

# CORPORATE SUSTAINABILITY INITIATIVES: THE NEXT TQM?

Understanding emerging corporate sustainability practices through the lens of total quality management

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As standards surrounding corporate sustainability initiatives evolve, companies are beginning to weave sustainability capabilities more deeply into their organizational processes and culture. These early adopters are poised to profit from corporate sustainability on more than one front – in a similar way that their forward-thinking predecessors succeeded during the quality revolution two decades ago.

Given the ambiguity surrounding corporate sustainability, the parallel to the total quality management (TQM) movement is instructive. Companies that benefited dramatically from the quality revolution, such as Toyota and Motorola, treated quality as an opportunity for process improvements rather than as a cost.

In the same vein, companies are beginning to embrace sustainability as an opportunity to gain competitive advantage. Organizations that have instituted these types of sustainability initiatives include:

- Wal-Mart, whose "Sustainability 360" program has reduced annual shipping container use by 500 units, preventing the consumption of 1,000 barrels of oil and 3,800 trees while netting the retail giant \$2.4 million in cost savings.<sup>1</sup>

## Key Takeaways

- Ambiguity surrounds the term sustainability and consequently the scope of corporate sustainability initiatives; understanding the parallels between total quality management (TQM) and sustainability programs can help lessen that ambiguity.
- Companies poised to derive competitive advantages from sustainability treat their programs as an opportunity and not simply an added cost to absorb, another risk to manage or one more regulation with which to comply with.
- Successful corporate sustainability programs to date share four important characteristics: a CEO champion, carefully chosen initiative leaders, multi-disciplinary teams and a dual focus on risk and opportunity.
- Successful corporate sustainability programs also produce multiple talent management benefits.

- Nestlé Waters, the maker of Deer Park, Arrowhead and Poland Spring water brands, which has pruned the mass of its plastic bottles by 15 percent, reducing the amount of waste the product ultimately contributes to landfills while also reducing its manufacturing and shipping costs.<sup>2</sup>

- Dial Corporation, whose development of a concentrated liquid laundry detergent lowers the amount of water needed during the product's production and reduces packaging material by 40 percent – lessening its landfill impact while significantly lowering the company's transportation, distribution and storage costs.<sup>3</sup>

These and other early adopters in numerous industries gain benefits from their sustainability initiatives by developing organizational structures and talent management approaches designed to minimize the risks and maximize the business opportunities related to sustainability.

On that note, the purpose of this paper is threefold:

1. to apply the TQM learnings to corporate sustainability initiatives;
2. to present leading practices harvested from analysis of sustainability initiatives among companies within a broad range of industries; and
3. to identify talent management benefits that early sustainability programs have yielded.

### **A USEFUL ANALOGY: TQM**

Discussions surrounding sustainability can foster confusion thanks to terms like global warming, carbon footprint, green products and greenhouse gas emissions (GHG). Corporate leaders want to understand how sustainability initiatives should be evaluated, structured and staffed within their organizations.

The quality revolution that took place in manufacturing companies in the 1980s offers parallels that can help corporate decision-makers understand and address sustainability challenges. Quality initiatives were initially viewed by most companies as nothing more than an added cost – something to be tacked onto the end of existing manufacturing systems to prevent low-quality products from reaching customers.

However, a select few corporations viewed quality as an opportunity rather than a cost, and their investment in total quality management (TQM) paid off handsomely. Rather than simply posting an inspector at the end of the assembly line, Toyota, Motorola, General Electric and others integrated quality considerations earlier in their assembly lines and into processes that preceded manufacturing, such as product design and research and development (R&D). Next, those companies pushed quality considerations even further upstream by working with suppliers to develop quality standards for the materials flowing into the organization.



Finally, those TQM leaders expanded quality management beyond products into behaviors. The companies asked how their people could collaborate more effectively to ensure higher quality processes. This deeper, more integrated approach to TQM paid off in the form of competitive advantage, as the success of GE and Toyota in the 1990s and beyond demonstrates.

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Although sustainability's evolution has not quite exited its infancy stage, there are strong signs that select companies are positioning themselves to benefit from sustainability opportunities and manage risks just as Toyota and others used the quality revolution to succeed in their markets.

Rather than treating sustainability as a risk and cost to be managed, early-inning sustainability leaders are integrating sustainability initiatives deep into their processes and cultures and, in some cases, collaborating with a broad range of partners (including governmental and non-governmental organizations) on sustainability initiatives.

