

# GSB WORKING PAPER

## NO.73



# STRATEGY IN A WORLD OF SUSTAINABILITY: A DEVELOPMENTAL FRAMEWORK

by

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July 2008

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### **ABSTRACT**

Sustainability is a business approach that seeks to create long-term value by embracing the opportunities and the managing risks associated with economic, environmental and social developments. However, little guidance is available to assist firms in developing strategy, given the realities of sustainability. By taking an issues perspective and strategy development approach, this paper proposes a developmental framework for creating strategy in a world of sustainability. A case study is offered to highlight the use of the framework.

**Keywords:** Issues management, social responsibility, strategy, sustainability

# STRATEGY IN A WORLD OF SUSTAINABILITY: A DEVELOPMENTAL FRAMEWORK

## INTRODUCTION

The role of business in society is being called into question in an unprecedented manner as corporations are increasingly confronted with managing and responding to expectations of a society alerted to the environmental and social risks associated with economic development (Davis and Stephenson, 2006). Society is demanding that business firms move beyond narrow, money-making self-interest by focusing significant attention and resources on the social consequences of their economic activities (Porter & Kramer, 2006). The term widely used to describe this phenomenon is *sustainability* (Bansal, 2005; Clarke, 2007).

Sustainability is a business approach that seeks to create long-term value by embracing the opportunities and the managing risks associated with economic, environmental and social developments. Some scholars (e.g., Bacon, 2007; Stranislav, 2007) suggest that the ability to integrate the sustainability agenda into the business mission and into relationships with consumers will determine which firms will succeed in the 21st century and which will fall. Evidence demonstrates that consumers do place the strong demands on business to address sustainability (Bacon, 2007). Consumers, however, are not the only interested party in sustainability.

Governments such as those in Australia and the United States, once staunch sceptics, have recently demonstrated acceptance of the environmental issue of climate change and have moved towards new policies to address the problem. The Stern Report, produced for the government of the United Kingdom by the economist Sir Nicholas Stern, suggests that climate change is not only an environmental issue, but also an economic and social one. For example, Stern (2007)

argues that climate change will affect access to water, food production, and will inflict increasing health problems on society. Economically, the Stern Report estimates that the overall costs and risks of not addressing climate change will be the equivalent of losing at least 5% of global GDP each year on a best case basis, and 20% GDP each year on a worst case basis, for the foreseeable future. Similarly, Research Australia, a leading national research group, argues that environmental and social issues are tightly interconnected (Research Australia, 2007). They claim that rising temperatures brought about by environmental climate change will likely to lead to increased social problems, such as health issues, diseases, infrastructure degradation, and high unemployment.

In spite of rapidly growing public concern, business firms' response to sustainability appears to be mixed. For example, while nearly 90% of CEOs around the world acknowledge they have a responsibility to balance profit-making with contributions to the broader public good (McKinsey and Company, 2006; PricewaterhouseCoopers, 2007), 86% acknowledge that they are struggling with what their strategies should be, *given* sustainability. According to Porter and Kramer (2006), sustainability is no longer an afterthought to developing strategy nor is it merely a philanthropic or public relations gesture on the part of firms. Today, sustainability is the new battleground for competitive advantage and will likely drive the strategic context for business for the foreseeable future. Thus, sustainability needs to become a focal issue of firm strategy.

The purpose of this paper is to frame strategy in the context of sustainability. Of critical importance is looking beyond common efforts such as corporate philanthropy and charitable donations, which although often regarded as a big part of a firm's social or even environmental activities, are generally far removed from the core business. More specifically, treating environmental or social factors as a corporate social responsibility issue, rather than a business challenge, runs the risk of missing important strategic opportunities. Therefore, by applying a

specific framework this paper offers insight into developing strategy given the context of sustainability.

### **UNDERSTANDING SUSTAINABILITY: AN ISSUES PERSPECTIVE**

Sustainability is a concept that means many things (Russell et al., 2007). Generally, however, sustainability is a business approach that seeks to create long-term value by embracing the opportunities and the managing risks associated with economic, environmental, and social developments (Elkington, 1997; Steurer et al., 2005) (Figure 1). First, firms have a role to create value, which is fundamental to their economic charter (Porter, 1985; Henderson, 2005). When firms create and capture value, economic prosperity ensues. For example, consumers benefit through better products and services, shareholders benefit through dividends and equity, employees benefit through salaries and society benefits through higher living standards (Holliday et al. 2002). However, in the process of value creation by firms, natural resource depletion and environmental degradation can occur (Doering et al., 2002). Thus, secondly, firms have a role to address environmental quality by managing the environmental effects of their economic activities. Lastly, in the process of creating value, disruption of communities, worker displacement, and issues of health and safety can be negative by-products (Stern, 2007), suggesting that firms must be socially responsive as well.

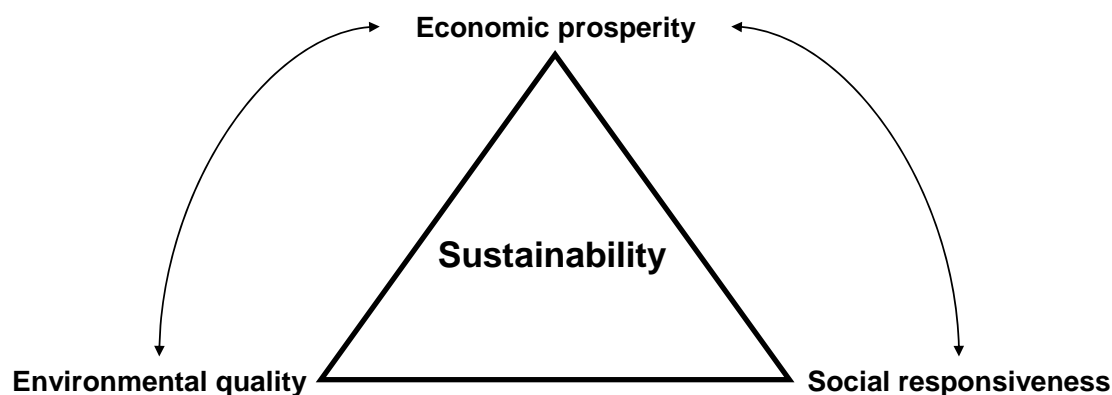


Figure 1. Sustainability components

In this paper, the assumption is made that firms' economic charter is a given and a fundamental component of competitive strategy (Porter, 1980, 1985; Henderson, 2005). That is, firms operate in markets, produce and sell products/services, face competition, create value, and earn profits. However, the forces that significantly affect competitiveness and the ability to create economic prosperity are increasingly environmental and social in nature (Porter & Kramer, 2006). Environmental and social forces, the second and third components of sustainability, are the main focus of this paper; they are best described in the context of social *issues* (Table 1).

