Cleaning Up

Using management control systems in implementing sustainability can profit the earth as well as a corporation. GE and P&G show how.

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Balancing financial performance and corporate sustainability is a challenge, especially in today's economic environment. Based on the idea that there's a trade-off between what's "good for the business" and what's "good for the environment and society," companies sometimes perceive corporate sustainability and corporate social responsibility (CSR) as an add-on cost, or they may perceive sustainability as an opportunity for "green PR." By doing so, they may miss significant opportunities for business growth, innovation, and organizational change. In this article, we describe how General Electric (GE) and Procter & Gamble (P&G) have operationalized corporate sustainability initiatives using management control and management accounting systems.

Current forces of change are driving a general rethinking of business in a more sustainable direction. Pressures come from national and international regulatory bodies as well as from business partners, stakeholders, and activists. For instance, many companies require their suppliers to comply with standards for environmental management systems certification, such as the ISO 14000 series or the European Union's Eco-Management and Audit Scheme. Moreover, thanks to new technologies, customers are increasingly informed, empowered, and active, and their demand for products that are clearly identified as sustainable is growing. Employees are also looking for companies that operate in a socially responsible way, which can impact the ability of an organization to recruit and retain talent. In addition, the financial community is paying closer attention to socially responsible investments (SRI) and investment rating systems such as the Dow Jones Sustainability Index.

These internal and external stakeholder views shouldn't be neglected by companies aiming to achieve superior corporate sustainability performance. As suggested in the May 2009 *Strategic Finance* article "Co-Creating Strategic Risk-Return Management" by Mark Frigo and Venkat Ramaswamy, "*Sustainable wealth creation* requires *balanced risk taking* by focusing on *co-creation opportunities* that can generate *superior returns* while simultaneously reducing risks for companies and their stakeholders." Since shareholder value creation is driven from creating value for others (customers, employees, suppliers, and other stakeholders), organizations can think in terms of how these stakeholders can be engaged to help define and achieve sustainability performance. This process can help identify new sustainability opportunities that will create mutual value with internal and external stakeholders. The current drivers of change and the economic downturn provide an opportunity for more integrated, strategic, and value-creating sustainability efforts.

Operationalizing Sustainability

Although the meaning of sustainability (the integration of social, economic, and ecological values) is widely accepted, the main problem is how a company interprets such a concept and, subsequently, operationalizes it. To do this, organizations need to establish well-defined sustainability strategies that identify achievable and measurable goals and then communicate them within. As suggested by the Corporate Sustainability Model (see "Implementing Corporate Sustainability: Measuring and Managing Social and Environmental Impacts" by Marc Epstein in the January 2008 issue of *Strategic Finance*), the alignment of strategy, structure, management systems, and performance measures is fundamental for organizations to coordinate activities and motivate employees toward implementing a sustainability strategy.

