

# CORPORATE SUSTAINABILITY: ENVIRONMENTAL, SOCIAL, ECONOMIC AND CORPORATE PERFORMANCE

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## Abstract

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The article deals with corporate sustainability and environmental and social issues of the integration of corporate performance measurement that may lead to sustainable economic success. Sustainability is a strategy of the process of sustainable development. Sustainability of businesses and sustainable performance can be defined as an integration of environmental, social and economic performance. First and foremost, businesses will want to know what indicators can be used to measure environmental, social and economic performance. What is the mutual relationship between environmental, social and economic performance? How can firms arrive at a comprehensive assessment of their performance in relation to sustainability? The aim of this paper is to analyze corporate environmental, social and economic performance and to analyze their mutual relationships. The final part of the article is an assessment of the contemporary situation and draft Key Performance Indicators (KPI) for assessment of corporate sustainability that will be the subject of further research in a selected NACE-CZ sector and in accordance with Corporate Sustainability Reporting. KPI provide businesses with a means of measuring progress toward achieving objectives.

corporate sustainability, environmental performance, economic performance, key performance indicators, corporate sustainability reporting, small and medium-sized enterprises

At present we can see that the importance of support to sustainable development on the part of business entities is also increasing. The business sector, and in particular small and medium-sized enterprises, which have an irreplaceable role in creating new jobs, influences sustainable development. Research and empirical data show that it is particularly the sector of small and medium-sized enterprises that plays an important role generally in the overall level of employment. The principal task of a firm is to maintain and increase its market value and to generate (adequate) profit (Ježek, 2008). Small and medium-sized enterprises make up a majority in the structure of the business

sector in the Czech Republic. In domestic literature, small and medium-sized enterprises have been researched by Veber, Šrpová (2005), who call small and medium sized-businesses a dynamic element of the economy.

In other countries, there exist very many economic, environmental and social indicators for sustainable development assessment at the corporate level that document the course of changes in corporate care for individual components of the environment over a specific period of time. The best-known international activity is the Global Reporting Initiative<sup>1</sup> (GRI) that focuses on defining a standardized content of sustainability reports.

1 Global Reporting Initiative, 2011: Available at <http://www.globalreporting.org>.

Sustainability Performance Management according to Schaltegger, Wagner, (2006), Hyršlová, (2009) is a new term in the field of entrepreneurship and corporate social responsibility. Managing corporate performance towards sustainable development is also very closely connected with an external reporting of the company's sustainable development. Businesses will adopt the concept of sustainable development if it contributes towards economic prosperity while perceiving the mutual relationship of environmental, economic and social performance.

The aim of this paper is to explore methods that will allow to *measure corporate sustainability, to set objectives*, and what measures and procedures could to be used to achieve those objectives. This creates a need to collect, record, analyze and transmit information on economic consequences of environmental and social activities.

## MATERIALS AND METHODS

The more environmentally friendly a company's behaviour is, that are incurred activity companies. And vice versa – the greater the damage a company causes to the environment, the poorer its corporate **environmental performance**.

At present, when the companies' aim is creating a high market value, their management must focus on all the aspects of the company's impacts that will, in turn, provide a comprehensive view of the company. Such impacts include the company's environmental behaviour in the meaning of responsibility for the environment, and it has been demonstrated that environmental initiatives also produce economic benefits. The introduction of cleaner technologies, optimization of technologies that reduce the need of resources, environmental management systems (EMS) such as ČSN EN ISO 14 001, EMAS and other voluntary tools lead to a safe improvement in the company's environmental status. Integration of quality and environmental management systems has created new opportunities for companies such as lower consumption of resources, improved relationships with external investors including local communities, the authorities, etc. (Kocmanová, Němeček, 2006, 2009).

Because corporate **economic performance** needs to be analyzed and evaluated, a large number of various techniques have been developed for the purpose. To enhance their firms' economic performance through quick and simple methods is the principal wish of investors and owners of firms alike. From their point of view, it is important to determine whether the firm is able to increase its value and thus to give them an adequate return on their investments. To maximize and increase market value on a long-term basis are considered the basic aims of a majority of businesses.

Both in practice and literature (Grünwald, 2001; Kislingerová, Hnilica, 2007; Sůvová *et al.*, 1999) there exist a large number of approaches to corporate

performance evaluation, and their use depends on the existing situation in the given market, because performance criteria shift in response to market development. In the conditions of the Czech Republic, the predominant approach to corporate performance evaluation is the classical one which relies on the monitoring of standard indicators of the return on equity (ROE), return on assets (ROA), return on capital employed (ROCE) and the return on sales (ROS), which are popular with managers mainly because their relatively easy construction and result interpretation that facilitates a targeted management of the company. However, there has been a gradual shift towards the use of value generation as a tool of corporate performance evaluation. At present, specialist literature offers many methods to measure that value. In recent years, economic value added (EVA) indicator is becoming very widely used.