<b>Sustainability: An Issues Perspective</b>	
<b>'Environmental-related' Issues</b>	<b>'Social-related' Issues</b>
Climate change	AIDS
Energy consumption	Data security & privacy
Energy efficiency	Drug addiction
Pollution	Health & safety
Recycling	Human rights
Resource depletion	Obesity
Water purity	Terrorism

Table 1. Issues perspective of sustainability

A social issue is an issue that is problematic to society (Mahon & Waddock, 1992). It is a controversial point, one which is an object of discussion. However, the concept is most often used for aspects of topics or themes that are under intense public debate. More specifically, a social issue has four interrelated aspects. First, a social issue is not an individual issue. Many people in society must recognize that something is wrong or that there is a problem. Second, a social issue is not a universal issue, in that it is located within a particular social context at a particular point in time and history. Third, to say or observe that something is wrong or that there is a problem in society assumes that there is an idea of the way things 'should be' – i.e., social issues have a normative base. Lastly, if there is a recognized way that things should be, then there is the

possibility that the resolution of a social issue is achievable by some means. The above perspectives on a social issue are based on classic sociological definitions and theories of social change (Merton, 1957; Ogburn, 1964).

Apart from treatments by sociologists, within the business literature, scholars have addressed the social issues concept as well (Lamertz et al., 2003). Although several definitions exist, a widely accepted definition describes social issues as:

Social problems that may exist objectively but become ‘issues’ requiring managerial attention when they are defined as being problematic to society or an institution within society by a group of actors or stakeholders capable of influencing either governmental action or company policy (Mahon & Waddock, 1992: 20).

In this definition, the implication is that *problems* of a social nature exist at the societal level that are eventually elevated to the ‘status’ of a social issue by the actions of various actors. However, such a definition does not address how such social issues might be *opportunities* for the firm; thus it is problematic with respect to the concept of strategy.

In formulating strategy, corporate managers regard the internal and external environments in terms of ‘opportunities’ and ‘threats’ (Learned et al., 1969; Andrews, 1971). As the conception of social issues mostly neglects the opportunities that social developments might present for firms, it is necessary to consider the importance of strategic issues to managers. According to Ansoff (1980, p. 133), “a strategic issue is a forthcoming development, either inside, or outside the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives”. Extrapolating from Ansoff’s definition, social issues need to be framed in a

strategic versus non-strategic perspective in order to determine the level of impact on a firm's ability to compete and meet its goals.

Given such a strategically orientated assessment of social issues, many issues related to sustainability would in fact be considered non-strategic. For example, a local symphony that is under threat of closure because of a lack of funding is not likely a social issue that is going to have a major impact on the ability of a given firm to compete effectively. On the other hand, when consumers begin buying a green alternative laundry detergent from a rival because of growing environmental concerns, then a leading firm who does not address environmental quality in its products could be under serious threat of losing market share. Therefore, by using a strategic lens, firms can more carefully assess the environmental and social components of sustainability.

### **STRATEGY AND SUSTAINABILITY: A DEVELOPMENTAL FRAMEWORK**

In this section, three key components of the framework will be described (Figure 2). There are three key components to the framework. First, because different industries face different issues with respect to sustainability (Rowley & Berman, 2000), industry context is an important starting point. Second, Porter (1996) suggests that strategy is as much about what a firm chooses *not* to do, as what it chooses to do. Therefore, firms must find a way to prioritize the types of sustainability issues faced in order to develop a strategy – firms simply cannot expect to address *all* issues related to sustainability, given finite resources and the need to make trade-offs in strategies pursued (Porter, 1996). Lastly, once issues related to sustainability are prioritized, firms must decide upon their strategic *actions*. These strategic actions are influenced by market, regulatory, and operational based factors.



