

# **Sustainability Performance Management in Large Firms: A Qualitative Research amongst Seven Firms**

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# General Presentation

- **PhD** in Economics and Management (October 2009)  
(Strategy and performance management in SMEs)
- **Assistant Professor** at HEC-Management School of the University of Liege (Belgium) (January 2011)
  - (Sustainable) Strategy
  - CSR
  - (Sustainability) Performance Management
- Responsible for **Accenture Chair in Sustainable Strategy** at HEC-Management School of the University of Liege (Belgium) (January 2011)

<http://www.hec.ulg.ac.be/en/hec-ulg/quick-access/chairs>



# Objective of the visit

- Enter a “network” of research centers in the field of Sustainability and CSR
  - Schulich School of Business, York University, Toronto (Canada)
  - ICCSR, Nottingham University Business School, UK
  - CSM, University of Lüneburg, Germany
- Share and, above all, benefit from the experiences (creation and development of research centers, management of research projects) of worldwide famous research centers in the field
- Time and opportunity for (joint) research papers

# Current Research Projects

## 1. Sustainability Performance Management

- One or Several In-Depth Case Study(ies)
- A Qualitative Analysis
- A Quantitative Research (in specific industries such as financial, chemical or food industry)

+ Cross-national comparisons

## 2. Sustainability and Innovation

- A state of the art (On-going)
- A Case Study Research: Comparison of Best Practices (Case of ArcelorMittal in Belgium)

# Current Research Projects

## 3. Women in (family) businesses

- Qualitative Analysis
- Quantitative Research

## 4. Philanthropy - Solidarity in (Belgian) firms

- Is it “Strategic” Philanthropy?
- Main trends in Social Solidarity (Giving, Volunteering Time, Disabled People, etc.)

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## **A Qualitative Research amongst Seven Firms**

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# Introduction

- The increasing integration of sustainability principles in business has necessitated the management and assessment of (corporate) economic, environmental and social performances (Karatzoglou, 2006)
- In this context, firms have to manage/monitor/evaluate and disclose information about all aspects of their performance: not just their **financial or economic** results, but also their **social** and **environmental** performance (Cramer, 2002)
- Based on previous research and on a qualitative analysis, this paper aims at **better understanding sustainability performance management in large firms**
  - **WHY** they manage, or not, their sustainability performance (i.e. their reasons and motivations)
  - **HOW** they practically operate to manage and measure it (i.e. the performance management tools and systems which have been implemented).

