CHAPTER 11 - Sustainability and performance management

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CHAPTER 11 - Sustainability and performance management

11.1 Introduction

Sustainability is becoming increasingly significant for all organizations and an essential aspect of strategy formulation and strategic choice, as well as a potential source of competitive advantage. There is pressure from a range of stakeholders for organizations to adopt a sustainable strategy, and accountants are well placed to assist organizations in achieving their sustainability objectives.

The International Federation of Accountants (IFAC, 2016: 4) states in its report on the 2030 agenda for sustainable development – a snapshot of the accounting professions contribution, that: “the specific professional skills of accountants – including in governance, risk management, and control, business analysis, and decision support, which involves measuring, reporting and providing assurance on financial and non-financial data – will become increasingly in demand as the Sustainable Development Goals gain traction.” The sustainable development goals are a reference to the 17 SDGs set out in the ‘2030 Agenda for Sustainable Development,’ adopted by all United Nations Member States in 2015 (https://www.ietm.org/en/EU-2030-Agenda), which provides a shared blueprint for peace and prosperity for people and the planet, now and into the future.

11.2 Learning outcomes

After studying this chapter, you will be able to:

- Understand and explain the concepts of sustainable development and sustainability
- Understand and explain the motivation for organizations adopting sustainable practices
- Critically evaluate the contribution of environmental management accounting to the achievement of sustainability objectives
- Appreciate how the qualities of accounting systems make it appropriate for accountants to coordinate monitoring and reporting of environmental data and information
- Critically evaluate the approaches to incorporating sustainability into a system of multidimensional performance measurement
11.3 What is sustainable development?

Active reading. Note that sustainable development is not a new concept. It has been a concern for several years. Also, note that the definition of sustainability is much broader than just being environmentally friendly.

Two definitions help us understand what is meant by sustainable development and sustainability.

- Sustainable development is defined by the United Nations World Commission on Environment and Development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987).
- Sustainability refers to the long-term maintenance of systems according to environmental, economic, and social considerations (Elkington, 1994; Crane and Matten, 2004).

11.4 Why be sustainable?

Active reading. Note the key motivators for organizations adopting sustainable practices. Think about why the external motivators are still important?

Ideally, the motivation for being sustainable would come from inside the organization and be a part of its normal strategic planning. There are considerable pressures from a wide range of stakeholders that make sustainability an essential element of consideration in the products and services offered and the method of operations that make it difficult to ignore. More and more organizations realize the benefits of adopting sustainable practices, not just for the cost savings, such as reduced energy usage and wastage, but in satisfying a growing demand for a more sustainable lifestyle by the consumers.

There are, however, accusations of organizations adopting the practice of “greenwashing” where information is provided about products, services, and operations that make the organization appear to be more concerned and proactive about sustainability issues than it really is. This practice has prompted the emergence of organizations such as The Greenwashing Index, which was created by the University of Oregon in partnership with EnviroMedia Social Marketing and allows examples of greenwashing to be uploaded and rated by the public.

There is a considerable way to go before all organizations embrace sustainable development as a norm, and some would argue that many consumers, and society in general, still need to be convinced and encouraged to adopt a more sustainable lifestyle. Brand managers are, however, now finding that where they used to argue that although consumers say they want sustainable products, they don’t actually buy them at the checkout, there has been a steady increase in the purchasing of sustainable products (Kronthal-Sacco et al., 2019). Also, over the past few years, there has been a growing amount of evidence that suggests that adopting sustainability as a vital part of the strategy can improve financial performance rather than just adding to cost (Whelan and Fink, 2016). Although this is helping to convince organizations of
the benefits of sustainability, external motivations are still acting as the key driver for the adoption of sustainability practices.

