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The future of corporations depends on their addressing the social, demographic, and environmental challenges that are increasingly impacting their economic activity. Corporate social and environmental responsibilities need to shift from being a peripheral add-on focus and risk avoidance activity to being integrated into how corporations operate and inherent in their growth strategies. Society is increasingly demanding that corporations develop sustainably and operate in ways that meet the needs of the present without compromising the ability of future generations to meet their needs. This definition of sustainable performance was originally articulated in a 1987 United Nations report entitled "Our Common Future" (Brundtland, 1987), and it has become the dominant approach to conceptualizing what sustainability is about.

Today, sustainability is not just a matter of good citizenship; it has become critical to the survival of corporations. Corporations need to operate in a sustainable manner in order to assure that they have strong communities and ecologies in which to operate. IBM, General Electric, Unilever, Nokia, Procter and Gamble, and Starbucks have recognized this and have charted a strategic path that is based on the belief that addressing societal sustainability challenges is not only the right thing to do, it is an imperative for corporations and for society that will positively impact shareholder value. In addition to operating in a more environmentally sustainable manner, these companies are developing product and market strategies that address environmental and social needs. They are engaging stakeholders in product and community oriented development activities, and developing poor and underserved communities and populations. They believe that the resulting product innovation, building of robust supplier and market communities and development of employee capabilities and engagement are sources of sustainably effective corporate performance.

For decades, many corporations have had sustainability programs that typically single out issues like energy conservation, pollution, and recycling. They have engaged in activities that, at least for a period of time, often do reduce fuel consumption, decrease pollution, and make other contributions to improving the environment. Often these programs show a measurable positive impact on the cost of doing business. Some companies also operate philanthropic programs that support neighborhood improvement projects, education, and charities. Such philanthropic endeavors build goodwill in the community and contribute to the perceived legitimacy of the corporation.

The "problem" with most of the sustainability activities of corporations is that, like all programs, they come and go depending on the interests and beliefs of corporate leaders at a particular point in time and do not become a core element of how organizations operate or of their business strategies. This needs to change in order for corporations to meet society's demands and organizations' need for sustainable performance. For organizations to perform well financially, socially, and environmentally they need more than just programs. They need fundamental changes in their goals and how they achieve them. Instead of a program, they need a DNA change.

Board leadership is critical to sustainable performance becoming a core strategic and operating focus. This is an appropriate role for boards to assume because they are responsible for their corporations long term performance and survival. If sustainable performance is not an important concern of the board, it will remain a peripheral and likely fleeting set of activities. Boards must provide direction and must hold corporate management responsible for the sustainable performance of their organizations in order for sustainable performance to be integrated into the way an organization operates. Board attention to sustainability as an important element of their company's performance is needed to provide impetus for corporations to embark on the long and fundamental transitions that are required to alter the way they operate in order to achieve the long term capabilities and benefits of being a sustainable organization. In some companies, for example Procter and Gamble, Gap, Nike, Unilever, Vodaphone and Nokia, boards are actively involved in reviewing and often providing input to the sustainability strategies of their firms—and progress in this area is regularly reviewed in board meetings, but they may be the exceptions and not what is typical of corporations.

Survey of Boards

We conducted a survey to determine whether boards in large U.S. corporations are providing the leadership, direction, and expertise needed in order for corporations to perform well financially, socially and environmentally. We also looked at how corporations are managing their sustainability activities.

Board members from 80 large corporations responded to our 2012 survey. The average revenue of the companies responding to the survey is $10.5 billion. Two-thirds of respondents are non-executive board members. The respondents were asked about their attitudes toward the importance of sustainability, as well as how their boards and corporations manage sustainable performance issues.

Importance and Impact of Sustainable Performance

Less than sixty percent of the board members surveyed believe that sustainability is currently a key issue for their corporation, is an important public relations issue for their corporation, and is important to the profitability of their corporation. While sixty percent say that sustainability is assuming a higher priority in their company, only half agree it is a competitive necessity. Further, only fifty-eight percent of respondents believe that their company has a clear strategy guiding its sustainability efforts, and only half believe that the relationship of sustainability to the business strategy has been clearly articulated.

Overall, the data from board members indicate a lukewarm focus on and little enthusiasm for sustainability as an issue in their companies. This is true for both inside and independent board members. There was one question where executives and non-executives gave a significantly different answer. Non-executives were less likely than executives to agree that the best way for the company to serve society is for it to focus on being profitable.

