

Chapter 24

Crafting Sustainable Strategy from Corporate Purpose: From the Incremental to the Transformational



Andrew Mountfield

24.1 Introduction

The first aim of this contribution is to explore the context of sustainable strategy formulation and execution through the lenses of both organisational leadership and strategic management scholarship. Much current literature on sustainability assumes a top-down, planned approach which adopts conventional strategy tools and neglects the role of operational levels of management within the organisation. Equally, literature often assumes that the impact of conventional leadership models and behaviours remains effective despite the challenges of sustainability regarding communication of non-financial objectives, and on gaining the necessary engagement and agency of those charged with strategy implementation within the organisation.

A second aim is to analyse how the process of sustainable strategy requires the adaptation of conventional strategy and leadership tools to reflect purpose-driven objectives, incorporating both financial measures of success and non-financial outcomes and impacts, to reflect a broader definition of value. This chapter will argue that successful sustainable strategy execution requires alignment with and evolution of existing leadership behaviours, strategy processes and the levers of agency within the organisation.

The author would like to acknowledge the contribution of the productive learning environment of the Cambridge Institute for Sustainability Leadership between 2018 and 2020, where exploratory research concerning sustainability implementation barriers was performed jointly with Kelly Hrainoha, Leslie Koh, Lija Lascenko, Renata Puchala, and Cornelia Schalch.

A. Mountfield (✉)
Saïd Business School, University of Oxford, Oxford, UK
e-mail: Andrew.Mountfield@sbs.ox.ac.uk

24.2 Literature Review

To understand the nature of how sustainability challenges existing thinking on strategy and leadership techniques, the following literature review examines implementing strategy, first from a general perspective, in order to leverage the extensive literature on this topic, and second from a sustainability perspective in order to identify more specific insights. Further, it will focus on both senior and middle management roles in strategy as a basis for understanding scholarship related to both formulation and implementation. Lastly, it addresses two dimensions through which implementation occurs, as seen through distinct and established academic and practitioner perspectives on strategy: (i) an organisational and leadership view, focussed on the organisational dimensions of company purpose, culture, and stakeholder involvement, and (ii) a strategic management view, which emphasises the dimensions of integration of sustainability and business strategy, management process tools, and recognition and rewards. As Denning (2023) paraphrasing Christensen, argues, examining our topic through both a behavioural and a technical lens can contribute to an evidence-based view of how the challenge of sustainability increasingly demands a systemic understanding of both organisations and the ecosystems of which they are part, in order to identify “what works”.

The Roles of Management Levels in Strategy Implementation

Traditionally (Ansoff, 1965; Hart, 1992; Lewin, 1947), senior management (SM) has been viewed as responsible for strategy while middle management (MM) have not been considered part of the management process, except as providers of information and facilitators of implementation. Certain scholars, however, have suggested that MMs both attempt to influence strategy and often act as the source of new initiatives (Burgelman, 1996; Tarakci et al, 2018). Barringer and Bluedorn (1999) make the case that MMs, being closer to the market, have better stakeholder insights. Tabrizi (2014) argues that as trusted individuals, MMs may receive or adopt roles as “North Stars”, taking on responsibilities otherwise reserved for SM for the creation and implementation of specific initiatives. Their organisational knowledge, she suggests, is an element in their ability to create long-lasting and effective change. Floyd and Wooldridge (1992) make the case that while SM have a vested interest in the status quo, MMs are essential in championing alternative paths, synthesizing external information that speaks to required change and facilitating the adaptability of the organisation: aspects that correspond to an emergent view of policy formulation and implementation.

Where sustainability scholars have addressed the role of MMs, Neugebauer (2014) asserts, they tend to focus on the importance of SM-led, traditional, top-down, rational and planned approaches, encompassing the objectives, performance indicators and planning processes associated with enterprise-wide strategy implementation. However, she argues that an emergent approach to implementation is more consistent with current thinking. This builds on the evidence of engaged managers believing that (environmental) issues are a priority and who possess the necessary

knowledge and skills (Anderson & Bateman, 2000) to influence the organisation and its culture through their actions and leadership.

An Organisation and Leadership Perspective

The following section analyses the literature providing an organisational and leadership perspective (O&L), identifying three key organisational dimensions important for implementing sustainability, absence or paucity of which could present a potential barrier for strategy formulation and implementation.

24.2.1 Purpose & Communication

Several authors highlight company purpose, and the communication thereof, as an important organisational dimension for implementing strategy, and specifically sustainability. Definitions are multiple and vary in the degree to which normative or purely technical approaches are taken. For example, Mayer defines corporate purpose as “producing profitable solutions for the problems of the people and planet, and not profiting from creating problems” (British Academy, 2018), while Sennels (2014) argues that a corporate purpose from a technical perspective is an “effective tool in trying to communicate strategic decisions and corporate goals in a manner understandable to employees” (p. 42). Stoughton and Ludema (2012), in their case study of three leading companies in sustainability, assert that to deploy sustainability, top leadership “aligned sustainability with their company’s business purpose, created sustainability priorities, and communicated sustainability commitment both internally and externally” (p. 507). Creating a purpose linked to sustainability is a way to mobilise the entire organisation, but this purpose must be effectively communicated. Brunton argues that the internal communication strategy is important for “explaining and reinforcing a company’s mission and morality,” which in turn is “one of the fundamental drivers of employee engagement” (p.32); however, a company needs to also communicate its commitment externally (ibid.). Without such an external pronouncement, Epstein and Buhovac (2010) argue that any further communication on sustainability will not be understood internally. Moreover, a company purpose that does not ring true will similarly fail to motivate. As Brunton et al. (2017) argue, acceptance depends on “whether organizations are perceived to consistently ‘walk the walk’ that is crucial to employee perceptions of authentic commitment to (sustainability) programmes” (p. 46). While several scholars (e.g. Stoughton et al., 2012; Weerts et al., 2018) argue that the definition of purpose lies in the hands of senior leadership, and is, therefore, outside the purview of MMs, Petrini and Pozzebon (2010) assert that a senior-level commitment alone is only a starting point for implementation, stating: “Upper-level commitment creates conditions for the emergence of leadership at different organizational levels, thereby helping to generate the necessary conditions for sustainability practices that truly permeate employees’ everyday practices” (p. 370).