External motivations for being sustainable come from organizations, such as regulatory bodies, governments, and public pressure groups (Rodrigue et al., 2013). Professional accounting bodies are included among those promoting the reporting of sustainable practices, and corporate governance codes are requiring an increasing amount of information to be published concerning sustainability issues. Consumer groups are actively promoting topics such as the use of sustainable materials, recycling, and products made from recycled materials. Governments in developed countries are prepared to legislate and levy taxes to discourage the use of materials and sale of products that are harmful to the environment. The need to be seen to be sustainable can be a significant influence on strategy development and strategic choices. Many organizations now produce an annual corporate social responsibility report demonstrating their commitment to sustainability and include sustainability objectives within the strategic plan. Indeed, in some instances, it is the source of competitive advantage or differentiating factors.

Learning activity. What significance do you personally give to the sustainability of the products you buy and the organizations from which you buy? Do you think that being sustainable will still be the basis of a differentiating factor in five years?

11.5 Environmental accounting

Active reading. Note the suggestion for an environmental management system and a databank of environmental performance data. Think about how this could be incorporated into a strategic accounting system described by Brouthers and Roozen (1999) in Chapter 2 of this learning resource to support sustainability objectives. Also, note the range of accounting techniques covered in this learning resource that can be used to support sustainability.

Rather like strategic management accounting the term environmental accounting in not widely used in practice but has been described by Bartolomeo et al. (2000) as being concerned with providing reports for both internal use by generating information to aid management decision-making relating to pricing, controlling costs and capital budgeting, and external use, by disclosing environmental information of interest to the public and the financial community. It has been suggested by Lally (1997) that to support the monitoring and reporting of cost accounting relating to all environmental costs; it is useful to develop an environmental management system that provides a databank of environmental performance data. It is likely that most of the functions within the organization in which environmental costs occur will contribute to the database.

The monitoring, reporting, and control of environmental costs require collaboration between all functions. Ideally, the concept of corporate social responsibility and sustainable development would be part of the organization’s culture. It is endemic throughout the value creation system, and all departments from the design of products for the environment, reduction
in emissions, waste, and energy usage throughout production and delivery operations would be involved and all continually looking for opportunities to enhance the positive environmental impacts.

Environmental accounting focuses on areas where accounting techniques can be applied, and the planning, monitoring, and reporting of costs for control purposes occur and include capital budgeting, expense budgeting, financial (and nonfinancial) performance indicators, budgetary control, and product costing (Yakhou and Dorweiler, 2004). These are all traditional techniques, and in theory, some of the data for highlighting the environmental impact of operations should be readily available. Rondinelli and Vastag (2000) suggest that environmental accounting can support life cycle analysis; development of environmental policy for the supply chain, for example, vendor selection and evaluation; the recycle, redesign and manufacture of products; monitoring and auditing environmental performance; and accounting for environmental costs and savings.

Other techniques where sustainable elements could be highlighted include target costing, activity-based costing, customer profitability analysis, real options in investment appraisal, and the development of key performance indicators. The cost of quality framework can also be applied successfully to environmental costs. The framework of prevention, such as the cost of environmental pollution prevention rather than clean-up after the event, appraisal to ensure wastage is reduced, and highlighting the cost of failures, both internal and external, can be used. By using appropriate techniques and drawing attention to the environmental and social aspects of the decisions being supported, accountants are also able to assist in enhancing regulatory compliance, driving cost savings, investing in innovation, and engaging with customers, staff and the wider community. It is, however, essential to remember that the accountant is only a member of the team, but being a proactive member can raise the significance of the financial impact of being environmentally and socially responsible.

Yakhou and Dorweiler (2004) suggest that possible motives for emphasizing environmental accounting include assuring compliance with regulations and increased efficiency, such as energy conservation. Also, reducing the impact of operations on the environment, for example, considering the costs of recycling via the use of life cycle costing, making continual improvements aided by total quality management, and encouraging innovation.

