

# TECHNOLOGY OF LINKING CORPORATE MANAGEMENT AND STRATEGIC ENVIRONMENTAL MANAGEMENT

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*The article describes the technology of linking the corporate, strategic and environmental management as part of all corporate activities and its instruments.*

*Setting out from an analysis of the latest theoretical research into corporate, strategic and environmental management, the authors give a definition of strategic environmental management. Strategic environmental management is very closely connected with control processes in an enterprise. Its effects on costs decisions make the monitoring of environmental costs more transparent in relation to products, processes and activities. An important factor affecting strategic environmental management is the product life cycle; it is a method of environmental approach to monitoring costs of products all through their life cycle including their disposal. Environmental management accounting is an integral part of strategic environmental management that ensues from environmental concerns, and it gradually becomes more and more relevant for all interested parties in enterprises and around them, and it is one of important aspects of achieving success in business.*

*An empirical research study into strategic environmental management carried out in 2003 confirmed that a number of Czech businesses were in the process of introducing voluntary tools, mainly environmental management systems ČSN ISO EN 14 001 and EMAS I, II; the research also confirmed how important it was for Czech businesses to identify costs related to protecting and damaging the environment, but such environmental costs are still hidden in overall overhead expenses. Cost allocations are usually based on traditional costing methods, but it follows from results that for strategic environmental management new tools for cost allocation to products, such as activity-based costing (ABC) and life-cycle costing (LCC) which include the environmental dimension, are necessary.*

**Key words:** corporate management, strategic environmental management

## Introduction

Managing a company is a very complicated and multifaceted process determined by the fact that a company itself is a complex organism whose individual parts engaged in different activities cannot function without some planning, coordinating, stimulating, controlling and decision-making. Activities taking place in a company (procurement, sale, investment, manufacturing and financial activities, accounting, etc.) must be mutually integrated, both materially and financially. An important factor is temporal coordination of individual activities, their synchronization.

## Definitions of corporate management, strategic management and environmental management

**Corporate management** definitions can basically be divided into three groups:

- managing people,
- functions performed by managers,
- the subject-matter of study and its purpose.

The **first group**, which emphasizes the management of people, includes, e.g.:

According to Koontz and Weihrich (1993, p.16), *management* is the process of designing and maintaining an environment in which individuals work together in groups to accomplish efficiently selected objectives.

The activity of the managing top is defined by Wöhe (1995, p.36) as management work, and the total of all managing bodies as the dispositive factor. The major task for the corporate management is to identify specific goals for the enterprise by means of which the final general objective is to be accomplished.

The **second group**, which emphasizes specific functions performed by managers, includes, for instance:

Schubert (1972, s.38) expressed functions of the corporate management graphically as a circle. Company management sets goals, makes plans, decides about planning alternatives, implements and controls whether implementation corresponds to the goals. If it does not, goals in turn may be affected – the circle is closed.

The **third group**, which prefers the subject matter and purpose of study, includes, e.g.:

According to Bělohávek, Košťat and Šuleř (2001, p.56), *management* is a *process* because it is a system of successive activities and tasks that are mutually interlinked. It is a *systematic* process because a manager is to introduce order to his activities, and to perform his tasks in a manner that is accepted by the other members of the organisation and in line with their expectations. It is a process oriented at accomplishing *objectives*, which means that tasks and activities are derived from objectives set to the members of the organisation.

Veber (2000, s.52) defined *management* as an set of information ordered according to certain criteria, most often copied from practice, that is made into guidelines for behaviour or its principles. It draws on

knowledge (theories and methods) from a number of scientific disciplines (economics, mathematics, accounting, psychology, sociology, etc.), which it applies to and develops for management situations.

**Functions of management** according to the above authors can be summarized as: **planning, organizing, selecting and allocating workers, managing people, and controlling.**

Němeček (2001, p.10) divides *management* into four *components*:

- planning,
- organizing,
- stimulating,
- controlling.

Managerial elements are expressed in functions - the manufacturing, economic, business, technical and personnel ones.

Taking the above management definitions in the aggregate, **corporate management** may be viewed as a "coherent set of proven approaches, opinions, experience, recommendations and methods that managers use to perform specific activities (management functions) that are necessary for the organisation to accomplish its objectives."

With regard to content, **strategic management** is linked to strategies that are closely connected with the objectives<sup>8</sup> pursued by the enterprise. A company's objective may be, for example, to increase profit margins by a certain amount. Such an objective may be accomplished by applying different procedures, methods (different strategies), e.g.:

- broadening its selection of merchandise,
- increasing prices,
- decreasing costs,
- moving to more profitable markets,
- including environmental aspects.