For organisations seeking to implement sustainability, absence of a company purpose linked to sustainability, failure to effectively communicate company purpose externally and/or internally or lack of credibility of top management's commitment to company purpose all represent areas of concern for strategy formulation and execution.

24.2.2 Company Culture & Employee Engagement

Several commenters from the O&L perspective see company culture as an important tool to guide the transition of organisations and ensure the successful implementation of sustainability strategy. Epstein and Buhovac (2010) argue that “a common overall organizational culture that builds on sustainability can further help managers and other decision-makers deal with the trade-offs that the simultaneous management of social, environmental, and financial goals often causes” (p. 313). At the same time, changes brought forth by new strategy, Vele (2013) argues, must be “compatible with the existing organizational culture” (p. 1691).

While Stoughton and Ludema (2012) recognize that there may be a dominant view of sustainability within organisations, they argue that “differentiated viewpoints of sustainability arise within different functional areas” and “employees operate within the sustainability perspective of these functional groups to translate organizational sustainability goals into tools and programs for facilities, suppliers and employees” (p. 513–514). These multiple viewpoints can complicate ownership of a company's culture both for SM and MM, and in fact, Vele asserts that “one of the biggest challenges faced by (all levels of) managers, in trying to fit the new strategy into the cultural context present inside the company, is how to analyse an intangible element like organizational culture” (p. 1691). Marcus and Van de Ven (2015: 300) contend that sustainability implementation typically consists of multiple projects with “different levels of consensus and ambiguity”. MMs, with the insights they have into their organizations (Bower, 1970) and their position as trusted leaders (Tabrizi, 2014), therefore, have a critical part to play in interpreting values within the company culture. Because, as Veland et al. (2018) assert, sustainability requires a transformational approach and “new narratives” to change the organisational culture, MM are in a unique position to act as agents for the creation and transmission of the stories that will fill “fact deficits” or, as Valentino and Frances (2004) argue, to override corporate objectives as guardians of “corporate narratives”.

Beyond recognising the importance of company culture in strategy implementation, several authors note that sustainability implementation in particular requires a unique set of cultural attributes. To allow for implementation of sustainability into day-to-day decision making, Epstein and Buhovac (2010) suggest that companies “build an organizational culture that motivates sustainable decision-making and behavior” (p. 313). Vele (2013) notes that an organisation should also be “flexible and dynamic” to allow for the adaption required to enable the new ways of working to flourish, while Spillane (2005) argues for “distributed leadership practices” that

allow for decentralised adaptation to a changing environment (p. 143–144). Crews (2010) asserts that “development of an organizational learning culture is necessary to foster a culture of sustainability” and that “the organizations that excel in the future will be those that understand how to engage every member of the organization, gain their buy-in to new initiatives, and build capacity for learning at all levels of the organization” (p. 18). Nijhof et al. (2012) further argue that facilitating opportunities for employees to work with mastery, purpose and autonomy can encourage social intrapreneurs, defined as “people within a corporation who take direct initiative for innovations which address social or environmental challenges profitably” (p. 124).

In summary, the absence of a sustainability culture that facilitates organisational learning, empowers employees to take initiative on sustainability issues, and provides both direction and flexibility, represents a substantial barrier for implementing sustainability.

24.2.3 Stakeholder Involvement

Organisations arguing for an integrated approach to sustainability in business (e.g. International Integrated Reporting Council, Global Reporting Initiative) encourage companies to consult a range of stakeholders. Crews (2010) argues that “stakeholder engagement” is one of five main leadership challenges for sustainability implementation. However, Posch and Speckbacher assert that: “the techniques for managing the multi- dimensionality of stakeholder value creation are underdeveloped and many firms struggle with how to implement broader stakeholder-oriented strategies” (p. 3), with the implications for external and internal communication that this implies. In approaching the balancing of stakeholder needs, Crews (2010) argues for an “integrative approach”, which “finds symbiosis among the needs and interests of all stakeholders”, rejecting the idea of trade-offs. To achieve symbiosis, the author suggests requires “the ability of an organization to engage in a continuing dialogue with each community of interest” (p. 16–17). In practice, responding to multiple stakeholders’ reactions is a significant challenge for companies and, as Epstein and Buhovac (2010) argue, “corporate and societal priorities often change, as do the costs of implementing sustainability” (p. 307). Posch and Speckbacher (2016) assert that, as a result of high pressures and varied and unpredictable demands from what they characterize as “secondary stakeholders” or those outside the principal stakeholders of employees, customers and suppliers, executives may choose a more symbolic implementation rather than a substantive one. Incidentally, the inability for a one-size-fits all approach to adequately respond to all stakeholder demands gives more space, for example, for MMs to act. Posch and Speckbacher (2016) assert: “Middle managers have been accorded an important role as “linking pins” that connect top management to the organization making sense of its strategic visions for lower level managers and translating them into daily practice as well as embedding stakeholder expectations within the strategy” (p. 23).

For MMs, an organisation's inability to effectively involve its various stakeholders in sustainability implementation may create barriers through the creation of trade-offs to be managed. That said, the process of responding to varied stakeholder interests also offers opportunities for MMs to become more involved in implementation efforts.

24.3 A Strategic Management Perspective

The following section analyses the literature providing a strategic management perspective, identifying three key organisational dimensions important for implementing sustainability, absence or paucity of which could present a potential barrier for strategy formulation and implementation.

