

Presentations

Aspects of Sustainable Management in the World

Presentation 1

“Sustainable Management: a European Perspective”

Martin Bennett

Principal Lecturer in Financial Management at Gloucestershire Business School, Cheltenham and Gloucester College of Higher Education, UK / Chair of the Environmental Management Accounting Network-Europe (EMAN-EU)

Contents

1. Introduction
Triple Bottom Line
2. The SIGMA Project
Research Themes and Guidelines
3. Environmental Sustainability
4. Social Sustainability
5. Economic Sustainability
6. International and Cultural Differences to
Sustainable Management
7. Conclusion

“Sustainable Management: a European Perspective”

Martin Bennett

Principal Lecturer in Financial Management at Gloucestershire Business School,
Cheltenham and Gloucester College of Higher Education, UK / Chair of
the Environmental Management Accounting Network-Europe (EMAN-EU)

I should first like to thank IGES and its sponsors, the Hyogo Prefecture and the Ministry of the Environment, for organizing this symposium, and also thank Professor Amano and Professor Kokubu for the invitation to speak here and Mr. Yoshida for his help with all the administrative arrangements. It is a great honor to be invited to speak at this inaugural event of IGES at Kansai Research Center, and as the Chairman of the Environmental Management Accounting Network (EMAN) in Europe I am also looking forward to attending tomorrow the first workshop of EMAN's new Asia-Pacific section. We in EMAN-Europe are running our own conference in the United Kingdom next February, on the theme of Environmental Management Accounting and Government Policy, and if anyone is interested in presenting a paper there or simply attending, I would be very pleased to speak with you afterwards.

1. Introduction

No doubt like many of you my background is in environmental management, in particular environmental accounting, but the focus in Europe has relatively recently, in the past two or three years, moved strongly towards positioning this in the broader context of sustainable management. My presentation will be on sustainable management from a European perspective in the specific context of a particular project, the SIGMA Project, which is currently in progress in the UK and which aims to develop practical methods to support companies in implementing sustainable management. I will use this project as a stimulus to identify some issues about sustainable management generally, and to prompt discussion on what this means and how best to achieve it. One aspect that may be particularly relevant for this symposium as an international gathering is the extent to which the most effective approaches to sustainable management may vary between different companies and different societies, depending on their own cultures and business environments.

The terms “sustainability” and “sustainable management” are still only

relatively recent in business. There was a brief interest in social accounting in the 1970's but this was limited and only a minority interest, and it fell away after a few years when the 1980 recession forced companies to concentrate more on their economic performances. Concern for the environment has become an increasingly important issue for companies during the 1990s, and has proved more durable. However this has been limited to the environment until recently when it has begun to be recognized that environmental concern, although essential, is not sufficient on its own. This is firstly because social sustainability is an important consideration in its own right for many companies, and also because the issues of environmental and social performance are unavoidably linked, since many of the major environmental issues have their roots in social phenomena and cannot be addressed successfully without taking these into account too.

Professor Amano referred to several drivers which are encouraging companies to become interested. One of the most significant of these is the trend to economic globalization, which is both making the business environment more competitive and is also attracting a backlash from some activists. One consequence of this is the increasing power of multi-

Drivers of Sustainable Management

- globalisation and ↑ competition
- ↑ size & influence of organisations
- repositioning of government and its roles
- shift towards knowledge-based economy
- ↑ competition for talent
- ↑ global civil society activism
- ↑ importance of intangibles
- erosion of trust: from “Trust Me” through “Tell Me” to “Show Me”

(Slide 1)

national corporations relative to governments, so that the role of government is tending to become more to set the conditions within which companies can operate rather than to attempt to control directly companies' behaviour. The shift towards a knowledge-based economy is increasing the importance of intangible assets, which now represent the majority of the market value of most large companies. This is also increasing their demand for staff with the relevant talents to support their businesses, who themselves are becoming more discriminating in their choice of employers. Not only employees but stakeholders generally are becoming more sceptical and demanding of companies, so that we have moved from a “Trust Me” society when most

stakeholders might usually have been ready to accept what companies tell them, not only to “Tell Me” where they expect companies to be accountable through disclosure, but also to be able to provide evidence of this - “Show Me”.