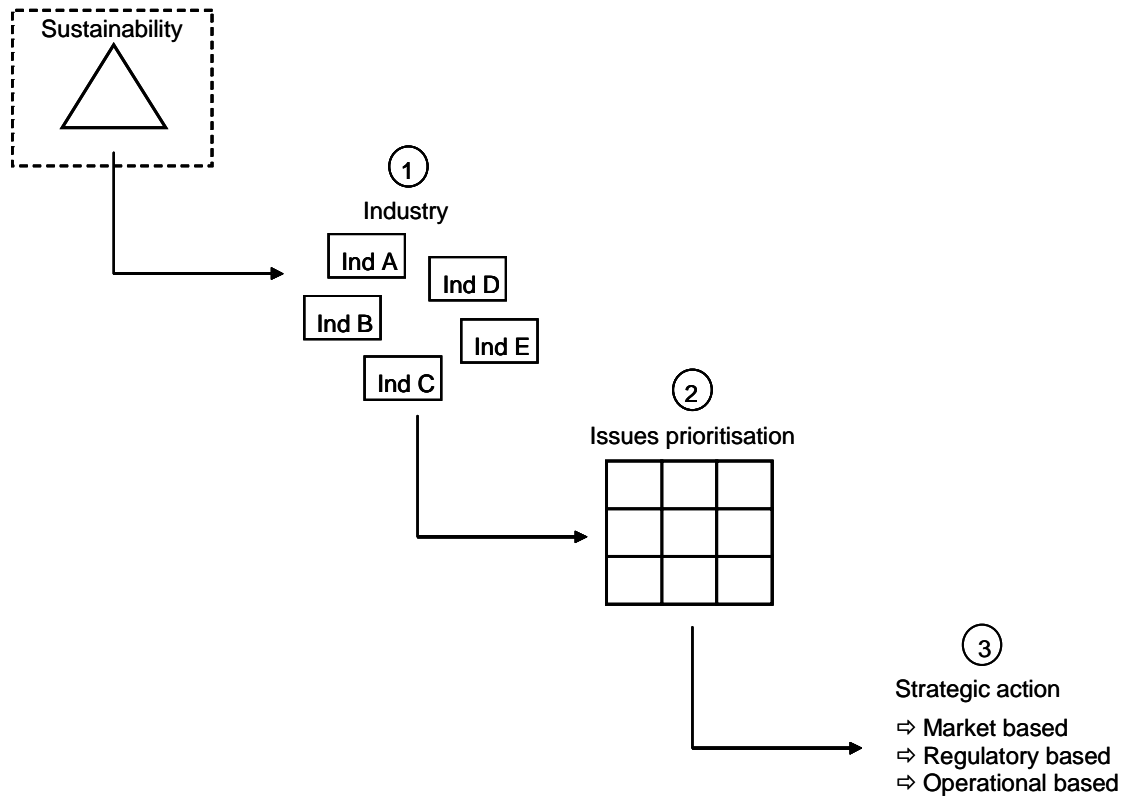


Figure 2. Proposed framework

### Industry context

According to industrial organization economics (Bain, 1959; Porter, 1980, 1981), industry sector comprises many structural characteristics such as levels of competition, capital requirements, access to distribution channels, and degree that suppliers or buyers have bargaining power, among others. Further, different industries face different issues in the realm of sustainability (Figure 3). Therefore, a good starting point in developing strategy, given sustainability, is industry context.

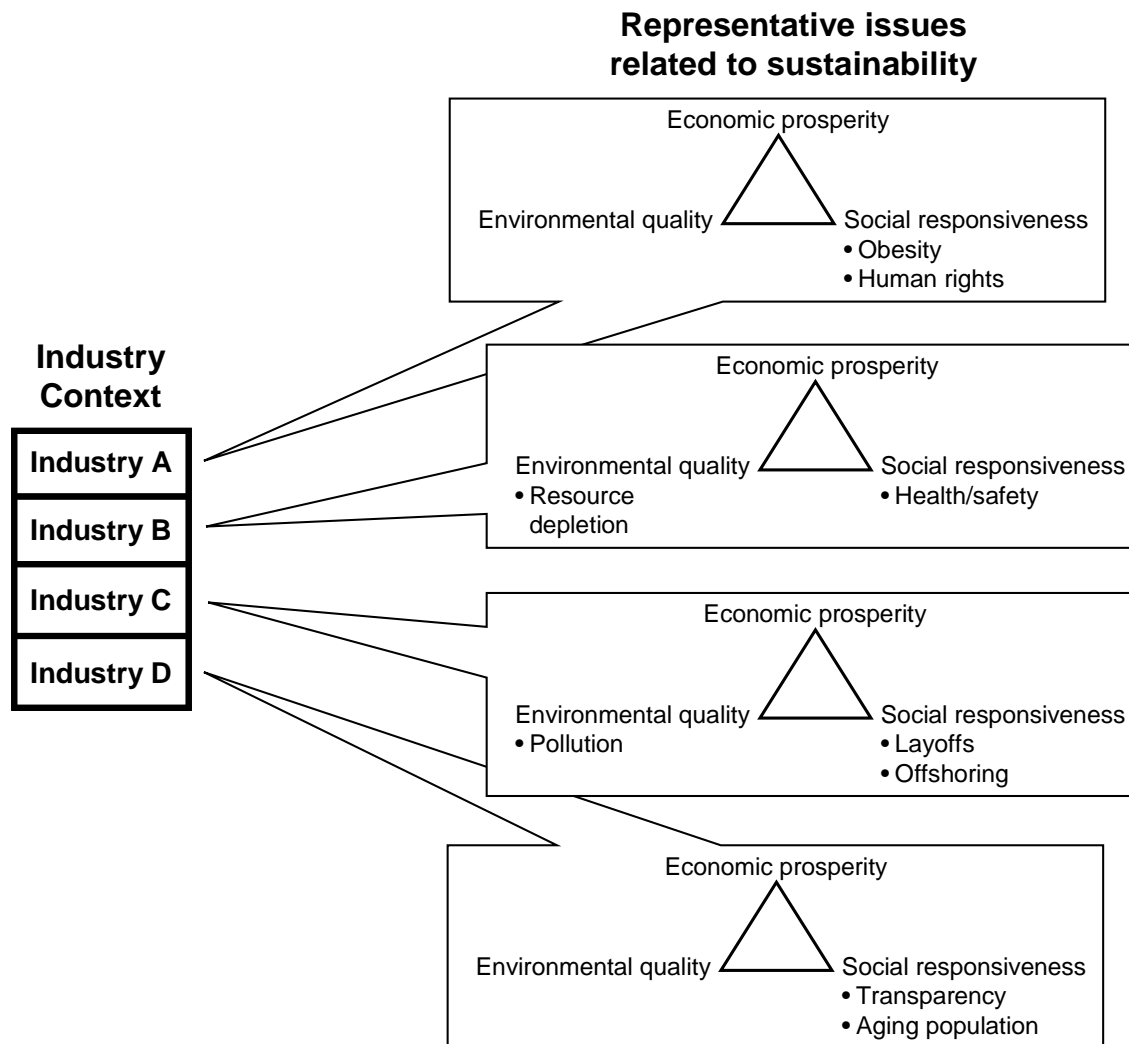


Figure 3. Industry context

All industries face issues of an environmental and/or social nature. However, each industry generally faces ‘hot-button’ issues that are most pressing. For example, in the apparel industry, safe working conditions and fair pay are key issues. Mining firms must address air and water pollution. In the petroleum industry, firms face issues across countries: in the US, they must demonstrate better environmental practices; in developing countries, they may be challenged to alleviate poverty while stabilizing difficult political situations. Given industry context and the fact that some issues are more pressing than others, managers should first

understand the types of issues related to sustainability that are specifically bearing on their industry of operation. One way to identify issues related to sustainability is to take a stakeholder approach (Freeman, 1984; Clarkson, 1995; Donaldson & Preston, 1995; Steurer et al., 2005).