24.3.1 *Integration of Sustainability and Business Strategy*

One important organisational dimension for sustainability implementation within the perspective of strategic management is the integration of sustainability into formal business strategy. As Johnson et al. argue, strategic management is the “definition of a long-term direction”, and for companies wanting to create and implement sustainable strategies with global and societal impact, making sustainability an integral and long-term part of doing business (Neugebauer, 2014: 2)—beyond statements of intent—is crucial. This desire to operationalise purpose thus also requires technical solutions that echo and build upon the discussion of corporate purpose from a leadership perspective, as described in the first section of the literature review.

In this context, Henderson et al., (2015: 10) argue that for strategic sustainable change to be possible, leaders must first “articulate and shape goals”. Strategies form the frames of reference for sustainability strategy and implementation and are the “cognitive maps and thinking frameworks” (Porac & Thomas, 2006: 169) that operationalize broader strategic intent. Formalised management processes (Kaplan & Norton, 1996) are in this sense frames of reference designed to influence decision-making and behaviour, thus legitimising the incorporation, for example, of environmental issues (Sharma et al., 2011). Although scholars recognise that different strategy approaches exist (Mintzberg, 1978), authors on sustainable strategy often assume a formalised, planned and top-down directed model (Neugebauer, 2014: 31) Although the value of this approach is debated (By, 2005; Herbert, 1999), a strong tradition of academic research (Ansoff, 1965; Hart, 1992; Kaplan & Norton, 1996, 2006, 2008; Lewin, 1947) permeates sustainability research (e.g. Eccles & Krzus, 2010) and sustainability practitioner literature (Blowfield, 2013; Rezaee, 2013).

In summary, sustainability scholars and practitioners writing from a planned strategic perspective argue that it is the role of top management to set strategic direction, providing a frame of reference to serve as guidance principles, while defining

clear and measurable objectives that can be operationalised at lower levels of the organisation. Failing to address these factors can lead to challenges for both SM and MM in strategy formulation and execution.

24.3.2 Consistent Management Processes and Cascade of Objectives and Feedback Mechanisms

The tools that companies use to operationalise and monitor strategy are also a key dimension for sustainability implementation.

Planned strategy proponents stress the requirement of ensuring the strategy is monitored, measured over time, and that mitigation actions are taken in case of deviation from targets (Cokins, 2004; Kaplan & Norton, 1996). Additionally, they argue that strategic objectives must be broken down to the level of individual units and that these objectives and performance indicators will need to be aligned between units (Niven, 2003; Wirnsperger et al, 2015). Sustainability practitioners (Izzo and Vanderweilen, 2018; Rezaee, 2015; Farver, 2013; Blowfield, 2013) also argue for the integration or adoption of formal management systems. External sustainability reporting authors such as Bertinetti and Gardenal (2016) make the case for the alignment of external information with internal objectives, including and aligning risk management parameters, thus creating a consistent set of comprehensive, cascaded and aligned objectives and performance indicators.

Wirnsperger et al (2015) state that a system of financial and non-financial objectives must be embedded in formal planning and reporting processes in order to make interdependencies and trade-offs visible. Sustainability scholars (Judge & Douglas, 2002; Soriano et al, 2010) have long argued for formal strategic and operational processes for sustainability implementation. Manninen and Huiskonen (2019) make the case that a neglect of formal sustainability planning damages the operationalisation process by MMs, with Mountfield et al. (2019) arguing for their integration into the corporate planning process itself, while recognising that emergent strategy exists in all organisations. Bhattacharya (2018) goes further, contending that beyond objective-setting processes and performance indicators, senior management must build a managed process around potential actions, that provide opportunities for MMs to expand on and take ownership of their goals. It is more generally noteworthy that the linkage between corporate purpose and the objectives and performance indicators requires a purpose definition that provides a solid justification for changes to existing behaviours and processes (e.g. Mountfield et al., 2021).

In summary, sustainability scholars and practitioners argue for the integration of sustainability into a unified but flexible framework, with cascaded objective-setting and control processes, where goals and actions are embedded into MM responsibilities, building on or adapting on existing management behaviours and processes, dependent on the degree of ambition articulated.

24.3.3 *Linking Rewards to Sustainability Implementation*

Setting measurable objectives and cascading these to the responsible levels of the organisation also implies aligning reward processes with sustainability implementation (Farver, 2013). Noe et al. (2008) argue that any organization that attempts to derive competitive advantage through its employees must develop a means by which managers ensure that employees' activities and outputs are congruent with the organisation's goals, though Beer and Cannon (2004) warn of the risk that employees focus purely on rewards rather than broader benefits for the organisation, and by implication the underlying normative motivation for corporate purpose. While board-level compensation for the achievement of sustainability targets has received some attention (e.g. Burchman & Sullivan, 2017), there is little visibility concerning lower management levels. This may, as Burchman and Sullivan argue in the context of executive compensation, be related to the small number of metrics used for compensation, often only between two and six, and that relevant reward metrics can be found under different categories, such as safety record or reputational factors. Practitioner authors tend to either assume that sustainable objectives are part of an existing objective-setting and reward system (e.g. Farver, 2013) or argue that intrinsic motivation will motivate managers to implement sustainability objectives (e.g. Blowfield, 2013), an approach more related to an organisational or leadership strategy for sustainability implementation, discussed above. As Mountfield et al. (2021) stress, in organisations with strong reward-oriented objective-setting command-and-control style processes, the absence of sustainability targets linked to rewards at SM and MM levels may lead to the perception that these are either not formally strategic or that SM is signalling that sustainability is a second-order class of objective and can be safely neglected. However, where a more distributed leadership system exists, together with high levels of agency and autonomy, the evidence collected in the sample companies suggested that the role of specific sustainability rewards was less important.