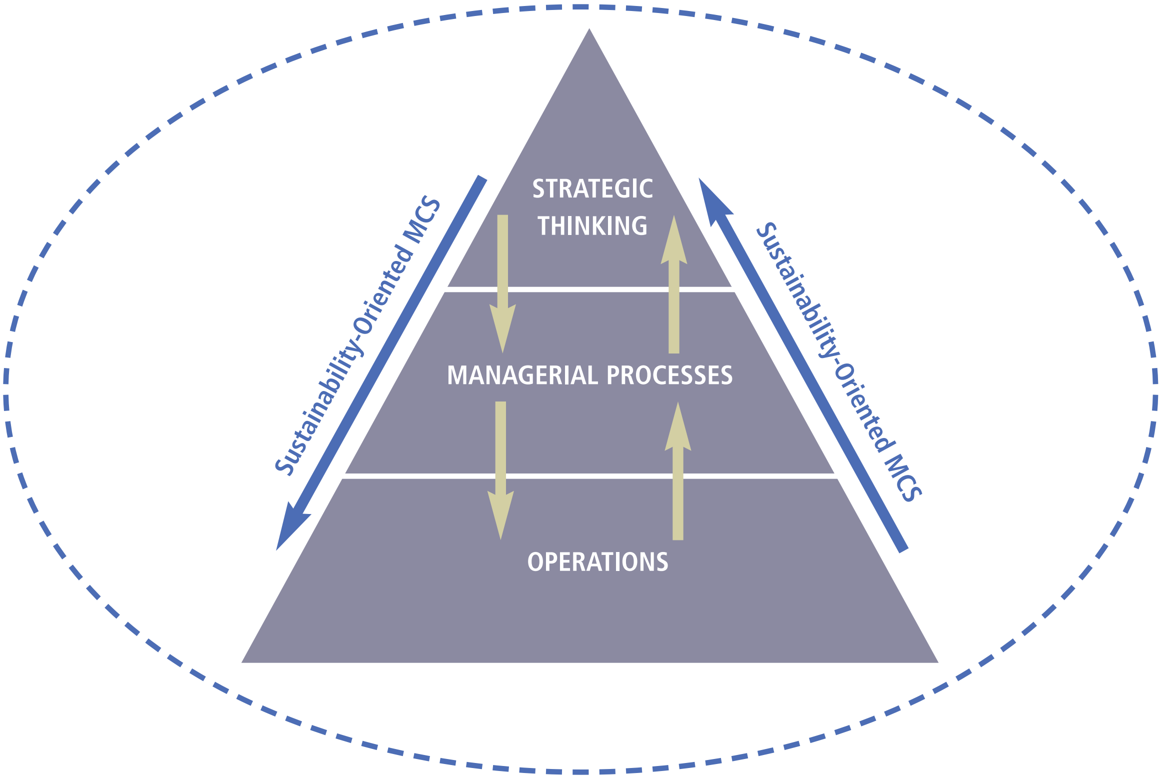
Management control systems introduce social and environmental issues into the organizational language and include them in the set of shared values and principles.

Sustainability principles can affect companies in many ways, so we distinguish three main levels of their impact:

1. Strategic Thinking. The corporate vision, mission, and strategic goals should integrate sustainability. Through innovative and environmentally friendly products, companies can pursue these new market opportunities and positively affect sales, profits, and return on invested capital. As Michael E. Porter and Mark R. Kramer suggested in "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility" in the December 2006 issue of *Harvard Business Review*, organizations can make the strategic connection between social responsibility and business opportunities.

2. Managerial Processes. To succeed, all organizational processes such as research and development

Figure 1: The Role of MCS in Operationalizing Sustainability



(R&D), purchasing, and marketing should integrate sustainability.

3. Operations. Production processes and operations should align with sustainability principles to obtain continuous improvement, reduce resource consumption, eliminate waste, and recycle. A catalyst to reduce costs and achieve more efficient processes, sustainability aims to increase or maintain output value with reduced resources and costs.

Management control systems (MCS) and management accounting systems can play a vital role at each level. Once a company defines sustainable strategies and goals, MCS and, more specifically, performance measurement systems break down an organization's sustainability targets and objectives that are meaningful for local entities, business units, functions, and individuals. A performance measurement system enables the cascading down of sustainable strategic thinking into sustainable managerial processes and sustainable operations. Thanks to the cascading approach, all employees know how they can help achieve sustainable goals.

Stimulating Organizational Change

MCS have great potential to introduce new ways of thinking and operating. They support sustainability as a corporate priority by evaluating, measuring, and rewarding employees based on sustainable goals. They promote proactive behavior. Moreover, MCS introduce social and environmental issues into the organizational language and include them in the set of shared values and principles. Finally, embedding sustainability into corporate culture strengthens "enlightened" strategic thinking (see Figure 1). Leading organizations, such as General Electric, addressed sustainability issues at these levels (see "General Electric's Ecomagination Initiative," p. 32).

Toward Sustainability-Oriented Management Control Systems

Social and environmental accounting (SEA) has focused on collecting information for external users, thus allowing stakeholders to know and evaluate the way in which a business operates. Many scholars and research teams have defined guidelines to integrate social and environmental

General Electric's Ecomagination Initiative

In May 2005, GE launched Ecomagination with the belief that "green is green"—that environmentally sound business is profitable. Ecomagination creates innovative solutions to environmental challenges and delivers products and services that provide significant and measurable environmental performance advantages to customers while generating profits.