# Agenda

1. Key concepts
  2. Literature
  3. Methodology
  4. Results
  5. Discussion
- Conclusion

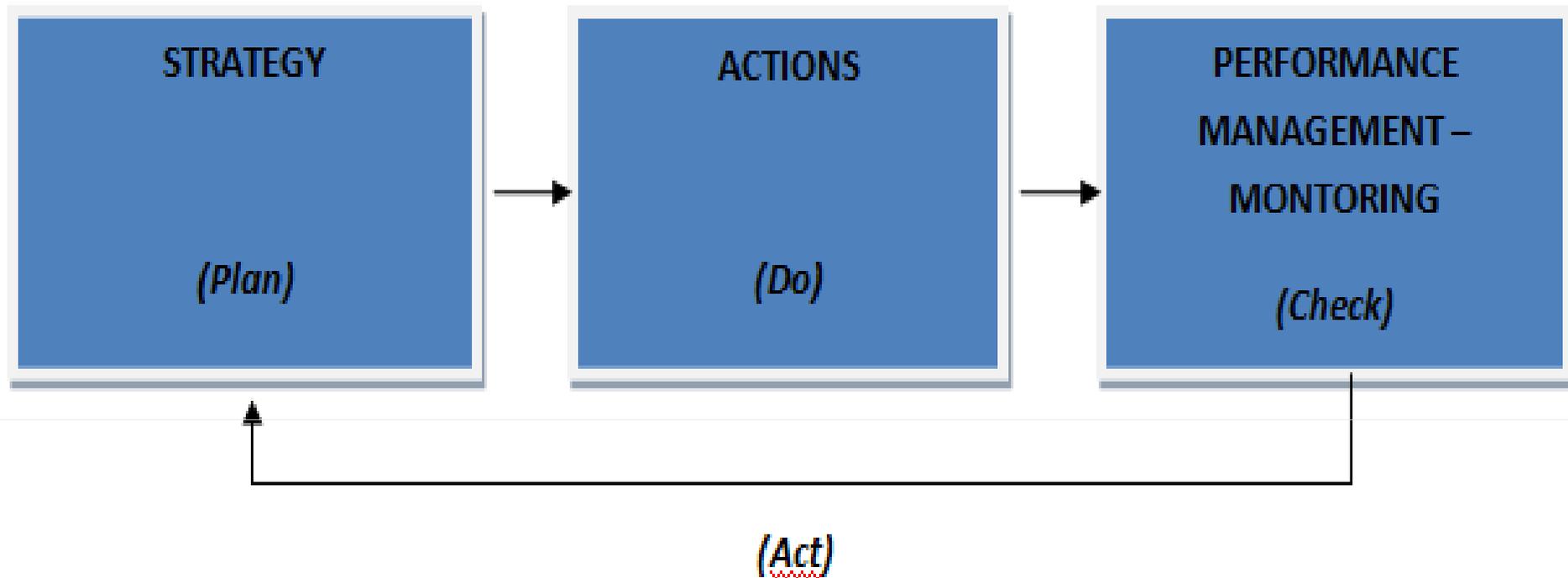
# 1. Key concepts

- Sustainability/Sustainable (Business) Strategy
- (Sustainable) Performance
- Sustainability Performance Management

# Sustainable Strategy

- A strategy which includes a vision consistent with the principles of Sustainable Development and which is thus composed with strategic objectives that **integrate** economic, environmental and social dimensions
- A “*business strategy that meets the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future*” (International Institute for Sustainable Development, 1992)
- Different from some (common) usages of CSR strategy which can be related to philanthropic or peripheral business activities
- Big challenge: “*To pass from a strategic vision towards actions and measures !*”  
Indeed, even if an increasing number of businessmen recognize the importance of formulating sustainable business strategies, they often find it difficult to translate them into actions as well as to measure and to manage corporate sustainability performance (Epstein and Roy, 2001).