There is an argument that suggests that being, or being seen to be, environmentally friendly enhances the reputation of the organization. Being environmentally friendly was often seen as being costly due to changes in operations. It is only more recently that the real benefits have been seen in terms of improving financial performance. Sen et al. (2015) identified that there was a positive correlation between being environmentally proactive and financial performance. The link was much stronger in manufacturing-based than non-manufacturing based operational performance, which is possibly due to the opportunities for reduced wastage, energy conservation, and changes in working practices in a manufacturing environment.

Horváthová (2012), however, noted that there could be a lag between the implementation of environmental policies and practices and any improvement in financial performance. This agrees with the hypothesis of Porter (1991) in that any benefit from the implementation of improved environmental practices is seen in the long run. This is due in part to the initial investment required to implement environmentally friendly and socially responsible practices.
The implementation of such practices can also provide the organization with the opportunity to gain a competitive advantage in the market (Porter and Van Der Linde, 1995).

The management accounting department can assist in the scanning and monitoring of the changing environment in the context of the business (Wycherley, 1997). They can highlight the financial impact of any changes in the environment, where a change in operational practice is necessary and practical. The accountants are becoming more involved in validating and channeling the information to ensure compliance with regulatory mandates. For example, accountants are frequently involved in providing information for, and the audit of, CSR reports.

So far, we have focused on the environmental aspects and, via discussion of the financial performance, the economic element. The social element is equally important. Porter and Kramer (2011) talked of a ‘shared value’, of creating economic value in a way that also creates value for the society by addressing its needs and challenges. Indeed, they suggest that good business contributes to sustainability. Moon (2007) indicates that the CSR strategy is fundamentally concerned with embedding socially and environmentally responsible actions throughout the organization [and the more extensive value creation system] to enhance long term value. There is increasing legislation relating to CSR, and shareholders are demanding more information and holding senior management to account concerning the CSR policies and practices adopted by organizations in which they invest. Arjaliës and Mundy (2013) strongly advise that the CSR strategy be integrated into the overall strategy; that is, it is not something to be added on later or treated separately.

**Learning activity.** It is not just the product development and operations functions that can contribute to the sustainability objectives of an organization. Think about the numerous opportunities for accountants to become proactive in developing and maintaining sustainable practices (in the broadest sense of the term) within an organization.

### 11.6 Integrated management control systems

**Active reading.** Note how the qualities of an accounting system can be beneficial in the collection and reporting of environmental performance indicators and how the ISO standard includes the extent to which a management system exists and the measurement of the quality of the environment.

Whereas Lally (1997) suggested that environmental cost accounting draws on information from and is part of an environmental management system (EMS), the EMS could be viewed as being a subset of the more general management control system (MCS). Malmi and Brown (2008) define the MCS as including the systems, rules and practices, values, and other activities management put in place to direct employee behavior. Now that the requirements for CSR and sustainable development are also becoming more enshrined in legislation and the U.S. GAAP (generally accepted accounting principles), and the U.K. GAAP, there is a requirement for the management control system to encompass sustainable development controls as well. It requires cooperation across disciplines and functions within the organization as some of the information
is not obtained easily from the accounting systems, for example, carbon emissions. The regular collection of certain data, such as the carbon emissions mentioned, may require additional investment in monitoring equipment or the estimation of emissions by operating departments.

Bartolomeo et al. (2000), however, noted that the accounting systems do provide a degree of integrity via the checks and controls applied to data collection and information reporting. Due to these qualities, the information contained in CSR reports, and reported internally and externally, is often collated and coordinated by the accountants. Still, cost savings are often driven by operational management. This emphasizes the cooperation and collaboration required between functions.

Performance indicators

Chapter 10 (section 10.5) of this learning resource included Simons’ levers of control: diagnostic, interactive, belief, and boundary systems, all of which are appropriate to sustainable development objectives. The balanced scorecard was also discussed (section 10.3), which aids the development of a multidimensional approach to performance management, which could include measures relevant to sustainability. The International Standards Organization environmental standard ISO 14031 contains three types of performance indicators that provide a multidimensional platform for monitoring sustainability. The operational performance indicators include the elements that are probably most often thought of as part of monitoring sustainability and relate to the inputs and outputs of an organization.