Simply put, stakeholders comprise actors who affect or are affected by the firm (Freeman, 1984; Clarkson, 1995). Primary stakeholders include those actors that, if they withdrew in full or in part, could seriously affect a firm's existence (Clarkson, 1995). Examples include customers, investors, governments, suppliers, and even communities. Secondary stakeholders, although perhaps having less power than primary stakeholders, can still exert considerable influence on firms, forcing them to take action (Henriques & Sadosky, 1999; Sharma & Henriques, 2005; Eesley & Lenox, 2006). Secondary stakeholders include the media, NGOs, and other activist organizations.

By asking two sets of questions with respect to stakeholders, firms can help to identify salient issues related to sustainability. First, managers should ask which sustainability issues are of concern to stakeholders. For example, do stakeholders view the issue as widespread or serious? Do they hold the firm responsible for addressing the issue? Do they have the ability to organize and mobilize action against the firm if it does not address the issue? Second, managers should ask what the effect of the issue is on the firm. For example, could the issue, if not addressed, affect reputation? Could the issue lead to the introduction of new regulations? Could the issue, if neglected, invite legal action on the part of stakeholders? How does the issue otherwise impact on the economic charter of the firm and its ability to make profits? By asking questions from these two groups, many issues related to sustainability will likely surface. Once identified, the next step is prioritization.

### **Prioritizing issues related to sustainability**

By studying industry context and asking questions related to stakeholder concerns and impact on the firm, several issues related to sustainability will be identified. These (potentially many) issues can be assessed by placing them within a prioritization matrix. One dimension of this matrix looks at stakeholder salience – the degree to which a given issue is important to stakeholders. By using the stakeholder analysis output from studying industry context, issues can be placed in low, medium, and high priority. The other dimension looks at the degree to which the issue is expected to affect the firm. Again, studying the impact of sustainability on the firm, within industry context, enables issues to be placed into low, medium, and high priority. The result offers a means by which firms can better prioritize which sustainability issues are strategic, versus which ones are non-strategic.

To illustrate the use of a prioritization matrix, two industries will be briefly explored. First, in the oil industry, many issues are important to stakeholders, be they primary or secondary stakeholders. However, when questions such as whether stakeholder groups hold the firm responsible for the issue and whether stakeholder groups can organize to take action against the firm if they don't respond to the issue, clear priorities surface. Further, some issues related to sustainability, while important in a global context, simply don't have a major affect on an oil firm's ability to compete. Figure 4 displays the prioritization matrix for an oil firm.<sup>1</sup> By contrast, in the food industry, a different set of priorities might emerge. As in the oil industry, stakeholders certainly have concerns over a variety of sustainability issues. However, after appropriate questions are asked, clearer patterns emerge as to which issues are strategic versus non-strategic

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<sup>1</sup> Figures 4 and 5 represent matrices of a possible arrangement of issues for a particular firm – they are not universally applicable.

