HOW TO INTEGRATE SUSTAINABILITY WITH THE GENERAL MANAGEMENT SYSTEM OF AN ORGANISATION?

Michaela Stříteská¹, Markéta Špičková²

¹ University of Pardubice, Faculty of Economics and Administration, Institute of Economy and Management, ² University of Pardubice, Faculty of Economics and Administration, Institute of Economy and Management

Abstract: The integration of sustainability within general management system remains an important challenge for businesses as well as public administration. The purpose of the paper is to investigate how environmental and social aspects can be embedded in strategic performance management process.

Keywords: Sustainability Performance Management and Measurement, Sustainable Development, Balanced Scorecard, Strategy

1. Introduction

In recent years, an increasing number of managers and companies worldwide have been engaging in serious efforts to integrate sustainability into their business practices. [Jones, 2003] The fields of sustainability and sustainable development have grown exponentially. This growth has raised questions – how to understand the concept, how to manage and measure it and how to aligns daily decision making on all levels with sustainability strategy.

Despite the explosion of interest in and concern with social responsibility and sustainability, their effective implementation faces serious obstacles. [Petrini et al., 2008] In this context the environmental and social aspects are only partially reflected in business operations and are managed by means of specific management systems. Bieker [2003] identifies two reasons why it is so. Firstly, many environmental and social management systems are not linked with the strategy and run only on the operational level. Secondly, they are mostly executed separately from the general management systems by which top and middle management control and run organisation.

For sustainability efforts to succeed, organizations need to capture relevant information and make it part of a larger performance management process. [Global trends in sustainability performance management, 2010] Could be the Balanced Scorecard framework (hereafter BSC) a solution? According to Fidge et al. [2002] just BSC helps to overcome the shortcomings of contemporary approaches to environmental and social management systems by incorporating the three pillars of sustainability into a single and overarching strategic management tool.

The main aim of the paper is to provide suggestions for integration of sustainability into main management system of an organisation. In the first place the paper presents the contemporary approaches to sustainability performance management and measurement. Afterwards outlines the forms of social and environmental aspects integration through Balanced Scorecard and investigates the current state of issue.
2. Sustainability, performance management and measurement

2.1 Sustainable development

Currently, the sustainable development is widely discussed topic not only in the world and the EU, but now also within the Czech Republic. This can be confirmed by following: „According to Corporate Register.com, an independent reference source, fewer than 500 companies issued sustainability reports in 1999. That number is now close to 3,500, reflecting the growing trend among companies worldwide to issue reports demonstrating their commitment to environmental and social targets along with traditional financial ones.“ [Handford, 2010]

The notion of sustainable development is often heard both from the mouths of politicians as well as from leading managers and as the case may be, from the media. In the 20th century, this notion was defined. „The EU has adopted a Strategy for Sustainable Development that seeks to embed the principle of sustainability into all areas of policy development and implementation. All policies must have sustainable development as their core concern“. [Agyeman, Evan, 2004] The notion of sustainable development was first defined in 1991 in the Czech Republic. Then the first Environment Act No. 17/1992 Coll. has been approved, containing the definition” According to Art. 6, sustainable development of the society is such development that maintains the possibility to satisfy the basic living needs while not reducing the natural diversity and maintains natural functions of eco-systems for the current and future generations." [Law No.17/1992 Environment Act]

Sustainable development is no longer a notion that would be only dealt with by the legislation, but in a greater extent penetrates both the management of public administration and corporate practice. Many enterprises start to realise that without orientation towards sustainable development they cannot succeed in the global world and under hyper-competitive relationships. „Many factors are driving the current momentum for sustainable corporate performance. Companies themselves understand the many benefits of sustainable operations, and now respond to a wider, more complex range of stakeholders who demand new forms of accountability“. [Handford, 2010]

2.2 Sustainability Performance Management

The methodical guideline dealing with Building Sustainable Development into the Performance Management Process emphasises the importance of collaboration between corporates and community. Corporates and community have to unify their priorities and set common objectives in the field of sustainable development. „Objectives are cascaded down through departments, services and teams to an individual level. This is often called the golden thread. Following the golden thread from community or corporate objectives should show how your day-to-day activities are changing people’s lives for the better.” [Forum for the Future Performance Management Network, 2005/2006]