A strategy predetermines the company's future actions, whose implementation will allow the company to accomplish the objectives set in its strategic plans.

According to a recent definition, strategy is the *readiness of a enterprise for the future*, Dedouchová (2001,s.1) "the strategy defines the company's long-term objectives, the course of individual strategic operations and the allocation of corporate resources necessary for the accomplishment of the set objectives in such a way that the strategy sets out from the company's needs, takes into account changes in its resources and capabilities, and, at the same time, adequately responds to changes in the company's external environment" (Fig.1.)

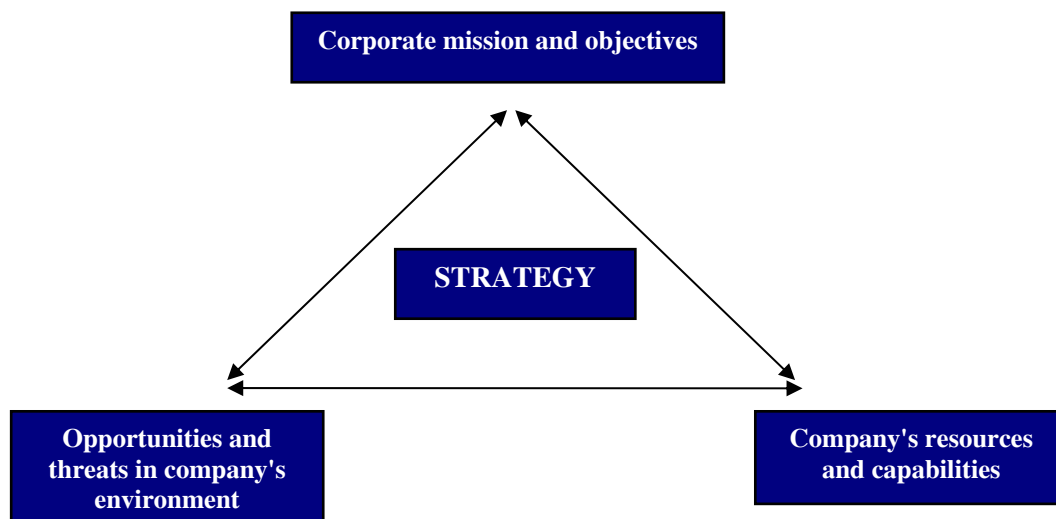


Fig. 1. Relations between the company's mission, its resources and capabilities, and its external environment (Dedouchová, 2001, p.2)

<sup>8</sup> The definition of an objective is the same from both the entrepreneurial, corporate and strategic points of view.

Strategy development usually consists of the following stages:

- strategic analysis (company environment analysis – external, and company resources and capabilities analysis – internal);
- strategy formulation (the mission and objectives of the company are defined at individual levels of management);
- strategy implementation (changes in the organisational structure and in the company management);
- strategic control.

*Corporate strategy determines the directions to take to accomplish long-term objectives, defines necessary activities and allocation of resources necessary for the accomplishment of planned objectives, material development of the enterprise (what should be produced, in what quantity and quality, when and for whom) and for the creation of methods, instruments and measures through which the strategies are to be implemented.*

- Corporate strategy must adapt to the changing internal and external environments<sup>9</sup> of the company:
- changes in business environment,
- changes in the demand from customer groups,
- changes in life cycle stages (of the company, products, markets, etc.),
- changes in environmental protection in the enterprise, etc.

In defining a strategy, an important role in formulating, strengthening and developing competitive capabilities of an enterprise is played by *strategic management*.

In his definition of strategic management, Bowman (1995, p.9) sets out from the consequences of decisions on products, allocation and appointments of top managers: he identifies important decisions with strategic objectives. The way these important (strategic) decisions are made and implemented can be characterized as a process of strategic management, see Fig.2.2.

A frequent criterion for differentiating objectives falling under the strategic management heading is their time horizon, and long-term tasks are then identical with strategic objectives. For instance Koontz (1993, s.10) defined strategy area as "... the definition of long-term basic objectives...". This approach is deservedly – and not infrequently - questioned with a reference to the fact that even short-term tasks may have a strategic character.