These factors are helping to persuade many companies of the need for change, but there is as yet little clear concept of what that change might be and how best to achieve it.

Triple Bottom Line

The “triple bottom line” has become popular as a term to summarise the three aspects of sustainability - environmental, social and economic. The analogy has been made of a three-legged table, for which all three legs have to be strong enough for the table as a whole to be in balance. By analogy, an organisation has to achieve all three aspects of sustainability in order to achieve overall sustainability.

<p style="text-align: center;">Triple Bottom Line</p> <ul style="list-style-type: none">• Environmental• Social• Economic <p>Questions raised:-</p> <ul style="list-style-type: none">- 3 distinct areas of SM, or an integrated whole?- respective status & importance of the 3 elements: hygiene factors <i>versus</i> maximands
--

(Slide 2)

Environmental sustainability can be defined at different levels of scale - global, regional, and local. In the long-term, the global factors are likely to be particularly important, although it is difficult in practice to relate these to their implications for an individual company. On social sustainability, it has always been recognised that no company or other organisation can exist for long without at least the passive support of its key stakeholders - those who are in a position to cause problems if they were to withdraw that support.

Economic sustainability has two distinct implications. First, a company has to be economically sustainable in itself - a company which over the long-term does not earn enough revenues to cover its costs and show a profit for its investors will not be able to continue in business. The second aspect relates

to how far an individual company's contribution relates to the wider prosperity of the community and society in which it is located.

However this raises questions about how these three aspects relate to each other. Firstly, are they each clearly distinct from each other, so that each is to be pursued as an objective in its own right, separate from the others? Or should they be considered together, so that above-average performance in one aspect can compensate for below-average performance in another? And what is their relative importance? Are they all equally important, so that each company should aim to optimise its performance in all aspects? Or are one or two of them only hygiene factors where a merely satisfactory level of performance is adequate, so that the company can then concentrate on optimising its performance in only the other aspects?

2. The SIGMA Project

The idea of the SIGMA project ("Sustainability - Integrated Guidelines for Management") came from the British Standards Institute (BSI). It was the BSI who developed the environmental management standard systems standard BS 7750, which provided the basis from which the International Standards Organisation developed ISO 14000. The project, which is still continuing, is led by BSI with two other

organisations, the Institute for Social and Ethical Accountability and Forum for the Future, and is supported financially by the UK government and the twenty companies and other organisations who are participating. At present its scope is restricted to the UK, although the materials are accessible to anyone interested and the World Business Council for Sustainable Development are planning to extend it more widely internationally.

One stimulus for SIGMA was the feedback received from several companies

The SIGMA Project

- Sustainability: Integrated Guidelines for Management
- leaders / sponsors:-
 - British Standards Institution
 - Institute for Social & Ethical Accountability
 - Forum for the Future
 - 3 UK government ministries:-
 - Industry
 - Environment
 - Education & Employment
 - International Development
- time-scale: July 1999 - April 2003

(Slide 3)

who expressed an interest in the principle of sustainability and sustainable management, but were unclear on the specific actions that they could adopt in practice in order to implement this. Many had already implemented ISO 14001 and were looking for ways to build on this, so that one concept initially prompting the project was to attempt to develop along similar lines a sustainability management systems standard (although whether this is necessarily still the most appropriate concept to pursue is now under debate).