Strategic Thinking: Ecomagination engages sustainability initiatives strongly tied to the business. Through an independent and externally conducted process, Ecomagination relies on the development and certification of products that might improve GE's operating performance and reduce environmental impact. The portfolio includes more than 80 products that obtain $17 billion of related revenues.

Managerial Processes: Aiming to reconcile the tensions between economic, social, and environmental performance, such initiatives have taken place through a worldwide business strategy, an organizational structure. This has helped infuse principles of social and environmental accountability into the processes through which product innovation takes place and customer satisfaction is pursued. For instance, investments in "clean" or environmentally friendly R&D are made to achieve a specific goal for 2010.

Operations: Ecomagination deals with operations since it engages in reducing greenhouse gas (GHG) emissions and water consumption as well as in improving energy savings. Many initiatives have taken place. For instance, the company installed new energy-efficient GE lamps within manufacturing plants and warehouses worldwide, obtaining huge greenhouse gas reductions and big savings. Moreover, the "eCO2 Site Certification Program" rewards GE sites and facilities that have best embraced Ecomagination goals on energy efficiency and consumption reduction. Finally, the "Energy Treasure Hunts" initiative engages employees through a treasure-hunt process aimed at identifying energy savings and GHG reduction opportunities.

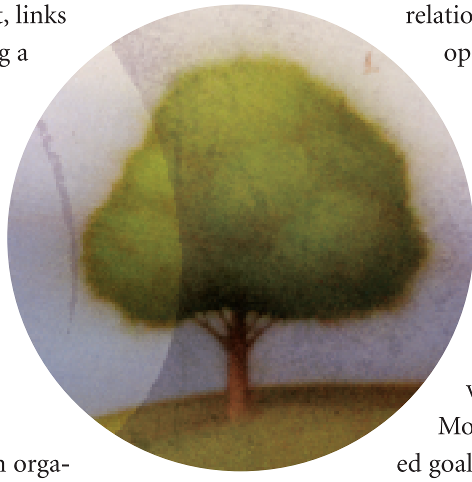
aspects in external reporting. Although external reporting is a preeminent aspect of sustainability management, it isn't enough without internal mechanisms and practices to implement sustainability.

Because social and environmental issues are important dimensions of the overall corporate performance, traditional performance measurement and monitoring systems should be broadened to embrace these dimensions. Corporate goals can include not only financial terms, but social and environmental ones as well. They can be integrated with the whole planning and monitoring systems to ensure that the organization acts in a sustainable way to satisfy stakeholders' and shareholders' interests.

MCS could play a key role guiding organizations to achieve sustainability goals so that SEA could be a means to build a stronger business image and an integrated management tool. Management control systems enable managers to monitor whether the business is operating in accordance with financial, social, and environmental principles. In the meantime, managers can feed back information on sustainability performance at all organizational levels, which the company can use to set or modify sustainability strategies.

In order to broaden MCS in a sustainable direction, the first effort is to break down company-wide sustainability strategies into targets and objectives that are meaningful for local entities, business units, functions, teams, and individuals. After incorporating these goals, the MCS role is to guide management actions to achieve the desired outcomes.

To ensure that MCS would achieve social and environmental goals, formal and informal elements need to work together. An MCS, the formal element, links performance to strategies by providing a base for monitoring and assessment.



But formal elements aren't enough. Their effectiveness may be influenced by informal elements, such as leadership commitment, that are fundamental levers in promoting awareness of social and environmental strategies and encouraging the right actions. Without integrating sustainability with the set of values and principles shared within an organization, only a symbolic and formal approach will be adopted in dealing with social and environmental issues.

