

## A Common Sense Approach to Sustainable Business<sup>i</sup>

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What is a sustainable business? According to the online encyclopedia, Wikipedia, “a business is sustainable if it has adapted its practices for the use of renewable resources and holds itself accountable for the environmental and human rights impacts of its activities.” The concept of social responsibility is perhaps more widely recognized among U.S. businesses than is sustainability, although the two have come to have essentially the same meaning. Businesses have always tried to portray an image of social responsibility. No business wants to admit to irresponsibility, particularly not with the current level of public concern for social equity and ecological integrity. However, a business that conveys an image of social responsibility may or may not be a sustainable business.

The common definitions of social responsibility often leave out one critical dimension of sustainability: the necessity for profitability and economic viability. A sustainable business must be able to meet some of the basic needs of people in today's economy without compromising opportunities for those of future generations to meet their needs as well. In a sustainable economy, profits are the rewards for meeting the needs of people today while economic viability is the reward for being able to meet the needs of people in the future. All economic value is derived from either natural or human resources. An economy creates nothing; its productivity ultimately depends on nature and society. A business that depletes the productivity of its natural and human resources is not economically viable over time. However, a business must also survive economically in the present if it is to have the capacity to maintain its productivity and value to society into the future.

That said; the sustainability of an economy does not depend on the economic sustainability of any single business any more than the sustainability of a community depends on any single person. Living things, by nature, are renewing and regenerative, which are the only concepts of sustainability we know. Nothing lasts forever. The corporate organizational structure has greatly expanded the potential lifespan of business organizations. However, once a corporation has fulfilled its legitimate purpose in meeting the needs of people, it must renew and regenerate itself or it will ultimately fail. If it is able to persist in spite of its lack of legitimate purpose, it becomes a detriment to the economy and to society. It makes little difference in a sustainable economy whether an individual business survives or dies. As long as a business does its part in meeting the needs of people today without compromising opportunities for those of the future, it's a sustainable business.

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There are growing indications that most American businesses today are not sustainable. To name a few, our continuing dependence on declining stocks of fossil energy, environmental pollution and global climate change, growing inequities between the rich and the poor, and an economy that is propped up by national budget deficits, trade deficits, and consumer credit. In addition, most businesses, at least in the United States, appear not to really believe they have a responsibility to be sustainable. Milton Friedman, Nobel Laureate economist and intellectual luminary of the modern free-market, capitalist movement, called social responsibility a "fundamentally subversive doctrine in a free society." "There is one and only one social responsibility of business," he wrote, "to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."<sup>1</sup> Despite claims to the contrary, this interpretation of social responsibility has permeated American businesses historically, but has never been more prominent than today.

The great historic luminaries of business management, on the other hand, have all made pleas for true social responsibility – not just as means of fulfilling a responsibility to society, but also as a means of maintaining the economic viability of individual businesses. Unfortunately, some of the most critical aspects of the philosophies of the intellectual giants of the past have been systematically distorted or ignored by business managers, in particular those aspects most directly related to economic sustainability.

Adam Smith began his classic book of 1776, *The Wealth of Nations*, with a discussion of potential gains in efficiency associated with the "division of labor" – the division of work into specialized tasks to be performed by different workers who could then become highly proficient in their specific functions.<sup>2</sup> But Smith warned that "the man whose whole life is spent in performing a few simple operations" loses the ability to solve problems and to think for themselves, and "generally becomes as stupid and ignorant as it is possible for a human creature to become."<sup>3</sup> He exhorted industrial societies to accept responsibility to provide education for the working classes to offset the negative impacts of industrialization on society as a whole.

In 1911, industrialist Frederick W. Taylor extolled the benefits of "scientific management," pointing out that "ordinary management" focuses almost entirely on "getting the 'initiative' of the workmen," which he suggested was rarely if ever attained.<sup>4</sup> Taylor suggested that managers should develop a science for each element of a person's work and then should select, teach, train, develop, and cooperate with their workers in performing these tasks. He emphasized that "The principal object of management should be to secure the maximum prosperity for the employer, coupled with the maximum prosperity for each employee." This responsibility, he wrote, "would seem to be so self-evident... that even to state this fact should be unnecessary."<sup>5</sup> And yet, he suggested that most organizations of employers and employees are organized for the purpose of opposing the other rather than working together for their mutual benefit.