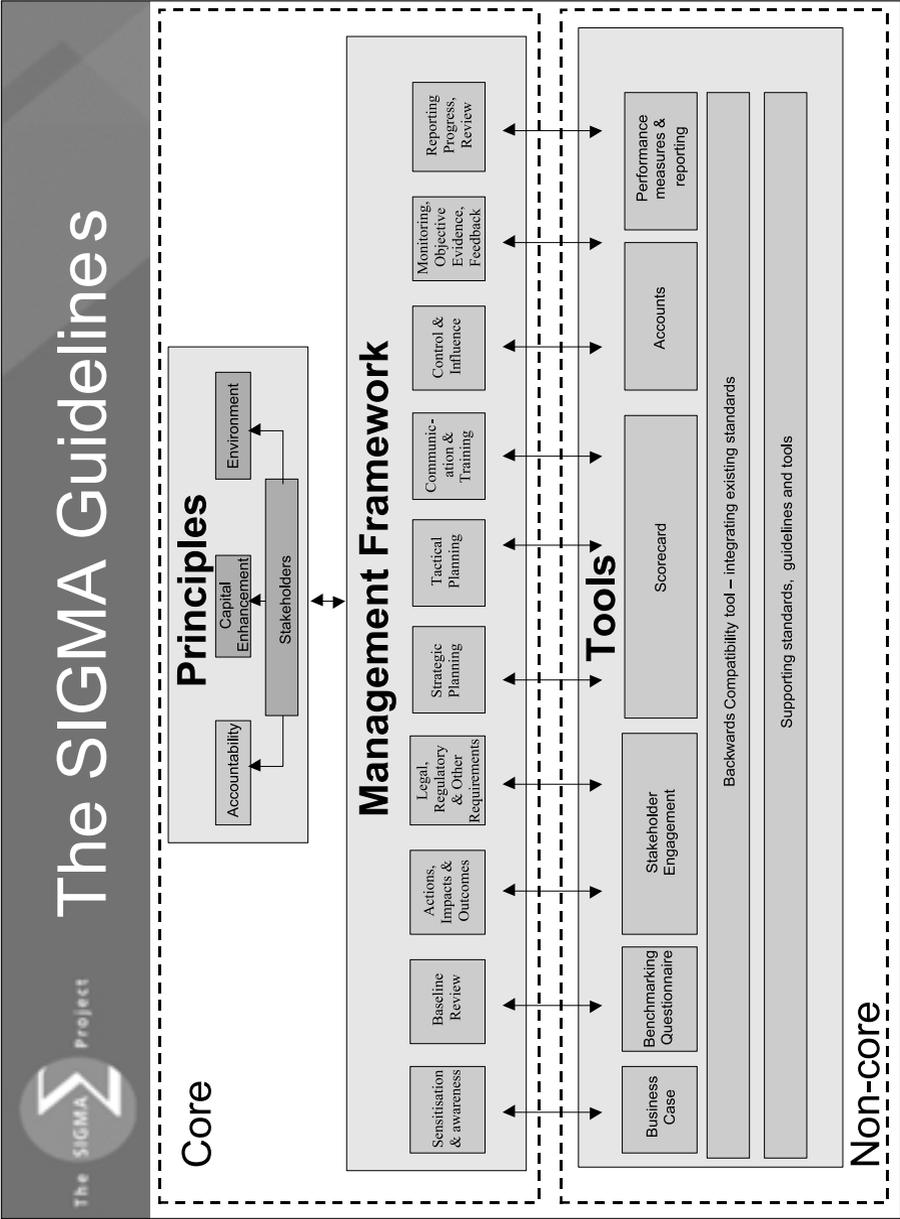
SIGMA's main aim is to develop practical tools which companies can adopt in order to support the implementation of sustainable management. These tools, which are brought together in the SIGMA Guidelines, are still evolving, although several are already being tested in the participating companies. The project started with a review of current practice and the definition of a set of principles and a strategic management framework to guide the development of the tools, and has then moved to testing these in use. Based on this, the feasibility of the original concept, of developing a standardised approach such as a sustainability management systems standard, can be evaluated.

