



Reasons for Environmental Reporting & Its Linkage on BSC in a Finnish Food Processing Company

Aapo Länsiluoto

Seinäjoki University of applied sciences; Business school

Marko Järvenpää

University of Jyväskylä; School of Business and Economics

Introduction

- Utilization of BSC
 - Management by objectives, information system & visualization between different measures (Malmi 2001)
 - Utilization in public companies & municipalities
- Sustainability issues are raised in discussion
 - “an operation that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland 1987)
 - Publication of sustainable/environmental reports
 - Certifications, competitions & civic organizations

Intro (2); Sustainability aspects

- Economic, environmental and social (cf. Dias-Sardinha & Reijnders 2005 and GRI 2002)
- Environmental aspect; living and non-living natural systems, including ecosystems, land, air and water

Intro (3); Sustainability reasons

○ External

- environmental regulatory, government, competitors, stakeholders; employees, customers (Callens & Wolters 1998, Davidson & Worrell 2001, Pan 2003 & Rintanen 2005)

→ improved image

○ Internal

- cost efficiency, productivity, quality, on-time delivery, customer satisfaction, internal procedures, employee morale (Azapagic 2004, Darnall 2006, Melnyk et al. 2003, Pan 2003 and Yakhou & Dorweiler 2004)

→ improved financial performance

Intro(4);Integration sustainability & BSC

- Integration worthwhile to consider
 - if companies are using BSC framework
 - If strategy includes components of sustainability (cf. Kaplan & Norton 2005)
- Modes of integration (Figge et al. (2002))
 - integrated in four standard perspectives
 - an additional fifth perspective can be added to take environmental and social aspects into account.
 - specific environmental scorecard

Purpose of the study

- What forces lead a company to set environmental objectives and to report them externally and internally?
- How and why some environmental objectives and measures are formulated and selected?
- How sustainability and BSC are integrated in practice?
- How organization analyzes the causality between the sustainability and financial indicators?

Methodology: A Case-study

- Interviews
 - Preliminary interview (2 managers) & 10 semistructured interviews
 - Directors of unit, business areas, parent company, group
 - Both researchers participated
 - Interviews were recorded on tape and transcribed on paper
 - Duration & location; 1-2hours in the Case company's facilities.
- Published reports

Case company; Criteria for selection

- Sustainability issues have to be considered in a company
- BSC utilization
- Large size of company → implementation is challenging
- Company's willingness to participate

Case company's details

- Finnish food manufacturing company
- Group is increasingly internationalizing their operations
- Largest subsidiary company of a larger group
 - Turnover around EUR 500 million
 - Group's domestic operations
 - Customers; retailers, catering enterprises, industry and the export trade
 - Four major production plants in Finland
- Environmental management systems
 - ISO 14001 standard
 - 3rd environmental program
- Performance evaluation systems
 - BSC implemented in 2004

Empirical results; Sustainability external forces

- External forces in the beginning
- Purpose to achieve environmental certificate
 - attracting customers (did not explicitly require) & brand
 - implementation of the environmental management system
 - continuous improvement
 - environmental performance measures
- Authorities' environmental requirements

Sustainability internal forces

- The forces are changed on internal
- Euro-driven company → investments relating to money progress
 - environmental investments save euros (cf. energy)
 - indicator's effect on profitability is one key factor for the most suitable environmental indicator
 - relation between decreased costs and improved environmental performance

Sustainability internal forces..

- limits of resource capacity (cf. water)
- documentation → more systematic and straightforward practical operations
- measurement culture → target setting → improve performance

Forces of renewing PerfMangSyst

- Primarily internal
 - general pressures to improve information systems and internal reporting practices
 - Fragmented systems
 - centralization of IS
 - Historical data

