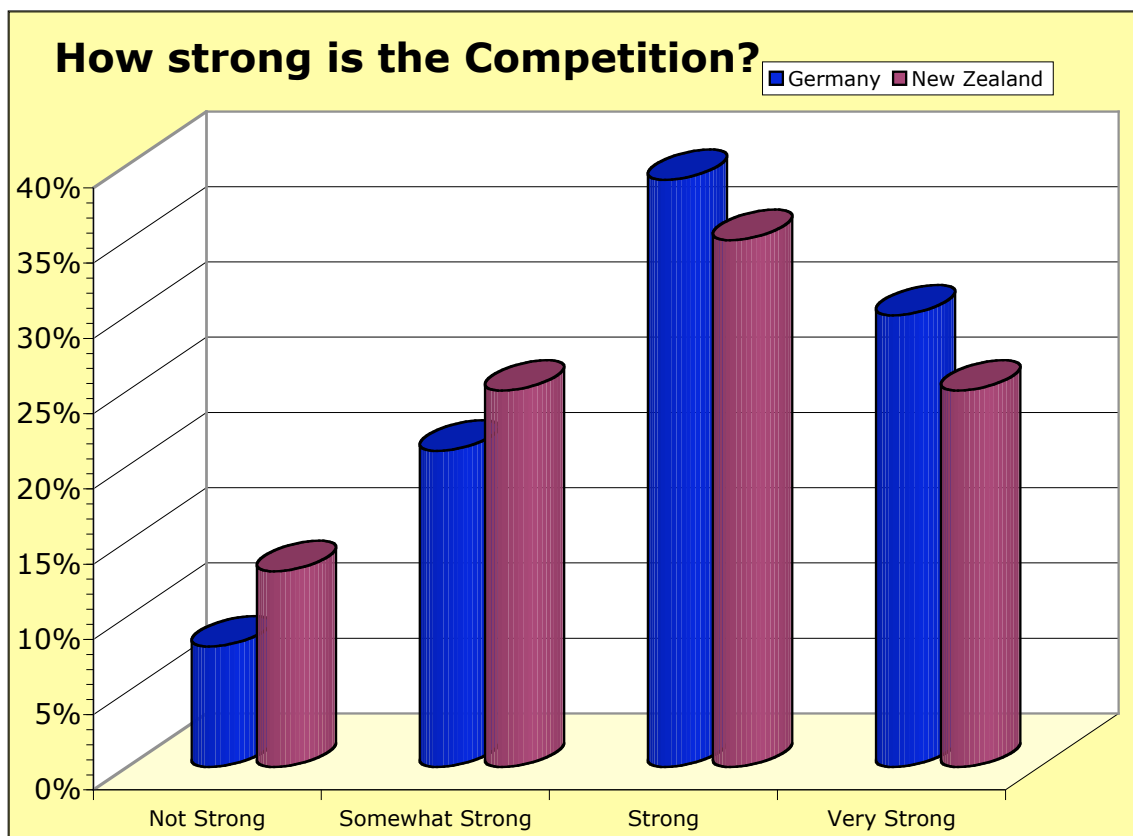


Table 3

In both countries, competition is a considerable factor for management. The majority of firms in Germany and New Zealand rank competitive pressure as 'strong' or 'very strong'. We believe these companies are looking for innovative ways to grow into the future, and we suggest that they would benefit from applying sustainable management practices. Other challenges named by our survey respondents are lack of available expansion capital, governmental rules and regulations, as well as difficulty in recruiting qualified staff.