The process of strategic management consists of the following stages:

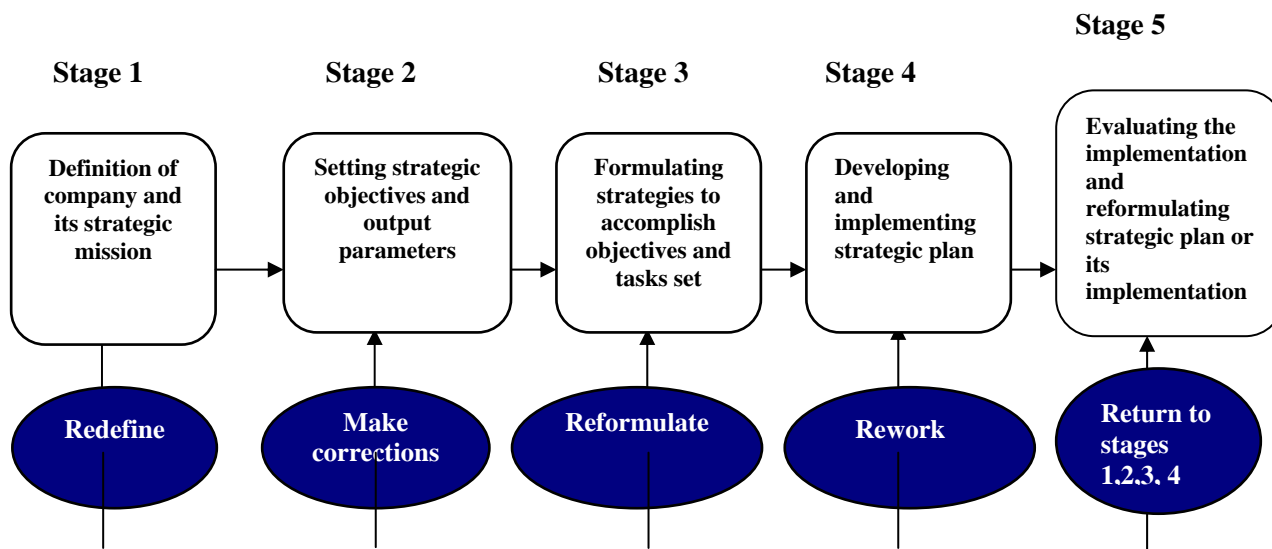


Fig. 2. Strategic management processes (Bowman, 1995, p.14)

Keřkovský, Drdla (2003,s.3) have adopted a more up-to-date view of strategic management in relation to information systems and technologies (IS/IT) describing it as a continuous process in a company, a sequence of repetitive and interlinked steps that starts with the definition of the company's overall orientation and its

<sup>9</sup> Company's external environment is made up of geographic, technological, social, political, legal, economic, ecological, ethic, cultural and historical factors.

objectives, and finishing with the formulation of possible scenarios of their implementation (strategies), selection and implementation of strategies, and of the control and corrections of their implementation.

At present, the inclusion of environmental measures among its managerial activities has become an important objective for the *corporate and strategic management*. It follows that the inclusion of such an environmental objective to corporate and strategic management should be primarily linked with the introduction of environmental systems of management, and economic aspects related with them.

*Environmental management* is becoming a part and parcel of corporate management oriented to environmental protection. Environmental management systems are intended to lead companies to continuous improvements in the company's protection of the environment, and to publicly implement environmental policies and activities that enhance environmental protection. Voluntary tools of environmental management include Cleaner Manufacturing (a method of reducing amounts of toxic waste and limiting material and energy losses at the time when they are being incurred), Environmental Impact Assessment (EIA) designed to assess negative impacts of capital investment projects on the environment, Life Cycle Assessment (LCA), Environmental Management Systems (EMS) according to standards ČSN EN ISO 14001 or EMAS I, EMAS II, EMAS III, and the European standard ČSN EN ISO 19 011. A company that wants to be successful on a long-term basis cannot behave erratically. It must create and develop a specific long-term environmental strategy. In the future, environmental aspects will more and more affect the company's prosperity, not only over short but also especially over extended periods of time.

### Strategic environmental management

*Strategic environmental management* defines long-term objectives and business areas the company wants to be active in, the competences it needs to gain and the necessary resources in order to enter a market and compete successfully, to accomplish its environmental objective it develops and uses its potential in order to successfully deal with continuous changes in environmental parameters, and it also sets out the approaches to be used to accomplish its environmental objectives. Strategic environmental management emphasizes the strategic environmental process (see Fig. 2.3), which may be founded on a formal model of the company where the processes are taking place, and on the management's objectives.

