

European Corporate Sustainability Framework

for managing complexity and corporate transformation

by Marcel van Marrewijk

The EU financed international research project is developing the European Corporate Sustainability Framework (ECSF). It is a multi-layer business framework with an analytical, contextual, situational and dynamic dimension, facilitating managing complexity and corporate change. It provides coherent sets of corporate institutional arrangements, including or based upon values systems, business philosophies, approaches, concepts and (measurement) tools.

1 Introduction

1.1 Complexity

Complexity within the business environment has increased dramatically. The various developments that caused complexity to increase can be structured along the definition of life conditions. According to Beck and Cowan (1996) life conditions, and thus also corporate conditions, depend on historic *times*, geographical *places*, existential *problems* and societal *circumstances*.

Complexity grows over time, simply because evolution is proceeding “irreversibly in the direction of increasing differentiation/integration, increasing organisation and increasing complexity” (Ken Wilber 2000: p. 19;74). A practical example can be found in the various contemporary quality management systems, oriented either at products, processes, the organisation as a whole, the industry or the chain in which the organisation functions or oriented at the society at large. Shifting from one level to the next is like transforming into a new paradigm. The value and believe system, the internal organisation, decision-making and working procedures, in short, the institutional arrangements of each next level clearly show increased complexity.

History demonstrates the emergence of more profound quality management systems over time and especially the current attention for Corporate Social Responsibility (CSR) and Corporate Sustainability (CS), referring to the corporations’ new role within society, indicates a much higher level of complexity.

With respect to geographical places, the globalisation directly comes to mind. Made possible by innovations in transport, telecommunication and computer technology, many companies have opened consumer markets and / or production units in all corners of the world. Also small companies – one location and one market – undergo the impact of international competition. In addition to managing the technologies that facilitates globalisation, the increased complexity is often associated with the consequence of managing people from different cultures and backgrounds, and operating in many countries, each with different habits and regulations.

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Many of the existential problems, often ethical challenges, relate to globalisation. With varying cultures and legal systems, what ethical norms will be taken as references? What to do when cheap production costs appears to be related to child labour?

What if nothing can be arranged without paying excessive bribes? There were times, management could just ignore these topics, being responsible only to owners who were interested in maximum yields to their financial investments. Nowadays companies are challenged to balance and include a variety of sometimes conflicting interests from various stakeholders.

In addition, the globalisation, technology and expectations of consumers have boosted the speed of progress, as indicated in for instance shortening production cycles.

The question is: are management executives able to keep up with this growing complexity? Are their competences and underlying values fit to match these new challenges? Are there adequate concepts and tools available, since existing management tools - by definition - have a limited tenability and relevant domain? Existing models were designed to be used in specific circumstances. As long as these situations continue to occur, these models and tools will keep their status and practical use. Unfortunately, management tools do not carry tags with specific prescriptions for usage and unintended side effects. Besides, the enormous flood of novel management tools and concepts that have been introduced in the market recently, compete for attention, making it extra difficult for executives to select the most adequate tools in order to manage complexity and achieve the desired results. Furthermore, as progress continues, new - not just different - challenges emerge and corporate executives often need new tools and concepts to match these new circumstances.

The Erasmus University Rotterdam's affiliate ERBS BV is leading the EU-financed, international research project, titled the "European Corporate Sustainability Framework", ECSF. The members of the ECSF-Consortium are committed to develop a 'new generation' multi-layer business framework with a contextual, situational, analytical and dynamic dimension. It provides coherent sets of corporate institutional arrangements, including or based upon value systems, management philosophies, methodologies, business concepts and related sets of tools and measurement practices. The ECSF-project aims to facilitate companies who intend to improve their performance, try to include the interests of various stakeholders into corporate decision making, and become more sustainable operating organisations. With the final deliverance of the project to the European Commission in December 2003, this paper describes the progress the consortium made so far.

1.2 Structure and content of this paper

Chapter 2 focus on the methodology of the framework, which is based on the so-called SqEME approach. This methodology structures the basic issues of complexity and transformation and, on a more detailed level, facilitates the 'diagnoses' of existing institutional structures. Applying the approach to the framework itself, resulted in a generic case applicable to all organisations. It refers a set of contexts and value systems. Furthermore, chapter 3 presents a matrix showing specific business institutions differentiated per business context, providing multiple levels and interpretations of Corporate Sustainability.

Within a context various situations can be distinguished. For instance, the strategic considerations and the quality orientation are important features that characterise a situation. Chapter 4 elaborates on the various situations business can be in and shows the outline,

providing a basic structure for management tools and concepts. Within this structure, management tools and concepts can be ranked according their applicability and tenability. In chapter 5 we once more apply the SqEME approach, this time to generate change, shifts and transitions. Finally, in chapter 6 the various levels or layers of the ECSF Framework are discussed briefly.