Research Themes and Guidelines

The area of sustainable management as a whole is divided here into six broad themes, the first three of which relate to the three aspects of the “triple bottom line”. There are also separate studies on supply chain strategy, which was considered significant enough to deserve its own study, and on learning and innovation, since it was expected that achieving sustainable management would require the ability to devise and implement innovative new methods. The final heading of “linkages and integration” refers to the need to co-ordinate and integrate developments between each of the other five themes.

<p style="text-align: center;">SIGMA: Research Themes</p> <ul style="list-style-type: none">• Economic Sustainability• Environmental Sustainability• Social Sustainability• Supply Chain Strategy and Evaluation• Innovation, Learning and Cultural Change<li style="text-align: center;">and• Linkages and Integration
--

(Slide 4)



(Slide 5)

The graphic model [Slide 5] provides an overview of how the different elements in SIGMA fit together, in three levels: Principles, Management Framework, and Tools. The Principles and the Management Framework are

considered to be core, since they are universally relevant. The various tools are optional means to achieve this, from which each company can select whatever it considers to be appropriate to its own circumstances.

The Principles are based on three fundamental concepts: accountability, capital enhancement, and environmental sustainability.

“Accountability” means that sustainable organisations will recognise that their activities do not exist in a vacuum, and that a range of stakeholders will both affect them and be affected by them. They recognise both that le-

gitimate stakeholders have a right to relevant information, and also that successful organisations will be those who have a good relationship with their stakeholders through ongoing dialogue.

The term “capital enhancement” refers to a concept with which businesspeople are familiar, but is here not restricted only to financial capital. Also relevant are other types of resources and sources of value that can also be thought of as stocks of capital, to be protected and if possible increased over time - environmental, social, intellectual, and manufactured (or physical) forms of capital.

“Environmental” sustainability means that organisations who depend for their continued existence on the destructive consumption of non-renewable natural resources, or who generate wastes of sufficient volume or toxicity to cause problems in disposing of them, can continue only if they are either allowed to continue to damage the natural environment and its inhabitants, or by

SIGMA Principles: underpinning concepts

- **Accountability**
 - recognising the range of interest of stakeholder groups
- **Capital Enhancement**
 - environmental capital
 - social capital
 - human/intellectual capital
 - manufactured capital
 - financial capital
- **Environmental Sustainability**
 - operating within environmental limits that are sustainable in the long-term

(Slide 6)

fundamentally changing the way they do business.

The Management Framework aims to set out the process by which companies can implement sustainable management. This is based on the well-established Plan-Do-Check-Act principle and is no more than standard good management practice, starting with first developing awareness and identifying the organisation's present position, and going through to monitoring and reporting results in order to inform the next cycle.

SIGMA Management Framework

1. Sensitisation and awareness
2. Baseline review
3. Actions, impacts and outcomes
4. Legal, regulatory and other requirements
5. Strategic planning
6. Tactical planning
7. Communication and training
8. Control and influence
9. Monitoring, objective evidence and feedback
10. Reporting progress, tactical and strategic review

(Slide 7)

The purpose of the project is to support the collection of relevant existing management tools, and development of new tools, to support companies. Those for which a particular demand has been expressed by companies are an assessment tool, an auditing and verification tool, and a means by which to integrate the social and environmental into the financial. A

The SIGMA Toolkit

Draft tools:

- Management Framework Benchmarking Questionnaire
- SIGMA Scorecard
- SIGMA Accounting Tool
- Stakeholder engagement
- GRI performance measures and reporting guidelines
- Backwards compatibility
- SIGMA Business Case

(Slide 8)

number of tools have already been assembled to provide a toolkit from which

each company can select what it considers most appropriate for itself. These include a Benchmarking Questionnaire, a Scorecard, and an Accounting Tool.

A further principle is “backwards compatibility”, which means that whatever companies might do should so far as possible aim to be compatible with their existing systems, so that sustainable management can evolve from current practice rather than replace it. The SIGMA project aims to be an evolutionary approach which seeks ways to achieve sustainability within existing structures, rather than requiring more fundamental and radical change.