In summary, a lack of substantial metrics on which to base rewards and recognition incentives for sustainability implementation can represent a negative factor particularly in organisations with a pronounced command-and-control culture. However, rewards may undermine intrinsic motivation and thus the willingness of both SMs and MMs to engage in sustainability implementation.

24.4 Summary Conclusions of Literature Review

This summary of both leadership/behavioural and strategic management/technical literature suggests that sustainability strategy cannot be successfully formulated and executed without reference to the context of the organisation, and more, broadly to the ecosystem in which the firm operates. Thus, SMs communicating sustainability priorities should be aware that MM will be constantly assessing the degree to which SM behaviour matches the content of the messages. Equally, MM will be aware

to the degree to which formal management processes, from strategy to rewards are constructed and implemented in a manner which is internally consistent, and that their agency regarding sustainability will be influenced by this context. Lastly, the greater the transformational ambition of the sustainability strategy, the more the internal behaviours and formal processes will be influenced by elements of the ecosystem outside the direct control of the firm. The following discussion examines the question of how ambition influences the strategy and leadership techniques that will need to be applied to successfully operationalise purpose and implement ambition.

24.5 Operationalising Purpose, Sustainability and Agency: Consequences for the Strategy Approach

24.5.1 Introduction to Operationalising Purpose

This section examines the methods required for operationalising purpose into sustainability strategy and reviews the role of leadership and agency. In doing so, it draws on the academic and practitioner literature discussed previously. It takes as its definition of organizational purpose that proposed by Mayer for the British Academy (2018) research exercise: “Producing profitable solutions from the problems of people and planet, and not profiting from creating problems.” In order to operationalize purpose, i.e. translate it into sustainable strategy, this paper suggest building on Vermeulen’s (2017) proposition, who distinguishes strategies from goals. Goals are characterized by statements such as “we want to be in number one in the market”. This paper argues that sustainability “strategies” are often goals or actions, e.g. we want to be carbon neutral by 2050”. As Vemeulen notes, that may be your goal, but “you’ll still need a strategy to achieve it (ibid.), which implies (1) clear choices of what to do, but also what not to do, (2) a theory of change which encompasses a set of communicable, logical steps to achieve the goal, and (3) a means of facilitating interactive strategy communication and monitoring, including, as this paper argues, where appropriate communication from and with stakeholders and rightsholders (those affected positively or negatively by the actions of the company).

24.5.2 Examples of Sustainable Strategy Tools

Developing a sustainable strategy approach

The purpose of this section is to argue for a distinction between “incremental” and “transformative” strategy and to describe corresponding approaches for each. In doing so, this paper aims to draw attention to the need for a clear foundation of

purpose which sets the ambition for strategy, and the degree to which sustainable strategy goes beyond the status quo.

“Incremental” strategy is defined for this section as having the following major characteristics: The adoption of a risk/opportunity-based “outside-in” analysis of the competitive environment, often driven by external reporting/materiality requirements; a partial adoption of sustainability-related actions, insofar as the can be judged to directly and positively influence profit (so-called “win-win” sustainability actions); the definition of strategic actions guided by the assumption that these will positively influence brand value and customer buying behaviour and investor perceptions; selection of actions that positively affect employee loyalty and engagement and indirectly influence customer or investor perceptions. Communication of sustainable strategy is driven by the desire to influence perception of the firm’s activities on environmental or social issues, e.g. “carbon zero”, noting that an incremental approach may not be transparent about the concrete actions required.

“Transformational” strategy can be summarized for the purpose of this section as follows: A values-based approach which ensures that profit is not achieved through the creation of problems beyond the boundaries of the firm for the environment or society; the evaluation and migration of the product or service portfolio to achieve the corporate purpose articulated; a redesign of the corresponding business model, and where required, the related ecosystem. Sustainability-related actions are embedded in a coherent business strategy, reflected the cause-and-effect relationships needed for building and delivering the required competencies and to plausibly support its execution. Strategy is articulated to encompass both the company and its immediate stakeholders (customers, suppliers, management and staff), and where appropriate “rightsholders” who are affected by negative effects of current strategy. It should be noted that values-based approaches can be heavily influenced by both regulation, societal norms, as well as well as shareholders and stakeholders, leading transformational strategy to reflect a dual-materiality logic of “outside-in” (risks and opportunities for the company) and “inside-out” (values-based) decision-making.

It should thus be clear to the reader that the approach chosen will heavily influence the design of the corresponding strategy process and roadmap.

The following table describes potential alternative strategy process approaches, drawing on the work of Hurth et al. (2021) but distinguishing between “incremental” and “transformational” types. As noted above, the greater the degree of transformation implied by the ambition, the more it is likely that the process will be confronted with the demands of MM for a role in co-creation, either within the formal process or through expected managerial behaviour. High levels of ambition may also imply a heightened level of agency of MM. and in addition, integration of ecosystem participants, where problems posed by purposes cannot be solved by the company alone. This implies that the greater the degree of sustainable transformation, the greater the need to challenge and adapt tools intended previously for conventional, incremental strategy.

Ambition-setting and the sustainable business model

This section will argue that clarity of the degree of current sustainability maturity and the desired future ambition regarding transformational change is crucial for defining strategic priorities and targets (see Table 24.1). Achieving clarity means moving beyond conventional strategic toolsets to an analytic framework which answers three questions:

1. What changes to the business model in terms of scale and scope will be required by the purpose of the organisation?
2. To what extent can existing competitive advantages be maintained, or is a radically different approach required to obtain a profit that is calculated to reflect any negative impact on the environment or society?
3. What environmental and societal benefits need to be achieved to eliminate the negative impacts of the existing business model?

The scope of these questions suggests that the application of conventional strategic toolsets, with their strong focus conventional profit, will lead to strategic business model options that favour the status quo, which have a bias towards incremental rather than transformational change and which risk both overstating profit and ignoring more fundamental possible developments in markets and regulation.

