DISCOVERING OUR ECONOMIC RESPONSIBILITIES

Introduction

In this chapter we will focus on economic responsibility. Most existing information on sustainability has been written by people concerned mainly with either the environmental or the social responsibility. In each case they refer to economic responsibility but are so sketchy that the information would be inadequate for actually managing a real organization. No amount of excellent social and environmental responsibility will prolong the life of an organization that is economically unsustainable. Green and community values have not necessarily been good gauges for longevity of these organizations. A broader perspective on how to manage economic responsibility is emerging, based around brand, intangible assets, reputation, full cost accounting, ability to add value and the management of worker knowledge. The strategic importance of environmental and social responsibility is rarely adequately explained to the economic decision-makers. There is quite a lot of enthusiasm for more work in this area – almost as much as there is skepticism about whether that will be possible. This will be the topic in the next module on integration of the three responsibilities.

The main premise of “The Sustainable Company1,” was to learn how executives make the leap from simply talking about social and environmental goals to actually addressing problems like climate change, poverty, and employee well-being while still turning a profit for their shareholders. The focus of the book is on providing means of creating value for shareholders and stakeholders. It is important to find this point when the demands of the market are primarily focused on growth and profit. Looking at it from the point of view of investors, a group known as Sustainable Asset Management (SAM) has published a paper on “Value Through Sustainability2.” A conference sponsored by the UN Global Compact3 published a state of the art assessment entitled, “Investing for Long-Term Value.” Even the Chartered Institute of Management Accountants4 (CIMA) has weighed in on the issue of “Maximizing Shareholder Value.” The SIGMA Project5 published a document entitled, “Economic Sustainability: The Business of Staying in Business.”

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Economic responsibility relates to an organization’s impact on the economic well-being of its stakeholders at the local level, as well as the national and international level when applicable. The direct impacts of economic responsibility are measured as monetary flows between the organization and its stakeholder groups. Basically, the monetary flows depict the organization’s impact on the well-being of the stakeholders. There is a compelling need to know how these issues affect the nexus of government, business and citizens at the local level. This information will then be very helpful to facilitate the integration of projects into a program with a consistent triple bottom line focus. Financial success creates the prerequisites for movement down the path to sustainable development. The monetary flows, retained in the organization, along with its ability to innovate and its use of intellectual capital, create the drive to move further down the path to sustainable development.

**Economic Responsibility and the Process View**

The Baldrige performance excellence model considers the process as a means of creating value for the organization. Appendix 1 contains information from Criterion #6 in the Baldrige model. Along with this information are comments to help organizations that are trying to enhance the value creation associated with their processes. You should note that environment, health and safety considerations are clearly noted in Baldrige. Social considerations are also noted even though social responsibility is also covered in other sections of the Baldrige model. It should be noted that the Baldrige model itself can be adapted to help score the true performance of a sustainable development program. This can be accomplished by changing the focus of the questions asked in each criterion, but keeping the overall structure of the model.

The process needs to contribute to two forms of capital: manufactured capital and financial capital.

*Manufactured capital* refers to material goods and infrastructure owned, leased or controlled by an organization that contribute to production or service provision, but do not become embodied in its output. Some examples include the following: machines, tools, technology, buildings and all forms of infrastructure.

Manufactured capital is important for the sustainable development of an organization in two ways. First, the efficient use of manufactured capital enables an organization to be flexible, responsive to market or societal needs, innovative and faster in getting its products and services to market. Second, manufactured capital and technology can reduce resource use and eliminate resource loss thus enhancing both resource productivity and sustainable development. Moving technology forward to meet the increased demands of sustainable development provides a major competitive advantage for the organization that can focus on human creativity to develop this technology.

Here are some ways that organizations can enhance manufactured capital:
Use infrastructure, technologies and processes in a way that uses resources most efficiently and eliminates most wastes
Develop flexible or customized production techniques that reduce resource use and resource loss
Implement modular or closed loop manufacturing systems that reflect the whole life cycle of products and services
Utilize system innovations – leasing products on a continual service contract
Utilize reverse logistics to get “used” products back from the market and develop re-use and remanufacturing systems
Work towards zero waste, zero emissions and zero incidents production systems like the pioneering work of DuPont in this area
Use industrial ecology – looking at synergistic production systems where one organization’s waste streams are another’s raw materials (i.e., waste = food)
Form partnerships within the supply chain and customer base to make more efficient use of resources and develop or improve products and services
Apply bio-mimicry – mimicking nature and natural processes in industrial processes and systems design
Improve product systems through eco-efficiency and eco-innovation
Apply sustainable construction techniques when looking at new infrastructure or offices
Ensure adequate levels of investment, research and maintenance of infrastructure.