In contrast to their tepid response about the importance of sustainability to their corporation are the board members' positive beliefs about the impact of corporate social and environmental sustainability activities in general. As can be seen in Table 1, there is relatively strong agreement that sustainability activities can positively impact shareholder value, employee and customer loyalty, company brand, and employee engagement. This strongly suggests corporations should be doing more with respect to sustainable performance because it would be a significant positive for company stakeholders, as well as for society. This raises but does not answer the question of why, if it is such a good thing, corporate boards aren't doing more.

Table 1. Impact of Sustainable Activities	Percent Positive Impact
Corporate Profits	56%
Long term shareholder value	70%
Employee loyalty	79%
Customer loyalty	80%
Company brand and image	91%
Employee Engagement	75%

Responsibility for Sustainable Performance

A key issue in sustainable performance is who has the primary responsibility for developing and managing the company's sustainability activities and programs. Table 2 shows the board members' beliefs about who currently has and who should have responsibility for developing their company's sustainability strategy. There is relatively little agreement among board members about this issue. Thirty percent report that responsibility currently rests with the CEO, nineteen percent report it rests with senior management, and ten percent report it rests with the company's sustainability department. A surprising 20% say no one has responsibility. Independent board members are especially likely (28%) to say that no one has responsibility.

The results indicate that the corporate board itself rarely has primary responsibility for sustainability strategy. Only 9.5% of the board members say that their corporate board has primary responsibility for developing their company's sustainability strategy, and only a slightly larger percentage (12.9%) feel that the corporate board should have this responsibility. As shown in Table 2, they believe that it should fall to the CEO (30%) and senior management (38.6%) to take major responsibility for the company's sustainability strategy.

Table 2. Sustainability Strategy Responsibility	**Has Responsibility**	**Should Have Responsibility**
No one	20.3%	4.3%
Corporate Board	9.5%	12.9%
CEO	29.7%	30.0%
Senior Management	18.9%	38.6%
Business unit leaders	1.4%	4.3%
Sustainability department (function)	9.5%	5.7%
Operations	5.4%	1.4%
Corporate responsibility department	1.4%	1.4%
Human Resources	1.4%	0.0%
Other	2.7%	1.4%

When asked who has the responsibility for *managing* sustainability programs, the board members give a variety of answers. The CEO (23%), senior managers (27%) and the sustainability or corporate responsibility department (16%) were the most frequent answers when asked who should manage them. The majority of board members responded that it is appropriate for sustainability programs to be managed by line management: the CEO (30%), senior management (33%) and business unit leaders (14%). Understandably, almost no board members felt that the board should become involved in managing these programs.

Clearly, most board members want to put responsibility for sustainable performance and into the hands of management below the CEO. This helps explain why the sustainability efforts in many corporations are not high priority activities. They are only likely to be a high priority if they are championed and led by the most senior leaders of the organization: the Board and the CEO.

Sustainable Performance Integration

The survey results show that sustainability activities and programs are not part of the key management processes. For example, fewer than half of respondents report that bonuses and salary increases are tied to sustainable performance considerations. Similarly, training and performance appraisals do not typically focus on sustainable performance. Sustainable performance is also not a key consideration in organizational design and change management activities. Further, Less than one third of these firms regularly publically report sustainable performance metrics.

Needless to say, it is hard to imagine sustainable performance being an important and integrated part of a corporation if it is not part of its key operating and HR processes. To garner the attention from managers and employees throughout the organization, it needs to be a focus of performance appraisals, training, selection, and a determinant of reward systems including bonus programs and salary increases. This can only be done if there are good performance metrics with respect to sustainable performance and it is integrated into the very design of the organization. At this time, our data suggest that in most corporations, this condition simply does not exist. More than half of these companies' board members report that their sustainability efforts are a series of initiatives, and not built into the way business is conducted. A similar percent say that their company's initiatives are not coordinated with one another.

Performance Information

There is limited support among the board members surveyed for their companies issuing an annual report on its environment and social impacts: thirty-four percent say they currently do, and 48 percent say they should. For a board to lead and evaluate the effectiveness of a sustainable organization, sustainable performance information is critical. Globally, a number of reporting standards and initiatives have been developed that can provide rich information, which can be used to assess corporate efforts and provide key stakeholders with knowledge about what a company is actually doing in the area of sustainability. For example, the global reporting initiative (GRI) systematically measures the environmental and social impact of organizations, and their corporate governance approaches.

