



THE VALUE CHAIN OF A SUSTAINABLE DEVELOPMENT ORGANISATION

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ABSTRACT

Purpose: *Balancing the economic, social and environmental aspects of company operation becomes a new DNA of the organization and a management philosophy for generating tangible results, not only for the company itself, but also its stakeholders. The article seeks to describe the approach to managing aspects of sustainable development and their integration into the business strategy and operations a Polish gas sector company.*

Structure / methodology / approach: *The text will detail how to integrate aspects of sustainable development, translated into company environment as corporate social responsibility (CSR), with particular business areas of company operation. Also presented will be a chain of values and synergies within the Company managed from the sustainable development perspective and the tangible effects of this management philosophy in terms of increased company value, changing organizational culture, improved efficiency, enhanced confidence from the organisation's internal and external environment and effective risk management.*

Conclusions: *Company management from the sustainable development perspective combined with a strategic approach to and implementation of this management philosophy ensure that the organization is lead in a responsible manner, and contribute to the increase in its tangible and intangible value. It is also conducive to effectively creating added value for the organisation's internal and external environment, which cannot be achieved if the business and CSR aspects of operation are not considered strategically and effectively integrated with each other.*

Originality / value: *The example covered in the article represents a proprietary model for CSR implementation which, after several years, has brought about tangible economic, social and environmental results. Following the change in its management philosophy and way of conducting business, the company was ready to undertake the implementation of new ambitious projects which are important for the national economy in terms of energy security. It has become a leader of the integration of gas transmission systems in Central Europe. The new management approach allowed the organisation to build new economic, social and environmental capital.*

Classification: Case study

Keywords (1-10): Sustainable development, Corporate social responsibility (CSR), Shared value, Value chain, Strategy

INTRODUCTION

The global economic crisis we have been experiencing for several years forced international institutions to investigate its causes and the mechanisms that need to be implemented in business processes in order to prevent such developments from happening in the future and achieve lasting improvement in the form of a sustainable development of the world's economy (Bonini, 2011; Chouinard et al., 2011; Economist Intelligence Unit, 2009). The European Parliament clearly indicated that the current global economic crisis arose from fundamental errors with respect to transparency, accountability, responsibility and from short-termism (European Parliament, 2013). Global institutions, including the United Nations, increasingly conclude that corporations may contribute to the development of a social market economy by providing jobs and facilitating economic recovery. In this context, the approach to corporate social responsibility (CSR) gains special importance as an element that enables the implementation of the sustainable development concept at the company level and is looked at in a broader context of the organisation's impact on the community it operates in and on the competitiveness of the economy (Du et al., 2010; Kotler & Lee, 2004; Pohl & Tolhurst, 2010). The UN and the European Commission set out the strategic directions for the implementation of the sustainable development concept at the company level but each firm should individually define the areas and CSR tools that are relevant to its business model (Laszlo, 2005). As is evident from a review of world trends in CSR implementation, the concept may be beneficial to organisations only fully integrated with their business strategies and is duly implemented in consideration of the company's external environment.

This meaning of social responsibility of business is also supported by the international standard ISO 26000. The fundamental characteristic of social responsibility is the organisation's readiness to accommodate community and environmental considerations in its decision making and to be held accountable for the impact of its decisions and actions on the community and the environment. This means both transparent and ethical behaviour that contributes to sustainable development, is in line with the applicable laws and consistent with international standards of conduct. It also means that social responsibility is an inherent element of all the activities of the organisation is practised in its relationships and takes into account stakeholder interests (Guidance on social responsibility, 2013). The concept of sustainable development, adapted into business practice as the Corporate Social Responsibility (CSR), is a chance to forge a long-term increase in the company's value, which, in a longer term, translates into a competitive and responsible economy. For the CSR to play a strategic role, it has to be properly implemented at the company level.

In this article we are going to discuss the latest approach to the sustainable development concepts at the company level. The first of them known as creating shared value is presented by M. Porter and M. Kramer (2011). The second one proposed by W. Visser concerns the theory of the evolution of social responsibility from CSR 1.0 to CSR 2.0 (Visser et al., 2010).