Financial capital reflects the productive power and value of the other four type of capital (i.e., natural, human, social, and manufactured capital) and covers those assets of an organization that exist in a form of currency that can be owned or traded, including (but not limited to) shares, bonds and bank notes. Financial capital is the traditional primary measure of business performance and success (i.e., the single ‘bottom line’) in terms of reporting performance to shareholders, investors, regulators and government. Sustainable organizations need a clear understanding of how financial value is created, in particular the dependence on other forms of capital. For measures of financial capital to truly reflect the value of other forms of capital, organizations must understand the importance of a number of other factors and how to ascribe financial importance to them.

Some ways organizations can enhance financial capital are as follows:

- Ensure that the organization’s financial measures reflect the value of the other four capitals
- Value intangible assets such as brand and reputation to better understand their contribution to shareholder value
- Internalize environmental and social costs and benefits and assign an economic value to them (i.e., understanding that they are either assets or liabilities on the organization’s balance sheet)
- Manage opportunities, risks and corporate governance issues
Demonstrate a positive stance on, and management of, sustainability issues to improve access to financial capital or reduce financial costs, for example by demonstrating that the organization meets socially responsible investment (SRI) criteria or through achieving a reduction in insurance premiums as sustainability opportunities and risks are managed.

Ensure equitable use of the wealth created

Honor relationships with suppliers and customers/stakeholders

Assess the wider economic impacts of the organization’s activities, products and services on society (e.g., creating wealth in the communities in which the organization operates).

Now you can begin to appreciate the local view of sustainable development and the important role played by the “process focus” in this subject.

**Concept of Economic Responsibility**

The SIGMA Project\(^6\) provides a listing of economic responsibility interests that stakeholders may have with regard to the organization. This listing is provided in Appendix 2. It is important to look carefully at these interests to see if you can identify additional interests from your own experience.

Let’s examine several approaches to economic responsibility.

One approach to economic responsibility would have us consider that there are two classes of stakeholders – shareholders (i.e., those that take a direct financial interest in the organization) and all the other stakeholders. There are a number of articles from *The Economist* linked under this narrative on the course web page. They present the issues associated with the ideological extremes of this debate. There are some opportunities for a company to meet the shareholders’ needs while still recognizing the interests of the rest of the stakeholders. A good model lies in the example set by an organization known as the United Way. Employees provide their own money to help the selected organizations in their local community. The company helps provide the infrastructure to make the program operate effectively. The shareholder’s interests are protected while the company can still protect its local “license to operate.” This last consideration is in all the stakeholders’ interest to preserve.

A second approach assumes that the economic responsibility is but one of the three “bottom lines” of an organization that is moving down the path to sustainable development. Most sustainable development presentations pay homage to the phrase – “triple bottom line.” A couple university professors, Wayne Norman and Chris MacDonald\(^7\), wrote a critique of this widely-used phrase – “Getting to the Bottom of the ‘Triple Bottom Line’.\(^*\)” According to their analysis, accountants will only ever accept the financial bottom line as the only measure of performance. However, there will be ways to measure environmental and social responsibilities in a manner that are acceptable to

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\(^7\) Getting to the Bottom of the Triple Bottom Line; [http://www.businessethics.ca/3bl/](http://www.businessethics.ca/3bl/)
the accountants. This is a key paper in the study of sustainable development. It can also be found on the course web page under link for this narrative.

A third approach defines economic responsibility as an important element in defining the performance excellence of the organization. As you will see throughout the course, the Baldrige performance excellent model provides an excellent guide to those seeking to develop and implement a sustainable development program in their organization. Besides this help, the model can be used to score the continual improvement that is being made as the organization moves down the path to sustainable development. The Baldrige model can also be used to quantitatively score the continuous improvement and the sustainability indicators (i.e., sustainability results).

Unlike the case of the social and environmental responsibilities, there has been little activity to promulgate principles that deal with economic responsibility.

**Economic Indicators**

As in the case of the environmental and social responsibility indicators, sustainable development and corporate social responsibility programs measure their results with sustainability indicators. Sustainability indicators in the economic responsibility area from the Global Reporting Initiative can be found in Appendix 3. This listing has been proposed to companies who prepare sustainability reports for the public. These indicators are what a consensus group feels the companies should be reporting on. Posted on this week’s web site under this narrative is a study conducted by Businesses for Social Responsibility on how companies use economic responsibility indicators and how they compare to the GRI indicators.