One method to address this bias towards incremental financial options, is to ensure that analytical tools reflect a stakeholder-driven, multi-capital approach (Mountfield et al., 2019). To illustrate this, the Fig. 24.1 adapts the Business Model Canvas (Osterwalder & Pigneur, 2010) to meet the requirements of multi-capital thinking.

24.6 Sustainable Strategy Map

Scholars and practitioners alike, as demonstrated above, accept that sustainability is increasingly a part of the mainstream of financial risk analysis by external investors, then this next step is to move from an integrated but externally focused communication of value creation to investors and stakeholders, to an alignment of external and internal financial and non-financial objectives and performance measures. The aim therefore is to move from purpose and strategies, to defining and aligning value creation objectives throughout the organisation, reflecting both the specificities of business unit and functional strategies, and the need to integrate these with corporate instruments of leadership and management control.

The multi-dimensional nature of sustainability strategy has been recognised by external reporting standard setters, such as the IIRC, now integrated with the ISSB. However, despite the IIRC Integrated Reporting focus on the process of value creation through “six capitals,” little is said about the interactions and dependencies that exist between relevant topics within the capitals. Further, concentrating on a reduced set of topics that are “material” risks without explicit reference to value drivers and strategic context obscures the dynamics of the business model. The emerging list of

material topics, which result from a mixed stakeholder and business-driven selection process, risks being deprived of any underlying strategic logic and understanding of broader cause-and-effect relationships. The process may then unintentionally create fragments of sustainable strategy, characterised by loose objectives or actions, rather than a comprehensive and implementable framework with the potential to improve the strategy execution process rather than simply distract from it.

Practitioners will note that the process of establishing the materiality of topics may resemble an internal negotiation to produce an acceptable result and meet the demands of external standard setters and stakeholders. This section proposes to adopt the IIRC six capitals and use this framework to address the need for a clear articulation of sustainable strategy applying the criteria adapted from Vermeulen (*ibid.*).

The illustrations below use a “sustainable strategy map” concept based on the initial design of Kaplan and Norton (1996) while adopting the architecture of the Integrated Reporting framework to distinguish between six capitals (instead of Kaplan

Table 24.1 Alternative sustainable strategy approaches

	Incremental change		Transformational change	
Analysis	1	Scope	Focus on own assets and organisational boundaries within thematic boundaries	Extension of value stream “up-stream” and “down-stream” (Scope 3 impact); extension where required to encompass rightsholders’ interests
	2	Shareholders, stakeholders and Rightsholders	Focus on existing internal value chain and directly related stakeholders	Focus completed ecosystems, analysis of sources of future disruption and requirements on new business models
	3	Evidence base	Conventional as-is business and stakeholder survey, dependent on maturity of existing analytical instruments	External organisations and technical frameworks to provide ambition levels
	4	Risks and opportunities	“Outside-in” conventional risk and opportunity analysis	“Inside-out”, scenario-based approach, involving external challenging by stakeholders and rightsholders
Strategy	5	Purpose, vision and business model	Optimised shareholder value management (with additional stakeholder communication), with elimination of negative impact where “win-win” for company can be achieved	Sustainable purpose and business model drive transformation process for the creation of long-term value for company and society and the elimination of negative impacts

(continued)

Table 24.1 (continued)

	Incremental change		Transformational change	
	6	Strategic priorities	Priorities linked primarily to sustainability-driven cost reduction, improved asset management and revenue enhancement, in addition to fulfilling legal requirements	Driven by future purpose, business model and sustainable strategy map, with innovation across extended value chain, aimed at achieving competitive advantage through leadership role within industry segment and ecosystem
Implementation	7	Target-setting	Internally-driven “less-bad” targets for isolated initiatives	Externally-driven “fair share” targets, reflecting true costs including negative impact of externalities
	8	Governance and performance Management	Driven by eternal communication needs; limited thematic internal Initiatives	Board-level responsibility for target cascade coupled with distributed leadership for performance management throughout organisation
	9	Leadership, communication and capacity building	Incremental initiatives embedded in existing organisation and leadership model	Organisation and capacity evolves to match target purpose and business model, with the aim of making sustainability everyone’s everyday job

and Norton’s four perspectives), in order to clearly communicate their logical high-level cause-and-effect dependencies. Further, in a separate scorecard (not illustrated), it develops summaries per topic of current status and future objectives to better integrate existing data and obtain a coherent internal overview. This approach aims for comprehensiveness at an appropriate level of aggregation, rather than the exclusion of certain topics associated with typical materiality matrix representations. It further aims to provide a framework for setting quantitative targets based on key performance indicators aligned with the strategy map and integrated with existing performance management systems. Note that this implies the usage of both financial and non-financial indicators, rather than their complete monetization, although this would be possible in a further step (e.g. Barby et al., 2021).

The example below draws on a case study (Mountfield et al., 2023) of a construction industry company, which builds on a clearly articulated purpose and sustainability ambition, and which integrates (1) a strategic theme focused on the full achievement of compliance and communication standards required by both regulatory authorities and increasingly by customers, and (2) a strategic theme aimed at an end-to-end value chain incorporation of sustainability objectives, which deliver

