



## **MANAGERIAL INNOVATION: A PREMISE FOR COMPANY'S STRATEGY ADAPTATION TO THE CHARACTERISTICS OF SUSTAINABLE DEVELOPMENT**

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### **Rezumat**

Acest material prezintă un punct de vedere privitor la situația prezentă a dezvoltării sustenabile în relație cu strategiile firmelor și rolul pe care ar putea să îl aibă inovația managerială în îmbunătățirea acestei situații. Pornind de la o scurtă analiză a conceptului de dezvoltare sustenabilă, facem legătura cu strategiile firmelor, subliniind elementele esențiale ale acestei relații: orizontul de timp, modul de calcul al rezultatelor activității firmei și orientarea globală a firmei. Concluzionăm că este necesară crearea unor mecanisme manageriale noi care să permită o mai bună integrare a acestor elemente în strategiile firmelor.

### **Abstract**

This paper presents a perspective on the current situation of sustainable development in relation to companies' strategies and the role that management innovation may have to improve this situation. Starting with a brief analysis of the concept of sustainable development, we link it to the firms' strategies, emphasizing the essential elements of this relationship: the time horizon, the calculation of the output of the company and the company's global orientation. We conclude that new management mechanisms are necessary to enable a better integration of these elements in firms' strategies.

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#### **Sustainable development at the present moment**

Sustainable development is certainly a concept which is currently widely discussed. The debates on this subject take place at the national political level (Guvernul României, 2008) and at the international level (EU Council, 2006), as well as the level of the companies (Goldsmith and Samson, 2005; Elkington, 1997). A simple browse on the internet of the syntagm “*sustainable development*” produces over 38 million results. The usual definitions of the sustainable development do not inhibit the drive of the people interested by this subject, providing a readily understandable vision. Nevertheless, the concept of sustainable development has profundities and implications that are not always readily obvious. Distinctions and specifications (Dinga, 2009) can be made, which can often be ignored by a superficial analysis. No wonder, thus, that a research of the way in which the subject of sustainable development is understood may reveal serious gaps among the users. Springett (2003), for instance, shows that many managers and governmental officials have a precarious understanding of the history, problems and key principles of the sustainable development.

The initial and most powerful associations with the idea of sustainable development refer to environmental protection. A company

or a community is perceived as being oriented towards sustainable development to the extent it reduces the adverse environmental impact of its activity by recycling or by reducing the polluting emissions. Although environmental protection is an important step towards sustainable development, it is not the only one; focusing on this single dimension may be counterproductive. On the one hand, other elements of sustainable development, such as the community people are neglected. On the other hand, forms of abuse of sustainable development notion may be observed. Springett (2003), shows that some organisations use this concept as justification for their actions, while actually doing very little to this direction.

We cannot deny that sustainable development is a fluid concept which changes in time in response to the increased volume of information and in response to society priorities. Under these circumstances, the role of the business environment in the sustainable development is yet to be clearly defined. The capacity of the enterprises to contribute to the accomplishment of this desiderate varies with their area and industry of operation, with their type and size. Anyhow, in order to achieve sustainable development at full potential, it must be integrated within the company's planning and measures systems (IISD, 1992). The actual procedures by which this integration can be achieved are, nevertheless, more difficult to determine.

Generally, there are three major acknowledged dimensions of sustainable development: the economic dimension, the social dimension and the environmental dimension (Elkington, 1997; Harris, 2000, Dyllick and Hockerts, 2002; Bansal; 2005). For a correct positioning of the companies in relation with sustainable development, they must take into account all these three dimensions.

#### **Characteristics of the sustainable development**

The problem of sustainable development is increasingly present in dealing with the economic issues at different levels. For instance, in order to measure the level of sustainable development of the member states and in order to monitor its own Strategy for Sustainable

Development, the European Union worked out a broadened set of indicators grouped in several distinct categories:

- Socio-economic development;
- Sustainable consumption and production;
- Social inclusion;
- Demographic changes;
- Public health;
- Climacteric changes and energy;
- Sustainable transportation
- Natural resources;
- Global partnership;
- Good governance.