- Operational performance indicators (OPIs):—inputs, the supply of inputs, the design, installation, operation and maintenance of the physical facilities and equipment, outputs, and their delivery
- Management performance indicators (MPIs):—policy, people, planning activities, practice, procedures, decisions, and actions in the organization
- Environmental condition indicators (ECIs):—information about the local, regional, national, or global condition of the environment

The standard includes a review of the extent to which the organization has an environmental management system in place to protect the environment. Activities such as the number of environmental audits undertaken, staff training, supplier evaluations, reported cases of non-compliance, corrective action reports issued, and actions taken would be typical of this type of control. They do not, however, in themselves measure the impact of the controls on the environment but provide some assurance of the policies and procedures in place.

The environmental condition indicators provide an assessment of the impact of the organization on the quality of the environment. Regional may refer to a state, a province, a group of states within a country, or even a group of countries such as the European Union depending on the scale of operations that the organization chooses to consider.

The environmental condition indicators are often measured by the regulatory authorities in the area and encompass factors such as air quality, water quality, soil quality, and noise levels. In cases where a single organization is the main contributor to the environmental impact
in a region, the regulatory authorities may require the organization to monitor the quality of
certain aspects of the environment. For example, an organization that uses high levels of water
that is recycled to the natural sources monitors the water quality, or a local airport monitors
noise levels, or a local factory monitors air quality. Organizations with high sustainability
aspirations may undertake these activities voluntarily.

A key function of the ISO indicators and any environmental management system is to
provide an early warning system of environmental changes that prompt correction action. The
comparison with other external benchmarks, such as industry or competitor benchmarks, offers
opportunities for making improvements to performance that benefit the organization, the
environment, the economy, and society.

11.7 Sustainable balanced scorecard

*Active reading.* Note the different approaches to incorporating sustainability into the balanced
scorecard.

The balanced scorecard was discussed in Chapter 10, section 10.3 of this learning resource as
a mechanism for considering performance from a range of perspectives. One aspect to consider
is whether organizations should adopt a separate scorecard for sustainability or incorporate
suitable measures within the overall organization’s scorecard (Figge et al., 2002). The overall
scorecard could include an extra perspective of sustainability, or appropriate measures could
be included within existing suggested perspectives of financial, customer, business processes,
and learning and growth. A danger of keeping a separate scorecard is that sustainability
becomes marginalized. Therefore, a high degree of integration into an overriding scorecard is
said, by some authors, to be a preferable approach (see, for example, Figge et al., 2002; Moon
et al., 2011; Gond et al., 2012).

Ideally, the objective is to enable the organization to address within its strategy and
performance monitoring the economic, environmental, and social elements simultaneously
(Schaltegger and Burritt, 2000). Moon et al. (2011) and Gond et al. (2012) looked more
specifically at the types of control used by organizations. Both sets of authors used Simons’
(1994) levers of control as the benchmark, and although the organizations used all four levers
under investigation, the focus was on the use of diagnostic and integrative controls.

Diagnostic controls are used more to monitor and control the achievement of the objective,
such as the reporting between actual and planned performance. Many of the standard
accounting reports fall into this category. Integrative controls involve frequent communication
between supervisors and subordinates, for example, via meetings and constant feedback and
dialogue, and enable senior managers to gain a richer understanding of potential opportunities
and challenges while simultaneously signaling to junior managers the organization’s strategic
position (Simons, 1995). The interactive controls also provide input to strategy development,
guide emergent strategies, encourage novel strategic responses, and trigger organizational
learning (Gond et al., 2012).