<p>Key External Business Partners</p> <ul style="list-style-type: none"> Describe key business partners required to deliver sustainable value chain and value proposition 	<p>Key Stakeholder Relationships</p> <ul style="list-style-type: none"> Describe key stakeholder relationships required in order to sustain value proposition and maintain regulatory and social legitimacy 	<p>Key Natural Resources</p> <ul style="list-style-type: none"> Describe key natural resources required in order to sustain value proposition and maintain regulatory and social legitimacy 	<p>Key Business Processes / Activities</p> <ul style="list-style-type: none"> Describe value chain and key differentiating business processes 	<p>Key Intellectual Property and Competencies</p> <ul style="list-style-type: none"> Describe IP and competencies required to sustain value chain and value proposition 	<p>Key Staff, Qualifications and Engagement</p> <ul style="list-style-type: none"> Describe key staff requirements Describe level of engagement required for sustainable business model delivery 	<p>Value Proposition</p> <ul style="list-style-type: none"> What value do we deliver to the customer? Which customer problems are we helping to solve? Which bundles of products/services do propose for each customer segment? What are we doing to ensure that our customers' value expectations and needs are sustainable? 	<p>Customer Relationships</p> <ul style="list-style-type: none"> Describe how to establish and manage the relationship between the customer and brand <p>Channels</p> <ul style="list-style-type: none"> Describe 1) what customers will be sustainably acquired, 2) how to deliver the value proposition to them and 3) how to communicate with your customers (and stakeholders) 	<p>Customer Segments and Specific Value Requirements</p> <ul style="list-style-type: none"> What specific customer segment value requirements must be met sustainably? 	<p>Revenue Streams</p> <ul style="list-style-type: none"> What sustainability revenue streams will be generated? What can be done to address sources of volatility?
<p>Cost Structures</p> <ul style="list-style-type: none"> What cost structures does our value proposition require? Can these cost structure be sustained? 									
<p>Financial Capital Requirements</p> <ul style="list-style-type: none"> What financial capital is required and how do we ensure sustainable risk perception (sustainable smart beta)? 									

Fig. 24.1 Sustainable Business Model Canvas (adapted from Osterwalder & Pigneur, 2010)

measurable outputs, outcomes and impacts, which customers recognise as differentiating the company from competitors, and lastly (3), the generation of future revenue streams derived from sustainable products and services.

The first strategy map (Fig. 24.2) shows the sustainable strategy map as a whole, demonstrating which objectives are linked to which strategic theme, while recognising that a topic or objective may feed into several. It is important to note that each headline objective in the sustainable strategy map drive measurable sub-objectives, with owners, mid-term timetables, resource allocation for actions and corresponding targets for results in the form of a separate scorecard. The second strategy map (Fig. 24.3) shows the theory of change or logical cause-and-effect relationships between objectives specifically for the third strategic theme, future revenue streams.

24.6.1 Sustainable Portfolio Development

A transformational sustainable strategy will require reflection on the degree of portfolio evolution required to achieve financial, environmental and social objectives. Equally, in industries undergoing technology or regulation-driven disruption, portfolio evolution can contribute to both positive and sustainable change of the industry ecosystem and improvement to the competitive position of the firm, (e.g. Hilty, 2008; Guimarães et al., 2022, Mountfield et al., 2023).

This section illustrates the application of portfolio analysis to an industry case from the construction industry (Mountfield et al., 2023), which adapts work by BCG Henderson Institute (2022), and proposes a four-quadrant portfolio (Fig. 24.4) provides a framework for creating sustainable strategy options:

- To scale-up existing solutions, objectives focus on acceleration drivers to eliminate barriers to expansion.
- To fulfill existing new in a sustainable way, focus is on evolving the target market or delivery model.
- Reducing the negative product sustainability footprint means changing the specification while maintaining or improving performance.
- Creating new solutions for new needs builds on harnessing emerging new sustainability-relevant technologies.

24.6.2 Sustainable Value Chain Analysis

As noted above, one risk of the adoption of conventional strategy tools for a sustainable strategy is their understandable bias towards a purely financial perspective, ignoring the requirements of operationalizing organizational purpose and the desired environmental and societal benefits, while ignoring the negative impact of failure to account for the cost of externalities.