The wide range of powerful external forces driving sustainability may soon nudge its evolution into a full-blown revolution. As the development of sustainability programs continues, companies with the structure and talent necessary to integrate sustainability capabilities deeper into their organizations and cultures will be in the driver's seat.

**SUSTAINABILITY: THE NEW QUALITY?**

To date, the implementation of corporate sustainability programs has in many ways paralleled the adoption of total quality management (TQM). The table below highlights the characteristics of different developmental levels of previous TQM initiatives and current sustainability programs.

STAGE	TOTAL QUALITY MANAGEMENT	SUSTAINABILITY INITIATIVES
Early	Treated solely as a cost, and an additional step at the end of manufacturing processes.	Treated solely as a risk, or as a response to regulations that require compliance.
Intermediate	Inspections integrated throughout processes. Some process-improvement and other cost-reduction opportunities identified.	Treated as both a risk and an opportunity. Program extended into multiple corporate functions.
Advanced	Expanded beyond product lifecycle into workforce behaviors. Also extended beyond organization to trading partners. Used as a competitive differentiator.	Expanded beyond organization to entire "sustainability supply chain." Opportunities include talent management benefits. Used as a competitive differentiator.

## EMERGING ORGANIZATIONAL PRACTICES

To gain such an advantage, companies design their sustainability initiatives to address risks and opportunities that are unique to their industries and organizations. Successful sustainability programs share several common structural characteristics, including the following:

**The CEO's Embrace:** Successful programs are championed by a CEO who takes responsibility for maintaining sustainability as an ongoing discussion throughout the organization. These CEOs embrace sustainability efforts in a highly visible manner. Inside the company, that visibility serves to promote the importance of sustainability initiatives and ensure their inclusion on the performance metrics of its senior leaders. Outside the company, these CEOs frequently discuss sustainability in media interviews, and with trading partners and the investment community.

In his current chairman's letter, The Coca-Cola Company Chairman and CEO E. Neville Isdell promotes the company's Global Water Challenge, which leverages public and private sector partnerships to improve water access and sanitation in countries in critical need.<sup>4</sup> Isdell also frequently discusses Coke's Manifesto for Growth, a five-point road map for sustainable growth over the next decade. One of those points includes acting "as a responsible global citizen, focused on our environmental efforts and making a difference wherever we engage."<sup>5</sup>

**Appropriate Initiative Leaders:** While the CEO serves as the sustainability champion, another executive typically is tasked with formal responsibility for managing the sustainability program and its various initiatives. These leaders hail from many different areas of the organization, including R&D, supply chain, legal and compliance, and environmental and public affairs, among others. Companies with successful sustainability initiatives tend to select organizationally credible leaders who come from functions that align with the company's most formidable sustainability issues and/or opportunities.

If a company's biggest sustainability challenge relates to the availability and cost of materials and natural resources, the head of supply chain ought to be considered as the leader of the organization's sustainability program. At building materials systems maker Owens Corning, for example, the sustainability program is driven from the R&D function. Why? Because that function is responsible for developing insulation products that help homes, commercial buildings and industrial processes operate efficiently and conserve energy. How efficiently? The products Owens Corning sells each year prevent more than a billion tons of greenhouse emissions.



**Multi-Disciplinary Teams:** Regardless of which function the sustainability initiative leaders come from, the teams they lead consist of talented individuals from a wide range of corporate functions and departments, including R&D, environment, health and safety (EHS), marketing, supply chain, operations, finance, human resources, legal and compliance, and public affairs. This diversity of expertise and perspectives is necessary because sustainability affects so many different aspects of the organization (see "Team Breakdown" side bar below). Wal-Mart's sustainability program consists of multi-functional teams that focus on sustainable buildings, alternative fuels, packaging, waste materials and operations, among other areas.

## TEAM BREAKDOWN

Peer under the hood of a successful sustainability initiative and chances are that you will discover a project team consisting of a diverse collection of expertise. The following summary highlights the functional representatives and their areas of expertise that comprise an effective sustainability project team.