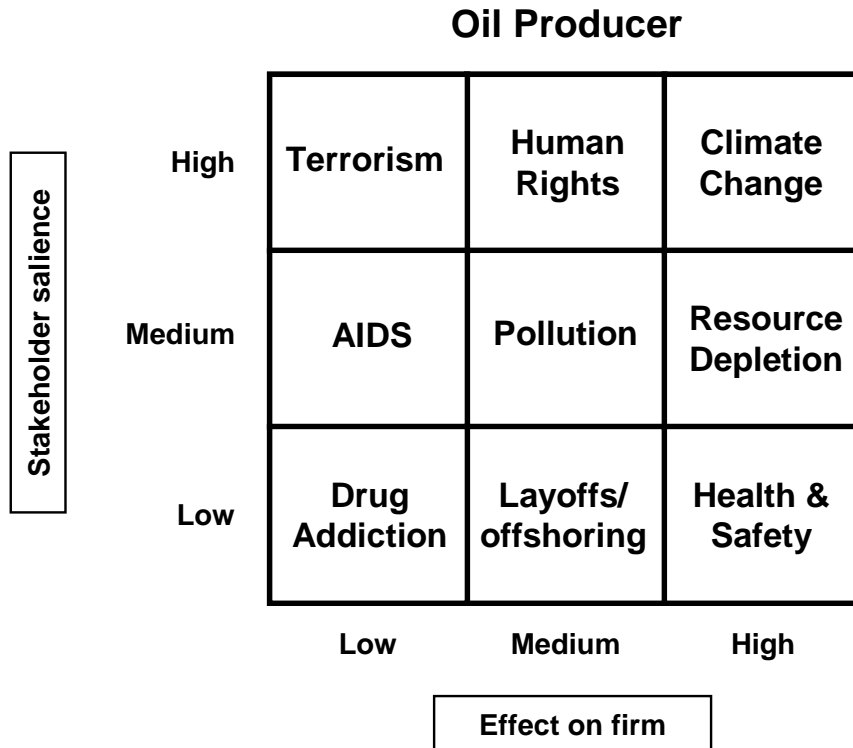


Figure 4. Prioritization matrix for oil firm

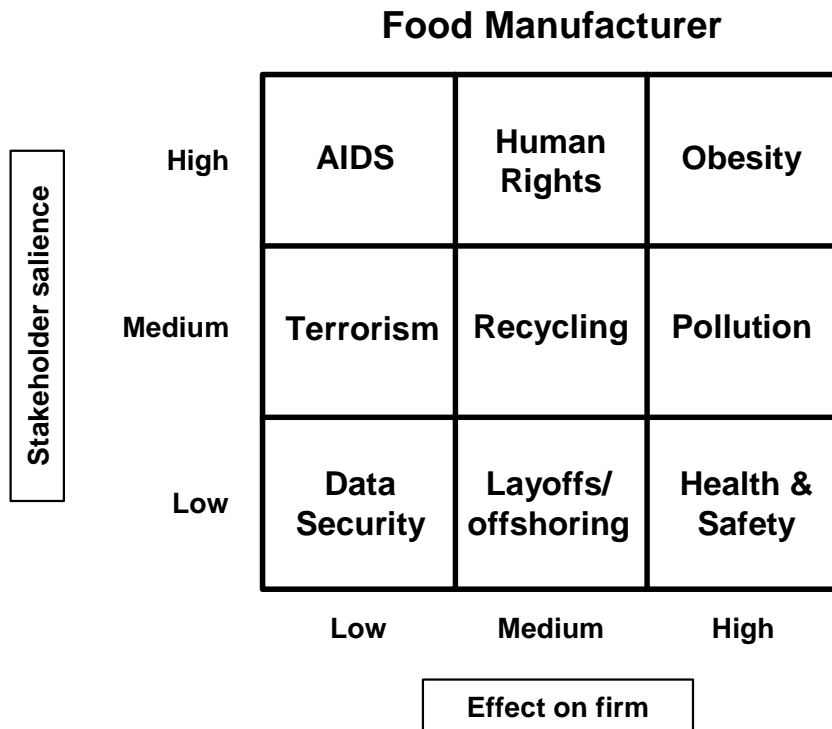


Figure 5. Prioritization matrix for food manufacturer

(Figure 5). After prioritization, firms need to consider the types of strategic actions that need to be taken.

### **Strategic Action**

Strategy is about exploring options and taking action – about making choices (Porter, 1996). With respect to sustainability, after issue prioritization, firms need to decide on what types of action they will take. One way to explore strategic actions is to frame them in a three-part assessment: 1) market-based; 2) regulatory-based; and 3) operational-based. Market-based actions include those that are market-facing. Regulatory-based actions include those that bolster reputation, mitigate risk, or otherwise give the firm some level of advantage. Operational-based actions includes those that enable the firm to capture or internalize the benefits of operational activities specifically related to a given sustainability issue.

#### *Market-based actions*

Companies that treat issues related to sustainability as corporate social responsibility issues or as components of a risk management policy miss potentially valuable opportunities for innovation in product markets. For example, McDonald's initially approached the rising concern over obesity (a social-related issue) by mainly defending its menu as nutritious through PR campaigns – a risk management approach. Now, McDonald's approaches obesity as an opportunity for developing and selling new products, including salads and other types of fresh, healthy foods. On the other hand, over the years automobile safety has become an increasingly important social issue. TRW, recognizing growing concern over safety, invested heavily in the design, testing, and manufacture of air bags, opening up a new product market for their business while simultaneously addressing a key dimension of sustainability. Lastly, Toyota, appreciating the significance of the climate change issue early on, developed and marketed one of the most successful hybrid cars, and in the process has helped create an entirely new product market segment.

Each of the above examples represents how firms developed strategy in the context of sustainability. Each firm found ways to enhance or extend their competitive positioning by creating products that took advantage of stakeholder concerns over various environmental or social issues. To extend this analysis, what also must be considered is the degree of *centrality* of opportunity. Centrality refers to the degree to which a sustainability issue is a close fit with a firm's mission and objectives (see Ansoff, 1977, 1983). Centrality is important to strategy because it provides guidance and feedback on whether a given strategic action aligns with the mission and objectives of the firm. In the case of the oil firm discussed earlier, trying to introduce new products that address terrorism, an issue that may be important to some stakeholders, likely represents a non-strategic effort for the firm. On the other hand, investing in alternative green fuel products in order to create new market space that yields future financial benefits, while simultaneously reducing environmental impact, is far more central to an oil firm's mission and objectives.

Lastly, segmentation of the market is part and parcel with considering market-based action. That is, although centrality of opportunity must be considered, through the process of market segmentation, discovery of new segments (e.g., environmentally concerned users of lawn equipment) can guide initial assessment of the type of products brought to bear on sustainability issues. According to Porter (1980, 1985), market segmentation is critical to strategy – whether a firm is pursuing a low cost or differentiation strategy – and a necessary condition for creating competitive advantage.

#### *Regulatory-based actions*

From Albania to Zambia, government-imposed regulations require firms to directly address sustainability issues. For example, in the United States, OSHA (Occupational Safety and Health Administration) and the Environmental Protection Agency (EPA) develop and enforce

regulations regarding the safety of working conditions and the release of toxic pollutants, for example. Of relevance to this discussion is the degree to which firms can address regulatory issues.

Firms' actions towards regulation range from non-compliance to proactive (acting beyond or pre-empting mandatory requirements) (Carroll, 1979; Wartick & Cochran, 1985; Clarkson, 1995). Clearly, there are legal or regulatory requirements regarding some issues related to sustainability (e.g., occupational health and safety) and firms run the risk of heavy penalties and fines if they do nothing towards meeting legal requirements. Thus, first, firms would be wise to ensure that all regulatory requirements are met regarding laws and statues related to sustainability in order to minimize risk.

Secondly, and more importantly, a proactive stance towards regulatory demands demonstrates a strategic approach in that potential tangible (e.g., lower cost of capital) and intangible (e.g., reputation) benefits can be derived by doing more than required by law, or by leading the industry by creating and adopting voluntary standards *before* they become law. For example, while the law might prescribe minimum standards for workplace safety, a social-related issue, a firm might choose to go beyond the minimum, creating extra benefits to workers to ensure their health and safety, which has been demonstrated to decrease employee turnover while improving firm reputation (Galbreath, 2007). On the other hand, in the absence of regulatory mandates, a firm like Whole Foods Market voluntarily created its own set of standards to meet specifications for certification of organically grown foods, standards which were eventually incorporated by the United States Department of Agriculture (USDA) in 2002 (Greene & Kremen, 2003).