Moon et al. (2011) highlighted the difference between the MCS (management control
system) and SCS (sustainability control system). They suggest that the SCS captures
environmental and social issues more systematically and broadly than a conventional MCS. They also indicate that the SCS is usually operated by groups other than the finance/accounting team within the organization. This refers to the fact that much of the data concerned with environmental and social aspects are contained within nonfinancial data collection systems and, in many cases, such as social impacts, are difficult to value in financial terms. They do, however, argue strongly that the MCS and SCS, should one exist, be integrated.

Technological systems such as the increasing adoption of ERP (Enterprise Resource Planning) systems and integrated software is making this more possible but relies on organizations to invest in such systems in the first place. Lueg and Radlach (2016) noted, based on a literature review, that organizations may prefer to manage specific aspects of sustainable development rather than develop an all-encompassing SCS covering environmental, social, and economic factors. This takes account of the practicalities facing many organizations in collecting the necessary data and is an area where accountants can assist in evaluating the potential costs and benefits of implementing the elements that have high relevance to the operation and success of the organization.

There can be barriers to the implementation of an SCS. These include the degree of uncertainty about the accuracy of the data collection or even that the data is available to be collected. It is connected to the senior management often not being convinced of supporting the benefit of investing in the development of such a system. And, as already noted, the difficulties of establishing appropriate metrics and collecting the data on a regular and cost-efficient basis (see Moon et al., 2011). Of course, all of these can be overcome, but it may take time. Meanwhile, the pressure from end consumers, customers, suppliers, and commercial partners, and the need for compliance, external evaluation, and the potentially enhanced reputation, all add to the need to adopt a sustainability agenda within its overall strategy.

**Learning activity.** Think of an organization with which you are familiar and discuss which approach to incorporating sustainability measures within the performance management system you think would be the most effective?

Under the ISO, the environmental condition indicators require external data to be collected. Should the whole of the SCS (sustainability control system) be incorporated into the overall MCS, or is the impact on the external environment better dealt with as a separate reporting element? In other words, is it better for an organization to concentrate on internal control measures to reduce emissions so that the impact on the local environment will automatically be reduced?

### 11.8 Enabling the accountant’s role in the strategic management process

**Active reading.** Note that some of the factors that enable the management accountant to become involved in the strategic management process are in the control of the accountant, but that a high degree of proactiveness can influence the organizational and practical aspects.
As IFAC (2016) suggested in its report on sustainable development and the contribution of the accounting profession, the skills of the accountant will be invaluable to an organization in achieving the sustainability goals. If sustainability is to be embedded within the strategy of every organization, the accountant also needs to be involved in the whole strategic management process. They must not be confined to the evaluation and control of strategy but allowed to contribute to the analysis, development, and implementation. Unfortunately, this is not always the case.

Several elements need to be present for the accountant to become involved in the strategic management process. These are shown in Figure 11.1 and can be grouped under the three headings of accountant-led factors, organizational-led factors, and practical factors.

![Figure 11.1 Factors determining the ability of accountants to be involved in the strategic management process (Pitcher, 2015).](image)

The accountant-led factors include the skill set of the accountant. It is not just the technical skills that are required but, more importantly, the soft skills, such as communications, team working, ability to persuade and influence, and so on, that are needed. A good understanding of how a business works and a high degree of commercial acumen is desirable, as well as a desire to become involved in the process. It is often easy for the accountant working in industry or the commercial world to sit in the office in front of the computer screen producing spreadsheets, but the real value added is when the accountant is away from the desk working with managers.

The accountant-led factors lead into the organizational-led factors in that the structure and culture of the organization can assist the accountant in being able to build relationships with the business unit and functional managers. It is influenced by the level at which the accountant works within the organization and the level at which strategy is set, which is part of the culture. However, if the accountant can access managers and build a relationship, it requires trust. Trust
is built up over a period. As the accountant begins to work more closely with managers, the managers start to trust the accountant’s input and, therefore, actively seek out the help of the accountant. Thus, the accountant becomes more involved in the strategic management process.