Let's ask the question of who is responsible for Sustainability Performance Management, then? Corporate or communities? Today, the primary responsibility for
sustainability performance management falls to Heads of Sustainable Development and not to Chief Financial Officers, who are generally better positioned to link sustainability performance management results to business performance, says study: [Optimizing Sustainability Performance Management, 2009]

Who executes the management that reflects Sustainability Development? The ultimate responsibility for the sustainability report for corporate sustainability-reporting rests in different places in the US and Europe. In Europe, the set-up is different because of the distinction between management and supervisory boards. The management board is responsible for day-to-day operations, while the supervisory board is more concerned with long-term strategy. Responsibility for sustainability reporting in European companies may reside with the CEO or COO but is more likely to sit with a board member responsible for strategy, communications and sustainability. [Global trends in sustainability performance management, 2010]

Management using Sustainability Performance Management (SPM) is a long-term matter. It is a long run, the first successes will be visible only after several years of our orientation towards sustainable development. It is a long-term and strategic objective, which is fulfilled step-by-step in a long-term outlook, which represents tens of years as a minimum. „Whoever is handling the brief, it will expand dramatically over the next few years“. [Global trends in sustainability performance management, 2010]

SPM is a process that integrates three basic pillars of sustainable development: social, environmental and economical. It develops endeavours that all three pillars be reflected within the framework of decision-making processes. SPM can be identified as multi-dimensional management, precisely thanks to orientation to three main pillars of sustainable development. Using the multidimensional performance management approach (MPM) can improve the management of diverse stakeholders’ interests in an organisation. [The Influence of Sustainability Performance Management Practices on Organisational Performance]

There are two aspects of integration [Forum for the Future Performance Management Network 2005/2006]:

1. opening up opportunities for, and actively promoting and supporting, synergies between the environmental, social and economic aspects of wellbeing; and

2. avoiding harmful ‘silo’ impacts in which apparent improvements in one aspect of wellbeing have a detrimental effect in another

„Building sustainable development principles into performance management processes is not rocket science; it can easily be done if there is political and senior management commitment to doing it“. [Forum for the Future Performance Management Network 2005/2006]
Figure 1 shows the cycle of key activity as Plan, Do, Review, Revise. This activity can be used in various combinations and in various time intervals. “It is critical that sustainable development principles are built in at the community and corporate planning stage. If it is not built in at this strategic level there is little chance that it will be consistently reflected at other phases of the performance management process.” [Forum for the Future Performance Management Network 2005/2006]

The Performance Management Measurement and Information (PMMI) team research has highlighted that developing the right environment for performance management to flourish requires:

- clear leadership – both political and managerial – that champions improvement and the use of performance management to achieve it
- a shared sense of purpose that is evident both in what people say and through their actions
- a willingness to pull together and stick with plans – even when progress seems slow
- a genuine desire to learn – both from what’s working well and from what’s not – and to celebrate achievements along the way. [PMMI project, 2006]
For sustainability efforts to succeed, organizations need to capture relevant
information and make it part of a larger performance management process. Doing this
requires two key steps: understanding sustainability efforts as drivers for the business,
and effectively implementing systems for sustainability reporting. [Sprenger, 2008]
Results from these efforts are expected to be both achieved quickly as well as have a
lasting impact. „Companies themselves understand the need to move sustainability
reporting beyond a simple statement in their annual reports to a more detailed
assessment of their operations, management practices, workforce issues and
development strategies.“ [Global trends in sustainability performance management,
2010]

How can companies capture the data and understand the long-term value of
sustainability initiatives? Nowadays, SPM finds itself in a stage, when orientation to
Sustainability development ceases to be a voluntary initiative and becomes obligatory.
Therefore, how to improve corporate performance management? On one hand by
orientation to sustainable development and on the other hand we suggest as a suitable
solution the use of BSC method modified to Sustainability Balanced Scorecard
(SBSC). SBSC is further described in the following chapters.

2.3 Sustainability Performance Measurement

The environment is now regarded as one of the pillars of sustainable development,
this means so-called environmental pillar. With this pillar the environmental protection
is connected with the further two pillars (economic and social) and on this basis the
sustainable development is established. The sustainable development concept
highlights the need of indicators that can express the interconnection of environmental,
economic and social dimensions. It means the indicators that express the degree of the
curves disseverance between environmental load (e.g. emissions of pollutants) and
economic performance (as illustrated by the gross domestic product). [Moldan, 2005]

The sustainability measurements distinguish in many aspects from measurement of
others types of company performance. Schaltegger a Wagner [2006] defined
„Sustainability performance as the performance of a company in all dimensions and for
all drivers of corporate sustainability“.