### Operational-based actions

According to Porter (Porter, 1996), operational effectiveness is a necessary condition for competitive success. Operational effectiveness largely refers to the degree that a firm demonstrates exemplary performance in the way it conducts business. Perhaps the best way to determine operational based actions is to examine the value chain (Porter, 1985).

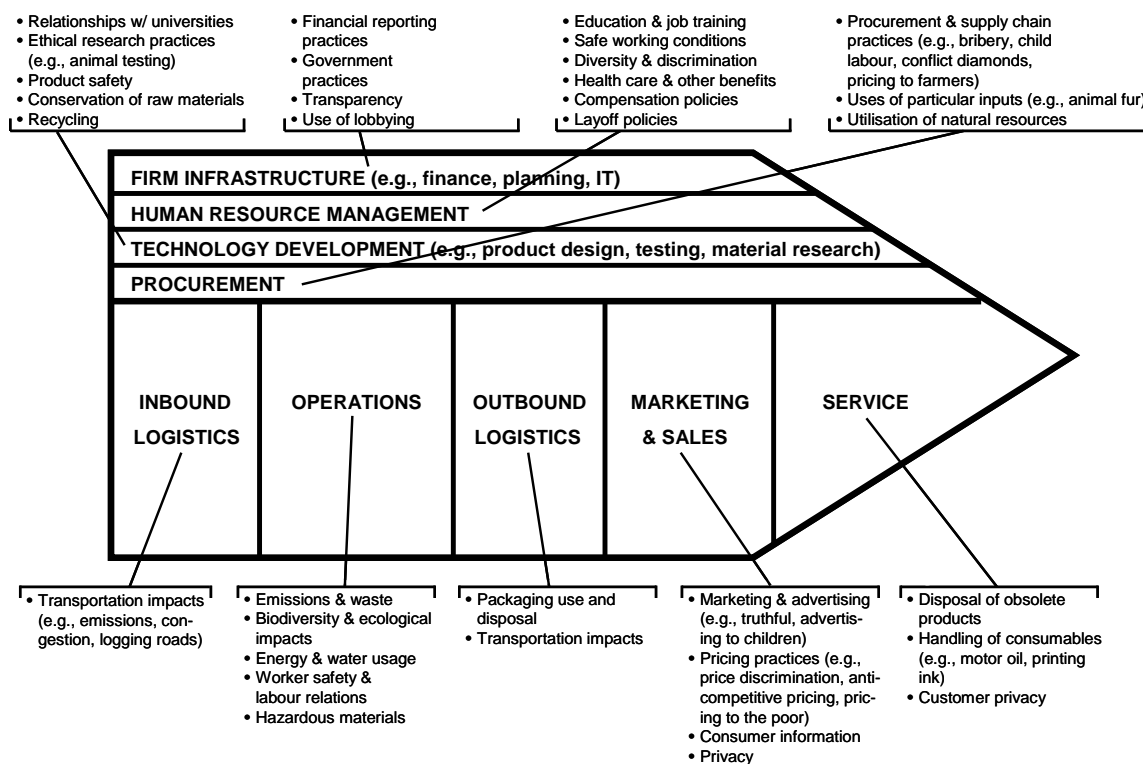


Figure 6. Value chain and sustainability

Exploring the value chain is a common approach to understanding the activities that firms carry out in day-to-day business. The value chain consists of activities such as finance and accounting, research and development, human resources management, procurement, production, logistics, sales, and service (Porter, 1985). According to Porter and Kramer (2006) and Porter and Reinhardt (2007), sustainability impacts virtually all value chain activities (Figure 6). For example, in the wake of the Enron scandal, transparency in accounting has become a major

social-related issue. By addressing openness in financial reporting practices, firms can operationally address sustainability. With respect to procurement, given rising concerns over obesity and the environment, a food producer might choose to procure ingredients that are organic, healthy, and environmentally friendly. A manufacturer, on the other hand, might address the environmental-related sustainability issue, climate change, by investing in ‘end-of-pipe’ technology to reduce emissions and waste in the production process.

In short, there are many opportunities for firms to develop operational based actions. Of importance is understanding which sustainability issues are critical to a firm’s mission and objectives, as pointed out in the above sections on market-based action. Firms simply cannot address all sustainability issues in their operations, but by focusing on those sustainability issues that are strategic to the business, firms are in a better position to mount a small number of strategically important operational initiatives, given finite resources. However, there is yet one more aspect to consider in operational-based actions that heighten strategic impact.

When addressing sustainability operationally, firms need to consider the degree to which they can capture or internalize benefits, versus simply creating ‘collective’ goods which can be shared by others in the industry, community, or society at large. Such a question relates to *specificity* and is important strategically (Rumelt, 1980; Porter, 1985). To demonstrate, if a firm produces chemical products and in the process uses waste water treatment technology in the production process to protect the environment, public benefits are created which are available to the entire community. Here, the firm only benefits to the extent that it also shares in a healthier environment and avoids fines or censure for failing to comply with federal pollution standards.

On the other hand, consider a manufacturing firm that invests resources in cogeneration technology which recaptures heat discharged through smokestacks and converts it to energy, substituting electrical power purchased from the local utility. In this case, the benefits of

cogeneration are highly specific to the firm in the form of energy costs saved. The benefit to the public is the firm's contribution to aggregate energy conservation. In this example, the firm not only addresses sustainability (by meeting stakeholder expectations to address climate change), but through the use of innovative technology, also creates benefits that are highly specific.

## **CASE STUDY**

To apply the framework described in this paper, this section will look at a specific firm: Whole Foods Market. Whole Foods Market was chosen because the firm exemplifies fit between strategy and sustainability and offers practical insight into application of the framework described in this paper.