2 Four windows on (corporate) reality

2.1 SqEME® approach

For centuries we have applied a reductionist approach to complex phenomena in especially science and business. By breaking down complex entities in parts, we have achieved a lot, but we have also lost the coherence between related phenomena and we apparently refused to take responsibility for the greater wholes. Nowadays, science is scattered in sub-sub-sub branches and the business world is held responsible for the negative effects of globalisation.

In the Netherlands we came across the SqEME® approach, used in process management. It is a holistic approach, using four focus points in analysing the same complex reality. These four integral and complementary frames of reference form a transparent design of a complexity. The views through these windows partly overlap, but by using one image as a point of reference in analysing the next, one can get a more detailed impression of the complexity.

The four windows are officially labelled: Constitution, Chemistry, Conduct and Control. Each of these windows will be introduced shortly.

By *constitution* we mean all elements of an entity or phenomenon that makes up the basic and founding characteristics. From these structures one can develop the sense of direction. In the case of an organization we think of the factual items, such a shoe factory in the Netherlands, as well as the figurative aspects such as the ambition, passion, drivers and basic principles. Looking at constitutional aspects we see the world view of corporate representatives, their awareness and core value systems, making up the context of business operations. The corporate history, culture and identity can give a dominant input to the sense of direction. On a more specific level, mission statements, corporate objectives, strategic considerations and quality orientations add important impulses to the corporation's sense of direction.

Knowing the direction, one must first understand its situation and influencing factors before any implementation can start. Management needs norms for specific actions. SqEME refers to *Chemistry*, understanding the cause and effect relationships, emphasising the working of relevant processes and mechanisms, and knowing what elements can be combined. It also refers to the 'chemistry between people'. Therefore, this window has also to do with 'communication': especially in dealing with complexity, it is essential to combine a variety of people with relevant experiences and competences. It is about creating a vision of their realities. Through reflections, exchanges and conversations between experts and experienced people [staff, management and work floor, as well as outside experts] understanding and direction result in norms referring to among other things timing, quantity, extent, sequence, what, who and to whom. In the end, norms are based on the understanding of all relevant aspects that (potentially) impact the process of achieving the desired results. When you comprehend these aspects you can determine 'when to do what'.

Obviously, the next focus point is action-oriented. With *Conduct* we look at the actual happenings in an organization, its corporate behaviour. This lively image shows the specific interventions, their responses to major challenges, but also the procedures, tasks, assignments and contracts. In short, the full institutional framework of an organization.

The next window focuses on evaluation and monitoring the achievements. SqEME labelled this frame of reference as Control, more or less to come up with a fourth C. Indeed, in specific contexts one can see control systems, but in the generic case it is about learning. Besides, as complexity grows, the illusion of control becomes more apparent. Monitoring includes self-assessment tools, Management Information Systems and a Business Balanced Scorecard - with or without sustainable indicators (KPIs) - for actual decision-making. Furthermore, it includes reporting procedures and benchmarking techniques. All these measurements are important

aspects of learning loops, as much as direction, norms and action. For a summary of the analytical approach, see matrix 1.

SqEME®	Constitution	Chemistry	Conduct	Control
Alternative phrasing	Drivers	Communication, Content	Action	Monitoring
Elements	<ul style="list-style-type: none"> • Mission, ambition • Strategic orientation • Values, identity 	<ul style="list-style-type: none"> • Vision • Understanding • Cause & effect • Structures & processes 	<ul style="list-style-type: none"> • Actions & Interventions • Procedures • Contracts & tasks 	<ul style="list-style-type: none"> • Control system • (Self)-Assessments • MIS & KPIs • Reporting • Benchmarking
Results	Direction	Norms	Achievement	Evaluation
Focus	<i>Where to go</i>	<i>How to get there</i>	<i>What to do</i>	<i>Where are we</i>

Matrix 1.

The four windows can easily be recognized in discussions. Some people immediately start talking about taking action, start doing something. Other demonstrate his or hers understanding of the matter, advising others how they should do it. In dispute often people stand up providing clarity by discussing the ambitions and sense of direction. Another respectable position in debates is the question “what is the beef? What will be the results (for me)?”. These are four natural positions and at the same time they are complementary. Balanced and consistently worked out in detail, the combined views from these focus points provide a complex design of the institutional fabric.