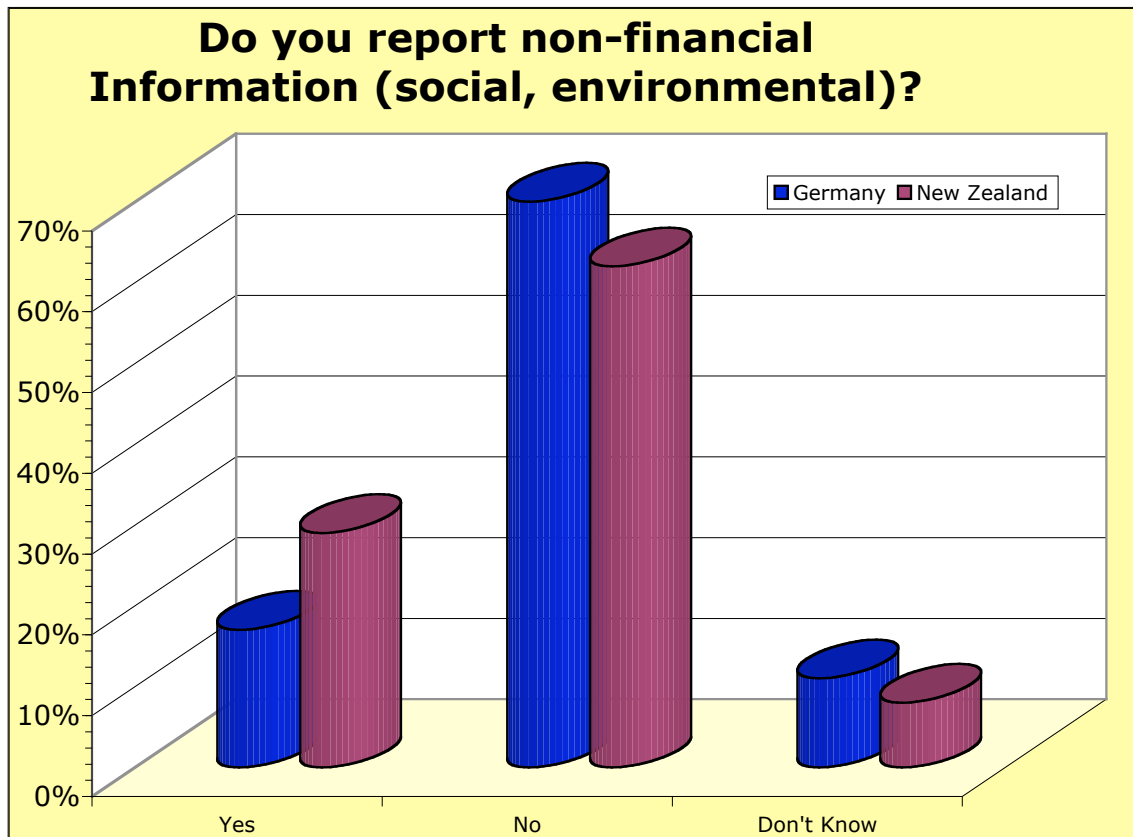


Table 4

For financial and other regulatory reporting, sustainability-related issues which expand the traditional financial reporting framework, are largely irrelevant. Fewer than a third of all firms in New Zealand and fewer than 20% of German firms reported social and environmental information as part of their annual report or other corporate materials. Approximately two-thirds of companies in each country focus exclusively on traditional financial information in their corporate materials. This appears at odds with the

anecdotally reported emphasis firms place on demonstrating sustainability awareness in their PR materials.