Both approaches provided a stimulus for the implementation of the sustainable development concept and the integration of the aspects of social responsibility with the corporate business strategy in GAZ-SYSTEM S.A., a company operating in gas industry in Europe. Over four years ago, the company embarked on the process of transformation in strategic and operational management by integrating its business activities with sustainable development

aspects. As a result, business objectives are effectively achieved through increased involvement of the employees and good relations with the stakeholders and local communities where the company has an active business presence. Internally, the integration process has had a very positive impact on the organisation, especially in such areas as organisational culture or efficiency improvement, and ultimately has led to substantial growth of the company's value.

Strategic approach to sustainable development in business from CSR 1.0. to CSR 2.0

Wayne Visser identified five stages of CSR maturation, which go in parallel to economic growth (Figure 1). The first four stages (the Age of Greed, the Age of Philanthropy, the Age of Misdirection, the Age of Marketing) belong to CSR 1.0. Fully mature companies find themselves in the fifth stage of CSR implementation – the Age of Responsibility. Visser and Tolhurst argue that a positive contribution of to society is the essence of CSR 2.0 and it is not about marginal promotional or philanthropic initiatives but about the business philosophy (Visser & Tolurst, 2010). According to this theory, CSR should no longer be understood as “corporate social responsibility”, but rather should be taken to mean “corporate sustainability and responsibility”. CSR understood in this way is definitely an inherent part of the business strategy and an overriding philosophy in all areas of a company's operations.

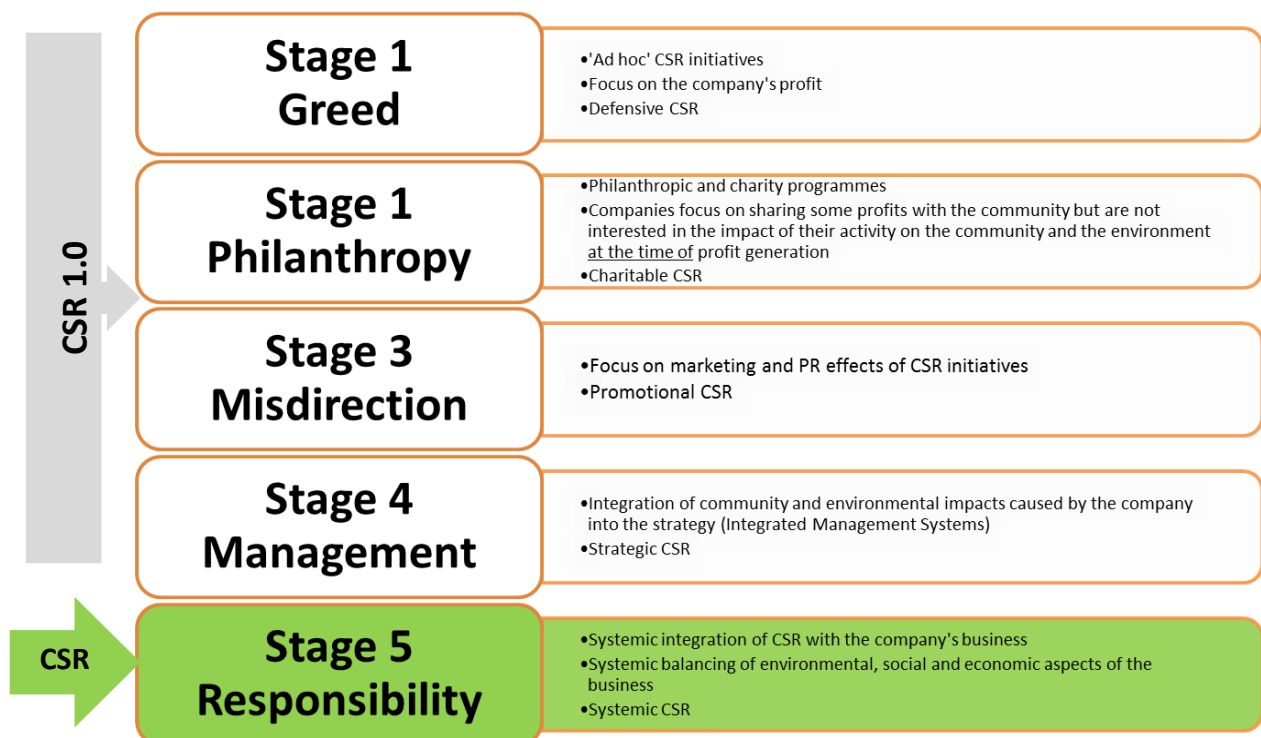


Figure 1. Evolution of CSR maturity
 Source: Own analysis based on Visser (2011).