Obviously, the EU monitoring indicators conceived for the analysis at the national level cannot be simply used to analyse the harmonization with the principles of sustainable development at the individual level, by the companies. However, they can be analysed as an exercise of developing custom-made indicators for this purpose. Some of the principles of the Strategy for Sustainable Development of the European Union (2006) can also be adapted for use within the microeconomic strategies:

- Solidarity within and between generations – considering the interests of the current generations without endangering the capacity of future generations to achieve their goals.
- Use of the best available knowledge – ensuring that the policies are developed, evaluated and implemented using the best available knowledge and that they are rational and economically efficient.
- The principle of caution – when there is scientific uncertainty, prevention measures have to be taken so as to avoid the harmful effects on the environment and human health.

From the microeconomic perspective, seven steps are deemed as necessary (IISD, 1992) to run a company in agreement with the principles of sustainable development:

1. Conduct a stakeholder analysis in order to identify all the sides affected directly or indirectly by the activity of the enterprise;
2. Set out policies and objectives concerning sustainable development;
3. Work out and execute a plan of implementation;
4. Develop a corporate culture based on support;
5. Develop measures and standards of performance;
6. Prepare reports;
7. Increase the processes of internal monitoring.

The accomplishment of such a model of transforming the perspective of the company and including in it a dimension related to sustainable development in the management activity is just a first step.

#### **Sustainable development and company strategies**

Many factors can be identified which influence the sustainable development of a company. For instance, Bansal (2005) showed that there is a clear relation between the sustainable development of a company and its international experience, its size and media pressure, as well as its tendency to imitate. Dyllick and Hockerts (2002) claim that at the organisational level, on the short period, focusing on the economic dimension of sustainability may prove some success. They supported this argument by the fact that *the existence of an economic discount rate tends to value short-term gains higher than distant costs caused by social or environmental degradation*. On the long-term, however, for sustainable development it is necessary to tackle simultaneously the social and environmental dimensions, because they are mutually influencing, in various ways.

The adaptation of the company strategy to the principles of sustainable development is a complex process which requires more than the enunciation of mere intentions or concerns. The transformations of the global economy impose both the change of company strategies and of the way these strategies are worked out, because *in a world of ever-accelerating change, innovation is the only insurance against irrelevance* (Hamel, 2006). The adaptation of company's strategy to the principles of sustainable development shows a high level of turbulence in the

environment.<sup>1</sup> Under these conditions we consider that the traditional management of the companies is largely inadequate, given the way in which the economic activity operates and develops presently. This fact can be observed even in the conditions in which the business pattern of most companies doesn't consider the principles and essence of the notion of sustainable development, looking only at the short-term objectives of the company.

The major problems hindering the harmonization of the relation between the company strategy and the principles of sustainable development are the time-span differences (rather short in the case of the company strategies and long or very long for sustainable development) and the scale differences (the company strategy concerns the activity of that particular company, while sustainable development only makes sense for the whole economic system (Dinga, 2006); it cannot be achieved by a single company or business community (IISD, 1992; Ciumara, 2009).

Company strategy may be considered as the identification of the purposes, plans and actions of the enterprise that have to be taken in order to accomplish that purpose. Behind the strategy there is a systematic effort of finding answers to questions such as what is the company, what is it doing and why. The way in which strategic planning is conducted by companies evolves in time. A few decades ago the dominant topic of the strategies was planning and budget control. The strategic positioning came after, followed, by the analysis of the industry and competition. The strategic advantage came next. During the past decade, the efforts of developing strategies focused on the strategic and organisational innovation. Among the characteristic concepts of this stage are the corporatist social responsibility and the ethic commitments. The attention paid to the sustainable development of the companies is a continuation of this evolution of the strategic orientation.

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<sup>1</sup> *This level of turbulence can be measured both in terms of the level of probability for change (derived from the complexity of the environment and from the emerging novelties) and in terms of predictability (characterized by the rate of change and by the visibility of the future) (Lynch, 2006).*

Hart (1995) considers that in the future, the strategy and competitive advantage will rely on the capacity of the company to perform a sustainable activity. Nicolescu and Verboncu (2007) documented the existence among the contextual determinants of the strategy of an ecologic determinant next to economic, technologic, politic determinants, and not only. According to the authors, this ecologic determinant shows its influence on the organisation on two main levels. First, a major part of the strategy's resources are ecological. Second, there are restrictions which the environmental protection imposes on the company activities. This double action reveals the clear and significant impact of this ecologic determinant on the process of strategy development. The amplification of the ecologic determinants is foreseen for the future. Nicolescu and Verboncu even recommended ecological studies among the manners of fundamenting the strategy, *in order to align company development to the requirements of the environment.*