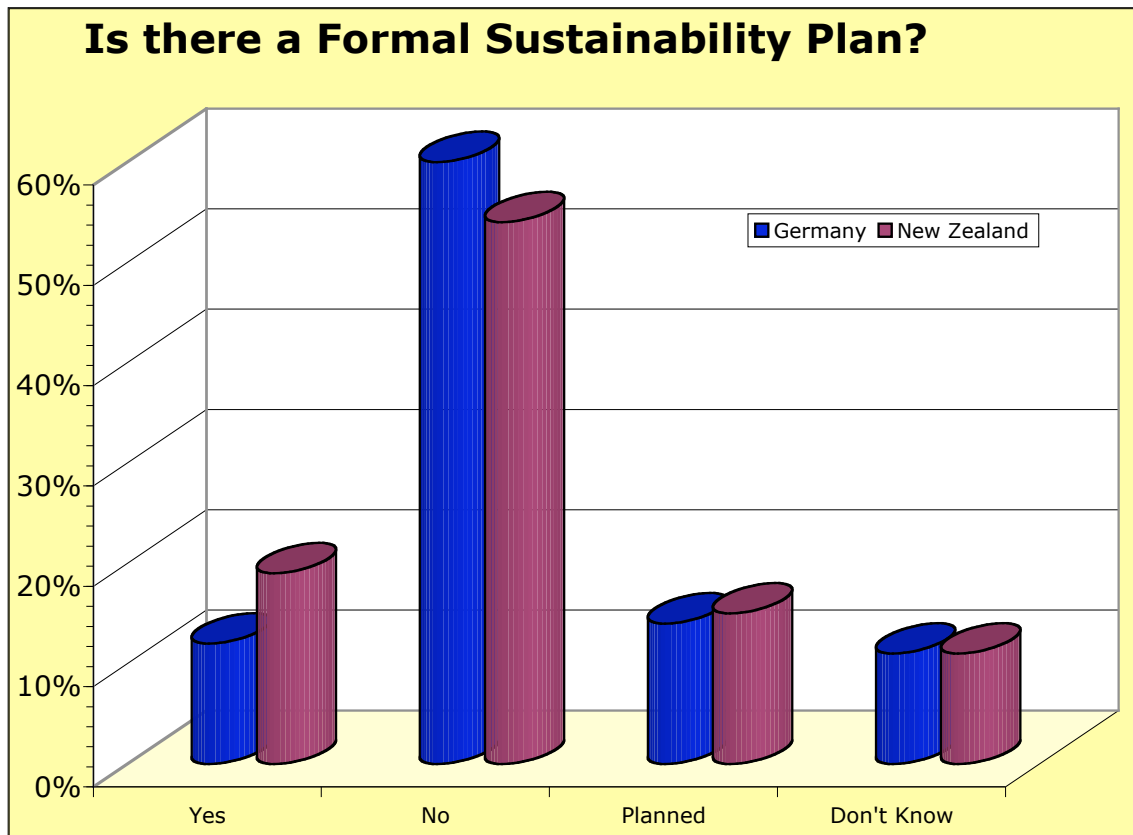


Table 5

The implementation of sustainability concepts via a formal plan, or as a component of a formal plan, are still noticeably absent. The issue of sustainable operations is generally not part of any formal business planning in Germany or New Zealand, with a slightly higher rate of plan development in New Zealand. We doubt whether there will be a significantly increased uptake of these concepts in practice if there is no planning process available for its implementation, measurement, evaluation and reporting.