A significant factor can be the practicalities, such as how much time the accountant has available to become involved. If the resources available to the accountant are such that most of the time is spent in gathering the information required for monitoring and reporting, there is often little time left to become involved in the strategic management process. It emphasizes the importance of ensuring that the accounting system is adequate for business needs. The easier it is to produce the numbers, the more time can be spent on analysis, interpretation, and determining the potential future implications.

In a study of management accounting in practice (Pitcher, 2015), a finance director said that he did not want his management accounting team to sit behind their desks in the office. “They should be out there in the business with the managers — that’s when they are adding value.” If the management accountant is to add value to the business, they need to understand how the business works. The toolbox available to the management accountant does not just contain the accounting techniques but also includes the strategy models and frameworks described in this learning resource. Armed with this array of tools, the management accountant is well placed to add significant value to the business. The management accountants should not be afraid to market their skills within the business. Managers are the customers of the management accountant and, once managers gain confidence in the abilities and advice received, the demand increases until the management accountant is part of the decision-making team.

There has been much written and talked about business partnering in which accountants work closely with the functional and business managers within the organization. Accounting firms and consultants actively promote the concept. Organizations have run internal programs titled “From Bookkeeping to Business Partnering” to develop better relationships with the business managers (Pitcher, 2015). However, these are doomed to fail unless the accountant possesses the business knowledge as well as accounting skills. McLellan (2014), in a study in the U.S., noted the gap between the theory of management accounting and practice. Other studies have also indicated that many practicing accountants tend to prefer and rely on the old tried and tested conventional techniques. Indeed, these can be effective in supporting the strategic management process. It is important, however, that accounting bodies and education providers continue to develop the syllabus to ensure that the skill set is up to date and relevant to today’s business environment.

The recognition that accountants can make a valuable contribution to the strategic management process is being encapsulated in the definitions of management accounting by the professional bodies. The Institute of Management Accountants (IMA, 2008:1) definition includes the following phrases: “partnering in management decision making,” and “to assist management in the formulation and implementation of an organization’s strategy.” The CIMA definition on their website in 2019 (www.cimaglobal.com) talks about providing information to generate and preserve value for organizations and using a range of information to lead and inform business strategy and drive sustainable success.

As demonstrated in this learning resource, the management accountant can contribute to every phase of the strategic management process. Armed with the techniques described and
with the development of interpersonal skills, the management accountant will be able to provide influential insight, relevant information, and analysis that have an impact, while building trust in relationships with managers to ensure high caliber decision making to drive sustainable performance.

11.9 Summary

Management accounting can support sustainability in the following ways:

Corporate social responsibility (CSR) report input

Accountants are often involved in preparing the annual CSR report, which many organizations now produce to demonstrate and report on sustainable activities. It has increased the degree of accountability and transparency in managing and reporting organizational performance, which is an area in which accountants are always involved by way of the stewardship and governance roles within an organization.

Performance management

The balanced scorecard approach to performance management can be a useful way of capturing aspects of sustainability. The accountant can play a vital role in the development of suitable performance measures derived from the strategic objectives. The interpretation of performance measures and expressing the implications for the future in financial terms are key areas where accountants can contribute.

Monitoring aspects of the environment

The accountant will be monitoring the environment for economic indicators, interest rates, inflation, and so on that could impact the organization’s ability to achieve its strategic objectives. In doing so, information might be identified concerning changes in industry standards or government policy that might require a more sustainable approach by industry members. In this way, the accountant contributes to the data collection system feeding into the environmental analysis discussed in section two of this learning resource.

Development of controls

An obvious area where accountants can contribute is in the development of controls, particularly the diagnostic controls. Also, by encouraging the use of interactive controls, whereby employees are empowered to take control action for themselves, to exchange information and discuss performance and actions to take and taken, can create a culture of learning within the organization. Benchmarking exercises also aid this perspective and the use of initiatives on the balanced scorecard, so that employees are encouraged to challenge the way things are done. Accountants can contribute to training programs by increasing the financial
awareness of all employees and thus contribute to the development of staff, not just as an employee but also in broader terms to develop as a person, which contributes to social sustainability.