Whole Foods Market operates in the natural foods market, a market worth \$30 billion plus in the United States alone. Established in 1980 by John Mackey, Whole Foods Market offers a full line of organic food products, from fruit and vegetables, to meat and poultry, to eggs and milk. The firm operates over 194 stores in the US, Canada, and the UK, which generate around \$6 billion in revenue. Whole Foods employs over 25,000 employees and has generated impressive financial results. In the 15 years following its IPO in 1992, the firm's share price rose by nearly 3,000%, dramatically outperforming its grocery-sector rivals. Between 2002 and 2007, its same-store sales growth averaged 11% per annum, nearly triple the industry average. Just as impressive, Whole Foods' revenue per square foot was \$900 in 2006, double that of any traditional competitor. In building such impressive results, the firm has demonstrated effective strategies in the face of sustainability.

### **Whole Foods Market: *Industry context***

Whole Foods operates in the \$600 billion plus food retailing business. However, according to Porter (1980), even within broad industries, sub-groups exist in the form of strategic groups, which face their own unique set of competitive rules. In the case of Whole Foods, the firm

operates in the natural foods market, a niche group of the broader food retailing industry. Within this context, several issues related to sustainability appear.

Of growing concern in food retailing are issues such as obesity and healthy eating. For example, many consumers now view eating healthy as a way to fight obesity. In addition, they also tie organic food, for example, to a socially and environmentally conscious lifestyle (Fishman, 2004). There are also issues over pay, working conditions, the quality of food production throughout the supply chain, and ‘green’ stores. In the case of quality of food, consumers are increasingly concerned about the use of hormones, pesticides, antibiotics, preservatives, and genetic modification in foods. With respect to retail stores, major retailers in the food industry typically operate large stores of several thousand square feet, which requires a large amount of materials in construction. To address this issue, retailers are exploring green techniques in store construction. Lastly, standards for organically certified foods continue to be an issue. For example, beyond meeting USDA standards for organically grown food, concerns are growing over the treatment of animals involved in organic food production; these concerns have yet to become federally-regulated standards (Machado, 2003). The preceding are some of the major sustainability issues a firm like Whole Foods faces, which require prioritization in order to be addressed strategically.

### **Whole Foods Market: *Prioritizing of issues***

Regardless of the industry, some issues related to sustainability carry high importance among stakeholders. For example, AIDS has become a global concern; as has climate change. In the particular case of organic food retailing industry, sustainability issues such as obesity, quality of food, and organic standards are more salient to stakeholders.

Whole Foods’ issue prioritization might look like the following. First, a social-related issue like AIDS is certainly of importance to many stakeholders today, or at least stakeholders

have a measure of compassion about the issue. Similarly, terrorism is increasingly becoming an issue about which stakeholders are concerned, whether in the organic food retailing industry or not. Union labour issues are also a concern for stakeholders within food retailing. However, each of these issues is unlikely to have a major strategic affect on the ability of Whole Foods to meet its objectives. In the case of union labour issues, Whole Foods is a non-union employer; therefore, this issue currently has little impact.

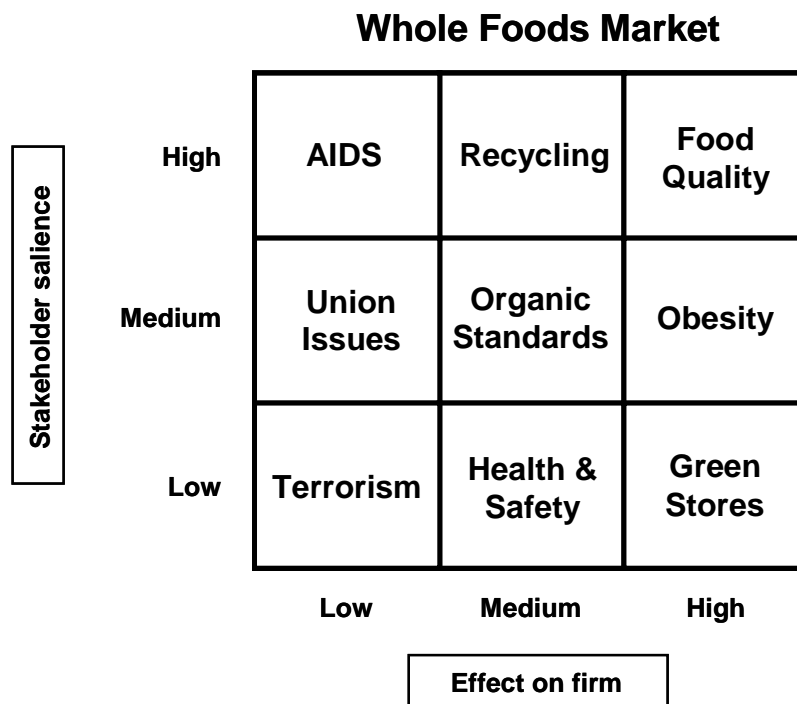


Figure 7. Whole Foods prioritization matrix

On the other hand, there has been growing concern over social-related issues such as the quality of ingredients in foodstuffs and the rapid rise of obesity in countries such as Australia and the United States, and increasingly Europe. In the United States, for example, concern over obesity was evident in the media at least five years before the first warning by the US Surgeon General that obesity had become an epidemic (Lawrence, 2004). Furthermore, expert testimony, such as that of Harvard University's Walter Willett, explained that [childhood] obesity was in

part linked to the marketing of ‘junk food’ (Lawrence, 2004). Clearly, for an organic food retailer, issues such as the quality of food ingredients and obesity have a direct impact on their strategies for success, as can be seen in the representative prioritization of sustainability issues in Figure 7.