Top management should act as the ambassadors and key sponsors of the CSR implementation within an organisation as they set the strategic direction and goals and define the path the organisation must follow in order to implement business objectives taking into account the social and environmental impact of the organisation. The CSR 2.0 theory holds that

sustainable efficient growth that accommodates the interests of all stakeholders is key for the organisation.

In order to achieve efficient implementation of CSR 2.0 in business, a company has to apply certain principles that make up the DNA of this concept (Visser, 2011):

- 1. Connectedness** – create multi-stakeholder relationships instead of mere relationships with shareholders and focus on value-creation.
- 2. Scalability** – implement socially responsible practices on a sufficiently large scale and focus on the real benefits for society and the environment (rather than PR effects).
- 3. Responsiveness** – respond to global problems even when this is uncomfortable for the company.
- 4. Duality** – take into account a broader context, including local conditions, and select solutions that are most appropriate for them, instead of pre-defined principles.
- 5. Circularity** – design actions that will be sustainable from the beginning to the end, avoid waste of resources, replenish human capital and nourish local communities.

Sustainable development should be the purpose of business. This goal may be achieved through responsible management of the company, primarily in the following aspects (Visser, 2011):

- economic sustainability and financial responsibility,
- human sustainability and labour responsibility,
- social sustainability and community responsibility,
- environmental sustainability and moral responsibility,
- investment sustainability and responsible investments.

Consequently, the essence of CSR 2.0 lies in a broad, comprehensive scale of actions in all the areas of business activity of the company and its responsible management at all levels.

Creating Shared Value (CSV)

In the context the discussion on the causes of the economic crisis, a similar theory was proposed by M. Porter and M. Kramer by defining the creation of shared value for business and society (Porter & Kramer, 2011). The theory moves away from a narrow perception of value understood as the optimisation of short-term financial performance. It encourages the accommodation of the needs of customers and a full range of stakeholders, which should determine the long-term success. Today, companies have to restore the ties between the business and the society and regain the trust of the public (Blowfield & Murray, 2008; Shockley-Zalabak et al., 2010; Cheney et al., 2007). The principle of creating share value consists in the generation of economic value in such a manner that, at the same time, creates social value by addressing the needs and problems of the society (Porter & Kramer, 2011). The authors argue that shared value is not synonymous with social responsibility, philanthropy or even sustainable development – it is a new way of achieving economic success. Rather than being a marginal component of a company's activity, it lies at the core of the philosophy and underpins the business. Porter and Kramer argue that the notion of share value may trigger a major change in the thinking about business, as they believe that creating shared value, instead of pure profit, should be the purpose of business. This in turn will unleash opportunities that will lead to increased innovation and productivity across the world's economy. The shared value concept assumes that markets are driven by social needs

rather than just by shareholders' expectations. At the core of this concept lies a conviction that the competitiveness of a company and the condition of the communities around it are very strongly related. As a result, overall resources of the economic and social value are increased.

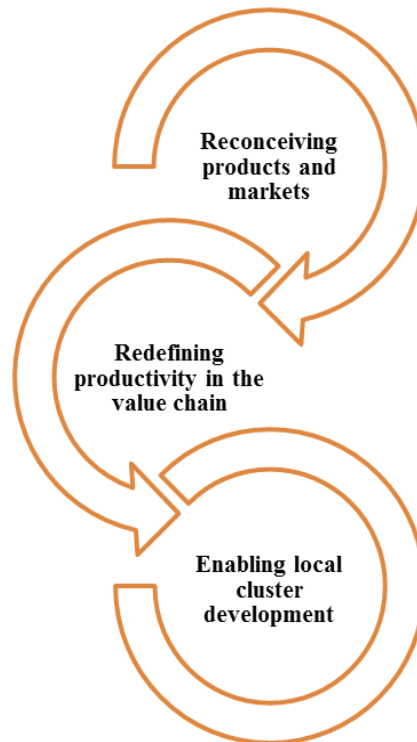


Figure 2. Creating shared value.

Source: Own analysis based on Porter and Kramer (2011).

By generating a profit that is related to a social purpose organisations can accelerate social progress and, at the same time, continue to grow. The creation of shared value implies the conformity to legal and ethical standards, as well as the mitigation of any damage caused by companies. The concept reflects a new way of companies' thinking about who are their customers, what is productivity and what are the external forces driving a company's success.