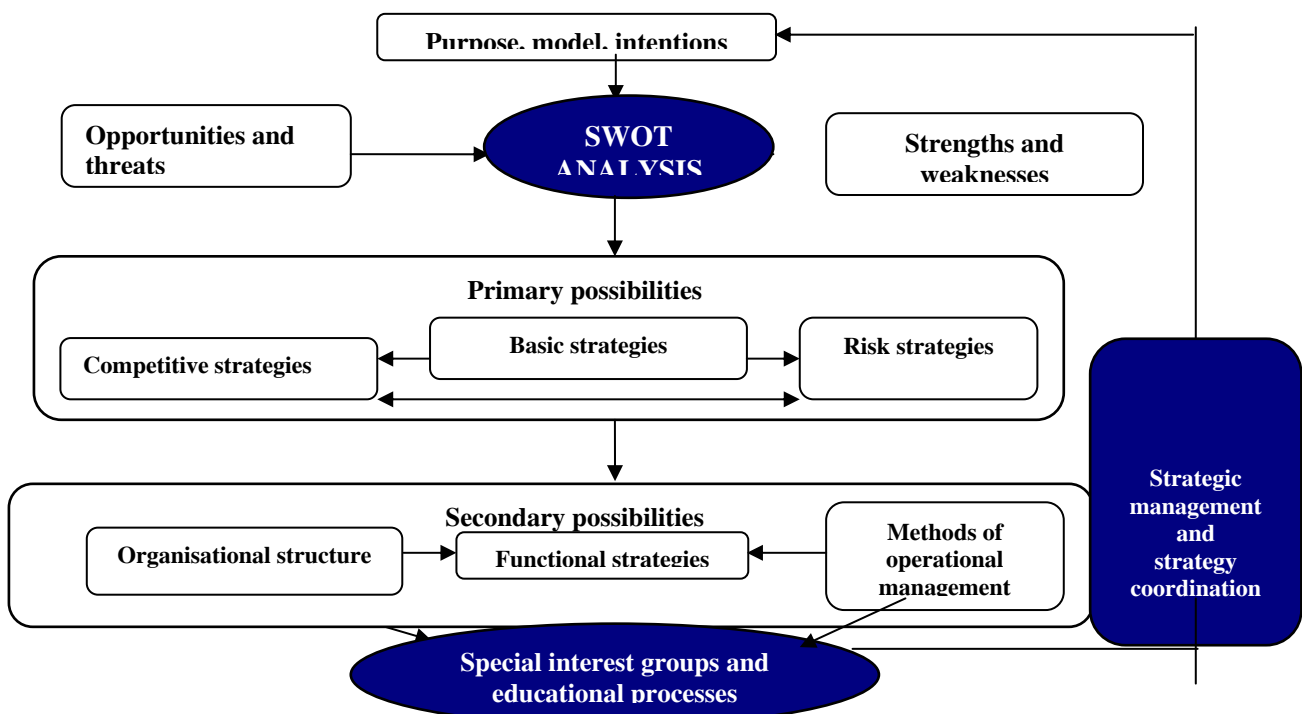


Fig. 3. Strategic environmental management processes and components

Environmental management provides the driving force for the development of the form and substance of business activities that help the company to accomplish the purpose of its existence.

In the strategic process, the company's current external and internal position is determined by the SWOT analysis (SWOT = strengths and weaknesses, opportunities and threats), see Fig. 2.3.

From the strategic analysis point of view, corporate environmental strategies can be specified:

- **Fundamental, competitive and risk strategies.**
- **Fundamental environmental strategy** specifies the general orientation (offensive or defensive) that deals with environmental demands on the company.
- **Competitive environmental strategy** outlines the range within which competitive advantage can be gained through environmentally oriented offers to the customer.
- **Environmental risks strategy** specifies how to influence environmental risks in the product manufacture and development, in relation to special-interest groups.

*It follows from the above that strategic environmental management* provides an early recognition of new opportunities and threats, a periodic check-ups of the success in accomplishing strategic environmental objectives.

In real practice, environmental objectives are being incorporated in the development of strategic objectives in different ways:

- they are necessitated by explicit legal requirements,
- they are implicit in personnel procedures and plans of individual managers,
- they are considered a factor in reducing costs,
- they are set down in voluntary guidelines and help demonstrate the environmental responsibility towards the company,
- they are formulated as part of the company's efficiency.