The Baldrige performance excellence model differentiates “results” from the other criteria for measuring true performance. One of the results sections is called “Financial and Market Outcomes.” You will remember that results are the outcomes of performance and do not measure true performance directly. Here is what they ask organizations to measure:


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This results item examines the organization’s key financial and market results with the goal of understanding the financial sustainability and the marketplace challenges and opportunities. Measures reported in this item are those usually tracked by senior leaders on an ongoing basis to assess the financial performance of the organization. Appropriate financial measures and indicators might include the following: budgets, profits or loss, net assets, cash-to-cash cycle time, earnings per share, and financial returns. Marketplace performance measures might include market position, market share, measures of business growth, charitable donations and grants, new products, programs, or services, and markets entered.

An example of how a company represents its economic responsibility can be found in Philips 2004 Sustainable development report.

**Economic Responsibility Management Systems**

The corporate scandals in the USA in the early 2000s gave rise to the Sarbanes-Oxley Act (SOX) that seeks to prevent misconduct and improve corporate governance practices. It applies to all companies, whose shares are listed on the stock exchanges under the jurisdiction of the US Securities and Exchange Commission (SEC). The goal of SOX is to tighten the way companies manage and report their financial data to ensure their investors get reliable and accurate information. The main part of the legislation passed by the US Congress in 2002 is to establish proper administration routines, procedures and control activities. Section 404 of SOX seeks to ensure the accuracy and correctness of the financial figures and other data that is reported in financial and other (e.g., sustainable development or CSR) statements and reports. SOX covers such disparate corporate

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functions as information technology, human resources, compensation and environment, health and safety compliance.

Effective governance of any organization is only possible through a functional system of internal control, which itself is wholly dependent on a culture of sustained and proactive risk management throughout the organization. This risk management can meet the compliance mandates required by SOX and the ever increasing compliance requirements organizations face from other stakeholders as well. A well conceived risk management system is the most efficient, effective and proactive approach to increasing stakeholder value. Organizations need to integrate a system of sustained, repeatable and continuously improving risk management activities into the heart of all business processes, practices, controls and governance activities.

Effective corporate governance is universally accepted as the means by which a company actively increases shareholder value while simultaneously reducing the likelihood of loss. As a result of the high-profile scandals and failures mentioned above, shareholders, investors, regulators, pension holders and society at large are increasingly demanding improved governance within the private sector.

Unfortunately, many people see the SOX requirements from a purely financial management perspective. The financial “chart of accounts” becomes the focal point for implementing control when the emphasis should really be on the processes and management decision-making. The roots of a more effective approach go much deeper.

From an overall management system perspective, the implications of the SOX requirements are quite similar to other quality and regulatory requirements. They contain the following:

- A well-defined management system and processes
- A proactive approach to problem solving and risk management
- Clearly defined responsibilities for implementation
- Self-assessment and appropriate checks and balances.

It is possible to integrate the SOX requirements with other management systems. The payback of this approach is better integration of the organization’s compliance efforts, a more comprehensive approach to management of risk, higher efficiency in achieving compliance and a broad foundation for process improvement initiatives.

Organizations that have a well-established systems thinking perspective see things differently from other organizations. They know and understand how their operations function as a system. They tend to understand management approaches, quality standards and process improvement methodologies at a deeper level. Furthermore, they understand the principles behind each approach and how they might apply to their business. They also easily assimilate multiple management approaches because they see them only as tools rather than as some kind of silver bullet for redefining their operations. With this
In January 2005, the UK government published the final draft of the Regulations that will require mandatory reporting by publicly-traded companies of an Operating and Financial Review (OFR). The aim of the OFR is to provide transparency on and accountability for a company’s objectives and strategies, past performance and future prospects. While most companies see this as yet another regulatory burden, it is also an opportunity to improve corporate risk identification, management and mitigation. Smart companies will use the OFR as a tool for improving business performance. One of the core purposes of OFR reporting is disclosure of material non-financial risks such as environmental, health and safety risks. Management systems covering the financial and non-financial risks will greatly aid in compliance while adding value to the organization.

Below is a table that describes what has to be reported.
1. An OFR must be a balanced and comprehensive analysis, consistent with the size and complexity of the business and cover:
   a) the development and performance of the company during the financial year;
   b) the position of the company at the end of the year;
   c) the main trends and factors underlying the development, performance and position of the company during the financial year; and
   d) the main trends and factors that are likely to affect the company’s future development, performance and position.

   This analysis should be prepared so as to assist the shareholders of the company to assess the strategies adopted by the company and the potential for those strategies to succeed.