The use of classical or modern financial indicators of corporate economic performance for sustainability assessment does not have a sufficient informative value. According to Synek (2004), the choice of non-financial indicators should depend on long-term objectives and the strategy of each individual company. Non-financial indicators should be in direct relationship with long-term, strategic objectives, and the fulfilment of the indicators should be the attainment of the objectives. They should be defined in a manner that would make it possible for us to tell in the future whether there has been a change, either desirable or undesirable, in them, or no change at all. For that reason, there is a problem of indicator measurability.

Corporate **social performance** is another important factor in the company's economic and environmental performance. Together with the environmental factor, it increases the company's long-term economic performance. We can put it the other way round and say that good economic performance provides firm foundations for environmental and social aspects. That means that it is generally advantageous for a company to operate properly and adopt principles in the areas of occupational safety, employee health, human resources and ecology. The importance of the social dimension is particularly in the association with human resources. From the economic point of view, a man's performance can be evaluated as, e.g., the amount of work he performs over a specific period of time, his work efficiency can be measured by labour productivity (which, like work, includes the quantitative and the qualitative components). From the social point of view, a man is willing and able to perform optimally (and thus to achieve the optimum work efficiency) if he utilizes all of his potential, feels personal self-fulfilment and satisfaction, and develops his personality.

An important element of social performance is "Occupational health and safety management systems and the "Safe Company" programme.

The trend that emphasizes social aspects of sustainable development is the Corporate Social Responsibility (CSR) concept. The areas where corporate social responsibility may play a role are many and they differ according to the field of the company's operation, both geographically and culturally (Trnková, 2005).

## RESULTS AND DISCUSSION

Sustainability of small and medium-sized businesses in the Czech Republic may bring effects in the capturing the practice in the form of analyses of the environmental, social and economic performance, increasing the interest of stakeholders in the issues, etc. Surveys in small and medium-sized enterprises focused on the mapping of sustainable development situation in 2010. A total of 280 companies from the processing industry, construction, trade and services selected from a corporation database were contacted. Of the total, 27.4% were companies with under 250 employees, 28.2% with under 50 employees and 17.7% companies with fewer than 10 employees. In the sample of companies analyzed, the most frequently represented industries were the processing industry, trade, construction industry and services.

Among small and medium-sized enterprises, differences in the interest in, and intensity of response to, the issue of sustainable development were expected. It follows from the survey that 57% of companies include a reference to sustainable development, and include it into their strategic goals, and 43% of companies do not include a reference to sustainable development and it is not a part of their strategic goals, either.

In the survey, respondents were offered a choice of four statements describing sustainable development and were asked to choose the one that best described their experience and practice. There may be a number of explanations why the content of the concept is not well-understood in small and medium-sized enterprises, e.g., employees are inadequately informed about sustainable development, failure to include strategic and social goals, etc. A small percentage of respondents from small and medium sized enterprises agreed on the basically textbook definition of sustainable development, the best-known definition is that sustainable development will provide for a "balance between three pillars" (8.6 %), and the "future

generations" definition was second (18.5%) best characterizes (Tab. I).

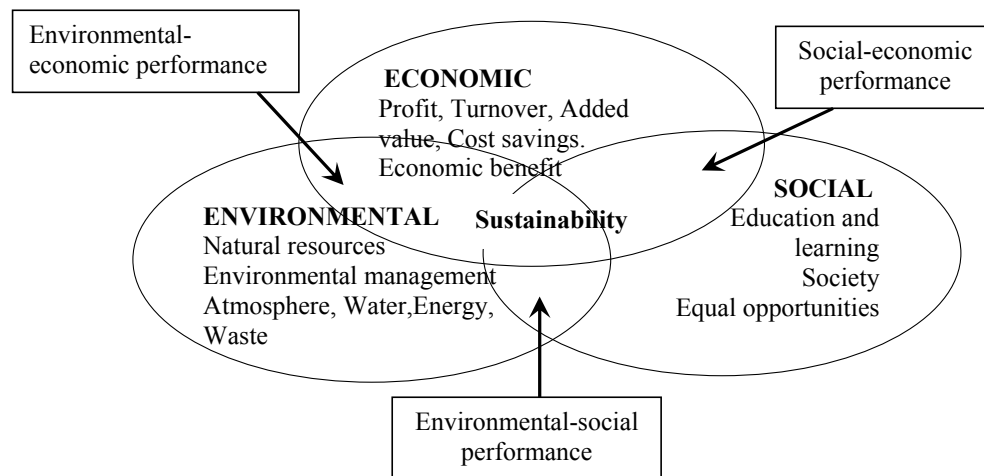
Implementation of sustainable development in small and medium-sized enterprises may be advantageous for several reasons, most importantly because it may enhance eco-efficiency of technological processes, mitigate negative impacts on health and the environment, lead to an economic success of the company, facilitate negotiations with state authorities, local governments and other stakeholders, enhance positive attitudes of employees towards their company and thus achieve significant economic effects, increase attractiveness for would-be investors and for international cooperation, etc. Businesses will primarily be interested in, what indicators can be used to measure environmental, social and economic performance? Integration Integrate Integrate Integrate eIntegration of environmental, social and economic performance in Conflicting Perspectives and shown in the Triple Bottom Line, Fig. 1.