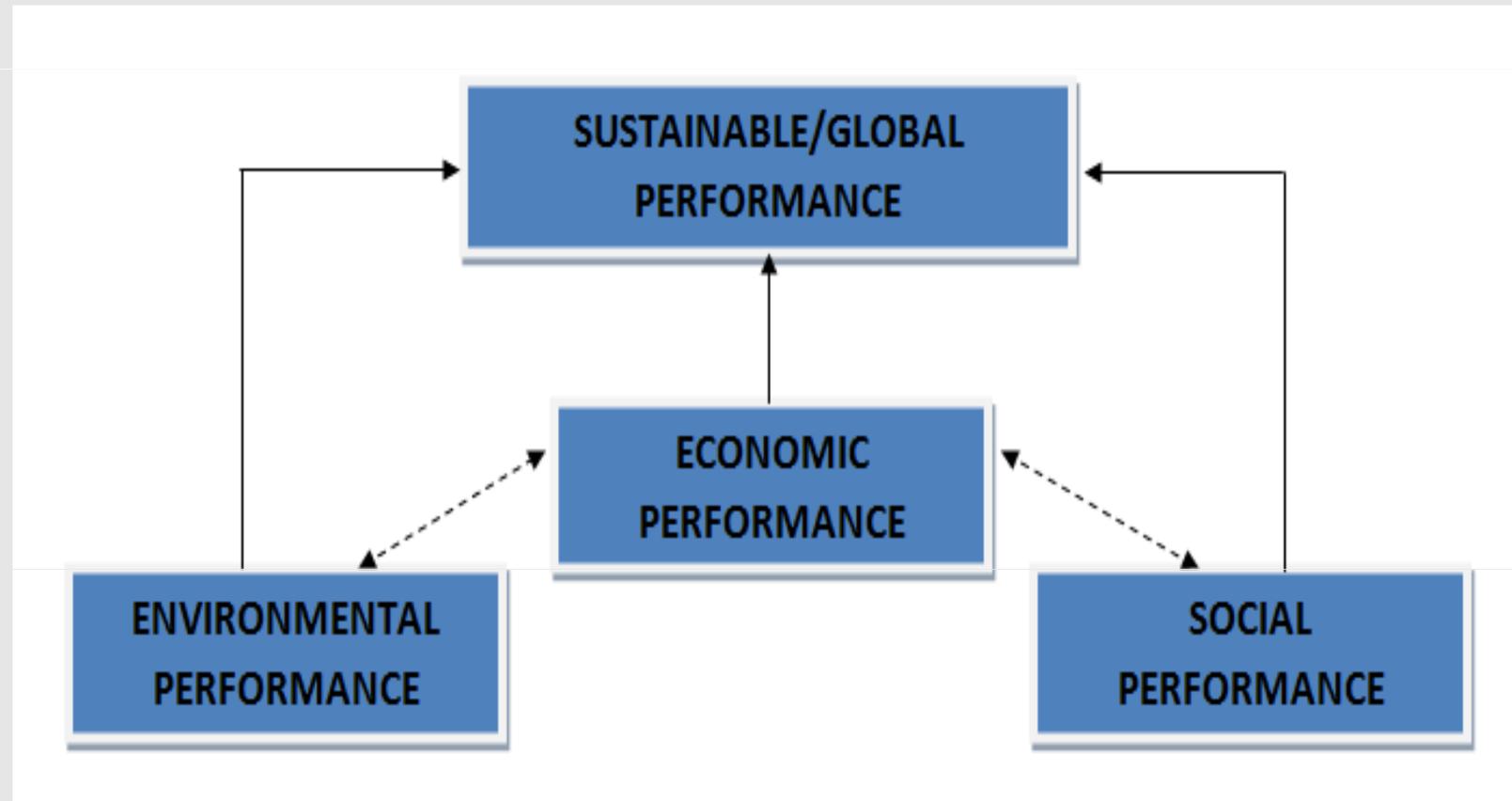
# Strategy and Performance



# Performance

- No-generally accepted definition in the literature
  - Often a narrow financial definition: Achievement of financial objectives (profit, liquidity, solvency)
  - Progressively, a broader definition is (more and more) used:  
Performance is about the “*achievement of the organizational goals, whatever their nature and their variety*” (Bourguignon, 2000)
- In the current world context, progressive evolution :
- From a traditional vision of business performance (Economic/financial vision in the short-term)
  - To more global/sustainable vision, which includes environmental and social dimensions

# Global/Sustainable Performance (Reynaud, 2003)



# Performance Management

- Definition:

Set of tools, systems and procedures in order to pilot, measure and evaluate the (social, environmental, social or sustainability) performance of an organization (Merchant and Van der Velde, 2007)

→ **TO PILOT** = to help to translate the strategy into clear objectives for each department, each worker in order to facilitate the achievement of these strategic objectives and feedback (via adequate tools)

→ **TO MEASURE/EVALUATE** = to check if the predetermined objectives have been reached and to draw the adequate conclusions (feedback) for the future : Why (not)? How to improve the performance? Etc.