3 Contexts, World Views and Value Systems

3.1 World views and value systems

The focus points, discussed above, generate basic questions. For instance, a first order constitutional question is: “how does your world look like? How do you perceive reality? What do you think are the prevailing challenges?”

Along with changing circumstances, individuals and organisations tend to adapt their perception of reality. Related to these realities individuals and organisations develop values system, as coping mechanisms to match the challenges offered by their current life conditions. According to Dr. Clare Graves, mankind has developed eight core value systems, as responses to prevailing circumstances (Cowan & Beck (1996) *Spiral Dynamics*). A value system is a way of conceptualising reality and encompasses a consistent set of values, beliefs and corresponding behaviour and can be found in individual persons, as well as in companies and societies.

The development of value systems occurs in a fixed order: Survival, Security, Energy & Power, Order, Success, Community, Synergy, and Holistic life system. Each new value system includes and transcends the previous ones, thus forming a natural hierarchy, or holarchy (Wilber, 1995).

A value system develops in reaction to specific environmental challenges and threats: the systems brighten or dim as life conditions change. If for instance societal circumstances change, inviting corporations to respond and consequently reconsider their role within society,

it implies that corporations have to re-align their value systems and all their business institutions (such as mission, vision, policy deployment, decision-making, reporting, corporate affairs, et cetera) to these new circumstances. New corporate ambition levels can make contemporary institutions obsolete and their practices inadequate. This could be an explanation for the Ernst & Young's recent surveys outcomes, indicating that 93% of large companies considers CSR as potentially profitable activities, with 73 % discussing it within their boards but with only 11% actually implementing it.

When the possibilities a value systems offers are no longer sufficient to manage the existing circumstances, there is a possibility to move on to the next value system. The conclusion that a current pattern of behaviour or institutional framework is no longer adequate to tackle a problem, can be an incentive to change their perception on reality, opening new opportunities for change. Along with adopting new values, enabled by an increased awareness, humans start new patterns of behaviour and organisations create new institutions in line with the gradually emerging value system.

3.2 Multiple levels of Corporate Sustainability

Individuals and groups develop and apply values and supporting institutional structures, in order to cope with the prevailing challenges. Inappropriate responses provoke new attempts, until new strategies emerge, ultimately resulting in a sequence of development stages. Therefore a 'one solution fits all' definition for Corporate Social Responsibility (CSR) / Corporate Sustainability (CS) should be abandoned, accepting more specific definitions matching the development-, awareness- and ambition levels of organizations.

Each organization should choose its own specific ambition and approach regarding corporate sustainability, matching the organization's aims and intentions and aligned with the organization's strategy, as an appropriate response to the circumstances in which it operates. Although we worked out a full matrix with six different contexts and four corporate dimensions [Principles, People, Planet and Profit] we will only show a sequence of CS ambitions levels:

1. *Pre-CS*: At this level basically there is no ambition for CS. However, some steps labelled as CS might be initiated when forced from the outside (e.g. through legislation or a buyers strike). Close monitoring and constant reinforcement will be required.
2. *Compliance-driven CS*: CS at this level consists of providing welfare to society, within the limits of regulations from the rightful authorities. In addition, organizations might respond to charity and stewardship considerations. The motivation for CS is that CS is perceived as a duty and obligation, or the just way to act.
3. *Profit-driven CS*: CS at this level consists of the integration of social, ethical and ecological aspects into business operations and decision-making, provided it contributes to the financial bottom line. The motivation for CS is a business case: CS is promoted when it is profitable, for example because of an improved reputation in various markets (customers / employees / shareholders).
4. *Caring CS*: CS consists of balancing economic, social and ecological concerns, which are all three important in themselves. CS initiatives go beyond legal compliance and beyond profit considerations. The motivation for CS is that human potential, social responsibility and care for the planet are important as such.

5. *Synergistic CS*: CS consists of a search for well-balanced, functional solutions creating value in the economic, social and ecologic realms of corporate performance, in a synergistic, win-together approach with all relevant stakeholders. The motivation for CS is that sustainability is important in itself, especially because it is recognised as being the inevitable direction progress takes.
6. *Holistic CS*: CS is fully integrated and embedded in every aspect of the organization, aimed at contributing to the quality and continuation of life of every being and entity, now and in the future. The motivation for CS is that sustainability is the only alternative since all beings and phenomena are mutually interdependent. Each person or organization therefore has a universal responsibility for all other beings.

Each level includes and transcends the previous ones. Any organisation has the option to choose an ambition level based on its awareness of its circumstances and its existing value systems. Each ambition level will result in corresponding business practices and institutional development demonstrating different levels of corporate sustainability.