A characteristic of adapting the company's strategy to the principles of sustainable development is the increasing importance of the ecologic or social objectives compared to the economic objectives. Generally, the economic objectives don't have a time-scale of more than half a decade, the time needed to depreciate some important assets or to calculate the profitability of a large-scale project, while the ecologic objectives expand on much longer periods. **Time-scale therefore appears as a first element that has to be considered in analysing the relation between the company strategy and the principles of sustainable development.**

Expanding the time-scale to such an extent raises the problem of the inter-generational equity. The future generations have nothing to say about some actions that influence them directly, which produces a full asymmetry of power. Within this context we need to analyse the relation between the economic efficiency, as it is calculated presently, and the inter-generational equity. **The manner of calculating the results of company activity (currently conducted in terms of economic efficiency) is a second element that has to be considered in**

**analysing the relation between company strategy and the principles of sustainable development.**

For the full integration of the company strategy within a vision of sustainable strategy we need to have a global perspective on the company activity. Sustainable development has no real relevance unless seen at the global level. **The global orientation of the company is the third element that has to be considered in analysing the relation between the company strategy and the principles of sustainable development.**

The three elements mentioned earlier regarding the basic aspects of a potential interface between the individual strategies of the economic agents and the principles and objectives of sustainable development raise serious difficulties pertaining both to problems of ethics and to social or cultural problems. It is not enough to find local solutions to these problems; rather, they need to be accepted and integrated at the global level.

Although the importance of integrating the principles of sustainable development into company strategy can be rather readily acceptable at the decision-making level, concrete problems may arise when the proactive approach of this problem is concerned. The acceptance of redirecting some resource towards goals set for very long terms or giving up some objectives or goals that might seem justified in terms of short-term efficiency may raise difficult problems of acceptance by some managers whose mandates are rather short. Modalities to solve these issues have therefore to be found in order to have progress in this field.

The concept of sustainability-oriented actions defined by Goldsmith and Samson (2005) proves to be very useful here. In their opinion, this concept describes *the degree to which organisation culture and its set of sustainable development practices are efficient and effective in meeting economic, environmental and social needs and in supporting the strategic direction of the business*, thus providing better opportunities for the long-term success of the company. The authors argue that company strategy is informed and influenced by the orientation towards sustainability. In the situation of advanced companies, the orientation



towards sustainability is not dictated by their strategies, but becomes a cultural characteristic. They say that sustainable development practices are also influenced by the affiliation at a particular industry, by the orientation towards sustainability and by the business strategy. From our point of view, the industry in which a company operates is not the only important element that influences the practices of sustainable development. The cultural characteristics of the region where the company operates (or where the management system of the company, or its pattern of organisation has formed) are other critical elements in the establishment of the way in which the sustainable development of a company is perceived and followed. For example, the orientation towards sustainability is certainly very different in a typical mining company operating in Canada and in one operating in Namibia.

We cannot neglect, nevertheless, an important aspect: the integration of some practices of sustainable development, unilaterally, by a single company from a market, instead of helping its market position, may actually slacken its competitive position. The use, only by a particular company, of technologies which diminish the consumption of resources, while its competitors do nothing of the kind, may be a short-term disadvantage.

The use of the principles specific to the orientation towards sustainable development may require to ignore some adverse principles which other companies use in their activity. For instance, in the analysis and adaptation of the company strategy in agreement with the characteristics of sustainable development, attention has to be given to the issue of planned obsolescence. Many products are designed in such a manner that they are not very durable, so that the consumers are forced to make repeat purchases.

The problem of the conflict between the underlying principles of sustainable development and the planned obsolescence leads to yet another observation. In adapting company strategy to the characteristics of sustainable development we need to deal with a basic contradiction: company strategies have a rather short horizon, while sustainable development considers a long or even very long term. Making

abstraction of the more or less efficient utilisation of the resources, we may observe the difficulty to mediate these contradictions. Furthermore, a major problem for the harmonization of company strategies with the sustainable development is the fact that sustainable development cannot be achieved with just a handful of companies. The singular or isolated behaviour of a company in agreement with the principles of sustainable development does not contribute significantly to achieving such goals. Furthermore, the competitiveness issues that may occur due to the isolation of a company on this field of ideas may deter other companies from adopting a similar behaviour.