Sustainability Performance Measurement is a systematic process within the
company that deals with economic, environmental and social aspects. The key
conditions of successful performance measurement are considered: relevant
performance measures need to be simple, quick to measure, visually presentable and
easily understood. Ferguson [2009] recommends that “the measures themselves should
be based on an explicit purpose and have an accurate formula that is both comparable
and consistent, that can measure trends, encourages improvement and incorporates
target setting“.

Many experts in this field have developed a large number of systems for
management and measurement. Most of the methods are relatively young, because they
were developed mainly in the last 20-30 years. These performance measurement
methods, that contained sustainability measurement principle, can be applied in
various businesses and organizations.
“Over the last twenty years, not least from the development of the Balanced Scorecard, non-financial performance (NFP) measures have gained more relevance and importance as leading indicators, with many NFPs being adopted alongside traditional financial metrics to provide a more informed measure of a company’s performance“ [Ferguson, 2009].

3. Sustainability Balanced Scorecard

Balanced Scorecard is widely spread and accepted method. Latest surveys by Bain & Co. have shown that this method is being used by about fifty percent of Fortune 1000 companies. [Belodeau, Rigby, 2009] The Balanced Scorecard was introduced in the early 1990’s by Kaplan and Norton as respond for growing critique of standard indicators systems in a company that were based exclusively on the financial data. [Kaplan, Norton, 1992] The BSC model has since been modified to become a performance management system designed to manage and realize strategy.

The BSC method is defined as a special kind of concretization, illustration and monitoring of the strategy that should help to heighten the probability of the implementation of intended strategy. [Horvath & Partners, 2004] The benefit of the model lies in establishing a framework in which the culture and direction of an organization can be translated into strategies that are actionable, specific and measurable. [Rohm, 2002] In other words the BSC enables individuals to make decision daily based upon values and metrics that can be designed to support corporate strategy.

The traditional BSC is looking at organizations from four strategic perspectives: the financial, the customer, the internal processes, and the learning and growth, all of them need to be balanced. The balance means the equability between the short-term and the long-term goals; required inputs and outputs; internal and external performance factors; and financial and non-financial indicators. According to the authors of concept perspectives are a template, not a straitjacket. [Kaplan, Norton, 2005] Therefore the concept remains open for integrating further relevant environmental or social perspectives.

Several scholars have already indicated the opportunity to develop Sustainability or Responsive Balanced Scorecard [Bieker, Waxenberger, 2002, Epstein, Wisner, 2001, Woerd, Brink, 2004]. On one hand we can find the discussions about the issue namely on theoretical level [Johnson 1996, Radcliffe, 1999], on the other hand we can discover the particular examples of environmental and social issues integration in the BSC [Epstein and Wisner, 2001, Zingales et al., 2002]. Not only for this reason the BSC can be seen as a promising starting-point or possible implementation mechanism for incorporation of environmental and social aspects into the management system. [Fidge et al., 2002, Zingales et al. 2002]

The Fidge et al. [2002] presented three different potential forms of integrating Sustainability into the Balanced Scorecard:

1. The Sustainability is reflected in the traditional fours BSC perspectives – the strategically relevant environmental and social aspects are identified and through strategic core elements or performance drives for which lagging and leading
indicators as well as targets and measures are formulated. [Kaplan, Norton, 2001] The traditional BSC was focused on customers and shareholders, without having other stakeholders in mind. Therefore sometimes to highlight the sustainability initiatives one of the perspectives is renamed (e.g. customer perspective to stakeholder perspective). [KPMG, 2000]

2. **Introduction of an additional perspective** – “the reasoning behind this approach is that environmental and social aspects are still not integrated into the market coordination mechanisms and often represents external factors”. [Figge et al., 2002] The Fidge prefers this approach and proposes to add Non-Market perspective in order to integrate strategically relevant but not market-integrated environmental and social aspects. Some other scholars also favour this approach. For example Brink and Woerd [2004] presented a five perspectives format for a Responsive Business Scorecard that creates a space for People and Planet topics. Bieker [2003] sees integration of Society perspective as sensible.

3. A derived environmental and social scorecard is developed – is an extension of the variants discussed above. “Specific scorecard draws its content from an existing BSC system and is predominantly used in order to coordinate, organise and further differentiate the sustainability aspects”. [Figge et al., 2002]

From the papers dealing with this issue we can also identify the fourth way of integrating environmental and social concerns into the Balanced Scorecard.