CORPORATE FUNCTION	EXPERTISE
<b>Board of Directors</b>	Shareholder value impact; outside knowledge of emerging best practices and opportunity initiatives
<b>Research and Development</b>	Perspectives on how current and future products (and product components) relate to sustainability
<b>Marketing</b>	Understanding of how sustainability supports marketing strategy and provides brand benefits
<b>Supply Chain</b>	Understanding of sustainability issues related to raw material inputs and natural resource utilization
<b>Operations</b>	Insights and ideas on facility, process and product improvements with sustainability benefits
<b>Environmental Affairs</b>	Historical compliance perspective to expand environmental initiatives "beyond compliance;" incubation of new environmentally-based revenue generation opportunities (e.g., carbon trading)
<b>Finance</b>	Evaluations of the costs and benefits of sustainability programs (including new sources of revenue generation), as well as risk management expertise
<b>Human Resources</b>	Performance management links and recruitment support
<b>Legal and Compliance</b>	Knowledge of current and pending laws and regulations, and an understanding of how sustainability risks affect regulatory risks and vice versa
<b>Public Affairs/Relations</b>	Communications to external stakeholders; corporate social responsibility (CSR) links

**A Dual Focus on Risk and Opportunities:** Rather than concentrating exclusively on environmental compliance, energy availability and costs, and other risks, sustainability leaders focus simultaneously on managing risks and leveraging opportunities. "Sustainability savvy" companies identify business benefits that might be obtained while addressing associated risks. For example, Dial's development of a more environmentally responsible detergent product simultaneously conserves water, lowers manufacturing and transportation costs and also frees up shelf space for its other products.

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#### **TALENT MANAGEMENT BENEFITS**

Sustainability initiatives resemble other strategic initiatives in that they require executive support and multi-disciplinary project teams. However, sustainability initiatives differ from some other large enterprise projects due to their ambiguous, multi-dimensional and multi-functional nature.

Executives, managers and employees involved in these programs must define what sustainability means to their organization and then set out a concrete plan toward realizing their vision. Execution strategies require the involvement of numerous functions and disciplines, along with an understanding of multiple interrelated issues that must be managed simultaneously.

These challenges provide fertile developmental opportunities, including the following talent management benefits:

**A Diamond-in-the-Rough Detector:** Because sustainability risks and opportunities cut across many different corporate functions, the initiatives provide future leadership talent with an excellent overview of the organization. Sustainability teams gain an understanding of their organization's value drivers, from a technical and behavioral perspective. Sustainability program leaders report that their initiatives helped unearth talent that otherwise would have taken longer to emerge. Like the most effective TQM initiatives of 25 years ago, sustainability initiatives can hone future leaders by presenting star talent with rich development opportunities and greater visibility. The leadership development opportunity is uniquely valuable: rather than executing marching orders to solve a well-defined problem or challenge, employees who participate in sustainability initiatives are called upon to define the challenge before crafting their innovative solutions.

**A Precious Skills Incubator:** Besides helping organizations spot and develop future leaders, sustainability initiatives hone the creative problem-solving skills of every participating employee. The "moving target" nature of corporate sustainability challenges demands creative problem-solving opportunities that few employees might otherwise encounter until they reach the highest levels of management.

**A Deeper Cultural Connection:** The marketing and branding benefits that select companies have leveraged from their sustainability initiatives also extend inward. Executives at companies with leading sustainability programs report improvements in employee morale related to their sustainability initiatives. They describe employees taking greater pride in the sustainability-conscious company, in much the same way that employees of non-profits may take pride in their organizations' mission and activities.

**"Employer of Choice" Allure:** Internal workforce benefits also extend beyond the current organization to recruiting efforts, particularly those directed at entry-level management positions. Several companies with advanced programs report that their recruitment programs are highly attractive to potential candidates during campus recruiting sessions. These same sustainability programs also rate highly among executive candidates, something Korn/Ferry's recent executive search assignments confirm.

## CONCLUSION: HIGH-QUALITY SUSTAINABILITY

The terms "sustainability" and "profitability" may sound like odd bedfellows, but only if one continues to place corporate sustainability in a quickly fading context. The new, more advanced version of corporate sustainability seeks to continue to ensure compliance with environmental standards and safeguard natural resources. Simultaneously, it seeks out new environmentally and socially-conscious sustainability solutions that minimize risks while delivering enhanced profitability through cost-reduction, improved resource-accessibility, marketing and recruiting benefits (just to name a few).

By doing so, companies that embrace a high-quality, holistic approach to corporate sustainability are more likely to address short-term needs while positioning themselves for long-term success.

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### Endnotes

<sup>1</sup> *Electric Perspectives*, March/April 2007, "Wal-Mart Goes Green"

<sup>2</sup> Associated Press, May 29, 2007, "Green Packaging Movement Gains Momentum"

<sup>3</sup> Henkel Sustainability Report 2006

<sup>4</sup> The Coca-Cola Company 2006 Annual Review

<sup>5</sup> <http://www.thecoca-colacompany.com/ourcompany/index.html>

<sup>6</sup> Owens Corning 2006 Sustainability Report



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### **About Korn/Ferry International**

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