Although formal and informal elements of control should work together to motivate decision makers to operate in a sustainable way, some tensions between them often emerge. Social and environmental principles are embedded into informal controls that shape organizational culture, but formal tools are often focused exclusively on financial issues, probably because of the difficulties in defining appropriate quantitative and objective measures for social and environmental performances since they are often very judgmental. Adding to the challenge, the principles are usually linked to long-term time horizons, a high level of uncertainty, and impacts that are often difficult to quantify. Nevertheless, measurement and internal collection of social and environmental data represent important elements for more informed decision-making processes, increasing the chances of a convergence between the organization's actions and stakeholders' needs.

Sustainability at Procter & Gamble

Headquartered in Cincinnati, Ohio, Procter & Gamble, a large multinational company, produces a wide range of consumer goods. Since 2002, P&G's organizational structure has featured three global business units (GBUs) and market development organizations (MDOs) that have different structures and, therefore, different functions. The three GBUs—Beauty & Grooming, Health and Well-Being, and Household Care—operate at a global level dealing with business strategies, innovation, brand design, and new business development. Organized into seven geographic regions, the MDOs are local structures responsible for profits and interfacing with local markets. They deal with regional marketing, sales, and external relations and are mainly accountable for net operating sales (NOS).

Each MDO is organized into a market operation team (MOT) and a customer business development (CBD) team. Each team works on a unique project and is responsible for a unique goal. Thanks to the matrix design of P&G's structure, MOT and CBD are involved in many vertical and horizontal relationships. Moreover, they have to pursue interrelated goals by aligning their activities through some formal meetings and informal mechanisms such as trust and sense of ownership.

When Strategy Meets Sustainability

Although P&G has realized the importance of social and environmental issues since the 1960s, it didn't set up sustainable development as a strategic objective until 1999. The corporate mission became "to provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come."

P&G's mission shows the company's desire to present itself as an organization that takes care of its stakeholders and, more in general, of social and environmental issues. For more than 10 years, P&G has accounted for its social and environmental strategy in its Sustainability Report. The company communicates the importance of sustainability externally through formal claims and informally to employees through, for instance, leadership commitment.

In 1999, P&G also set up a centralized organizational structure, the Global Sustainability Department, composed of experts who provide advice to business units on sustainability matters. Deciding on centralization or decentralization in defining sustainability strategies is a very complex task for multinational companies because decentralization often leads to some advantages such as greater flexibility, increased responsiveness, and greater innovation. Centralization, however, is often the most successful choice in terms of greater control and coordination among local entities.

P&G has preserved the choice of centralization. This department currently deals with P&G's overall sustainability policy, identifies emerging sustainability issues, manages corporate sustainability reporting, builds external relations, and helps business units incorporate sustainable development into their businesses. In the meantime, the presence of sustainability ambassadors within local organizations allows the balance between local and global instances.

The P&G Planning and Control System

To better understand if and how sustainability strategies and goals are embedded in the broader planning and monitoring process, P&G's Objectives-Goals-Strategies-Measures (OGSM) system provides perspective (see Figure 2). Starting from the highest organizational levels, this OGSM cascade mechanism involves the business units and all employees. In fact, each employee is accountable for specific objectives and must contribute to achieving the overall goals. Here's how it works.

Objectives: The planning process starts with an objective that overlaps the corporate mission. This element is quite stable and doesn't have a definite duration.

