



Sustainability in Action: Identifying and Measuring the Key Performance Drivers

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An increasing number of senior managers recognize the importance of formulating a strategy on corporate social responsibility. However they often find it difficult to translate the strategy into action. This article presents a framework that describes the drivers of corporate social performance, the actions that managers can take to affect that performance, and the consequences of those actions on both corporate social and financial performance. By carefully identifying and articulating the drivers of social performance and measuring and managing the broad effects of both good and bad performance on the corporation's various stakeholders, managers can make a significant contribution both to their company and to society. This more careful understanding of both the drivers of social performance and the impacts of that performance on the various corporate stakeholders permits better integration of that information into the day-to-day operational decisions and the institutionalization of social concerns throughout the organization. The framework includes the details of the systems, structures, and measures that are necessary to change organizational culture and processes to improve both social and financial performance. © 2001 Elsevier Science Ltd. All rights reserved.

Introduction

In the last decade, as climate change emerged as a significant public policy issue, Ford Motor Company determined that further progress in the fuel economy performance of its vehicles was necessary. This reinforced the belief of Ford senior management that a comprehensive business- and market-focused strategy to address climate change was critical for long-term corporate success. However, these managers are faced with the difficulty of not only crafting such a strategy, but also determining how

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to implement a strategy aimed at balancing the social, environmental and economic needs of both the company and society.

There is a broad range of possible approaches to reducing greenhouse gases. As Ford formulates and implements its strategy, the company acknowledges numerous questions that must be addressed: "There are many steps we can take to further reduce CO₂ emissions from our products and operations. How do we select our starting points, and how do we strike the balance for our customers between these actions over time? How can our actions to address climate change create value for shareholders as well as society to ensure they support leadership actions?"¹ For companies that are committed to improving their environmental and social performance, the difficulty is no longer whether to implement sustainability, but how. In this article, we present an approach that carefully analyses the drivers of sustainability, the actions that managers can take to improve sustainability, and the likely consequences on both social and financial performance. This can provide managers with substantial assistance in improving the measurement and management of these issues. This framework provides guidance on how managers can translate sustainability strategies into action.

Leading multinational companies such as BP, Shell, Bristol-Myers Squibb, Unilever, Baxter International and Ford Motor are all exploring ways to understand these issues better. However, defining and implementing a new corporate role is a major challenge for companies. The World Commission on Environment and Development has defined "sustainability" as "economic development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs."² However, this macroeconomic definition does not provide much guidance on how this concept should be put into operation at the company level, and managers still question how to implement a strategy to encourage corporate sustainability when there are many competing organizational constraints and numerous barriers to implementation.

There is substantial literature that explain why companies act in socially responsible ways³⁻⁵ and what the financial payoff of those actions might be.⁶⁻⁹ Nevertheless, managers are increasingly asking how companies can improve sustainability performance, and, more specifically, how they can identify, manage and measure the drivers of improved sustainability performance and the systems and structures that can be created to improve corporate social performance.¹⁰⁻¹² Managers also need to know how social performance impacts on overall long-term corporate profitability and how to communicate the importance of such impacts to general managers and financial managers throughout their organizations in language that is readily understandable. It is only in this way that managers have the information necessary to evaluate properly the day-to-day operating decisions they must make.

From a more general perspective, in recent years there has been increasing attention on the drivers of value in organizations.

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