Mutual relationship between environmental and economic performance has been the subject of many research studies and projects. Environmental impact refers to the amount of harmful effects due to a company's operation. Such harmful impacts may be caused by its *use of the land, use of resources*, or by *releases into the atmosphere, water and soil*. The more environmentally friendly a company's behaviour is, the better the overall environmental conditions. Economic performance is a multifaceted concept, in which different operational measures reflect different aspects. Economic performance is most closely associated with profit. Economic performance includes financial performance, but it will need to reflect to an ever greater extent the company's broader influence on economy.

SA positive relationship between **social involvement and economic performance** has been demonstrated, which means that social involvement enhanced economic performance of the company. EHowever, no general conclusion can be reached due to flaws in processes used: the majority of studies rely on short-term economic metrics such as profit, return on equity and market value of stock, and the period it may take to economic impacts of social involvement to manifest themselves may be longer than the period analyzed by the above indicators. Causation is another problem with the studies conducted.

I: Sustainable development definitions

	best characterizes	I know	I do not know
Definition–Sustainable development meets the needs of the present generation...	18.5%	15.3%	39.5%
Definition–Sustainable development guarantees balance between three basic pillars ...	14.5%	18.6%	40.3%
Definition–Sustainable development is the ability of humankind ...	3.2%	9.7%	60.5%
Definition–Sustainable development at the corporate level ...	7.3%	8.9%	57.3%



1: Mutual relationship between environmental, economic and social areas with respect to corporate performance

Once we establish the category of **environmental and social performance**, we can also discuss the categories of social and environmental profit. Environmental and social performance is more and more frequently associated with the CSR.

Corporate environmental and social responsibility cannot stand in isolation from economic viability. Profitability and growth create new jobs and wealth; companies must therefore continue to produce products and services that people require. While pursuing commercial imperatives, companies must also deal with social and environmental issues as a part of providing added value for companies and their stakeholders. CSR is a commitment by firms to contribute to sustainable economic development by improving the lives of the community and the environment they are working within. Today, studies are being conducted in an effort to find the link between CSR and the economic performance of firms. Key performance indicators provide businesses with a means of measuring progress toward achieving objectives.

A prerequisite for a successful measurement of corporate environmental, social and economic performance is the development of KPI. In order to adequately capture the link between environmental, social and economic performance and progress in implementing corporate sustainability strategies, it is necessary to develop and use appropriate financial as well as non-financial KPIs. Companies can use KPIs developed by international organizations, peers and leading companies, or they can develop their KPIs in-house "The key is to remember that what is measured is managed," says Chort, "and that it's important to measure what will protect and create value for your company and its stakeholders. Unfortunately, the tendency is to manage what is easy to measure." **Key performance indicators** can help companies plan and manage their environmental, social and governance priorities – particularly when their KPIs are linked to core business strategies through operating plans that include performance targets. Moreover, the actual process of defining, selecting and measuring non-financial KPIs adds

## II: Proposed key performance indicators (KPIs)

	Environmental	Social	Economic
<b>General key performance indicators (KPIs)</b>	resource reduction Lower emissions Investments to environment Innovations	Employee satisfaction Safety and health Education Human rights Community Responsibility for products	Performance Customer satisfaction Shareholders loyalty
<b>Specific sector-based indicators (e.g. processing industry)</b>	Energy efficiency Renewable sources of energy CO <sub>2</sub> , NO <sub>2</sub> and SO <sub>2</sub> emissions Wastes Environmental management systems Product life cycle	Employee turnover rate Training and qualification Age of employees	Safe and good-quality products Income from operations, turnover, sales, revenues, costs, added value



value by providing a more informed view of the company's economic performance.