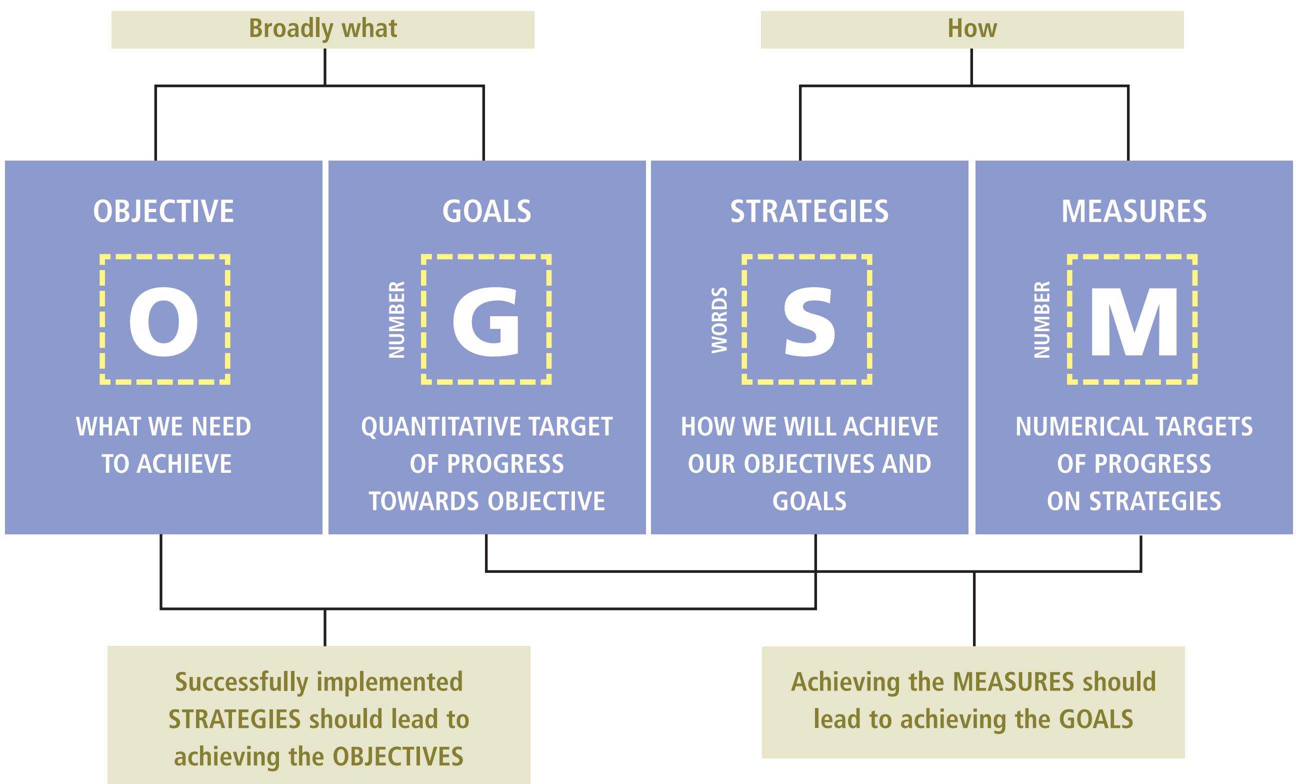
Goals: The goals, which come from the objective, remain stable in content but are reviewed annually. Communicated to shareholders, the goals are substantially related to the increase in net sales, earnings per share, and total shareholder return.

Strategies: The goals are translated into strategies. The brand and country plans reflect the strategies, which include two main areas:

- "Where to play" refers to decisions about geographical areas, markets, and businesses where P&G competes.
- "How to win" refers to decisions that create competitive advantages, create leaders, and, more in general, achieve good financial results. As an example, the slogan "consumer is boss" summarizes one strategy. This slogan means that consumers' needs and desires are the starting point for developing every organizational activity. Sustainability is perceived as a request from consumers since achieving progress in sustainability management is included in this strategy. Other strategies are related to two main levers: cost management and organization. The former relies on driving out all costs that don't deliver or build value for consumers or shareholders.

Measures: Specific measures are defined for each strategy. These measures are both quantitative and qualitative, not focused merely on financial performance since

Figure 2: The P&G Objectives-Goals-Strategies-Measures (OGSM)



Procter & Gamble Sustainability Strategies

Strategy 1—Products: Delight the consumer with sustainable innovations that improve the environmental profile of products. The related goal is to develop and market at least $50 billion in cumulative sales of "sustainable innovation products," which are products with a significantly reduced (more than 10%) environmental footprint vs. previous or alternative products.

Strategy 2—Operations: Improve the environmental profile of P&G's operations. The related goal is to deliver an additional 20% reduction (per unit production) in CO_2 emissions, energy consumption, water consumption, and disposed waste from P&G plants, leading to a total reduction over the decade of at least 50%.