Peter Drucker is credited with inventing modern business management during the 1950s.<sup>6</sup> During his long career, he taught corporate managers to go beyond "scientific management" by focusing on opportunities rather than problems, putting themselves in the place of their customer, and continually refining their competitive advantages. He was an avid proponent of

“management by objectives” but he also believed that knowledgeable people were the essential ingredient of every successful business enterprise. By the 1980s, however, Drucker had begun to have grave doubts about American business and about the future of capitalism. He had envisioned the corporation as an ideal environment in which to create a new concept of community and society. He saw instead corporations that had become places where economic self-interest precluded any real sense of social and ethical responsibility. Drucker ended his long career as one of Corporate America's most important critics.

W. Edwards Deming, the father of the modern quality movement, began his work in Japan and in 1982 published his classic, *Out of the Crisis*, which identified 14 points that had enabled Japanese manufacturers to realize significant efficiencies in production.<sup>7</sup> He emphasized constancy of purpose, continual improvement, long-term planning, building quality into products and processes, and giving priority to quality over costs. He encouraged leadership rather than supervision and the elimination of fear or intimidation from the workplace. Deming believed that business management must be judged not only by the quarterly dividend, but by innovative plans to stay in business, protect investment, ensure future dividends, and provide more jobs through improved products and services<sup>8</sup>. However, like Taylor and Drucker before him, Deming saw his ideas used by corporate managers to maximize corporate profits and growth, while giving little attention to the ecological or social impacts of their decisions on the sustainability of the natural and human resources upon which economic viability ultimately depends.

Equally important, American corporations have shown outright disdain for the most fundamental principles of a democratic society through their attempts to influence public policy. In a democracy, every person is to be afforded equal inherent worth and thus to be given an equal voice in making the rules by which all must abide. The primary function of a democratic government is to ensure the common good, not to promote specific economic interests. Corporations, not satisfied with abiding by the environmental and social rules of our democratic society, have set about to use their unequal economic influence to prevent or nullify any rules that might limit their ability to maximize stockholders' profits and corporate growth.

Lacking effective social or political restraints, American businesses are degrading and depleting the productivity of the natural and human resources upon which the future of American society and the whole of humanity ultimately depend. Certainly, there are exceptions, but most American businesses today clearly are not sustainable. Their lack of sustainability can be explained logically and rationally, using the most fundamental laws of science and principles of economics. However, a person doesn't have to be a scientist or an economist to understand that all economic value must come from either nature or society; there is no place else to get anything of value. A business that generates its profits by extracting non-renewable resources and by exploiting its workers and customers is not sustainable. It is doing nothing to renew or regenerate the ecological and social resources it is using up. It may be profitable in the short run, but it is not economically viable over time. It's a matter of common sense.

“Common sense” was once highly respected in society, however, it has gained a bad reputation over the years because it often confused with “conventional wisdom.” Our common sense is made up of those beliefs all thoughtful people share in common; things to which we would all agree, if we take the time and energy to think about them. Instead of thinking, some

people instead rely on conventional wisdom, which is passed on from generation to generation or accumulated in the process of day-to-day living. Sometimes conventional wisdom makes common sense, but sometimes it doesn't. For example, the Founding Fathers of the United States shared a common sense that slavery was ethically and morally wrong. But they accepted the conventional wisdom that slavery, although wrong, would be necessary in developing the American economy. They signed a declaration that all people were created equal but also signed a constitution that treated some people as slaves. We are still paying the social cost for their conventional wisdom regarding the economic necessity of slavery.

America faces a similar dilemma today. Our common sense tells us that we must protect, conserve, renew, and regenerate our natural and human resources if our economy and society are to be sustainable over time. Yet the conventional wisdom is that it is not economically feasible for businesses to be ecologically and socially sustainable. They will not be able to compete economically in a global economy if they are forced to operate under rules that ensure ecological and social integrity, according to the conventional wisdom. But our common sense tells us that American businesses cannot be economically viable unless they are also socially and ecologically responsible. As in the case of slavery, our common sense is right and conventional wisdom is wrong.