**Key indicators of environmental, social and economic performance** can be developed in categories of general key indicators and specific indicators, for instance according to sectors, see Tab. II.

Key performance indicators should help companies to demonstrate progress towards sustainability goals, and to guarantee that they incorporate their environmental, social and economic impacts. The use of key performance indicators in a specific company context may prove to be a demanding task. Before a company decides to implement KPIs, it is important that it understands how best they can be utilized and incorporated into internal management, and how they can help and support sustainable reporting. Managers must consider how to present key performance indicators in their internal as well as external reporting. The identification and selection of key performance indicators depends on the context within the company and its sector. But there are very many consultancy resources for the selection and use of performance measures and key performance indicators. Responsibility for performance against strategic goals, including sustainable performance, requires an understanding of causal relationships between various activities and their impact on financial and non-financial performance. Evaluation and performance measurement are the usual characteristics of a majority of successful undertakings. Performance evaluation and measurement will naturally occur in the initial stages when key impacts of sustainability are being identified and progress towards objectives is assessed and monitored. Some firms may decide to remunerate their managers for their ability to achieve the sustainability objectives. That underscores the need to carefully consider the approach to performance measurement.

## CONCLUSIONS

Sustainability is a corporate strategy whose objectives of long-term company growth, efficiency, performance and company competitiveness are achieved by the incorporation of economic,

environmental and social aspects into corporate management. Improvements in the area of economic, environmental and social performance may significantly help integrate concepts of sustainable development into business practice, and lead to sustainability. If the performance of firms and their competitiveness in the present-day demanding markets are to increase, it is necessary to develop a comprehensive system of indicator evaluations based on cooperation between cross-departmental teams that are able to contribute towards an increase in the overall corporate performance. The system of environmental, social and economic performance evaluation of course offers a much greater dynamics of development than it has been to date.

KPI give companies a technique to measure their progress towards strategic sustainability objectives. Key performance indicators may help companies to plan and manage their environmental, social and economic priorities – especially if those indicators focus on the company's principal strategies – through operating plans incorporating performance goals. Indicators that serve to measure sustainable development in companies are being constantly developed by various international organisations with the objective of drawing up internationally recognized standards aiming for comparability between national economies, different industries and even individual companies. The best-known international activity is the GRI that focuses on defining a standardized content of sustainability reports.

They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. In their evaluations and measurements, companies focus on activity performance management and, at the same time, they seek to make sure that they are in line with the company's strategies and objectives. In such a case, performance can be clearly demonstrated. Evaluations and measurements not only assign performance responsibility, but they also provide a feedback on sustainability initiative impacts, underscore the importance of identification and understanding of causal relationships between alternative courses of action and their effects on financial and non-financial performance.

## SUMMARY

The article describes various approaches to the management environmental, social and economic performance that may lead to corporate sustainability. Sustainability is a strategy of the process of sustainable development. They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. Corporate performance management should at present focus on *sustainability performance management* consistent with the company's strategies and objectives. In such a case, performance can be clearly demonstrated. Management not only helps assign responsibility for performance, but it also provides a feedback on sustainability initiative impacts, underscore the importance of identification and understanding of causal relationships between alternative courses of action and their effects on financial and non-financial performance. One of possible performance management approaches is the setting up of performance indicators for

the company's individual sections, which are monitored, measured and evaluated over time. KPI are derived from decomposed objectives for individual processes (or functional areas) and critical success factors of the company's strategy. By measuring and evaluating them, we can accomplish monitoring of successes and failures. When defining the overall system of performance measurement, we need to emphasize the purposefulness, i.e. the need to choose the right performance indicators that capture the most important aspects of corporate performance. The second step is to measure the indicators properly, i.e. to select the proper measurement technique. The meaning of performance measurement is therefore not a perfectly elaborated system of performance measurement of any undertaking. Performance measures should, rather, be considered a framework within which measurements take place. The aim of the paper is to present the integration of environmental, social and economic performance, which includes key indicators of individual areas, and draft key performance indicators divided into categories of general and specific indicators for the industry concerned. Proposals of key corporate environmental, social and economic performance indicators will be studied with an emphasis on industries selected from NACE-CZ in the grant project "Construction of Methods for Multifactor Assessment of Corporate Complex Performance Indicators in Selected Sectors", Reg. No. P403/11/2085. Key performance indicators should help companies to demonstrate progress towards sustainability goals, guarantee that they incorporate their environmental, social and economic impacts, and they should become part of internal and external sustainability reporting.

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