Strategy 3—Social Responsibility: Improve lives through P&G's social responsibility programs. The related goal is to enable 300 million children to live, learn, and thrive; prevent 160 million days of disease; and save 20,000 lives by delivering four billion liters of clean water in P&G's Children's Safe Drinking Water program.

Strategy 4—Employees: Engage and equip all P&Gers to build sustainability thinking and practices into their everyday work.

Strategy 5—Stakeholders: Shape the future by working transparently with stakeholders to enable continued freedom to innovate in a responsible way.

many aspects of organizational activity are recognized and considered.

The global OGSM is translated into more specific plans and programs for the various organizational structures. Starting from the overall corporate OGSM, the cascade mechanism involves all organizational levels. The global OGSM translates into specific OGSM for each global business unit, which can achieve the planned goals only if the marketing development organization's activity is aligned with them. As a consequence, action plans for regional and local markets have to be drawn.

To coordinate employee behavior within GBUs and MDOs, a continuous dialogue between them takes place since their actions should align and be consistent with the overall OGSM. Then, action plans for each market operation team and customer business development team are defined. Some specific objectives are assigned to each team that identify programs, measures, and goals consistent with the plans of the related MDO and GBU and the overall OGSM system.

Once the plan for the multifunctional team is defined, each employee plans activities and identifies goals. In fact, under the review of a supervisor, each employee has to draw up two main documents annually, such as the work development plan (WDP) and the action plan, according to the organization's expectations. The WDP contains a qualitative analysis of each employee's main strengths and weaknesses, and the action plan contains specific, measurable, achievable, and consistent goals.

The comparison between actual and target allows everyone to assess and evaluate activity. Supervisors evaluate their employees quarterly, and progress in achieving overall corporate goals is assessed quarterly. Then, through a formal document each quarter, the chief executive officer communicates the progress made to employees and investors.

Driving Sustainability into the P&G Planning and Control Systems

Sustainability issues are widely present across various stages of the OGSM cascade mechanism. The reference to sustainability is evident in the mission, namely the objective. The goals are built on financial measures, but the reference to sustainability is indirect. A sales manager

The Development of "Cool Water Cleaning" Detergent

An action aiming to implement the first sustainability strategy concerns the development of a concentrated detergent able to clean at low water temperatures, expending less energy, water, packaging, and waste. Developing this product relied on a three-fold assessment to evaluate the financial, social, and environmental profiles of the new product.

Life-cycle assessment (LCA) measured the overall environmental footprint of the new product from raw materials to disposal. The LCA of laundry detergent outlined that heating water for washing consumed far more energy than any other step in the process. As a consequence, developing a detergent that cleans in cool water clearly offered the greatest opportunity for energy reduction.

To evaluate the product's profitability, the company used traditional capital budgeting criteria, such as net present value (NPV). Since financial analysis showed high return deriving from it, the "cool water cleaning" detergent looked like a profitable investment.

Finally, the company did a "social" assessment of the product in terms of benefits that stakeholders and, more specifically, consumers would derive from it. The detergent provided relevant benefits in terms of reducing energy and water consumption for users without compromises in terms of product performance. In order to promote the importance of the new product and stimulate responsible consumer behavior, the company launched a campaign termed "Turn to 30°C." Along with key product benefits, including energy savings and brilliant cleaning, the campaign emphasized another motivation: supporting the environment in a more sustainable way. P&G further managed this innovation through partnerships with NGOs (nongovernmental organizations) and energy-focused third parties.

attempted to justify the absence of a clear reference to sustainability in this section of the framework: "We are a public company so we have to create value for our shareholders...but we cannot create this value without reference to other dimensions of sustainability....I cannot contribute to the achievement of our first goal ("increasing net sales") without increasing sales coming from sustainable products."

Thus sustainable strategies are integrated with the traditional planning system since they are viewed as something highly related to and aligned with the business. This integration may be a key element of successful implementation of sustainability-oriented strategies because it clearly communicates to employees how to behave in order to translate the abstract sustainability principle into action.

