

Understanding the Chapter: What Do I Know?

1. How would you explain the difference between internal and external stakeholders?
2. Among external stakeholders, what's the difference between the task environment and the general environment?
3. Of the 11 groups in the task environment, which five do you consider most important and why?
4. Of the six groups in the general environment, which one do you think has the least importance, and why?
5. Distinguish among the four approaches to deciding ethical dilemmas.
6. What's the difference between insider trading and a Ponzi scheme?
7. How would you summarize Kohlberg's levels of personal moral development?
8. What are four ways that organizations can promote ethics?
9. Describe the levels in Carroll's corporate social responsibility pyramid. Where does trying to achieve sustainability fit in?
10. How would you explain the concept of corporate governance?

Management in Action

UPS Actively Pursues Sustainability

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As a CFO who advocates sustainability, I've noticed that many of my peers take a lukewarm view of the idea, perhaps because they simply don't see how sustainability can produce returns for a business. I can relate: I too am always looking for ways to allocate resources effectively and create value. . . .

As a founding member of UPS's sustainability steering committee, I have wrestled with the challenge, and I've developed a point of view—one that emphasizes the power of organizational momentum and embraces "enlightened self-interest." My approach is rooted in two beliefs: that companies have a responsibility to contribute to society and the environment, and that every investment a company makes should return value to the business.

These beliefs don't have to be at odds. . . . In fact, the programs with greatest impact not only align with companies' strategies but move in tandem with their activities. . . . UPS has established a five-step approach toward sustainability in order to balance the needs of various constituents. They are considered below.

1. **Assess your strengths.** What does your company have to offer that could make a big difference? Find out by assessing your core competencies, infrastructures, and relationships as part of your sustainability strategizing. You will probably discover strengths that charitable partners often lack, such as:

- Capital
- Specialized knowledge and experience
- Relationships

- Processes
- Physical assets
- Business acumen

2. **Choose your spots.** Finding the right space for your efforts in sustainability has to begin with narrowing down the field somehow. You might take cues from either external stakeholders or internal managers. Stakeholders include customers, shareholders, and suppliers that increasingly prefer to do business with companies they see as responsible—but also activists, who may be a risk. Managers know the company's capabilities, cost structure, and objectives well, and can see the strategic fit of one proposed initiative versus another.

We think both these perspectives are important, and we combine them in what's called a materiality matrix . . . one axis indicates how relevant our external stakeholders believe certain issues are to being a good corporate citizen; the other indicates which ones senior executives consider strategic and important to the company's future success. . . .

One priority that UPS was able to identify through this method is safety training for drivers in certain emerging economies. Stakeholders were concerned that the rapid expansion of the middle class in Vietnam, Cambodia, South Africa, and elsewhere has created new traffic nightmares—not only more commercial vehicles on the road but also a huge influx of first-time drivers. They perceived UPS as an expert in road and workplace safety because of its systems and performance. Meanwhile, company managers recognized that these countries are strategically important to UPS as new growth markets. Thus a program that involved working with nonprofits and humanitarian relief agencies to deliver our proven safety training programs wouldn't encounter resistance from either inside or outside stakeholders. Even public officials have endorsed it.

Environmental projects, too, are a strategic fit. We know that our vehicles and planes produce emissions and that we have an obligation to invest in a cleaner planet.

3. **Find momentum.** A materiality matrix narrows the field of possibilities, but it rarely points to a specific initiative. For example, it might indicate that a given company would do well to join the fight against AIDS or help preserve pristine forests or improve air quality, but within any of those areas numerous organizations are working in various places on different parts of the solution.

Having a bias toward adding to momentum makes the next step easier. It leads you to focus on where energy is already in motion and where your company's additional efforts could make a big difference. Ideally, your existing operations and initiatives will dovetail with societal or environmental needs for which others are already driving change.

Sometimes the momentum a company needs to recognize comes from governmental priorities. Indeed, failing to respond to them may imperil its license to operate. . . .

4. **Build productive partnerships.** Most companies just sign up existing projects on the assumption that they and the NGO [nongovernmental organization] will figure out some way to shoehorn in the company's strengths. . . .

To ensure a productive collaboration from the outset, it helps to clearly articulate that the business's hope is to apply its strengths and add to its momentum. Then the partners can proceed to understand each other's strengths, weaknesses, and shared values and to compare perspectives about the impact they want to achieve. Next they should draft a strategic plan; define goals and objectives; establish a timetable, metrics, and milestones; and agree on the resources required and what will define success. Both sides need clear rules of engagement and an open dialogue to adjust to each other, or to know when it's time to part ways. . . .

5. **Convene other sources of strength.** Large businesses all participate in networks of organizations, in their extended supply chains and across their industries. They have the power to convene other players and combine their strengths. If they do so for a good sustainability cause, they can add even more to its momentum.

UPS has enjoyed success with multicompany projects, particularly those relating to humanitarian logistics and disaster relief. Most notably, we've joined with our competitors TNT and Agility to support the UN's World Food Programme during disasters. . . .

UPS has also joined forces with some customers on disaster relief projects, ensuring that their donated products are received on time around the world. The

effort is particularly productive when we can combine multiple customer-donation shipments, reducing transportation costs for all by sharing trucks and planes or using employee volunteers to pack emergency supplies. . . .

What We Are Choosing Not to Do

Following the principle of adding to momentum, UPS has moved its philanthropic giving over the past decade toward expertise and in-kind donations and has aligned it with the corporate mission to enable global commerce through logistics. Our more strategic approach to sustainability has led to many of the projects we've taken on recently. But the test of a good strategy is not just whether it has you doing good things; it must also allow you to decide what *not* to do. Aiming for "maximum efficiency, minimum effort," we've been able to see more clearly that some projects and ideas aren't for us.

More generally, UPS makes fewer one-off contributions. When all the components of a sustainability program are guided by a materiality matrix analysis and a plan to find and increase momentum, connections tend to form among them, creating a cumulative effect. . . .

Momentum's Extra Benefits

When you approach sustainability from a position of your strengths, the line between the two realms of value creation—helping to make the business profitable and helping to keep the planet well—begins to blur. As I've noted, business competencies can reveal social possibilities. At the same time, sustainability work can inspire business improvements.

This can happen in very small ways—and small ways add up.

FOR DISCUSSION

1. How does UPS's approach toward sustainability impact the triple bottom line? Be specific.
2. Which internal and external stakeholders are positively and negatively affected by UPS's approach to sustainability?
3. Which of the six general environmental forces influenced Mr. Kuehn's approach toward sustainability? Discuss.
4. To what extent is UPS's approach toward sustainability consistent with the four approaches to deciding ethical dilemmas?
5. Evaluate UPS's approach toward sustainability against Carroll's model of social responsibility shown in Figure 3.2.
6. How does UPS's approach toward sustainability "pay off"? Discuss.

Source: Extracted from Kurt Kuehn and Lynette McIntire, "Sustainability a CFO Can Love," *Harvard Business Review*, April 2014, pp. 66–74.