2. Furthermore, the review must include:
   a) a statement of the business, objectives and strategies of the company;
   b) a description of the resources available to the company;
   c) a description of the principal risks and uncertainties facing the company; and
   d) a description of the capital structure, the treasury policies and objectives and liquidity of the company.

3. To the extent necessary to comply with paragraphs 1 and 2 above, the review must include:
   a) information about environmental matters (including the impact of the business of the company on the environment);
   b) information about the company’s employees;
   c) information about social and community issues;
   d) information about the policies of the company; and
   e) information about the extent to which those policies have been successfully implemented.

4. The review must also include:
   a) information about people the company has essential contractual or other arrangements with; and
   b) information about receipts from, and returns to, shareholders.

5. The review must include financial analysis and, where appropriate, key performance indicators including information relating to environmental and employee matters.

6. If the review does not contain information relating to 3, 4 and 5 above, it must state which of this information and analysis it does not contain.

7. The review must state whether it has been prepared in accordance with the new OFR reporting standard (the Accounting Standards Board - Reporting Standard 1 – free of charge at www.asb.org.uk/asb), and if it does not comply it must state where it does not and why.

8. The auditors must state in their auditor’s report:
   a) Whether in their opinion the information given in the review is consistent with the annual financial accounts; and
   b) Whether any matters have come to their attention that, in their opinion, are inconsistent with the information given in the review.
In the UK, two complementary frameworks for internal control have emerged as the de facto standards by which companies should be regulated and measured. These frameworks are commonly referred to as the Turnbull framework and the COSO framework.


By looking at each of these frameworks more closely, it is clear that in both cases the heart of an effective system of governance and internal control is proactive, effective and sustained. Like two sides of a coin – risks first must be identified and assessed; then managed and mitigated by the implementation of a strong system of internal control. If organizations exist to address the interests of stakeholders and if corporate governance is the process by which organizations are made responsive to rights and wishes of stakeholders, then risk management, as the fundamental core of control and governance, must be an essential ingredient of any sustainable and defensible corporate strategy aimed at increasing stakeholder value through improved governance.

The SIGMA Project has a tool kit entitled, “SIGMA Sustainable Development Opportunity and Risk Guide” 12. It contains some good advice on how to control the risks that are addressed by these government statutes.

Business for Social Responsibility 13 publishes a number of “issue briefs” on governance and accountability.

Concluding Remarks

This chapter presented a number of issues associated with the economic responsibility component of sustainable development. All three responsibilities were presented in a similar format and separate from one another so the reader could gain an appreciation for what each responsibility brings to an organization making the journey to sustainable development.

The next chapter focuses on how an organization can integrate the three responsibilities to move down the path to sustainable development.


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APPENDIX 1
OPERATING PROCESSES FOR VALUE
6 Process Management (85 pts.)

The Process Management Category examines the key aspects of your organization’s process management, including key product, service, and organizational processes for creating customer and organizational value and key support processes. This Category encompasses all key processes and all work units.

6.1 Value Creation Processes: How do you identify and manage your key processes? (45 pts.)

Describe how your organization identifies and manages its key value creation processes for delivering customer value and achieving organizational success and growth.

Within your response, include answers to the following questions:

a. Value Creation Processes

(1) How does your organization determine its key value creation processes? What are your organization’s key product, service, and business processes for creating or adding value? How do these processes contribute to profitability, sustainability, and organizational success, as appropriate?

(2) How do you determine key value creation process requirements, incorporating input from customers, suppliers, partners, and collaborators, as appropriate? What are the key requirements for these processes?

(3) How do you design these processes to meet all the key requirements? How do you incorporate new technology, organizational knowledge, and the potential need for agility into the design of these processes? How do you incorporate cycle time, productivity, cost control, and other efficiency and effectiveness factors into the design of these processes? How do you implement these processes to ensure they meet design requirements?

(4) What are your key performance measures or indicators used for the control and improvement of your value creation processes? How does your day-to-day operation of these processes ensure meeting key process requirements? How are in-process measures used in managing these processes? How is customer supplier, and collaborator input used in managing these processes, as appropriate?

(5) How do you minimize overall costs associated with inspections, tests, and process or performance audits, as appropriate? How do you prevent defects, service errors, and rework, and minimize warranty costs, as appropriate?

(6) How do you improve your value creation processes to achieve better performance, to reduce variability, to improve products and services, and to keep the processes current with business needs and directions? How are improvements and lessons learned shared with other organizational units and processes to drive organizational learning and innovation?