Success in creating and managing sustainable businesses will require a fundamental change in the paradigms or mental models by which businesses are organized and managed. This will require a fundamental change in managers' perceptions of what their customers want and are willing to pay for, what their employees need and what they are willing to work for, and what their investors want from their investments and what they are willing to accept in return. Fortunately, there is a large, growing, and increasingly profitable market for sustainably produced goods and services, a growing number of highly competent workers who show a strong preference for employment in sustainable organizations, and a growing number of investors who are giving priority to social responsibility in their investment decisions.

The current market for sustainably produced goods and services does not yet represent a majority of American consumers, thus it is treated as a niche or specialty market by most business analysts. But the potential demand is already far larger than the current supply of goods and services and shows every potential of becoming the marketing mainstream of the future. This potential can be seen in rapidly growing markets for organic foods, fair traded coffee, sweatshop-free apparel, hybrid vehicles, energy efficient homes, and renewable energy of all types. Virtually all American consumers place some value on environmental protection and social equity but a growing number are willing to pay the full costs of products and processes that embody their values.

In response to growing markets for sustainable products, many corporations have mounted public relations campaigns to convince the investing and consuming public that their unsustainable organizations are environmentally and socially responsible, commonly called "green-washing." Others are picking the "low hanging fruit" by adopting sustainable practices as rising prices for dwindling resources, particularly fossil energy, make such changes more profitable than defending the status quo. However, simply responding to economic incentives will not ensure sustainability. Economic value is inherently individualistic and thus must be

expected to accrue during the lifetime the individual decision maker; the further in the future, the less the economic value today. For example, at an interest rate of seven percent, a dollar ten years from now is worth only fifty cents today. That's why corporate planning horizons rarely exceed five-to-seven years; anything beyond is not of much economic significance. From everything we know about the natural environment and human society, the challenges of sustainability will require planning for events decades, if not centuries, into the future.

Other managers have been more genuine in their response to growing public concerns. "Triple Bottom Line" management, for example, came to widespread attention in the late 1990s and has since gained in popularity among a variety of businesses.<sup>9</sup> This approach stresses the importance of ecological and social performance, as well as economic performance, in ensuring the long run sustainability of organizations.<sup>10</sup> "The Natural Step" was initiated in Europe in the late 1980s and is gaining in popularity in the United States and Canada.<sup>11</sup> This approach emphasizes minimizing reliance on non-renewable resources and accumulation of wastes from resource extraction and manufacturing. It also focuses on protecting and conserving the natural ecosystems and human communities needed to sustain economies. The "Business Alliance for Local Living Economies" is an international alliance of more than 50 independently operated local business networks dedicated to the empowerment of people locally, for the purpose of sustaining healthy community life and natural life as well as long-term economic development.<sup>12</sup>

There is no shortage of approaches, models, or programs to guide sustainable businesses. All that is lacking is a commitment and willingness to enact fundamental change. A sustainable business must function by a very different set of principles than the principles of corporate profits and growth that have guided American businesses in the past. Fortunately, the principles of sustainable business management are also pretty much a matter of common sense.

The sustainability of any business organization is inevitably linked to the natural ecosystems from which its productive resources are extracted and within which all material wastes must be disposed. Even those businesses that produce no tangible products, such as financial, legal, and other information-based organizations, are ultimately dependent upon the tangible processes they support or facilitate, such as manufacturing, mining, and food production. All economic value is ultimately dependent on the energy, including human energy, which enters and flows through the earth's natural ecosystems.

The first principle of ecology is "everything is interconnected," from which are derived the ecological principles of *holism*, *diversity*, and *interdependence*. The natural environment is not simply a collection of physical and biological elements; it is an interconnected whole within which humans and human organizations are integral parts. Anything businesses take from the environment or dump into the environment affects the environment as a whole and thus ultimately affects the long run viability of the businesses. The management philosophy of a sustainable organization must be ecologically inclusive and holistic.

*Diversity*, across both space and time, is essential in sustaining all living ecosystems. Diversity is necessary for regeneration and renewal, for resilience and resistance, and for the adaptation and evolution needed to accommodate the ever-changing natural environment. Specialization, standardization, and consolidation of control, which characterize today's

corporations, lead to homogenization and loss of biodiversity, which threaten the ability of living systems to assimilate wastes and to regenerate energy. Loss of diversity is one of the clearest signs that a natural ecosystem is being compromised by economic development. Sustainable organizations must respect the necessity of ecological diversity.