#### **The role and importance of the managerial innovation**

We wonder whether the current organisation of the companies provides them with the capacity to answer the challenges brought by the external environment and to do this in a manner which allows maintaining (or achieving) a balance in the relationship with the environment.

The basic purpose of management was historically to coordinate the activity of production of goods and services under conditions of economic efficiency. To this purpose, the managerial activity was and still is seen as having a role in setting objectives, in organisation, in motivating the employees, in measuring the results. The development of company strategy requires, however, a much broader perspective than the one allowed by the routine managerial activities. The development of an efficient strategy requires the careful analysis of the environment and of its potential of change.

The difficulty to predict with reasonable accuracy the future evolution of the environment because of the increased frequency and amplitude of the environmental changes often deters the strategic approach. As long as the importance of business planning increases with the difficulty to predict the changes in the external environment (Ciumara, 2010), also the strategic activity becomes more important.

The whole problem of adapting company strategies to the principles of sustainable development derives from the epistemological crisis caused by the dissociation between humanity and the rest of the

natural environment (Gladwin et al, 1995). It is considered that organisations cannot increase indefinitely, but that they may develop indefinitely. Thus, the strategic action might lead to sustainable development if it would aim the qualitative improvement of company activity, even in the absence of the quantitative expansion. This would presume striking off the hypotheses of indefinite growth from the strategy.

The adaptation of company strategy, although it might bring important long-term benefits, may actually have a limited global effect. And, after all, the global dimension is primordial in the field of sustainable development. A way to stimulate the adaptation of company strategies to the necessity of sustainable development may be through state intervention via regulations, taxes, subsidies, which may stimulate this adaptation. From this point of view, the adaptation of company strategies to the characteristics of sustainable development may take two distinct forms: voluntary adaptation for a better long-term performance of the company and the adaptation imposed by state regulations.

An additional distinction that can be made is the awareness or not of this adaptation. This decision may rely simply on an individual calculation, without taking into consideration the social or intergenerational benefits, but which eventually observes the principles of sustainable development. The noticed distinction regards the character of the process of development or adaptation of the strategy: it may be tailored to fit these principles or, although independently developed, still compatible to them.

A way of analysing the profitability of a company is to consider the point where we draw the bottom line to calculate the possible profit and to consider which costs are put above the line and which are disregarded. (Elkington, 1997). Also Elkington (1997) draws attention to the fact that the future success of the companies depends on their ability to consider not just the traditional profitability, but also the quality of the environment and the social justice (which he calls *triple bottom line*).

We were saying above that a major problem in the way of harmonizing the strategy of a company with the principles of sustainable

development is the difference in time-horizon. As a potential solution we consider that the adjustment of the company time-horizon, at least as far as the use of resources is concerned, can be done by increasing the role of the different categories of stakeholders whose interests are currently insufficiently taken into account. This presumes including these stakeholders, at least for consultations, in the process of developing company strategies; this would bring fundamental changes in the way most companies currently operate. We revert thus to an idea mentioned in the beginning of the paper: the traditional system of company management is largely inadequate, considering the way in which economic activity functions and develops.

The companies are not the only entities with an important role in achieving sustainable development. All the other types of organisations and bodies, as well as the individuals, as consumers or stakeholders, play an important role in this process. Therefore, both strategy development by the companies and the development of the public policies or the establishment of the individual preferences of the consumers these interdependencies have to be taken into consideration. A concrete result of this effort of development can be represented by a better awareness of the relation between the consumed resources and the actual requirements of each entity.

Currently, the adaptation of the strategy to the principles of sustainable development may seem more like a way to promote company image, to improve its reputation. If such advantages are the goals of the company management, the effort of sustainable development will be maintained only as long as these advantages are obtained. We may control this danger by a real, deep awareness of the need for sustainable development, of the problems that may arise from ignoring it. This can be done by the establishment of new managerial mechanisms that may help integrating the very long term objectives into strategies, changing the way of calculating company profitability and orienting it towards the perception of its role as an element within a global system.

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