Notes:

N1. Your key value creation processes are those most important to “running your business” and maintaining or achieving a sustainable competitive advantage. They are the processes that involve the majority of your organization’s employees and produce customer, stakeholder, and stockholder value. They include the processes through which your organization adds the greatest value to its products and services. They also include the business processes most critical to adding value to the organization itself, resulting in success and growth.

N2. Key value creation processes differ greatly among organizations, depending on many factors. These factors include the nature of your products and services, how they are produced and delivered, technology requirements, customer and supplier relationships and involvement, outsourcing, the importance of research and development, the role of technology acquisition, information and knowledge management, supply chain management, mergers and acquisitions, global expansion, legislative mandates, and sales and marketing. Responses to Item 6.1 should be based on the most critical requirements and processes for your products, services, and business.

N3. To achieve better process performance and reduce variability, you might implement approaches such as a Lean Enterprise System, Six Sigma methodology, use of ISO 9000/2000 standards, or other process improvement tools.
N4. To provide as complete and concise a response as possible for your key value creation processes, you might want to use a tabular format identifying the key processes and the attributes of each as called for in questions 6.1a(1)–6.1a(6).

N5. The results of improvements in product and service performance should be reported in Item 7.1. All other process performance results should be reported in Item 7.5.

For additional description of this Item, see pages 47–48.

### 6.2 Support Processes and Operational Planning: How do you identify and manage your support processes and accomplish operational planning? (40 pts.)

**Process**

Describe how your organization manages its **key processes** that support your value creation processes. Describe your processes for financial management and continuity of operations in an emergency.

Within your response, include answers to the following questions:

**a. Support Processes**

1. How does your organization determine its **key support processes**? What are your **key processes** for supporting your value creation processes?

2. How do you determine key support process requirements, incorporating input from internal and external customers, suppliers, partners, and collaborators, as appropriate? What are the key requirements for these processes?

3. How do you design these processes to meet all the key requirements? How do you incorporate new technology, organizational knowledge, and the potential need for agility into the design of these processes? How do you incorporate cycle time, productivity, cost control, and other efficiency and effectiveness factors into the design of these processes? How do you implement these processes to ensure they meet design requirements?

4. What are your key performance measures or indicators used for the control and improvement of your support processes? How does your day-to-day operation of key support processes ensure meeting key performance requirements? How are in-process measures used in managing these processes? How is customer, supplier, partner, and collaborator input used in managing these processes, as appropriate?

5. How do you minimize overall costs associated with inspections, tests, and process or performance audits, as appropriate? How do you prevent defects, service errors, and rework?

6. How do you improve your support processes to achieve better performance, to reduce variability, and to keep the processes current with business needs and directions? How are improvements and lessons learned shared with other organizational units and processes to drive organizational learning and innovation?

**b. Operational Planning**

1. How does your organization ensure adequate financial resources are available to support your operations? How do you determine the resources needed to meet current financial obligations? How do you ensure adequate resources are available to support major new business investments, as appropriate? How do you assess the financial risks associated with your current operations and major new business investments?

2. How do you ensure continuity of operations in the event of an emergency?

**Notes:**

N1. Your key support processes (6.2a) are those that are considered most important for support of your organization's value creation processes, employees, and daily operations. These might include facilities management, legal, human resource, project management, and administration processes.

N2. An emergency (6.2b[2]) might be weather-related, utility-related, or due to a local or national emergency.

N3. Your financial management results should be reported in Item 7.3. Other results related to your key support processes and operational planning should be reported in Item 7.5.

For additional description of this Item, see pages 48–49.
Process Management (Category 6)

Process Management is the focal point within the Criteria for all key work processes. Built into the Category are the central requirements for efficient and effective process management: effective design; a prevention orientation; linkage to customers, suppliers, partners, and collaborators and a focus on value creation for all key stakeholders; operational and financial performance; cycle time; and evaluation, continuous improvement, and organizational learning.

Agility, cost reduction, and cycle time reduction are increasingly important in all aspects of process management and organizational design. In the simplest terms, “agility” refers to your ability to adapt quickly, flexibly, and effectively to changing requirements. Depending on the nature of your organization’s strategy and markets, agility might mean rapid change from one product to another, rapid response to changing demands, or the ability to produce a wide range of customized services. Agility also increasingly involves decisions to outsource, agreements with key suppliers, and novel partnering arrangements. Flexibility might demand special strategies, such as implementing modular designs, sharing components, sharing manufacturing lines, and providing specialized training. Cost and cycle time reduction often involve Lean process management strategies. It is crucial to utilize key measures for tracking all aspects of your overall process management.