C Compliance / **D** Differentiation / **R** New Product Revenues

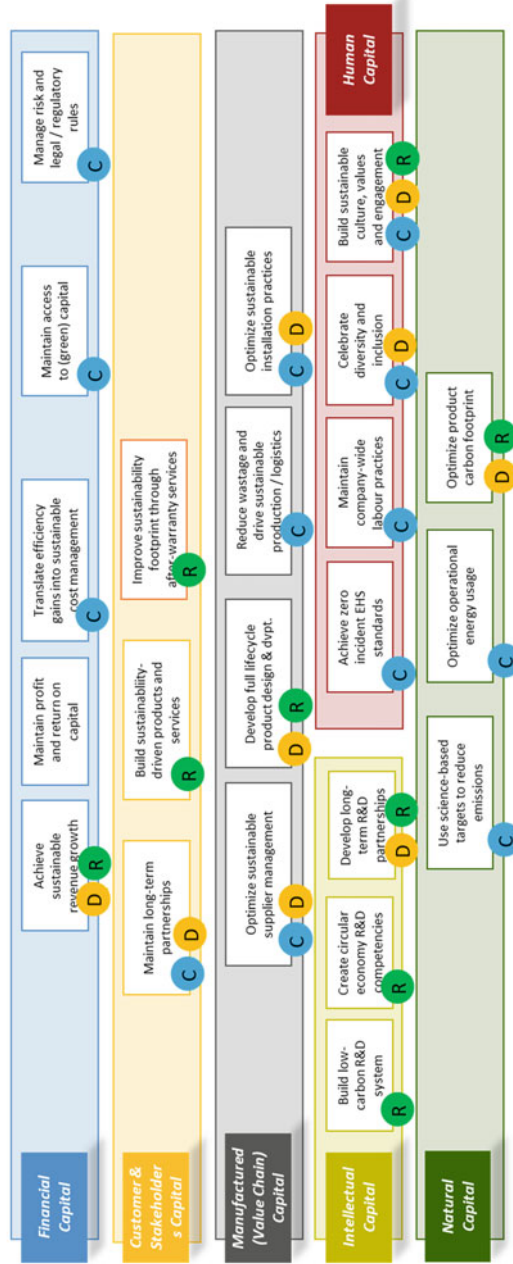


Fig. 24.2 Complete sustainable strategy map

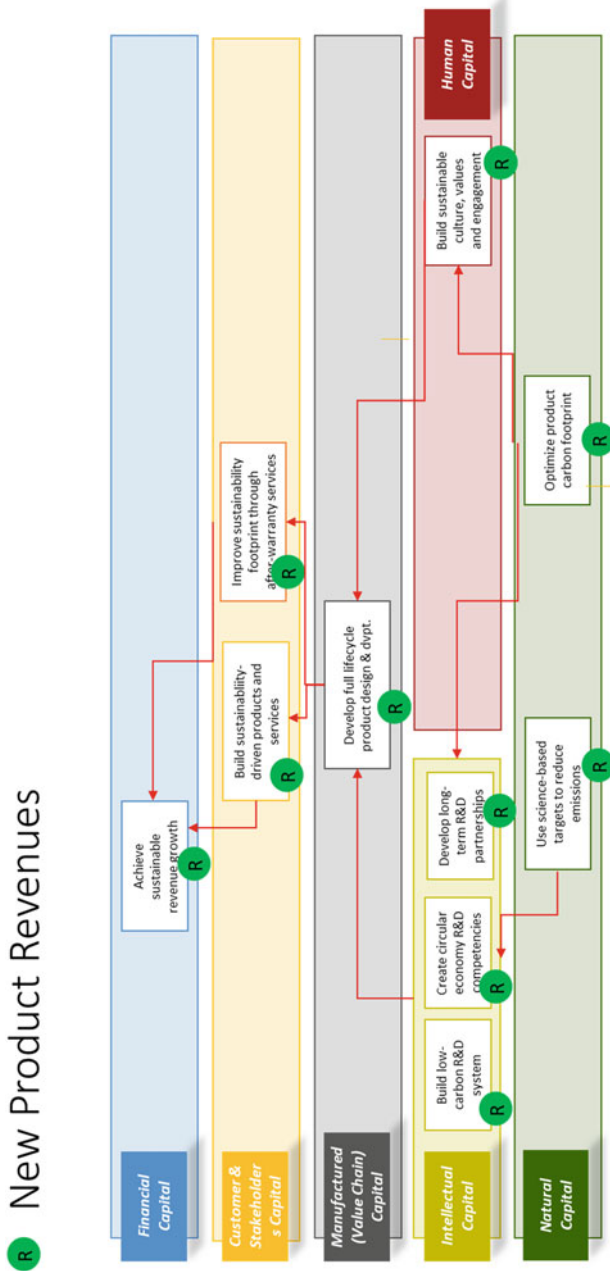


Fig. 24.3 Sustainable strategy map—Strategic theme “New Product Revenues”

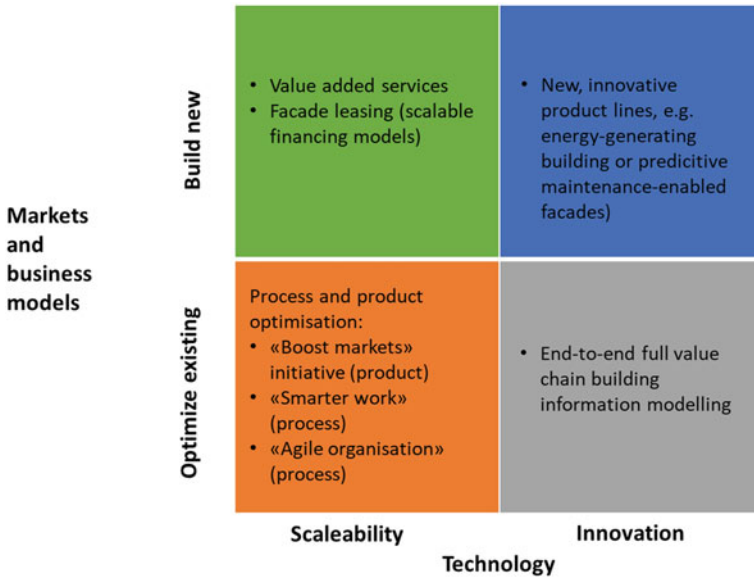


Fig. 24.4 Portfolio evolution matrix: Construction industry example

Nevertheless, value chain analysis (Porter, 1986) represents a robust means of evaluating each of the activities in a company’s value chain to understand where opportunities for improvement lie, by considering how each steps adds or subtracts from the value of a given product or service. The key question here is which values beyond financial value, might be considered as material, and which contribute to the cost or differentiation focus that value chain analysis conventionally highlights.

The approach to value chain analysis recommended needs adaption along similar multi-capital principles that were described above for the business model canvas and for the sustainable strategy map.

1. Scope of value chain: Conventionally, the analysis of the value chain restricts itself to activities within the organization, excluding a detailed examination of upstream or downstream activities (i.e. suppliers or customers). A sustainable strategy however requires an integration of societal or environmental impacts of the business model as a whole. This additional complexity however can be mitigated by focussing on material activities and eliminating Porter’s secondary activities from the analysis.
2. Costs and values of activities: Understanding the costs and value added or subtracted remains a key requirement but requires analysis of material stakeholder activities (see 1), noting that external data may be incomplete or require estimates. However, a more fundamental additional requirement is to understand the logic of how both financial and non-financial value is created by stakeholders outside the firm.

3. Opportunities for competitive advantage: A multi-capital approach further ensures that activities are aligned towards a coherent set of sustainable objectives that form a systematic approach to strategy, with a clear understanding of how these contribute to competitive positioning and social and environmental impact.

The illustrative example below (Fig. 24.5) explores how different types of capital can create value for sustainable competitive advantage at the level of activities within an internal value chain. The organization in this case is a cosmetics firm that positions its brand through a differentiation strategy stressing sustainable values, aligned heavily with the expectations of its customers.