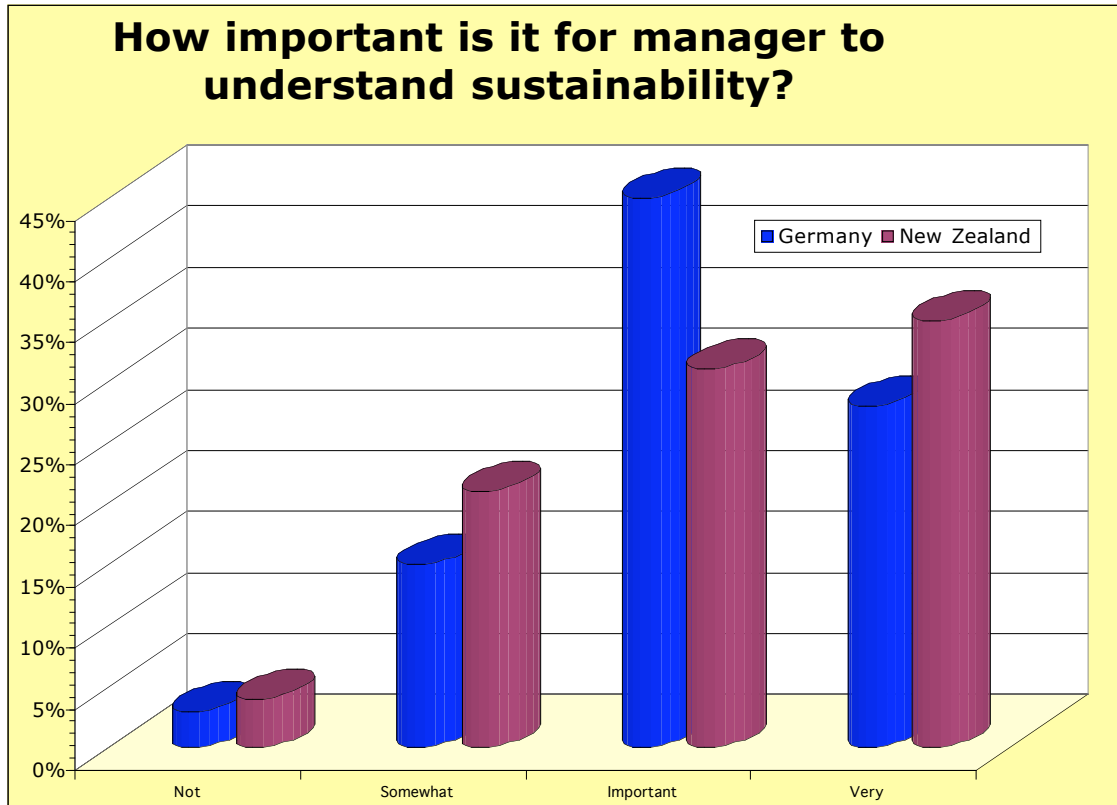


Table 6

As a boost for the supporters of sustainability arguing for the importance of sustainability in commerce, the majority of managers in both countries feel it is 'important' or 'very important' for managers to understand sustainability. This is clearly at odds with the information that there is very little planning for sustainability undertaken by firms. Either, there is a disconnect between management and leadership/owners, or managers are more exposed to sustainability as a discussion point when they meet peers, sell against competition or travel.

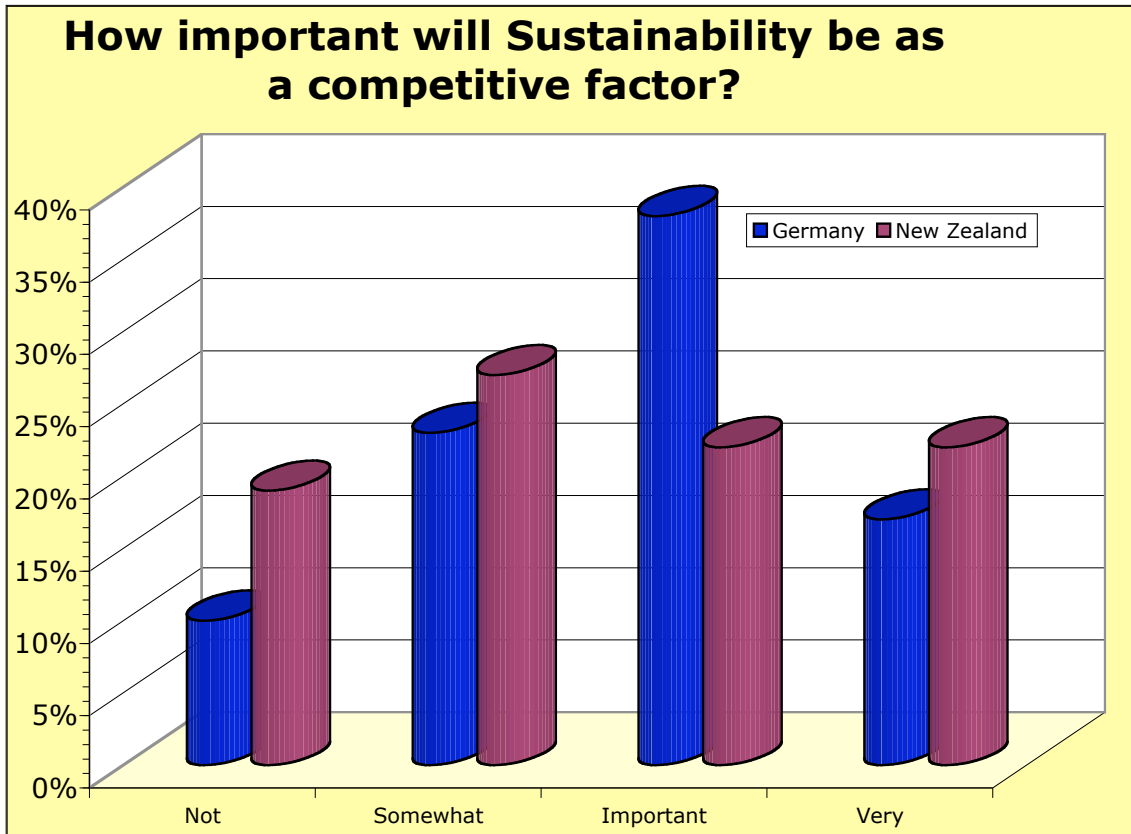


Table 7

To a larger extent in Germany than in New Zealand, there is a feeling that sustainability will become an ‘important’ or ‘very important’ competitive factor and, together with the strong indication that sustainability is an important issue for the future, we will likely see much greater management interest in implementation of sustainability practices. With the economies of both countries focused on exports, companies will be competing in their own or foreign markets. If sustainability is considered a competitive argument with some traction for customers, its internal implementation may be accelerated based on competitive pressures. Several global buyers, for example Wal-Mart, require sustainability compliance statements from their vendors, and competition might become an effective driver of sustainability implementation.