6.1 Value Creation Processes: How do you identify and manage your key processes?

Purpose

This Item examines your organization’s key product, service, and business processes, with the aim of creating value for your customers and other key stakeholders, and improving your marketplace and operational performance.

Comments

- This Item calls for information on the management and improvement of key value creation processes. The information required includes a description of the key processes, their specific requirements, and how performance relative to these requirements is determined and maintained. Increasingly, these requirements might include the need for agility—speed and flexibility—to adapt to change.

- Your design approaches could differ appreciably depending on the nature of your products and services—whether the products and services are entirely new, are variants, or involve major or minor process changes. You should consider the key requirements for your products and services. Factors that might need to be considered in design
include safety, long-term performance, environmental impact, “green” manufacturing, measurement capability, process capability, manufacturability, maintainability, variability in customer expectations requiring product or service options, supplier capability, and documentation. Effective design also must consider cycle time and productivity of production and delivery processes. This might involve detailed mapping of manufacturing or service processes and redesigning (“re-engineering”) those processes to achieve efficiency, as well as to meet changing customer requirements.

- Your key business processes are those nonproduct and nonservice processes that are considered most important to organizational success and growth by your senior leaders. These processes frequently relate to an organization’s strategic objectives and critical success factors. Key business processes might include processes for innovation, research and development, technology acquisition, information and knowledge management, supply chain management, supplier partnering, outsourcing, mergers and acquisitions, global expansion, project management, and sales and marketing. For some nonprofit organizations, key business processes might include fundraising, media relations, and public policy advocacy. Given the diverse nature of these processes, the requirements and performance characteristics might vary significantly for different processes.

- For many organizations, supply chain management is a growing factor in achieving productivity and profitability goals and overall organizational success. Suppliers, partners, and collaborators are receiving increasing strategic attention as organizations re-evaluate their core functions. Supplier processes should fulfill two purposes: to help improve the performance of suppliers and partners and, on specific actions, also to help them contribute to your organization’s improved performance. Supply chain management might include processes for supplier selection, with the aim of reducing the total number of suppliers and increasing preferred supplier and partnering agreements.

- Many organizations need to consider requirements for suppliers, partners, and collaborators at the design stage. Overall, effective design must take into account all stakeholders in the value chain. If many design projects are carried out in parallel or if your organization’s products utilize parts, equipment, and facilities that are used for other products, coordination of resources might be a major concern, but it also might offer a means to significantly reduce unit costs and time to market.

- This Item calls for information on the incorporation of new technology. This could include e-technology for sharing information with suppliers, partners, and collaborators; communicating with customers; and giving them continuous (24/7) access and automated information transfer from in-service products requiring maintenance in the field.
Specific reference is made to in-process measurements and customer and supplier interactions. These measurements and interactions require the identification of critical points in processes for measurement, observation, or interaction. These activities should occur at the earliest points possible in processes to minimize problems and costs that may result from deviations from expected performance. Achieving expected performance frequently requires setting in-process performance levels or standards to guide decision making. When deviations occur, corrective action is required to restore the performance of the process to its design specifications. Depending on the nature of the process, the corrective action could involve technical and human considerations. Proper corrective action involves changes at the source (root cause) of the deviation. Such corrective action should minimize the likelihood of this type of variation occurring again or elsewhere in your organization. When customer interactions are involved, differences among customers must be considered in evaluating how well the process is performing. This might entail allowing for specific or general contingencies, depending on the customer information gathered. This is especially true of professional and personal services. Key process cycle times in some organizations may be a year or longer, which may create special challenges in measuring day-to-day progress and identifying opportunities for reducing cycle times, when appropriate.

This Item also calls for information on how processes are improved to achieve better performance. Better performance means not only better quality from your customers' perspectives but also better financial and operational performance—such as productivity—from your other stakeholders' perspectives. A variety of process improvement approaches are commonly used. These approaches include (1) sharing successful strategies across your organization to drive learning and innovation, (2) performing process analysis and research (e.g., process mapping, optimization experiments, error proofing), (3) conducting technical and business research and development, (4) benchmarking, (5) using alternative technology, and (6) using information from customers of the processes—within and outside your organization. Process improvement approaches might utilize financial data to evaluate alternatives and set priorities. Together, these approaches offer a wide range of possibilities, including complete redesign ("re-engineering") of processes.

6.2 Support Processes and Operational Planning: How do you identify and manage your support processes and accomplish operational planning?

Purpose

This Item examines your organization's key support processes and your operational planning with respect to financial management and planning for the continuity of
operations. The aim is to improve your overall operational performance.