3. Environmental Sustainability

Having summarised briefly the project’s aims and content, I shall now go on to report some of its findings to date and to use these as a prompt to identify and consider some of the issues raised, starting with environmental sustainability.

The difficulty faced in trying to apply this concept at the level of the individual company is that as a concept, environmental sustainability is valid only at the level of the eco-system as a whole. This means that the most that can be said for any individual company is that firstly, it may be more sustainable than other companies in its sector, and secondly that its own performance shows an improvement over time. However it is difficult to define what level of its performance might be sustainable in absolute terms, independent of the environmental impacts of other companies and of consumers. The conclusion that can be drawn from this is that it is unrealistic to attempt to define sustainable outputs at company-level, and that it may be more effective to focus instead on the processes that a company might adopt in order to move towards environmental sustainability even if the precise destination is unknown.

Balanced scorecard and similar models are often found popular and effective. One reason is that these are widely recognised amongst managers and in many companies they have already been adopted as a means to measure and manage performance generally, so that this offers a way in which environmental management can be related to the mainstream of the business. However, they do raise issues concerning the relative importance of different aspects of performance, and how far it may be acceptable to use above-

average performance in one area to justify below-average performance in another.

Although one motive behind SIGMA was to investigate the potential to develop a sustainability management system, research amongst companies found mixed feelings about the effectiveness even of established environmental management systems such as ISO 14000 and EMAS. These were firstly criticised by some as frequently tending to become merely bureaucratic and procedural, and not guaranteed to lead to positive outcomes. Secondly and more fundamentally, some considered that present economies and societies are so far away from sustainability that mere incremental change is insufficient, and the EMS principle of continuous improvement might actually inhibit more radical change and fail to encourage innovation. However an opposing view to this is that the problem is not with environmental management systems in themselves, but with how they are often applied; that they at least stimulate an interest in environmental management amongst those who might otherwise not have considered this; and that the criticism that they may discourage radical change reflects a mistaken understanding of the original concept of kaizen, which was not restricted only to continuous incremental improvement but was intended also to extend to occasional radical step changes.

Further findings from the research were that managers' compensation is only rarely based on their environmental performance, which perhaps suggests that some companies are not really as committed as may sometimes be claimed; and a diversity of opinion on how best to achieve change. Some considered that an evolutionary approach could be effective, whereas others took the more cynical view that people and organisations usually need some major stimulus through a crisis in order to persuade them to consider fundamental change. If the latter, this prompts the question of how best people can be persuaded to behave as if some crisis were actually occurring, if possible before this becomes reality in fact?

4. Social Sustainability

SIGMA's research here found that although there are several standards and guidelines on social sustainability, many of these cover only a part of the

whole picture, and that although there is substantial overlap between them they generally make little attempt to cross-reference each other.

The main difference between standards is the relative emphasis placed by each on substance and process respectively. Substantive standards are those which are concerned with how companies should actually behave, for example in their treatment of their workers and the conditions that they should insist on from their suppliers. Process-oriented standards are those such as ISO 14001 which offer guidance to companies on how they should manage themselves, rather than on what they should do.

It was decided that in order to be pragmatic it is unrealistic to attempt any substantive standard, since there is no universal consensus on what types of corporate behaviour might be considered to be socially sustainable in all possible situations. This raises the further question of whether this lack of consensus is only temporary, and so may be resolved after the issue has been more widely debated for longer; or alternatively whether it is incapable of ever being resolved, if social sustainability depends on the social and ethical norms of each particular society and stakeholders. However if the latter is the case, it does call into doubt what meaning if any can be attached to the term “social sustainability” other than the need (which has always been recognised) for companies to be sensitive to their key stakeholders - those whose goodwill is important to their success and prosperity.