A differentiated set of definitions and approaches to CS can assist an organization in finding an appropriate path given its context and the dominant values within the organization.

4 Generating Management Situations

4.1 Situations

We have seen that it is important that a management framework distinguishes the predominant context(s) in which an organisations functions. By raising additional questions, generated by the ECS framework, the contexts can be refined into more detailed situations.

Within a particular (business) context, many management situations can be distinguished. Second order constitutional questions, such as *what is your market situation? What are your objectives?* and *What kind of quality orientations do you need?* generates input for determining the strategic considerations and quality orientations. These choices sets the boundaries of business situations.

We have already seen that *Spiral Dynamics* has provided the basic ideal type contexts. Each context represents a dominant world view and offers related value systems and subsequent institutional structures, matching it. We need an additional set of management models to structure the different business situations.

- *Four Phase Model*: this management concept provides four basic strategic orientations. Being primarily oriented either internally or externally and focused at control or change, four orientations can be distinguished: market effectiveness, efficiency, flexibility and creativity.
- *INK Management Model*: this model, a variant of the EFQM model, distinguishes five quality orientations, each transcending and including the previous ones, resulting in increasing complexity: the orientations are: product, process, organisations, chain/industry, society. The later quality orientation corresponds with an advanced/sophisticated definition of corporate sustainability.
- *EFQM Model*: the management attention areas, especially the enablers can be used as substructures: leadership, strategy and policy, people management, resource management and process management.

- *The Business Balances Scorecard*: the BBSC distinguishes four perspectives: financial; customer; business process and learning and growth. These perspectives coincides with the four basic assets of the Four Phase Model. An organisation is supposed to increase its total assets in a continuous process of exchanging one asset for another. This exchange takes place within a company but also between the various stakeholders. The four basic assets are material -, commercial -, socialisation - and intellectual assets.

By using the four basic strategic orientations of the Four Phase Model and the five grades of complexity of the INK model, a basic structure emerges with 20 management situations. Combined with the four enablers (strategy and policy is already dealt with) of the EFQM model, it adds up to 80! Considering there are also at least 5 contexts, it makes that 400 context/situations can be imagined. However, in practice some combinations cannot exist or are less relevant. Anyway, this full set of context/situations makes up the full universe of the management/business administration discipline.

4.2 Management References

One of the basic assumption of the ECSF project is that management principles, models and even hypes have their value, but only in a certain context. This context depends on historic *times*, geographical *places*, existential *problems* and societal *circumstances*. Or rephrased in business terms: the market circumstances, the strategy of the organisation, the history of the organisation and its organisational culture. This all changes over time and has its own dynamics and rhythm. The enormous number of management tools and concepts that is presently available is overwhelming for most corporate executives: they simply cannot see the forest for the trees. Management tools and concepts are designed - purposefully or not - to apply in specific situations and contexts. With changing contexts and strategic orientations many once successful tools can lose their applicability.

By carefully selecting its strategic orientation and its optimal complexity level (quality orientation) organisations can define their business situation in terms of these four models. Per situation, the most adequate interventions can be selected, to be used as references for management practice.

A combined framework can also be used to rank all existing management tools according their applicable domain and tenability: in what situations is a specific tool useful, i.e. fit for purpose. The ECSF consortium is preparing a book with management tools in which a selection of tools is classified with respect to the basic structures above.

We know from practice some of the 'white spots' in our framework: context/situations that do not have tools available. Especially monitoring -, benchmarking - and self-assessment tools in more complex situations are currently not available. When we will have finished the inventory, we will be able to show these omissions systematically. Within the ECSF consortium we will try to develop some of these tools.

5. The dynamic dimension of the ECSF Framework

5.1 Change

So far we have seen two major results that emerged from consistently applying the SqEME approach to complex situations. First, we distinguished - ideal type - contexts and ambition levels, with related value systems and supporting institutional structures. The sequence of CS definitions, manifesting a developmental approach to sustainable development, is one of its consequences. The second result is the blending of four contemporary management concepts

into one management framework distinguishing various business situations, generating specific interventions and listing the tools that can be applied adequately. The third result is directly related to the SqEME approach itself. As figure 2 shows, each window provides information that can be used for checking the consistency of the whole.