Comments
- Your support processes are those that support your daily operations and your product and service delivery but are not usually designed in detail with the products and services. The support process requirements usually do not depend significantly on product and service characteristics. Support process design requirements usually depend significantly on your internal requirements, and they must be coordinated and integrated to ensure efficient and effective linkage and performance. Support processes might include processes for finance and accounting, facilities management, legal services, human resource services, public relations, and other administrative services.

- This Item calls for information on how your organization evaluates and improves the performance of your key support processes and shares information with other organizational units to drive learning and innovation. Four approaches frequently used are (1) process analysis and research, (2) benchmarking, (3) use of alternative technology, and (4) use of information from customers of the processes. Together, these approaches offer a wide range of possibilities, including minor process modification and complete redesign (“re-engineering”) of processes.

- Many types of analyses can be performed to ensure adequate financial resources are available to support current operations and new business investments and to assess their financial risks. For current operations, these efforts might include the analysis of cash flows, net income statements, and current liabilities versus current assets. For business investments, the efforts might include analysis of discounted cash flows, return on investment (ROI), or return on invested capital (ROIC). The specific types of analyses will vary from organization to organization.
These analyses should help your organization assess the financial viability of your current operations and the potential viability of and risks associated with your new business initiatives.

- Efforts to ensure the continuity of operations in an emergency should consider all facets of your organization’s operations that are needed to provide products or services to customers. You should consider both your value creation and your key support processes in your planning. The specific level of service that you will need to provide will be guided by your organization’s mission and your customers’ needs and requirements. For example, a public utility will likely have a higher need for services than organizations that do not provide an essential function. Nonprofit organizations whose mission is to respond to emergencies will have a high need for service readiness. Your continuity of operations efforts also should be coordinated with your efforts to ensure data and information availability (Item 4.2) and workplace preparedness (Item 5.3).
### APPENDIX 2

**SIGMA PROJECT ECONOMIC INTERESTS**

<table>
<thead>
<tr>
<th>Sustainability Issue</th>
<th>Explanation/comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accidents or incidents</td>
<td>Unforeseen event that causes an adverse environmental, social or health impact. Risk evaluation and management can minimize the severity of the impacts.</td>
</tr>
<tr>
<td>Bribery and corruption</td>
<td>Offering, payment, soliciting or accepting bribes or substantial favors of any form to influence organizational relationships or contracts. Meeting the full requirements of legislation, standards or any other form of agreement governing sustainability issues such as the use of land, air and other resources, employment law, governance and finance. This applies at local, regional, national and international levels.</td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
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<tr>
<td>Contaminated Land</td>
<td>Pollution left in soil or over an area of land, such as from previous industrial activities on the site.</td>
</tr>
<tr>
<td>Deduction of wages</td>
<td>Deduction of wages as punishment should not be permitted in sustainably managed organizations.</td>
</tr>
<tr>
<td>Directors’ pay and unfair remuneration</td>
<td>The payment to Directors and other senior employees of salary, bonuses, compensation and other payments out of keeping with organizational performance or misaligned to remuneration of the full range of employees. This can have a destabilizing effect on the workforce and other stakeholders, such as investors. Lack of work for economically available people that can lead to demotivation, deprivation and social exclusion and can waste human resources. There is generally a net loss to the community from people who have lost the motivation or skills required to return to work.</td>
</tr>
<tr>
<td>Unemployment</td>
<td>Avoiding collusion, price fixing, and working with suppliers or customers to create unfair advantages. Competition should boost quality and fair pricing, without unfairly disadvantaging other organizations. Obtaining a fair balance between taking profits and revenue out of the economies from which they were generated.</td>
</tr>
<tr>
<td>Fair competition</td>
<td></td>
</tr>
<tr>
<td>Fair distribution of income/revenue</td>
<td>Organizations should pay close attention to the geography of their monetary flows: between suppliers, customers, employees and so on. Trade, especially involving small-scale producers, that does not put the producers at a disadvantage and ensures they receive a reasonable price for their products and can work in decent, healthy conditions. This must adequately cover all costs for sustainable production and provides them with enough income to develop their working conditions and business</td>
</tr>
<tr>
<td>Fair trade</td>
<td></td>
</tr>
</tbody>
</table>