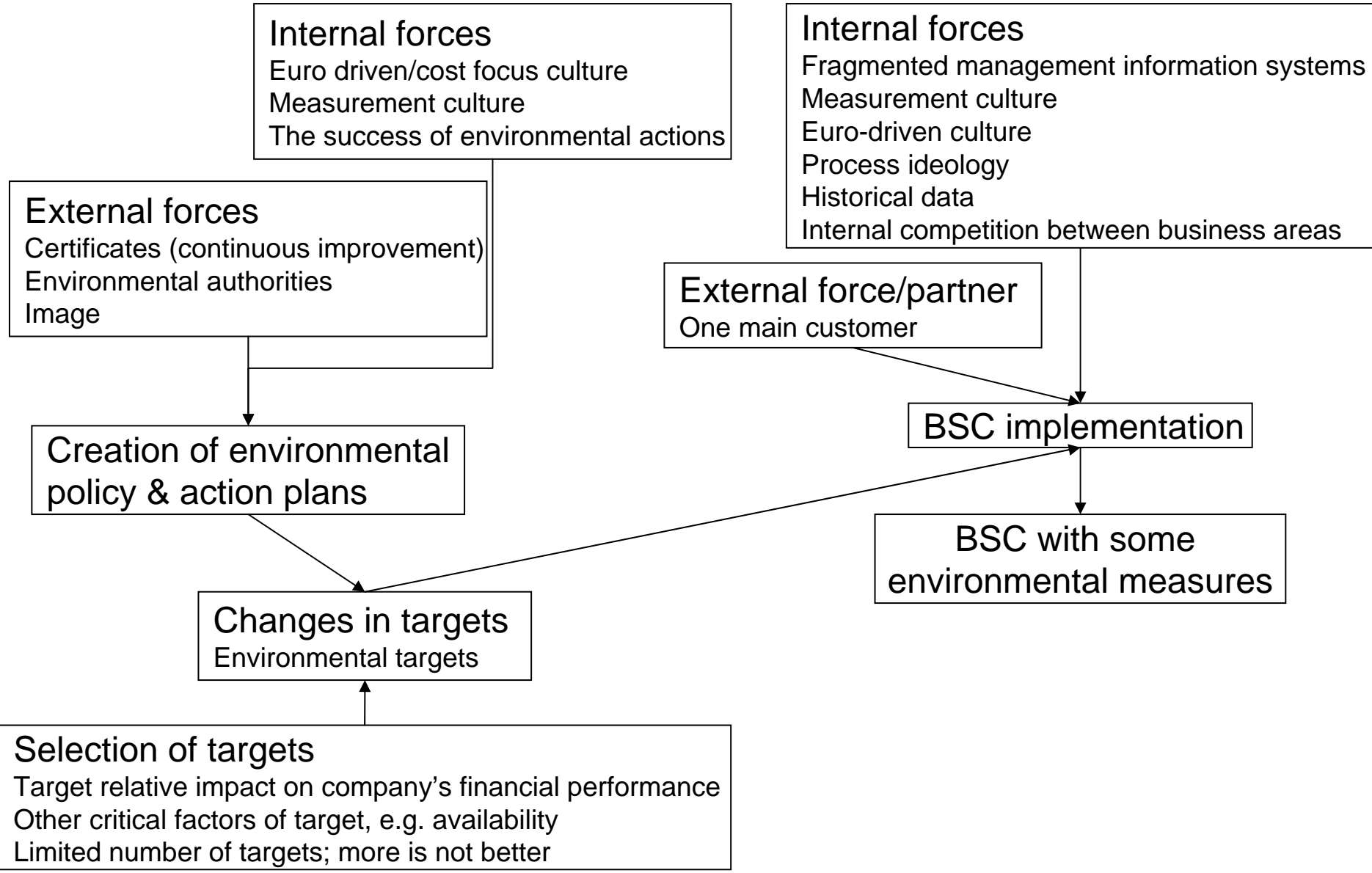
Forces of BSC implementation

- Primarily internal forces
 - Launched process management ideology → need to develop, manage and evaluate company's different processes
 - Requirement of non-financial measures
 - Identification of critical success factors, their measures
 - Communication vision, values & strategy from directors to employees
 - Competition between business areas
- External force of selecting software vendor
 - Customer utilization and recommendations

Integration sustainability and BSC

- Environmental targets were integrated in BSC, reasons;
 - decrease number of used IS (cf. fragmented systems)
 - measures similarly and at the same time available for all authorized users
- Externally environmental performance is reported by an annual report

Summarization of BSC & sustainability forces



Conclusions

- Environmental reporting had primarily external forces in the beginning
 - Certification → image (e.g. Pan 2003)
 - Environmental authorities (cf. Davidson & Worrell 2001)
 - No strict financial or environmental reasons for environmental reporting (cf. Magness 2006)
 - Participation in new mainstream thinking
- Later the reasons of environmental reporting changed on internal
 - Cultural change; “euro-driven policy”, measurement culture

Conclusions..

- BSC implementation had primarily internal reasons
- The reasons of BSC and sustainability had different sources in the beginning
- Both issues had internal forces in the end
- The reasons can change in a time period
- When the forces arise inside of organization, the issues are more deeply considered for instance in steering committees



***Thank you for
your attention!***

aapo.lansiluoto@seamk.fi

tel. +358 40 830 2423

Seinäjoki university of applied sciences: Business School

marko.jarvenpaa@econ.jyu.fi

Tel. +358 14 260 2979

University of Jyväskylä: School of Business and Economics