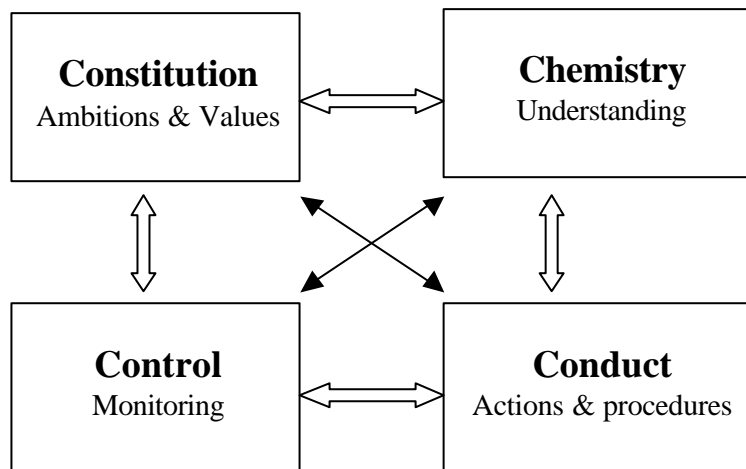


Figure 2. consistency check

There is no logical sequence in the four frames of reference. You can start making arguments from any position, as long as you include the output from any other window into your considerations. Since companies - by definition - are action oriented, they feel at ease in *Conduct* and most of them have learned to match it with *Control*. Without the input from the 'soft' left-hand side, they are engaged in a iterative trail and error process. By clarifying the constitutional aspects and by openly discussing the concepts and understanding for developing norms, the actions and institutional framework can be made more effectively. Pooling expertise from various backgrounds, bringing together multi-disciplinary information, engage in strategic conversations and scenario planning are ways of making the 'theoretical' *Chemistry* more practical.

Clarifying the constitutional, conceptual, behavioural and evaluative dimension of the complexity at hand offers opportunities to improve the consistency of the contemporary arrangements, i.e. institutional structure, and its performance. Applying SqEME in this way results in incremental improvements.

5.2 Transition

Changes occur within specific context/situations. Shifts occur between situations and transitions between contexts.

The ECSF approach includes two elegant diagnosis tools to determine the company's present context(s) and situation(s). It is a reconnaissance of the company's market situation and a value audit describing the company's cultural profile. The outcomes of these diagnoses can exactly be pinpointed within the framework. Also, the company's ambition can be situated exactly. We only need to trace the track from A to B, generating, step by step, a sequence of actions and thus creating an outline of the shift and/or transition towards the envisaged level of, for instance, corporate sustainability and societal responsibility. These A to B tracks can occur between contexts (transition), between situations (due to a shift in (strategic)-orientation) and within a context/situation, aimed at completing a contemporary institutional arrangement.

The actions, or intervention, can be related to the organisation's level of complexity, the strategic orientation, the corporate stage of development and to the various management attention areas [such as leadership, people management, operations, etc]. These actions are placed within the quality-learning loop [plan-do-check-adapt] and therefore need to be backed up by process indicators and a management information system.

6 The multi-level ECSF Framework

6.1 Chest of drawers

As we have seen, the European Corporate Sustainability Framework includes four features:

- A. The framework distinguishes ideal type contexts with related value systems and supporting institutional structures, stressing the evolutionary dimension of business development and corporate sustainability.
- B. The framework provides the characteristics of business situations, offering:
 - a basic structure for ranking existing management tools and concepts, according to their fitness for use and tenability.
 - an overview of business contexts and management situations, where executives have to work with inadequate tools or without any tools at all.
 - An overview of features that the missing tools should offer.
- C. Having defined four characteristic points of view, the framework offers an analytical approach for analysing and ultimately improving institutional structures.
- D. Having distinguished contexts, situations and an analytical approach, the ESC Framework is able to generate, step by step, the actions management need to take (1) to improve the consistency within a specific structure, resulting in a better performance and (2) to transform to new business realities, to new levels of corporate sustainability and creating new institutional structures matching the new ambitions.

With these four features, the framework is a multi-layer construct, a big chest of drawers, and for each situation - just open the drawer - there is a full set of business institutions, management tools and concepts. However, it is a complicated framework, but users do not need to know all its aspects. By determining A and B, the user will get a Management Reference, indicating the various steps that, theoretically and experiments based, will lead to the espoused situation. The framework can be used as an expert system, raising the right questions as well as providing the best answers.

In practice, some drawers are still empty, others are not fully filled and lacking coherence. So there is still a lot of work to do.

The context of this paper is not suited to demonstrate the various capabilities of the framework. Please refer to the project website and www.ecsf.info for more information. With the project outcomes to be delivered to the European Commission by December 2003, we would welcome corporate involvement to test and apply the outcomes into practice.

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Biography

Marcel van Marrewijk is the initiator and project manager of the international EU-financed ECSF research project. The project is lead by ERBS BV, an affiliate of the Erasmus University Rotterdam. Van Marrewijk is also director of the Great Place to Work Institute Nederland.

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