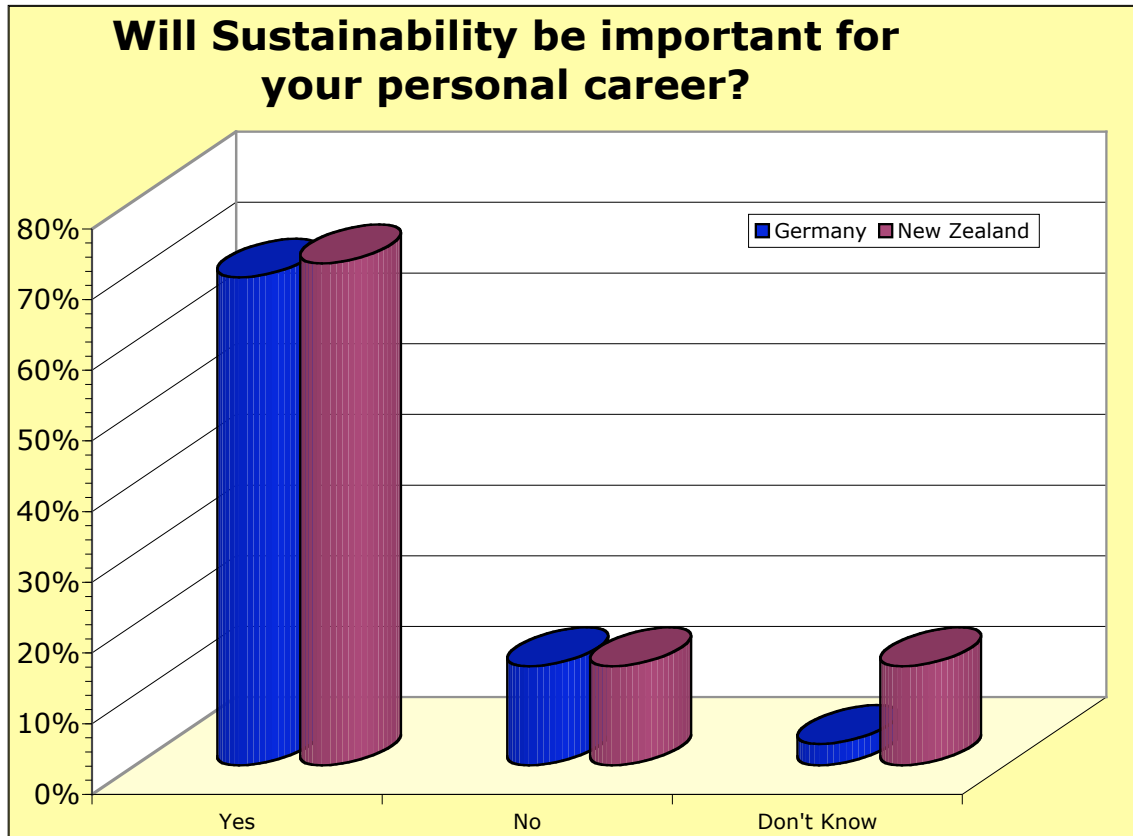


Table 8

Even more so than for their firms, managers see sustainability as an important issue for their personal career development. Highly consistent between the countries, nearly three-quarters of managers in Germany and New Zealand consider this topic impacts on their careers. Managers either intend to become knowledgeable about this issue to maintain their competence, or they believe knowledge adds to their marketability. We question whether managers believe that they need to demonstrate ‘sustainability’ competence in future job roles or when challenged by stakeholders, or whether this reaction is a result of the media exposure given to the issue of corporate sustainability. Either way, we speculate that, if firms are not committed to adding sustainability planning to their planning process, even managers with good intentions will be discouraged in their interest to become more involved with this issue.