4. **The new framework** based on the main ideas of BSC is developed - Beiman [2008] developed a global framework consisting of five perspectives sustainability outcomes, stakeholders outcomes, sustainability drivers, learning and growth enablers and financial and governmental adjustments, that named Balanced Scorecard for Humanity (BSC4H). Soriano et al. [2010] suggest a model of SBSC made up of three perspectives called structure, stakeholders and sustainability interlinked by causal links.

Based from the above we can conclude that there has not been reached universal agreement yet how to integrate sustainability. Nevertheless, all proposals result from the original BSC and are modified according to specific needs that they should serve. Therefore it could be stated that the way of sustainability integration depends on the nature of the strategically relevant environmental and social issues that are identify during the process of building SBSC. Each organisation has to develop its own approach of SBSC based on its unique conditions and characteristic. As a general guideline, it is advisable that all stakeholders that are strategically relevant have been considered. [Bieker, 2003]

4. **An Examination of Current State**

To understand the current state of issue, the analysis of five case studies of organisations that had already implemented BSC method in the conditions of Czech Republic was carried out. Two of them were from public administration and three from business sphere. The analysis as well as brief evaluation was conducted on the basis of available strategic documents from their web sites and supplemented by several short questions that we asked the management of companies using e-mails. The main
attention was paid to the integration of environmental and social concerns into the vision, strategic themes, strategic objectives and strategic maps of selected organisations.

The BSC method as a tool of strategic management has not been widely spread yet in the Czech public administration. We can find only two examples in our country and moreover they could be considered as pilot studies than a fully-fledged implementation. There is only one city Vsetin where the method was so far fully introduced and implemented. In the second case were created top level BSC of Vysocina region.

In the case of Vsetin the sustainable development is explicitly mentioned already in the vision of the city. The sustainability is reflected in the traditional fours BSC perspectives and is integrated through strategic performance measures. Vsetin use for example ecological footprint measure or citizen satisfaction index to monitor the fulfilment of the vision and priorities. From the further analysis of scorecard measures results considerable effort to reach a balance among all three pillars of sustainable development: social, environmental and economical. Because the BSC is cascaded to the level of individuals we can also assumed that sustainability is reflected within the framework of decision-making processes. Thanks to BSC cascading is the strategy that respected sustainable development spread in to the entire organisation and the goals of the municipality, municipal office, departments and individuals are interconnected.

The top level BSC of Vysocina region pays little less attention to sustainable development. However, also here we can identify the tendency to sustainable development by the help of defining strategic themes that highlight the sustainability initiatives. Such strategic theme is for example Future equitable use of resources or Full-value region. To the strategic themes are defined financial as well as non-financial measures that namely reflect the principles of sustainability. Unfortunately here is not possible to carry out detailed analysis because the information about the BSC in Vysocina region is only on the corporate level.

The BSC method as a tool of strategic management has not been widely spread yet in the Czech companies. Only 20% of companies use the BSC to manage the corporate strategy. [Horová, Hrdý, 2007] The questionnaire examination provided “interesting findings regarding Balanced Scorecard tool because this instrument is not too used by companies in their Strategic Management. On the other hand most companies believe that using of this instrument would be useful for them and consider its application”. [Horová, Hrdý, 2007] The advantage of this method is comprehensive approach to implementation and coordination of the strategy. However this advantage has not sufficiently appreciated by the companies so far.

We addressed three randomly chosen companies for examination of current status. The first addressed firm was Metorostav, a. s., as the second Tepelne hospodarstvi Hradec Kralove, a. s. and as the third Jihoceska energetika, a. s..

Metrostav, a. s. is oriented towards the sustainable development. The company deals with environmental protection significantly. The company has implemented this approach into their corporate culture and into their controlled documents. Metrostav a. s. owns the EMAS Certificate and the ISO Certificate in accordance with ISO 14 001.
This is quoted from their website: “The company has been trying on a long-term basis to employ such people who are aware needs of the responsible approach to nature and they will require such behavior from their subordinates and contractors”. On the base of queries which were put to Company Management we can state that principles applied at the setting of strategic goals, their quantification, monitoring and periodic review and the method of interconnection with operating indicators are in accordance with the principles of the BSC. The company deals with all of three sustainability development dimensions. This implies that strategy includes the goals of the sustainability and the responsible society. The dimensions stated above are monitored but the special perspective or Scorcard are not set up for them. This confirms the fact in the introduction that a large number of companies deal with this issues but they report these records separately from others reports and statements. If we assess which of the four ways of sustainability integration is used by Metrostav a. s., we tend to the way No. 1 as described above in the chapter 3.