**Cost monitoring and reporting**

Specific costs can be monitored and reported, which benefits the company in achieving economic sustainability by enabling better management of costs. For example, energy costs, wastage, and cost of quality all contribute to environmental sustainability if systems are in place to facilitate their effective management.

**Accounting and management techniques**

The accountant can contribute expertise and knowledge of specific techniques that can be used to improve sustainability practices within the organization. Benchmarking exercises can be useful as a means of identifying the sustainable practice of other companies that could enhance an organization’s practice, and the accountant can be a valuable member of a benchmarking project team. Life cycle costing can improve the sustainability of new product design and manufacture. The use of the value system analysis linked to ABC can aid the improvement of manufacturing processes by highlighting areas of inefficiency, thus improving profitability, which aids the economic sustainability of the organization, and hence employment and the broader economy.

**Cost-benefit analysis within investment appraisal**

Whenever organizations make strategic investment decisions, accountants are in an excellent position to contribute to the evaluation by way of a cost-benefit analysis, including the tangible and intangible costs and benefits, which should also include the sustainability aspects of the decision.

**Sustainable profitability**

The accountant can contribute to the overall sustainability of the organization by undertaking the usual role of helping to improve performance and inform decision making. Even contributing to halting the decline in profits of an ailing organization is contributing to economic sustainability. After all, if an organization is not profitable, it will not be around long enough to contribute to the sustainability of the planet.

**Being proactive and marketing their skill set**

Accountants need to be proactive in supporting the whole of the strategic management process. They need to ensure that they acquire and develop the appropriate personal skill set, persuade,
and encourage the organization to use their skill set, and facilitate the practical application of these within the organization.

11.10 Review questions

(1) Explain what you understand by the term’s sustainable development and sustainability.
(2) Critically evaluate the contribution that environmental management accounting can make to the achievement of an organization’s sustainability objectives.
(3) Discuss how performance measurements associated with the sustainability objectives of an organization can be incorporated into a balanced scorecard.
(4) Discuss why the performance measurement system must not just focus on the operational (inputs and outputs) aspect of the organization.
(5) Critically evaluate the contribution that management accounting can make to the strategic management process with an emphasis on sustainability.

11.11 Case study activities 25 – 26 - HW Inc.

Case study activity 25 – HW Inc. Sustainability

The following activities refer to the case study HW Inc. in Appendix A of this learning resource.

Read the following description of a sustainable framework in operation.

[Note: The narrative has been adapted from a statement by Walgreens Boots Alliance, which is the largest retail pharmacy, health and daily living destination across the U.S. and Europe, and therefore the activities mentioned actually exist within a real organization].

Activity requirement:

Identify the aspects of the CSR framework described below that illustrate that HW Inc. takes CSR seriously and note how the finance department is involved in the process of producing the CSR report.

EXTRACT FROM CSR REPORT 2020

Our flexible framework

The Group’s CSR framework of priorities covers four key areas: community, environment, marketplace, and workplace. We call this framework “the HW Inc. scorecard,” and it is used across our businesses. Each of our businesses’ CSR plans is created based on local stakeholder engagement, an analysis of key issues, and meeting the Group’s overall priorities. These are presented to the social responsibilities committee for approval and progress against these plans, and the scorecard is monitored centrally.
Community

We strive to support the communities in which we work. We provide our people with opportunities to devote their time, energy, and talent to support the causes that matter through volunteering and fundraising.

Environment

At HW Inc., we are determined to be a leader and an example to others in addressing the threat of climate change. We pursue many practical activities which contribute to the overall reduction of our carbon footprint.

Marketplace

Our mission to make people’s lives easier by providing quality products that help with everyday life at reasonable prices comes alive through the relationships with or stakeholders in the business ecosystem.