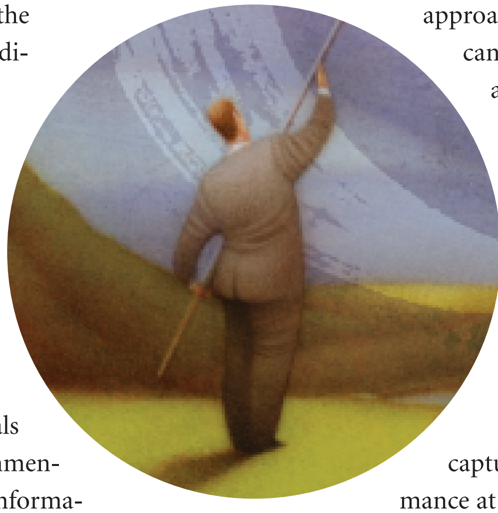
In 2007, P&G set up five-year sustainability strategies for five broad areas: products, operations, social responsibility, employees, and stakeholders (see "Procter & Gamble Sustainability Strategies," p. 35). In terms of this framework, the first and second strategies refer to strategic thinking and operations levels, respectively.

Driving Greater Sustainability

The first sustainable strategy—products—shows that a traditional goal such as sales could be rethought in light of sustainability. Procter & Gamble focuses on how customers use its products. Some examples of sustainable products are the packaging redesign of some "beauty" products in order to save plastic and the development of a "cool water cleaning" detergent (see "The Development of 'Cool Water Cleaning' Detergent").

The second strategy—regarding operations—implies that pursuing both financial and environmental benefits leads to eco-efficiency. For example, one project will increase rail transportation in Western Europe from 10% to 30% by 2015, reduce CO_2 emissions, reduce plants' environmental footprint by installing solar photovoltaic systems, and use recycled materials and rainwater recycling systems.

Finally, sustainability is built into the business rather than treated as an additional activity. In this sense, sustainability is perceived as an opportunity to meet new customer needs and reduce costs. Moreover, P&G defines and continuously monitors specific, measurable, achievable, and consistent goals for these two strategies.



Sustainable development tracks progress in achieving sustainable goals by extrapolating socially and environmentally sensitive data from the overall information system. Data analysis and assessment follows data collection. The evidence from this process is used for internal and external reporting. Internal reporting aims to stimulate suggestions to improve future sustainable strategies and initiatives.

Moreover, internal communication and tracking of sustainability targets also facilitate the process of integrating sustainability principles within P&G's organizational culture. Since April 2009, the company has been sending a quarterly newsletter about sustainability goals to all employees in Western Europe via e-mail. The newsletter updates employees about what the company and region are doing to advance their environmental and social responsibility and engages employees "to bring sustainability into their life."

The responsibility to achieve sustainability goals belongs mainly to GBUs since they deal with product development and production, which are the most critical phases for P&G's environmental sustainability. The MDOs have an important role, too, since they have to reconcile global corporate policies and strategies with local stakeholders' interests and demands. This is a very critical task because multinational companies have to face the great heterogeneity of the various contexts in which they operate. To increase awareness of the corporate commitment to sustainability, the company organized initiatives such as Earth Day to celebrate a more sustainable way of operating. A sustainability ambassador at each site is responsible for illustrating and promoting five sustainability strategies.

Moving Forward with Corporate Sustainability

To integrate social and environmental issues within day-to-day activities, a company should adopt a strategic approach. Management control systems can play a vital role in driving sustainability throughout the organization. Here are five steps companies can consider:

1. Identify a few focused, clear, and shared "sustainability goals," and integrate them into the corporate planning and control systems. Traditional planning and control systems often work well.

2. Set measures that are able to capture social and environmental performance at the corporate level as well as throughout the organization.

3. Collect social and environmental data and information for internal users, and integrate the data in the decision-making process through supporting tools.

4. Combine formal elements (performance management systems, reward systems, internal codes) and informal ones (leadership commitment, initiatives, and practices aiming to integrate sustainability with corporate culture).

5. Manage the tension between coordination and control on one hand and flexibility on the other hand in choosing between centralization and decentralization of sustainability strategies.

Companies can use this approach to make corporate sustainability a value creator for the business and the stakeholders. **SF**

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