Tepelne hospodarstvi Hradec Kralove, a. s. emphasises the environmental protection and the social responsibility too. The company accepts voluntarily the obligations of social responsibility which includes social, economic and environmental responsibility. The company uses the BSC method as a tool of fulfilment of the company strategy. It includes four perspectives: (stockholders, relationships, processes, learning and growth). Each of these perspectives is divided into the several sub-goals. Each target contains several indicators or procedures to describe how to achieve the target. Finally, each target contains the metrics or assessment that is used for review of target fulfilment. The company vision shows the environmental and social responsibility. Their strategic targets are clearly defined. As well sustainability of Tepelne hospodarstvi Hradec Kralove is integrated in the manner described in ad 1 chapter 3 as in the case study Metrostav.

In the Annual Report 2004 the company Jihoceska energetika, a. s. disclosed using of the Balanced Scorecard Method. The method was used for transformation of the vision and strategies into strategic goals and specific implementation projects within the framework of strategic management. In the 2005 the company was taken over by the company E.ON Czech Republic, s. r. o. and so we contacted this company. On the base of the short questionnaire we have find out that this company never used the BSC method in their Strategy Management. Here, we unfortunately could not determine whether the sustainability was integrated into Balance Scorecard. The website of the company E.ON Czech Republic, s. r. o. shows using of the social responsibility principle and also efforts to protect the environment.

The Four cases of the five have integrated the social and environmental concerns into the strategy and general management system on the basis of BSC and by the help of first Fidge [2002] approach mentioned above. This brief analysis confirms the statement of Zingales et al. [2002] that if organisation had already “digested” the importance of environmental and social issues for their development the BSC seemed to provide a good implementation mechanism to corporate-relevant issues through to the various layers of the organisation.
5. Conclusion

The issue of sustainable development of organizations is now very actual matter. Strategic management in relation to sustainable development acts as a relatively new trend. The topic is frequently discussed, the literature offers much theoretical knowledge, but the actual implementation of this strategy in practice is lagging. The sustainable development is perceived as an approach to looking only to protect the environment. Only a less fraction of the organization recognizes the social aspect as part of sustainable development.

The principle of Sustainability Balanced Scorecard describes one of the possible ways to implement sustainable development strategies for the organization. All proposed measures dealing with sustainable development enterprise must be assessed with regard to the three fundamental pillars of sustainable development. Approaches for sustainable development should integrate the strategic, tactical and operational management. After implementing a strategy in practice, the sustainable development is becoming an indispensable tool of the organization.

The term as sustainable development and sustainability are the task for further examination. Different users used different ways to explain these concepts, the general consensus of their significance is lacking, so it is very difficult to implement these processes into practice.

In the Czech Republic we are on the beginning of managing and measuring sustainability performance which confirms the assessment above. Sustainability Development in our country is not the new or unfamiliar concept, but its approaches are not yet sufficiently integrated into standard business reporting, indicators, used methods and general management systems. In practice, environmental issues or issues of sustainable development are monitored and reported for separately and simultaneously in addition to regular reports. The orientation to the stated areas can be traced to a large extent on the website of companies or organizations. However, standardized procedures in terms of our businesses and organizations are missing, but it may be caused by the fact that it is very difficult to apply them.

“Recent Accenture research 1 confirms that there is no single formula for sustainability success. Each organization embeds sustainability in the way that best addresses the needs of its various stakeholders and helps the entire organization achieve common, strategic business objectives”. [Accenture, 2009] Consequently, it is necessary to carry more research works in this area.

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**Contact addresses:**

Ing. Michaela Stříteská, Ph.D.  
Department of Economics and Management  
Faculty of Economics and Administration  
University of Pardubice  
Studentská 95, Pardubice, 532 10  
michaela.striteska@upce.cz  
Phone: 466 036 558

Ing. Markéta Špičková  
Department of Economics and Management  
Faculty of Economics and Administration  
University of Pardubice  
Studentská 95, Pardubice, 532 10  
marketa.spickova@upce.cz  
Phone: 466 036 246