Leadership, Communication and Agency

This section argues that understanding the impact of leadership models and styles on the formulation and implementation of sustainable strategy requires an understanding of three factors (Mountfield et al., 2021). Two are related directly to the practical impact of the lenses used for the review of current scholarship, 1. leadership and commitment and 2. top-down strategic direction, cascaded objectives, KPIs and rewards, while a third may be considered to be the result of these experienced through the person of MM responsible for implementation of sustainable strategy, which can be summarized as 3. sense of agency of MM and their willingness to take initiative.

Drawing on the cited research, it appears appropriate assess the status of the organization in terms of these three factors, in order to better craft organization-specific approaches to sustainable strategy. Table 24.2 summarises the characteristics and their implications, summarizing the research conclusions.

The results obtained from this research into barriers to sustainability strategy execution suggest the need for practitioners to examine potential factors before designing their own strategy formulation and implementation plans specific to their organisations. Incorporating those responsible for execution into the process and recognising the potential impact of existing formal and informal systems, such as planning and rewards or leadership style and performance culture appear, based on the evidence, to be essential to adequately manage the risks associated with ambiguous or absent leadership practices, formal objective-setting processes and agency behaviours within the organization.

		Significant increase in market share driving sustainable profitability Above industry-average increase in Total Shareholder Returns to investors					
Financial capital							
Stakeholder and customer capital	Recognition through supplier certification	Sustainable product development and brand positioning		Increased customer loyalty		Increased customer loyalty	
Value Chain / Manufactured capital	Procurement	Production	Marketing	Sales / Customer Relationship Management	Outbound logistics	Recycling (new function)	F&A, HR and other support functions
Intellectual capital	Training of suppliers to meet certification criteria	Sustainable product development; energy / raw material reduction		Novel CRM / loyalty concept to reinforce branding	Support for logistics providers to reduce energy usage	New recycling processes for packaging materials	
Human capital		Human capital for sustainable product development	Employer of choice based on sustainability employee branding in marketing and sales functions			Build human capital for new function	Gender balance in leadership and pay gap elimination
Natural capital		Significant reduction of CO2 across entire value chain 100% renewable energy target					

Fig. 24.5 Sustainable value chain

Table 24.2 Leadership, objective-setting and agency categories and their influence

	Category	Category 2	Category 3
1. Leadership and commitment	<i>Leadership for sustainability is absent:</i> Ensure leadership gap is addressed as precondition for launch of sustainable strategy	<i>Leadership for sustainability is ambiguous:</i> Address sources of ambiguity and clarify key expectations concerning responsibility and agency	<i>Leadership for sustainability is consistent:</i> Build on existing distributed leadership model and ensure category 2 approach is compatible
2. Formal direction, objectives and measurement	<i>Formal sustainability goals are absent:</i> Ensure sustainability goals are integrated into formal organizational and individual target-setting	<i>Formal sustainability goals are inconsistent:</i> Address sources of ambiguity and clarify responsibility and authority expectations in advance of launch	Formal sustainability goals are consistent and cascaded with clear monitoring and feedback loops: <i>Build on existing processes and ensure consistency with overall performance management concept</i>
3. Agency and initiative-taking	<i>Sustainability initiative-taking is absent:</i> Ensure expectations are consistent with existing overall managerial model and behavioural expectations	<i>Sustainability initiative-taking is inconsistent:</i> Clarify expectations and reward and recognise behaviours consistency with agency requirements	<i>Sustainability initiative-taking is integrated into managerial gliaxmiH.:</i> Build on and reward existing behajdours and support distributed leadership concept

24.7 Conclusions and Perspectives for Future Research

24.7.1 Conclusions

This paper argues that the operationalization of purpose and the formulation and execution of sustainability strategy within the organization and its ecosystem requires a reexamination of existing leadership behaviours and strategy techniques.

- Operationalising corporate purpose requires clarity concerning the problem that the company exists to solve, without profiting from the problems created for others.

- A purely financial perspective, without understanding environmental and social impacts of the company, is insufficient and ignores future sources of strategic risk or opportunity. This implies a multi-capital approach which is incorporated into the strategy approach and tools.
- The greater the challenge and the corresponding ambition of the purpose, the greater the need for a transformational strategy approach, that takes a systemic view of the corresponding objectives and measurement systems within the company and its ecosystem.
- The application of conventional strategy tools for in the context of transformational strategies risks masking the demands of the operationalisation of purpose and transformational strategy, leading to a bias towards the status quo.
- A transformational strategic ambition will equally demand a re-examination of current leadership models and behaviours in order to drive culture and communication and encourage agency and ownership of strategy at all levels.

24.7.2 *Perspectives for Future Research*

As the literature review demonstrates, operationalising purpose benefits from a multidisciplinary approach and future research may profit from the collaboration of cross-disciplinary multi-lens research teams, combining the analytical perspectives of strategy, accounting, leadership and HR scholars.

Future research will continue to be required for both balancing and integrating non-financial and financial measurement of planning and execution of strategies and action, particularly in transformational contexts with multiple perspectives of different ecosystem members.

Lastly, scholars may further increase their collaboration with purpose and sustainability practitioners to accelerate the transfer of theory into practice, and it might be argued, vice versa.

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Andrew Mountfield has over 25 years of experience in strategy and performance management across a wide range of industries and business functions and currently focuses on integrating sustainability and business strategy. He has worked as a manager in the pharmaceutical industry, as a partner at PwC Consulting and was country CEO of Horváth management consultants in Switzerland. He completed his research masters at HEC Paris and Oxford University and received his doctorate from Ashridge Business School. In addition, he completed the graduate degree programme at the Cambridge Institute for Sustainability Leadership (CISL). Andrew is a senior research fellow at Saïd Business School, Oxford University, where he leads the Oxford Rethinking Performance Initiative, and is a guest lecturer at CISL. He is the editor of two volumes on strategy and performance management and is the lead author of three recent book chapters on sustainability strategy and implementation.