

Sustainability Performance Management in Large Firms: A Qualitative Research amongst Seven Western European Firms

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Introduction

- Objective of the paper

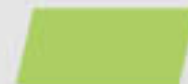
Exploratory qualitative research on **why** (motivations) and **how** (use of formal tools/systems) seven Western European large firms manage and measure their sustainability performance

- Scientific interest

- Previous research has underlined that sustainability performance management (SPM) plays a key role in shaping processes of *sustainability/CSR* strategy formulation and implementation (Simons, 1990; Epstein and Wisner, 2005).
- However, SEAR focuses mainly on external reporting and accountability (Albelda, 2011; Gray, 2002) or on the link between CSR and economic performance (Henri and Journeault, 2010).
 - ✧ Lack of study of the intra-organizational impact of sustainability (Bebbington, 2007; Milne and Grubnic, 2011)
 - ✧ Few empirical research into the association between sustainability, strategy and management control systems (Epstein and Wisner, 2005)

- Practical interest

- Lots of firms are confronted to big challenges to pass from a *sustainability/CSR* vision or strategy towards concrete actions and measures (Schaltegger and Wagner, 2006; Accenture Research 2011)
- Most companies focus mainly, or even only, on the external reporting aspects of sustainability performance management



Agenda

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



Key concepts

- **Corporate Sustainability**

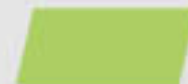
Result of management attempts to address sustainability challenges. However, it remains unclear whether and when a company could be considered to have reached the state of being sustainable (Schaltegger et al. 2006)

- **Performance Management (Systems)**

Evolving formal and informal mechanisms, processes, systems, and networks used by organizations for conveying the key objectives and goals elicited by management, for assisting the strategic process and on-going management through analysis, planning, measurement, control, rewarding, and broadly managing performance, and for supporting and facilitating organizational learning and change (Ferreira and Otley, 2009)

- **Sustainability Management Control (Systems)**

Measurement and management of the interaction between business, society and the environment (Bennett and James, 1997)



2. Literature – Motives for SPM

- **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

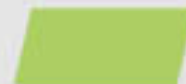
- **Internal motives**

- 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)



2. Literature - PMS

- Five central issues in performance management (Otley, 1999):
 - Objectives setting
 - Strategies and plans for their attainment
 - (Performance) target-setting
 - Incentive and reward systems
 - Information feedback loops
- Formal VS informal mechanisms (Epstein and Wisner, 2005):
 - **Formal mechanisms**
 - **Goal setting (planning, budgeting)**
 - **Performance measurement (cost control, performance evaluation)**
 - **Incentive compensation systems**
 - “Informal” mechanisms
 - Organizational structures
 - Culture
 - HRM, etc.



3. Methodology

- Sample**

Seven large **and diverse** firms which are members of Business and Society Belgium (about 80 members in total in 2012)

	<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	Bio- pharmaceuticals
<i>Workers</i>	17.000	138.000	200.000	1.465	19.000	160.000	9.000
<i>Turnover</i> <i>(in Euros)</i>	6.065.000	19.9 billion	n.a.	842.714	8.5 billion	10.4 billion	3.1 billion



3. Methodology

- **Data Collection**

- Semi-structured interviews with the CSR managers of the sampled firms (+ *short discussions with members of the management control department in 2 firms only*)
 - Questions about their *CSR/sustainability strategy* (description + integration issue)
 - Questions about the *motivations* for managing and measuring sustainability performance
 - Questions about the use of a series of *formal performance management tools and systems* : goal setting (planning, budgeting), performance measurement, incentive and reward as well as reporting system (Epstein and Wisner, 2005)
- Secondary data (website information, internal documents, sustainability/CSR reports)

- **Data Analysis**

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

→ In-depth vertical and horizontal analyses of the seven cases

→ Confrontation of the data collected during the interviews with documents available



4. Preliminary results

a. All CSR managers state that:

- Their firm is engaged in a sustainable strategy that **integrates** the 3 pillars of Sustainable Development
- A SPMS has been developed in their firm

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** (*their “next challenge”!*)

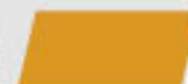


4. Preliminary results

d. All of them mention they use Sustainability Performance Management Tools

➤ *Sustainability Accounting Tools :*

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
Green, social or a sustainability balanced scorecards	4/7
Skandia Navigator	0/7



4. Preliminary results

➤ *Sustainability Reporting:*

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

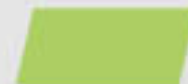


4. Preliminary results

e. *Incentives and Reward Policy*

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

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



5. Discussion

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. The literature underlines that companies are confronted to difficulties to translate sustainable strategy into actions and measures (Epstein and Roy, 2001) and that most companies focus mainly (or even only) on external reporting (Ito et al., 2006)
 - All respondents **say** they 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** presented and developed in the literature
 - 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. CSR managers refer frequently to some tools presented in the literature (eg. Balanced ScoreCard) but it seems they **do not use the adequate terminology** (rather a list of green/social indicators). Other tools, such as the Skandia Navigator or the green cost accounting, are not known at all.
4. This research highlights again the particular **importance of external and internal communication** about CSR/Sustainability for these companies
5. Even if all seven respondents argue that there is an **integration** of economic, social and environmental issues into their core business strategy, this positive statement **is questioned...**
 - Any organizational or cognitive integration between their “traditional” and their sustainability performance management systems has been observed (Gond et al., 2012)
 - In particular, to date, only two of the sampled firms really integrate all three pillars of Sustainable Development into their incentives and reward policy.
 - **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 of CSR managers !!**)



Conclusion

- *Early-stage research project...*
- Based on previous observations made in the literature, this paper aims at exploring why and how large firms manage and measure their sustainability performance
- The interviewees (CSR managers) state 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) BUT without integrating their traditional and their sustainability performance management systems.
- The first statement is nevertheless questioned !
 - Why haven't they integrated their traditional and sustainability systems (if these aspects are integrated at the strategic level)? (*need to be investigated in the future...*)
 - The personal incentives and reward policy of most of the sampled firms does not consider social and environmental dimensions. Indeed, economic activities with direct financial returns on business are still the priority (>< discourse of interviewees) !



Conclusion

- **Limitations**

- Only 7 large firms were studied
- Not enough explicit reference to previous management control frameworks such as Simons (1990) or Otley (1995, 2008)
- Some points could have been investigated further (eg. Why haven't they integrated their MCS and SCS?)
- Need to relate this exploratory findings with recent publications in the field
- Need to cross-check some results (eg. Motives and incentives and reward systems)
- **CSR managers = interviewees**
 - Not necessarily the adequate skills and knowledge...
 - Not necessarily objective... Sometimes, also the “Communication manager”...



Thank you for your attention!

Questions?
Comments?
Remarks?