Because of this difficulty of attempting any substantive definition of sustainability, SIGMA decided to concentrate instead on the processes - the actions and procedures that are available for companies to adopt, in order to be able to achieve whatever social sustainability is decided to mean in each case. There are several standards available to help to guide this, but they vary in focus and most are only partial in their coverage. These standards can vary in several ways:

- to what extent each aims to be substantive or process-oriented
- the degree of formality
- the degree of detail.

Perhaps surprisingly, it was found that most standards have little to say on stakeholder dialogue and often did not identify any stakeholder group other

than the organisation's own staff; and that many are incomplete in respect of both economic sustainability and supplier relationships. The profusion and variety of standards and approaches is itself a barrier to their adoption, since this presents companies with a wider range of choice than is helpful and a company may be reluctant to adopt one particular standard and then discover only subsequently either that this is inappropriate for their own purposes, or that it is not then adopted by enough other companies to support comparisons and benchmarking .

In summary, there is no single generally accepted definition of social sustainability, and the choice of approach represents a balance or compromise between on the one hand certainty on the action that is appropriate, against on the other hand the degree of consensus that there is likely to be around that action. Substantive definitions may be clear on what should be done, but no single definition is likely to command general support. Process-oriented definitions are less likely to attract opposition, but do not help companies to answer the question of what they should actually be aiming to do.

This leaves several issues for each company to find its own answers to, hopefully with the help of continuing research. Firstly, how best to identify which of the many potential stakeholders to include in dialogue, and the appropriate balance between them - bluntly, which stakeholders should be treated as being the most important and what are the criteria for determining this? What does good quality dialogue actually represent, what boundaries if any should be placed around what is discussed, and how can the benefits be evaluated against the costs of the exercise to support a business case? How can appropriate substantive performance be determined for each company in its own situation, and in particular for a multinational company in each of the several countries in which it operates? And how should a company aim to deal with stakeholders who are fundamentally opposed to what the company is doing and unlikely to be amenable to persuasion, reason, or even hard facts? - should it attempt to accommodate them and compromise, or accept that some confrontation may be inevitable and attempt to anticipate this? And most fundamentally, should a company see itself as only the result of the interplay between its various stakeholders, so that the task of social sustainability becomes essentially only that of discovering what key stakeholders are seeking from it and complying with this, or should it (like

companies such as Body Shop) define itself by its adoption of a set of values which then identify to the outside world the essence of what it sets out to be?

5. Economic Sustainability

Since the most basic objective of any private-sector profit-seeking company is economic performance, it may seem surprising that the SIGMA research amongst companies found that economic sustainability was considered to be “the most elusive component”. There are two possible explanations for this. Firstly, for several years there have been criticisms that conventional accounting and financial management techniques are failing to provide adequate measures of companies’ economic performance, and to give direction to management. Secondly, that these conventional accounting and financial management techniques do not aim in the first place to do more than measure the success of each company as an entity in itself, and are therefore not capable of measuring the impact on the wider society outside the company’s own boundaries.

Companies are not encouraged by their general perception that good environmental and social performance, which may often seem costly, does not necessarily always lead to improved economic performance. The pursuit of economic sustainability is also hampered since the responsibility for this in a company may often be fragmented across several different functions.

Economic sustainability can be defined in two distinct ways - both for the company itself as an entity, and for the society in which it exists. The term can be found being used in either meaning, which is unhelpful since they clearly have different implications. The sustainability of the entity is clearly important to its own stakeholders, although even here this is not necessarily an absolute priority for all stakeholders. Many investors may be prepared to accept a certain level of risk so long as this is compensated by the prospect of above-average returns and therefore to accept the risk that a company may fail, since they can minimise the risk in their portfolio as a whole through diversification. For the staff of those companies, however, who are not able to diversify their employment risk in the same way, the failure of the company that employs them is likely to be a much more serious concern. However the failure of an individual company is not necessarily a problem for

the society and economy in which it is located. It can be argued that a healthy economy is one in which it is possible to start up new ventures easily, and then to find out in practice whether they have the potential to be a success. If not, it may be best for all concerned to let them fail so that their stakeholders can move on to try something else which may be more productive and successful. This is an area where significant international differences are apparent, with the USA in particular seemingly ready to tolerate a relatively high rate of start-ups and failures as its way of achieving a high-performing economy; whereas some other countries are more concerned to avoid the social, economic and sometimes political disruption that this can often involve.