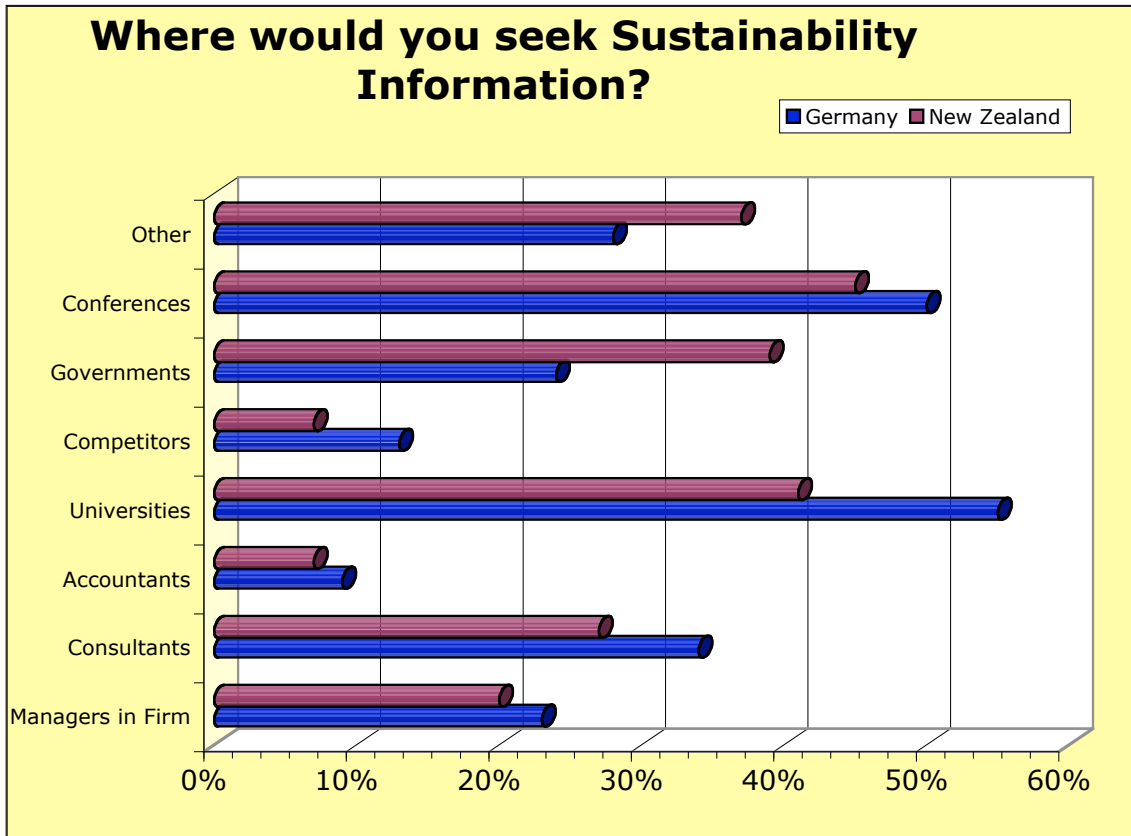


Table 9

Given the high degree of publicity about sustainability, the perceived importance for individual careers and the competitive importance of the topic, managers will look for information about sustainability in the future. While German firms appear to rely on competitors more to teach them about sustainability, they mainly look to universities and consultants for more information. New Zealand firms rely more strongly on the government for sustainability updates and, in both countries, managers expect conferences and consultants will disseminate information about this topic. Accountants are reported as not ‘in the loop’ when it comes to obtaining sustainability information.

Summary

We have reviewed the practical uptake of sustainability efforts in New Zealand and German firms and found that the firms believe they operate in a highly competitive market place. We interpret the responses by managers in those firms to indicate a general disinterest in sustainability as a managerially important issue. Few firms had a formal plan for sustainability within their firm. Only 25% of the surveyed firms included sustainability information in financial reports and other company information, such as brochures and newsletters.

Contrary to this corporate lack of interest, a large majority of managers in both countries were convinced that, for their own personal career, it will be important in the future to understand sustainability issue better. Many also considered sustainability as an important competitive factor within their industry.

We believe these results allow the conclusion that in both countries a large-scale implementation of sustainability activities is not currently contemplated. There is an inconsistency between the personal interest of managers, although we cannot tell the basis for this interest, and the stated commitment of their businesses.

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