*Interdependent* relationships are necessary to transform the potentials of holism and diversity into positive ecological reality. Dependence is exploitive, independence is restrictive, but interdependence is mutually supportive. Humans are biological beings and all human endeavors are inherently dependent on the natural environment for their productivity. However, the health and productivity of the natural environment is also dependent upon those of us who use it. If the relationships between businesses and their ecological environment are not mutually beneficial, neither the productivity of the environment nor the profitability of the business can be sustained.

The guiding principles of sustainable *human* relationships – including those within sustainable organizations – are *trust*, *kindness*, and *courage*. These basic principles of social responsibility reflect a set of common core values – including honesty, fairness, responsibility, compassion and respect – that transcend religion, philosophy, race, nation, and culture. Different groups of people obviously have different values, but *core values* are held in common to all civilized people – our common sense of right relationships.<sup>13</sup> People *trust* people that they believe to be honest, fair, and responsible in their relations with others. Whenever trusts are established and validated – both within organizations and between organizations and their suppliers, customers, neighbors and society – both the business and society grow stronger. Whenever trusts are violated, both the business and society grow weaker.

The core values of respect and compassion, along with empathy, define the principle of *kindness*. People who are kind are empathetic; they are able to put themselves in the place of others, and to treat the other like they would want to be treated. Kindness goes beyond impartiality, dependability, and *brutal* honesty, by showing compassion, whenever mercy is more appropriate than justice, and respect, even though it has not been earned. Relationships lacking in compassion, respect, and kindness quite simply are not sustainable. If people are to care about the businesses they buy from, work for, and invest in, and are to be committed to the long run well-being of those businesses, they must know those businesses also care for them.

Trust and caring accomplish little without the courage to take action. The principle of courage is built upon the core values of self-confidence, discipline, and perseverance. It takes courage to form meaningful personal relationships with others and persevere through times of inevitable misunderstanding and disappointment. People of courage have self-confidence. They are committed to purpose and have the discipline to live by their principles. Those who manage sustainable businesses must find the *moral* courage to reject the deception, inequity, irresponsibility, ruthlessness, and disrespect that characterize many business relationships today – not only for their own sake, but also for the sake of their businesses.<sup>14</sup>

The basic principles of economic sustainability are *value*, *efficiency*, and *sovereignty*. Economic value is determined by scarcity, meaning the quantity of something available relative to the quantity that people want and are willing and able to pay for. *Economic value* differs from *intrinsic value* in that the economy may place little value on things of great intrinsic value, such

as air and water or ethics and friendships. Sustainable businesses obviously must produce things that are not freely available elsewhere; they must produce things that are scarce and thus have economic value. Fortunately, products that are produced with ecological and social integrity are becoming increasingly economically valuable in today's society.

Economic *efficiency* is a measure of the economic value created relative to the economic costs associated with its creation. Efficiency is a consequence of choices among the alternative resources and potential processes involved in the production of economic value. The more effective the allocation of resources among processes, the more efficient will be the overall production process. Sustainable businesses must make efficient use of the human energy and intellect of the people they employ, physical energy and other raw materials they take from nature, and the money they acquire from investors. They must effectively allocate scarce resources among alternative economic uses.

The principle of economic sovereignty is frequently sacrificed in the name of economic efficiency or expediency but it is no less important than are value and efficiency. Without sovereignty – the freedom to choose – neither a market economy nor individual business organizations can function effectively. Sovereign decision makers must have a wide range of alternative choices and adequate information about logical alternatives, and must be free of coercion, persuasion, or other unnecessary interference with choices. When people are not free to choose, neither business organizations nor economies can function effectively. The people within a sustainable organization, as well as their suppliers and customers, must be free to make their own economic choices.

Perhaps most important, a sustainable business organization must have ecological, social, and economic integrity. Organizational integrity refers to wholeness or completeness, strength or soundness and depends on the extent to which the principles of sustainability permeate all aspects of the organization. The ecological principles of holism, diversity, and interdependence must be reflected in both personal relationships and economic relationships both within and among sustainable businesses. The economic principles of value, efficiency, and sovereignty must be used in managing social and ecological resources, as well as economic resources. And equally important, the managers of sustainable businesses must find the courage to reflect the principles of trust and kindness toward others, including those of future generations, in their relationships with the natural environment. And finally, they must find the courage to be trustworthy and caring in their economic relationships with their customers, employees, and investors. A sustainable business must have ecological, social, and economic integrity.