### **Whole Foods Market: *Strategic action***

#### *Market-based action*

In many ways, Whole Foods’ value proposition to sell organic, natural, and healthy food products addressed a social-related sustainability issue long before it was recognized as a social ‘issue’. That is, Whole Foods addressed concerns about obesity and quality food ingredients long before they were widely recognized as being *problematic to society*, according to the social issue definition of Mahon and Waddock (1992). Bonini et al. (2006) suggest that addressing unmet social needs affords firms opportunities to be first movers and can lead to competitive advantages.

With respect to market-based action, Whole Foods has built an entire market around organic products. The firm offers roughly 20,000 organic SKUs (stock keeping units), one of the largest ranges in the industry. Its primary emphasis is on perishable food stuffs, including fresh produce, but also places a relatively strong emphasis on prepared foods and a range of vitamins, natural hygiene products, and personal care and household goods. All products must meet strict organic standards. In the process, Whole Foods has carved out a market that appeals to consumers who are concerned about health issues, weight problems, and nutrition. The firm enjoys price premiums of 15 to 50%, suggesting that strategies aimed at sustainability issues, through product market offers, can be very profitable.

### *Regulatory-based action*

For years, the organic food market was unregulated. There were no guidelines to define what ‘organic’ meant, and no consumer protections against fraud (Dimitri & Greene, 2002). However, in the absence of laws and regulatory frameworks, Whole Foods set their own standards. For example, depending on the product, since the early days of its founding, the firm only sold foods that were free from hormones, preservatives, pesticides, and artificial ingredients. In 1990, however, things changed: the *Organic Foods Production Act* was adopted as *Title XXI* of the *Farm Bill*. After numerous drafts, the USDA published its final ruling in December 2000, with final implementation in October 2002. Now, in the US it is a federal offence to label any food product as organic unless it has been so certified. Whole Foods played an instrumental role in the development of organic certification. For example, Margaret Wittenberg, VP of Global Communications and Quality Standards at Whole Foods, was the sole retail representative on the National Organic Standards Board while the federal organic recommendations were being drafted (Whole Foods Market, 2006a). Whole Foods has not stopped there.

Currently, the firm is supporting what it calls Animal Compassionate Standards for every animal product carried in its stores. The guidelines require environments and conditions that support an animal’s physical, emotional, and behavioural needs. In the case of ducks, they have to have access to the outdoors and to a swimming area, as well as comfortable accommodation during transport (Whole Foods Market, 2007a). For pigs, the firm recommends that piglets stay with their litter mates from birth to slaughter, and forbid weaning a piglet from its mother before it is 28 days old (Whole Foods Market, 2007b). While perhaps seen as ‘over the top’, these examples demonstrate Whole Foods proactivity regarding voluntary business practices in the absence of regulation. However, like organic certification, such practices may eventually find

their way into law, providing Whole Foods first mover advantages and reputation enhancing benefits.

#### *Operational-based action*

A few of Whole Foods' operational-based actions will be highlighted. First, the firm operates over 194 stores in three countries, and these stores range between 35,000 and 55,000 square feet. Stores of this size require considerable materials for construction and energy use. To address construction and energy issues, in keeping close with its mission, Whole Foods uses green techniques. For example, in new store construction, the firm reduces the amount of virgin material used and the toxic waste produced (Porter & Kramer, 2006). Construction material includes recycled steel, biodegradable linoleum, and tiles made from recycled glass bottles. With respect to energy, in 2006, Whole Foods made the largest corporate purchase of wind credits in history, enough to offset 100% of its total electricity use (Porter & Kramer, 2006).

On the other hand, labour issues have historically been a concern in the food retailing industry, with unions having played a role in securing favourable outcomes for employees. Although not a union shop, Whole Foods demonstrates a number of socially responsible actions towards employees. For example, the firm offers competitive wages, benefits (e.g., free medical coverage, store discounts, emergency funds for those in need), and stock options. Further, employees are offered paid time-off to work with qualified community service organisations if they so choose. Of interest, company stock options – roughly 94% – go to non-executive staff, including front-line employees (Fishman, 2004). This ratio is nearly reversed in other US firms, where, on average, 75% of stock options go to executives and 25% to the rest of the workforce (Whole Foods Market, 2006b). Similarly, executive compensation is less than 20 times average pay, which is far below the US national average executive income of more than 400 times the salary of an average worker (*Wall Street Journal*, 2005). The basis for treating employees well is



the firm's Declaration of Interdependence, which seeks to eliminate 'us' (executive, management) versus 'them' (front-line employee) thinking while encouraging employee empowerment (Fishman, 1996).

## **CONCLUSION**

Society is rapidly expecting – if not demanding – that business firms move beyond narrow, money-making self-interest by focusing on broader issues of sustainability. More than ever before, the integrated economic, environmental, and social activities of firms is becoming the new battle ground for competitive advantage (Porter & Kramer, 2006). Some have even gone as far as to suggest that the current focus on sustainability represents a shift equal in magnitude to the industrial revolution (Stranislaw, 2007). Surprisingly, however, executives around the world appear to be struggling with understanding exactly what strategy means in a world of sustainability (Davis, 2005; Bonini et al., 2006). This paper has addressed the strategy–sustainability gap.

Specifically, this paper has highlighted the fact that strategy is about context, options, and action. Sustainability is not a one-size-fits-all proposition. Therefore, understanding the context in which a firm operates and the types of sustainability issues that bear on its industry is important. Yet, understanding context is likely to uncover several sustainability issues. To focus on what is strategically important, firms need to balance stakeholder salience with a sober examination of those sustainability issues that can actually affect the ability to meet objectives. Once prioritized, actions can be taken that are market (product) facing, regulatory driven, and operational focused. All three are likely necessary, and the framework presented in this paper facilitates such strategic decision making.

Lastly, recent years have produced much scientific inquiry, scholarly insight, and public and governmental concern over the social consequences of firms' economic activities. Perhaps at

no point in history have sustainability issues been so prominent. Further, sustainability looks likely to drive the strategic context for business for the foreseeable future. Thus, firms should not be asking, “what should our sustainability strategy be?”, but rather, “what should our strategy be, given sustainability?”

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