# Sustainability Performance Management

- Sustainability performance management is a newly emerging term which addresses the social, environmental and economic (performance) aspects of corporate (sustainability) management (Schaltegger and Wagner, 2006)
- The management of sustainability performance requires a sound management framework which:
  - Links environmental and social management with the business and competitive strategy and management
  - Integrates environmental and social information with economic business information and sustainability reporting
- Appearance of new tools and adaptation of existing ones, such as:
  - **The Sustainability Balanced Scorecard**
  - **Sustainability accounting** as a supporting measurement approach
  - **Sustainability reporting** for communication and reporting

# 2. Literature

*Why and how do (large) firms engage in sustainability performance management?*

# 2a. Why?

- **External motives**
  - To legitimate corporate activities, products and services towards external stakeholders
  - To increase corporate reputation and brand value
  - To signal superior competitiveness, with the help of sustainability reporting activities as a proxy indicator for overall performance + potential benchmarking
  - To be in conformity with, or to anticipate, new legislations about sustainability
- **Internal motives**
  - To legitimate internally sustainability activities
  - To establish and to support employee motivation as well as internal information and control processes
  - To determine if the firm is performing well or not: achievement of objectives?
  - To identify and to realize the economic potential of social and environmental activities (e.g. cost reduction or increase in revenues)

# 2b. How?

- No consensus but two main categories of tools have been distinguished:
  - **Sustainable accounting (tools)**
    - “Collection and the analysis of corporate sustainability information”
    - Examples: Green accounting, social accounting, balanced scorecard, etc.
  - **Sustainable reporting (tools)**
    - “Disclosure of information related to sustainability (based on sustainability accounting)”
    - Example: CSR/Sustainability reports, Website
- Nevertheless, current research shows that most companies focus mainly, or even only, on the external reporting aspects of sustainability performance management → they do not consider any future action plans and budgets concerning their sustainability strategy and activities (Ito et al., 2006).

# 2. Literature - Summary

- Some previous research investigates WHY and HOW firms engage in sustainability performance management
- Lots of firms are confronted to big challenges to pass from a sustainability vision/strategy towards concrete actions and measures
- Most companies focus mainly, or even only, on the external reporting aspects of sustainability performance management
- Based on these observations, the objective of this qualitative research is to analyze the cases of 7 large firms (involved in sustainability) and to understand WHY (1) and HOW (2) they engage, or not, in sustainability performance management in order to explore these questions (1 and 2)

# 3. Methodology

- **Sample**

Seven large firms which are members of Business and Society Belgium

	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>	<i>G</i>
<i>Nationality</i>	Belgian	French	French	Belgian	Belgian	Dutch	Belgian
<i>Industry</i>	ICT	Food Retailing	Energy	HR Services	Chemicals	Logistics	Biopharmaceuticals
<i>Workers</i>	17.000	138.000	200.000	1.465	19.000	160.000	9.000
<i>Annual Sales (in Euros)</i>	6.065.000	19.9 billion	Not available	842.714	8.5 billion	10.4 billion	3.1 billion

# 3. Methodology

- **Data Collection**

- In-depth interviews with the CSR managers of the sampled firms (+ some members of the controlling department)
- Secondary data (website information, internal documents, sustainability reports)

- **Data Analysis**

Qualitative Content Analysis (Glaser and Strauss, 1967; Mayer and Ouellet, 1991; Hlady Rispal, 2002)

Vertical and horizontal analyses of the 7 cases

# 4. Main results

a. All CSR managers state

- Their firm is engaged in a Sustainable Strategy that **integrates** the 3 pillars of Sustainable Development
- A Sustainability Performance Management has been developed

b. All respondents are thus really conscious of the importance to manage, to monitor and to evaluate their economic, social and environmental performance

To legitimate the sustainable strategy (externally and internally)	7/7
To improve image and reputation	6/7
To improve workers' motivation	6/7
To improve internal organization	3/7
To manage risks/opportunities and to anticipate trends better	3/7

c. Nevertheless, most of them assume that, while social and environmental goals are related and aligned with core business strategy, the related performance management is **not yet integrated** (next challenge!)