In retrospect, the guiding principles for sustainable businesses are not very different from those suggested by Smith, Taylor, Drucker, and Deming. These intellectual luminaries all understood the potential negative impacts of pursuit of short run economic interests and urged corporate executives to accept responsibility for the overall well-being of society, as well as the economic well-being of their owners or stockholders. They stressed the importance of organizing and managing businesses for the mutual benefit of employers, employees, and customers as a means of ensuring the long run economic viability of the organization as well as the quality of life within society. They gave less attention to natural resources and the environment, only because society didn't yet appreciate nature's limits and its vulnerability to continued economic

abuse. The management of sustainable businesses requires an understanding of the principles that define how the world works and a willingness and ability to conform to those principles to create an ecologically and socially renewing and regenerative organization.

The challenge in creating and maintaining a sustainable business today is to identify, secure, and retain enough customers, workers, and investors who are willing to pay the *full* costs, and who receive the *real* benefits, of buying from, working for, and investing in ecologically sound and socially responsible business organizations. This challenge will be easier to meet in “green business zones” and in “eco-municipalities.” Eventually, however, changes in state and federal policies will be required to restore true competitiveness to the market place and to protect natural resources from extraction and human resources from exploitation. Such policies will make the challenges facing sustainable businesses in the future less formidable. But a public consensus for such changes must arise from continuing growth in the numbers of customers, workers, and investors who have the courage to pursue a more enlightened concept of self-interest by living, working, and investing sustainably in a less hospitable policy environment.

A number of courageous business owners and managers are already helping to build such a consensus by creating and maintaining sustainable organizations. Current market trends and public concerns indicate that the number of courageous customers, employees, investors, and citizens already far exceeds the number of sustainable businesses willing and able to accommodate them. The conventional wisdom that businesses must extract from nature and exploit society to maintain economic viability simply doesn't make common sense. Our common sense tells us that only those businesses that protect, conserve, renew, and regenerate their natural and human resources are economically viable. As consumers, investors, employees, and managers, we need only find the “common courage” to trust our common sense.

## End Notes

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<sup>1</sup> *New York Times Magazine*, “The Social Responsibility of Business is to Increase its Profits,” September 13, 1970.

<sup>2</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, (1776, London: Methuen and Co., Ltd., ed. Edwin Cannan, 1904), book 1, chapter 1. I.1.1. <http://www.econlib.org/LIBRARY/Smith/smWN.html>

<sup>3</sup> Smith, *The Wealth of Nations*, book 5, chapter 1, V.1.178.

<sup>4</sup> Frederick Winslow Taylor, *The Principles of Scientific Management*, Testimony Before the Special House Committee (New York: Harper & Row, 1911).

<http://www.marxists.org/reference/subject/economics/taylor/principles/index.htm>

<sup>5</sup> Taylor, *Scientific Management*.

<sup>6</sup> *BusinessWeek*, “The Man Who Invented Management: Why Peter Drucker's Ideas Still Matter,” November 28, 2005.

<sup>7</sup> W. Edwards Deming, *Out of the Crisis* (Cambridge, MA: MIT Press, 1982).

<sup>8</sup> Deming, *Out of the Crisis*. <http://www.deming.org/resources/books.html>

<sup>9</sup> Bob Willard, *The Sustainability Advantage: Seven Business Case Benefits of Triple Bottom Line*, (Gabriola Island, British Columbia, New Society Publishers, 2002).

<sup>10</sup> John Elkington, *Cannibals With Forks: The Triple Bottom Line of 21<sup>st</sup> Century Business*, (Stony Creek, Conn.: New Society Publishers, 1998).

<sup>11</sup> The Natural Step, <http://www.naturalstep.org/com/nyStart/>.

<sup>12</sup> BALLE, Business Alliance for Local Living Economies, “Mission and Principles Statement,” <http://www.livingeconomies.org/aboutus/mission-and-principles-1>, (accessed December 2007).

<sup>13</sup> Rushworth M. Kidder, *Moral Courage* (New York: William Morrow, HarperCollins Publishers, 2005), 43.

<sup>14</sup> Kidder, *Moral Courage*.