Portions of the GRI have been voluntarily adopted by the majority of the Global 500 firms and most S&P 500 firms. The GRI has been continuously improving its measurement approaches, but for many corporations this kind of reporting is clearly not being used internally by their boards in assessing the performance of corporations they lead.

Measures and reporting of the social and human capital impact of corporations with respect to company employees are less well developed and less frequently used than are environmental measures. Only 24 percent say they report regularly on employee well-being. There are some promising initiatives with respect to reporting on the impact of corporations on their employees, but these still have not reached a developmental level that is comparable to the GRI environmental measures. Still, it is possible for boards to obtain good information about the impact of their organization on employees by looking at such traditional talent measures as turnover rates, injury data, and employee attitude data. When it comes to societal impact outside the organization there are some measures such as job creation and charitable contributions which can provide guidance with respect to broader social impact.

Many leading edge companies, such as the Gap, Nike, Procter and Gamble, and PepsiCo have made a lot of headway in the reporting area, including the public sharing of their sustainability information so that it is visible to all stakeholders. Their corporate websites and annual reports have continued to develop and expand over the past 10 years. Today, shareholders and the public can get detailed, well-organized information about these companies' sustainability goals, accomplishments, and metrics in addressing a variety of social and environmental issues. Such public visibility in this area most certainly should increase the salience of these issues to the board and increase its commitment to providing oversight with regards to sustainability issues.

Organizational Performance

Analyses of our survey results show that integrating a focus on sustainable performance into the operating procedures of a company positively relates not only to greater effectiveness in the area of sustainability, but also to better company performance. Furthermore, those organizations that were described by the board members surveyed as having a management approach that focuses on both financial and sustainability performance showed the highest ratings of overall company performance. These results reinforce the point that having programs that are focused on sustainability and social responsibility is not enough. Organizations must integrate environmental and social considerations into their way of managing in order for them to perform well financially, socially, and environmentally.

What Boards Need to Do

Boards must play a major role in assuring that corporations go beyond just having sustainability programs, to operating in a way that integrates sustainable performance. They can only do this if they play a leadership role with respect to sustainable performance strategy development and oversight. Data from our survey indicate that they currently do not do this, nor do they feel that this should be their role. For example, almost no companies (5%) have sustainable performance on their agendas for every board meeting. Typically, it is on the Board's agenda less than once a year. In addition, very few board members have in-depth knowledge in the area of sustainable performance. When asked how many board members actually have professional level expertise in sustainable environmental and social performance, the typical response was "none" or "one." This clearly is not enough expertise for boards to provide knowledge-driven leadership and oversight in the area of sustainable performance. Boards can provide leadership only if they have the requisite information and knowledge. They need to have members with expertise, receive data about how their corporation is operating, and spend board time on their corporation's social and environmental activities.

The changes that have been suggested mean that the role of boards will be both more difficult and more demanding. Decision making is more complicated when it involves balancing different kinds of outcomes. Corporations must have board members who are knowledgeable about sustainable effectiveness and who can provide leadership in this area. Change is needed in the committee structure of boards. In order to develop effective strategies and bring to the overall board the right set of decisions to be made, boards need a committee structure that reflects the sustainable effectiveness objectives of the organization. The committee structure must support a focus on the social impact of the corporation both on employees and on the communities in which it operates, and its impact on the environment. Unilever is a good example of a company that has a board committee structure that reflects its commitment to sustainable effectiveness. It has a responsibility and reputation committee that is charged with the oversight of Unilever's social obligations and its reputation as a responsible corporate citizen.

Conclusion

In order to be truly sustainable, the focus of corporations must shift from sustainability being a peripheral add-on, to it being integrated into the mainstream of the way that organizations do business. It must be incorporated into the financial decision making models, strategies, performance goals, performance reporting, and reward systems of corporations. Only if this happens will organizations become sustainably effective and perform consistently in ways that lead them to being financially profitable, environmentally responsive, and socially responsible. It is hard to imagine this happening in organizations where the board does not demand it.

Boards need to change the type of organizational performance they demand and how they operate. Corporations can only perform well socially, environmentally, and financially if corporate boards provide supportive leadership and expertise. Today, only a few boards provide the leadership and expertise that is needed.