When defining strategic environmental management, according to Hart (1995, p.78), Shrivastavy (1996, p.175) and (Stead&Stead, 1995, p.197), it is important not to forget sustainable development and the strategy concept called *sustainable development strategy*. The starting point for an introduction of sustainable strategic management into a company is a strategic vision based on sustainability. This strategic vision forms a decision-making basis that supports a new definition of the company's long-term prosperity, which combines profit making and responsible environmental behaviour. *Fig. 2.3* shows that the strategic vision is a combination of an economic success and the company's health. The company becomes part of a larger society and the natural environment.

### **Technology of linking corporate management and strategic environmental management**

T.S. Kun, who used it in his book *The Structure of Scientific Revolutions* published in Chicago in 1961, introduced the concept of paradigm to management. He showed that every significant breakthrough in the area of scientific efforts started as a break with tradition, with an old way of thinking. The paradigm shift or paradigm break is understood as a change in the validity of old principles and the creation of new principles.

Applying this approach, we may formulate a paradigm (driving thought, a certain concept of a managerial way of thinking and acting or interpretation of some complex phenomenon) valid at present:

**the management's strategic approach to respecting the conditions of sustainable development is changing and it is thus creating new prerequisites for embracing environmental protection not only declaratively but as an internal part of corporate management with the use of the tools of strategic environmental management. Strategic environmental management aims at exerting long-term influence over the company's costs, revenues and other factors, which operate also in the area of environmental costs. Strategic environmental management must take into account both the external and internal costs related to the protection of the environment (e.g. costs related to the production, sorting and disposal of waste, etc.) as an organic part of total costs, and to include them into the overall system of management and economics. To accomplish this purpose, it uses and develops different tools of strategic environmental management of costs, whose strategy is quality, time and the cost of products, processes and activities.**

With this in mind, the following are being developed at present:

- **Activity based management** – a management system exploiting information on costs of individual activities to accomplish a number of objectives, including cost reduction, creation of cost models and customer profitability analysis.
- **Total Quality Management** – an integrated and comprehensive system of managing all company functions that tries to make sure that those products and services meet or exceed customers' expectations.
- **Process management** is a new type of business management
- **Value-Based Management** – searches for and implements activities that help increase value for shareholders.

These new concepts of management should help produce value for customers and lead to *economic benefits*.

From the new corporate management concepts' point of view, it is imperative that the basic strategy includes those aspects that relate to the environment, and they should reflect the importance that the company attributes, during production, to environmental problems, that will be the implementation of the *strategic environmental management*. No company can operate without having an impact on the environment and even consciously ignoring the environment and sustainability during planning (*ex ante*) has environmental effects (*ex post*) in the course of production, and inactivity related with it is a certain kind of environmental strategy. Basically every company activity produces environmental effects (pollution, discharges) that may generate response and may influence the company's development, thus creating potential opportunities and threats for that company. The starting point for the evaluation of strategies that are concerned with environmental threats and opportunities may be analysis of external and internal spheres (of the company itself).

## Conclusions

Environmental strategies may lead to a competitive advantage. The basic environmental strategy is the relations between special-interest groups; competitive strategies focus on the market or on the economic sphere. Competitive objectives, opportunities and possibilities look for a competitive advantage. A competitive advantage ensues from market opportunities, a competitive advantage from the environmental strategy point of view leads to the accomplishment of efficiency or price, and it may be:

- important for the business partner (e.g. reduction of emissions),
- important for customers (e.g. environmentally-friendly products).

Competitive environmental strategies may help reduce production costs, save resources and differentiate products for customers interested in environmentally-friendly products. The focus on environmental costs and product quality strategy may give the company one of possible competitive advantages.

*Environmentally oriented strategies* must focus on making sure that the natural resources in production and logistics (on primary processes) are used. Efficiency is achieved by reducing volume of input materials and energy at a specific performance level. Eco-balance and cost balances must reflect the level of accomplished expected efficiency. Environmental costs are calculated as total costs necessary for the production of an environmentally friendly product, e.g. the cost of purchased resources (energy, water and raw materials), cost of waste handling and disposal, additional cost of accident risk protection, waste disposal fees, depreciation of environmental equipment, etc. The calculation of environmental costs is one of important strategies for calculating prices of the main resources, emissions, waste disposal, etc. This presupposes that the market will recognize a reaction to these changes in costs, in relation to added value between production and sale to customers. Environmental management accounting will highlight potential areas for the reduction of costs as a decisive factor; the prerequisite is a classification of environmental costs, focus on reduction of costs as a decisive factor.

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