Workplace

As a Group whose purpose is to deliver products and services that help make people’s lives easier and more comfortable, it is second nature to make the wellbeing of our employees a priority. We continue to support our people through training and development so that they can both grow professionally and meet the evolving challenges of our industry.

The HW Inc. scorecard

Every year, after consultation with our stakeholders, we review the Group’s priorities and, where appropriate, set new revised priorities within which targets can be set for the year ahead.

Our priorities focus on developing links with the community (community), reducing our carbon footprint (environment), sustainable products (marketplace), and healthy workplaces (workplace).

All our businesses have their own scorecard based on these four key areas and, consistent with the Group’s priorities, set their own programs and targets as appropriate. There is a range of different strands of activity across each of the four key areas, and it is within this framework that plans are made by each business. These priorities are further divided into areas of focus and are apportioned around our ‘wheel’ structure (Figure 11.2), which is submitted to the HW Inc. social responsibilities committee for review.
We work across a range of retail product ranges, including furniture, garden equipment, electrical goods, clothing, and financial services and interior design, as well as embracing elements of manufacturing and distribution. Our businesses are of varying sizes and work in different countries with different economic and social circumstances. As such, we have ensured that our CSR framework is robust enough to provide leadership and direction, yet flexible enough to consider differences in approach for each business working within the context of their local communities and markets. It is necessary to have a support structure that helps each business to develop and take ownership of a CSR agenda that is appropriate to local circumstances while remaining within the overall HW Inc. framework.

**Our corporate social responsibility management**

As part of our CSR program, we have a “champion” in each business (country) with responsibility for defining and delivering local CSR priorities and targets in line with the Group’s overall objectives. These objectives provide a framework for our businesses to establish their own priorities and targets that reflect the local business environment. Progress against these targets is monitored quarterly by the Group, and a senior business leader is accountable for each target.

Each “champion” works with an “action group” (which includes senior representatives of relevant business functions) for his or her individual business, and the “champions” hold teleconferences to share initiatives and internally report on their activity. They meet once a year to share their skills, experiences, and ideas with their peers and members of the social responsibilities committee. Formal and informal collaboration between “champions” helps us to share best practices and ensures that our businesses can benefit from progress made across
the Group. For example, HW in the U.S. has worked in close partnership with HW in the U.K. on an energy-saving campaign for all its sites, including warehouses and support offices.

All “champions” across HW Inc. are supported by the Group’s CSR Director and coordinator, who provide guidance and additional expertise on working within the Group’s CSR framework. In addition, each “champion” is supported by colleagues from their respective business and a number of Group functions, including human resources, communications, and finance.

In March 2017, we launched an innovative learning and development program to support our corporate social responsibility “champions” with training on CSR theory and its practical implementation, developed in conjunction with Birkbeck University, London. It aims to ensure that each “champion” across the Group has a consistent knowledge and understanding of the CSR agenda, combined with the confidence to manage and collaborate with internal and external stakeholders. The program continues to thrive within the company with new “champions” completing the program each year.

**Data management process**

We have a Group-wide approach to recording, measuring, and reporting on our CSR performance. We have a set of reporting criteria and a set of CSR measures and performance indicators that are applicable across the Group. The CSR data captured is used to inform and assist in the development of each business’s individual CSR program.

The data presented within this report reflects the continuing operations of the Group. Data collected locally are first reviewed by our CSR “champions” and finance teams at a local level. The data is then signed off by the local country Finance Director. The Continent finance teams then review this before being submitted to the finance team at head office, New York, and our central CSR team for final review. Finally, the data is independently assured by our auditors, KPMG, before publication in our annual CSR report.

**Case study activity 26 – HW Inc. Sustainability and the accountant**

Sustainability has become a ‘buzz’ word of recent years. Discuss how the management accountant can contribute to HW Inc. developing and maintaining a more sustainable approach to business.

**11.12 References**


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