# 4. Main results

d. All of them use Sustainability Performance Management Tools

➤ *Sustainability Accounting:*

Green, social accounts in traditional accounting	5/7
Green, social appendices in traditional accounting	5/7
Green, social or sustainability budgeting	6/7
Green, social or sustainability cost accounting	?
Green, social or sustainability scorecards	2/7
<b>Green, social or a sustainability balanced scorecards</b>	<b>4/7</b>
Skandia Navigator	0/7

# 4. Main results

➤ *Sustainability Reporting:*

External reporting	
<b>Website information</b>	<b>7/7</b>
Compulsory social report	6/7
<b>Voluntary CSR report integrated into annual report</b>	<b>2/7</b>
Voluntary CSR report (not integrated into annual report)	5/7
Specific events	5/7
Internal reporting	
<b>Intranet</b>	<b>7/7</b>
Events	5/7
Emails	3/7

# 4. Main results

## e. Incentives and bonuses

*To what extent are social and environmental dimensions are integrated into the individual objectives of workers as well as into their potential bonuses?*

Integration of social and environmental dimensions into <b>personal objectives</b>	3/7	<b>Bonuses</b> for the achievement of	
-Staff with direct functional responsibility (such as CSR Managers)	3/7	Economic objectives	6/7
-Board members	2/7	<b>Environmental objectives</b>	<b>2/7</b>
-Senior managers	2/7		
-All managers	2/7		
-All employees	2/7	<b>Social objectives</b>	<b>2/7</b>

# 5. Discussion

- This research leads to the following observations:
  1. While some previous research underline that social and environmental preoccupations often remain at the periphery of core business, the seven respondents highlight a **strong link between economic, social and environmental dimensions in their strategy**
  2. While the literature underline the difficult to translate sustainable strategy into actions and measures (Epstein and Roy, 2001) and that most companies focus mainly/only on external reporting (Ito et al., 2006)
    - All respondents are **aware** of the importance to manage and to measure the performance related to Sustainability Strategy, Objectives and Actions
    - All firms use **sustainability performance management tools**
    - Nevertheless, **social and environmental performance management is not yet integrated to traditional economic performance management in most firms.** The respondents clearly mention that they are aware of the importance of this integration and that this will be their next challenge

# 5. Discussion

3. Some tools presented in the literature are very common (Balanced ScoreCard) while others, such as the Skandia Navigator or the green cost accounting, are not used
4. This research highlights again the **importance of external and internal communication** about sustainable strategy, practices and related performance
5. Even if all seven respondents stress a strong integration of economic, social and environmental issues into their core business strategy, this positive statement is questioned by the following observation:
  - To date, only two of the sampled firms really integrate all three pillars of Sustainable Development into the **individual objectives** of all their workers.
  - **Bonuses** are, in most cases, only related to the achievement of economic/financial goals, without considering social and environmental dimensions
    - ➔ The personal objectives and bonuses policy shows that, in the majority of the sampled firms, economic activities with direct financial returns on business are still the priority (>< discourse)

# Conclusion

- While the literature states that:
  - Firms are confronted to big challenges to pass from a sustainability vision/strategy towards concrete actions and measures,
  - Most companies focus mainly, or even only, on the external reporting aspects of sustainability performance management,

The results of this research suggest that:

- All firms integrate of economic, social and environmental issues into their core business strategy (*discourse of CSR Managers !*)
  - All seven firms manage, measure and disclose information about their sustainability performance with more or less complex tools (such as the Sustainability Balanced ScoreCard)
- Nevertheless, these statements are questioned by the personal objectives and bonuses policy of the sampled firms. Indeed, economic activities with direct financial returns on business are still the priority (>< discourse) !

# Conclusion

- **Limitations**

- Only 7 large firms
- CSR managers = main respondents
  - Not really objective
  - Sometimes, also the “Communication manager”...

- **Avenues for future research**

- Bigger-scale study (larger sample of firms)
- Detailed case studies (interviews with diverse stakeholders)
- Comparison between countries

*Thank you for your attention!*

*Questions?*

*Comments?*

*Remarks?*