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| Living wage/Fair pay | Everyone, without discrimination, has the right to equal pay for equal work. Organizations will ensure that worker remuneration meets legal or industry standards, which ever is highest, as a minimum to ensure their basic needs are met. All workers shall be provided with written and understandable information with respect to their wages and terms of employment. |
| Partnerships | Working in cooperation with other organizations or individuals for mutual and wider benefits. |
| Philanthropy | Donations, involvement and partnerships with civil society, especially with those without commercial sources of income. |
| Regeneration and Rebuilding communities | Poverty and social marginalization of people in deprived areas should be addressed to build communities to create jobs, fight crime, improve health, provide better and more affordable housing, educate people better, and improve local surroundings. |
| Repatriation of profit | Where an organization makes a profit abroad, it should achieve a fair balance of investment in the host country with repatriating business returns. |
| Reputation | The perception of key stakeholders such as investors can be crucial to the success of a product or organizational strategy. |
| Supplier chain issues | Organizational responsibility for its indirect impacts of the suppliers, sub-contractors and vendors that are used. |
| Tax laws and regulations | Organizations will understand the importance of their contribution to public finances of host countries through complying with all relevant legislation and making timely payments of taxes. |
APPENDIX 3
Economic Indicators

Direct Economic Impacts

Customers

Monetary flow indicator:

EC1. Net sales.
As listed in the profile section under 2.8.

2.8 Scale of the reporting organization:

- number of employees;
- products produced/services offered (quantity or volume);
- net sales; and
- total capitalization broken down in terms of debt and equity.

In addition to the above, reporting organizations are encouraged to provide additional information, such as:

- value added;
- total assets; and
- breakdowns of any or all of the following:
  - sales/revenues by countries/regions that make up 5 percent or more of total revenues;
  - major products and/or identified services;
  - costs by country/region; and
  - employees by country/region.

In preparing the profile information, organizations should consider the need to provide information beyond that on direct employees and financial data. For example, some organizations with few direct employees will have many indirect employees. This could include the employees of subcontractors, franchisees, joint ventures, and companies entirely dependent on or answerable to the reporting organization. The extent of these relationships may interest stakeholders as much or more than information on direct employees. The reporting organization should consider adding such information to its profile where relevant.

Reporting organizations should choose the set of measures best suited to the nature of their operations and stakeholders’ needs. Measures should include those that can be used specifically to create ratios using the absolute figures provided in other sections of the

report (See Annex 5 for information on ratios). All information should cover that portion of the organization that is covered by the report.

EC2. Geographic breakdown of markets.

For each product or product range, disclose national market share by country where this is 25% or more. Disclose market share and sales for each country where national sales represent 5% or more of GDP.

Suppliers

Monetary flow indicator:

EC3. Cost of all goods, materials, and services purchased.

EC4. Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements.

Terms may include conditions such as scheduling of payments, form of payment, or other conditions. This indicator is the percent of contracts that were paid according to terms, regardless of the details of the terms.

EC11. Supplier breakdown by organization and country.(Additional)

List all suppliers from which purchases in the reporting period represent 10% or more of total purchases in that period. Also identify all countries where total purchasing represents 5% or more of GDP.

Employees

Monetary flow indicator:

EC5. Total payroll and benefits (including wages, pension, other benefits, and redundancy payments) broken down by country or region.

This remuneration should refer to current payments and not include future commitments. (Note: Indicator LA9 on training also offers information on one aspect of the organization’s investment in human capital.)

Providers of Capital

Monetary flow indicator:

EC6. Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.
This includes all forms of debt and borrowings, not only long-term debt.

**EC7. Increase/decrease in retained earnings at end of period.**

(Note: the information contained in the profile section (2.1–2.8) enables calculation of several measures, including ROACE (Return On Average Capital Employed)).

2.1 Name of reporting organization.
2.2 Major products and/or services, including brands if appropriate. The reporting organization should also indicate the nature of its role in providing these products and services, and the degree to which the organization relies on outsourcing.
2.3 Operational structure of the organization.
2.4 Description of major divisions, operating companies, subsidiaries, and joint ventures.
2.5 Countries in which the organization’s operations are located.
2.6 Nature of ownership; legal form.
2.7 Nature of markets served.

**Public Sector**

*Monetary flow indicators:*

EC8. **Total sum of taxes of all types paid broken down by country.**

EC9. **Subsidies received broken down by country or region.**

This refers to grants, tax relief, and other types of financial benefits that do not represent a transaction of goods and services. Explain definitions used for types of groups.

EC10. **Donations to community, civil society, and other groups broken down in terms of cash and in-kind donations per type of group.**

EC12. **Total spent on non-core business infrastructure development. (Additional)**

This is infrastructure built outside the main business activities of the reporting entity such as a school, or hospital for employees and their families.

**Indirect Economic Impacts**

EC13. **The organization’s indirect economic impacts. (Additional)**

Identify major externalities associated with the reporting organization’s products and services.