Even from the limited perspective of the company itself, however, there is scope to improve how we define and measure economic sustainability. Economic performance is sometimes equated with financial performance as indicated by the traditional indicators of return and risk from companies' accounting statements, but although these concepts are related they should be distinguished. Conventional financial measures such as profit tend to look backwards and to report past transactions, and have been accused of encouraging short-term attitudes to business. The economic concept of value on the other hand is based on expectations of future income and risks, and usually assumes a long-term future for the company unless there is a positive reason to assume otherwise.

Future income will depend on what is likely to happen outside the company in its business environment, which includes the effects of pressures from government and other stakeholders on environmental and social performance. This could hold the key to one of the most hopeful directions in which sustainable management can go, since it offers a way to integrate the other two legs of the triple bottom line - if the risks and returns which are driven by environmental and social performance can be estimated in terms of their possible effects on the company's overall value.

The research found little communication between companies and their investors on their environmental and social activities, and the significance of these. This is probably not surprising but it is still disappointing since in many countries investors are the single most powerful group of stakeholders in terms of their influence on companies. If companies genuinely believe that

their economic and social performance is important as a part of their sustainability as entities, then this will be important to their investors too; but this needs to be communicated and explained in terms which investors can relate to, as the potential impacts on the values of their investments. This will require more than the traditional accounting tools. There are already some tools in use which have the potential to measure this in several areas of business such as brands valuation, the measurement of intellectual capital, and full cost accounting, although there is still debate over how relevant and reliable these are.

However this does mean that a framework is already available within which it may be possible to position the environmental and social aspects of sustainability as part of the measurement of the economic sustainability of the company. Investors are aware that an increasing proportion of the values of their investments is represented by intangible assets, including those related to the reputation of the company and its ability to work together with a wide range of stakeholders, and that this demands different indicators than the traditional ones - strategic management accounting, to measure how actions within a company support its strategy and generate value for investors, by either increasing returns or reducing risks. What is needed is a method through which environmental and social performance can be expressed in similar terms to intangible assets such as brands and human capital.

6. International and Cultural Differences to Sustainable Management

This perspective, of seeking to position the environmental and social aspects of sustainability within a context of economic valuation which indicates economic sustainability, is grounded in a particular cultural background. It assumes not only a market economy, but also one in which investors are the most influential stakeholder group in practice as well as theory, and are not themselves excessively constrained by inappropriate forms of government regulation. In this context the role of government becomes less one of attempting to exert direct influence and control over companies' behaviour, than of creating a business environment in which companies are encouraged to behave in desirable rather than undesirable ways. This does not exclude traditional command-and-control regulation on areas like environmental

legislation, but goes beyond it to the use of economic instruments as a policy tool, and to assisting business through educational and research programmes to follow progressive management practices including the introduction of appropriate tools such as environmental management accounting.

There may be other ways too in which international and cultural differences mean that different approaches are needed in different companies and societies, so that although we all aim to move in the same direction, the means of achieving this may vary. These may include the degree of reliance on analytical approaches and formal quantitative systems of measuring performance and how these are applied in practice (“managing companies through the numbers”). In this international gathering, it would be interesting to explore further the range of approaches to management which are represented here.

7. Conclusion

That concludes what I would like to offer to this symposium. I hope that it has opened some issues and raised some questions, and will stimulate some debate. My thanks for your patience in listening, to Professor Amano and all at Kansai Research Centre for their hospitality, and my best wishes to you all for the future.

NB: the SIGMA project website can be found at <http://www.projectsigma.com>