The shared value responds to the expectations of customers, business partners, employees and local communities a company operates in. The resulting competitive advantages will enable the creation of sustainable and long-term value of an organisation.



Case study: Change of management philosophy – strategic approach to social responsibility in GAZ-SYSTEM S.A.

GAZ-SYSTEM S.A. is responsible for the security of gas transportation in Poland, expansion of the transmission network, as well as investment projects integrating the European gas transmission system.

The first step to fostering social responsibility at GAZ-SYSTEM S.A. was taken in 2009 when the Code of Ethics was developed in cooperation with the employees and subsequently implemented. The Code defines the principles of ethically acceptable conduct and emphasises the key roles of the values the Company aspires to, including responsibility, commitment, professionalism, team work and respect.

Since 2009, the company has been a member of the Global Compact, an initiative announced by the UN Secretary-General, and has declared its commitment to the ten universal principles in the areas of human rights, labour relations the environment and anti-corruption. GAZ-SYSTEM S.A. puts a lot of emphasis on preventive environmental management while developing initiatives which are aimed to promote ecological responsibility and the application and spread of clean technologies. Each year, in line with the Global Compact requirements, GAZ-SYSTEM S.A. releases the Communication on Progress (COP) report.

Since joining the UN Global Compact in 2009, launching the Code of Ethics and adopting a set of clearly defined values, GAZ-SYSTEM S.A. has been able to consistently build its business strategy which incorporates the focus on sustainable development in the management of the organisation and integrates all the social responsibility measures taken within the company.

From that moment the company launched also the process of redefining its business objectives and the needs of the community in which it carries out its business through balancing the social, environmental and economic aspects. The stakeholders, both internal (the management) and external (customers, supervisory institutions) were invited to the process of business strategy redefinition. A series of workshops and external research resulted in the definition of strategic directions, including the one that is oriented at the management of the company from the sustainable development perspective and, at the same time, integrates all other business activities undertaken as part of other strategic directions. The implementation of sustainable development principles has become a core part of the corporate strategy, as sustainability is at the heart of our corporate culture, reflecting the values the Company aspires to. The process was largely in line with the CSR 2.0 implementation model proposed by W. Visser (Figure 3).



Figure 3. Implementation of CSR 2.0 in GAZ-SYSTEM S.A.
 Source: Visser (2011).

This also means that in the process of redefining its business strategy the company applied the theory of creating shared value defined by Porter and Kramer. The company **reconceived its products and markets** by introducing new services and opening up to the opportunities of cooperation with other countries with regard to the expansion of gas infrastructure in Europe (the Czech Republic, Slovakia, Lithuania, Germany, Denmark). GAZ-SYSTEM S.A. also **redefined productivity in the value chain** by focusing on long-term, sustainable development through better utilisation of resources, improved work efficiency and more efficient processes management within the company. Furthermore, GAZ-SYSTEM S.A. **enabled local cluster development** through communication, community and promotional activity among the local communities where the company carries out its business (operates gas pipelines and builds new ones). Among other things, the company actively involved local communities in the implementation of ecological and environmental projects affecting their area. For several years, as part of the Natural Energy Fund, GAZ-SYSTEM S.A. supports local initiatives aimed at the improvement of natural environment, working together with municipalities and local institutions.

Company's key objectives include enhancing Poland's energy security and integrating European transmission systems with a special focus on such priorities as environmental protection and delivery of strategic investments in cooperation with local communities. The company is committed to pursuing sustainable development, which is a long term and multifaceted process reaching deep into our business practices. The so-defined strategic objectives are directed at ensuring that all our activity is carried out in line with sustainable development principles. While being in full compliance with these principles, GAZ-SYSTEM is dedicated to providing the security of our gas transmission system, as part of the

EU gas network, Creates conditions for the development of a liberalized natural gas market in Poland to boost the consumption of natural gas as an environmentally friendly fuel, Our work is therefore focused on ensuring lasting improvements in our operational and organisational performance to consolidate our position as a significant player on the EU gas market. Integrating the sustainable development concept with business strategy is of key importance to ensuring its efficient implementation at company level. A similar approach was adopted at GAZ-SYSTEM S.A., where the fifth strategic objective, concerning company management from the sustainable development perspective, determines all our work towards the delivery our adopted strategy (Figure 4).

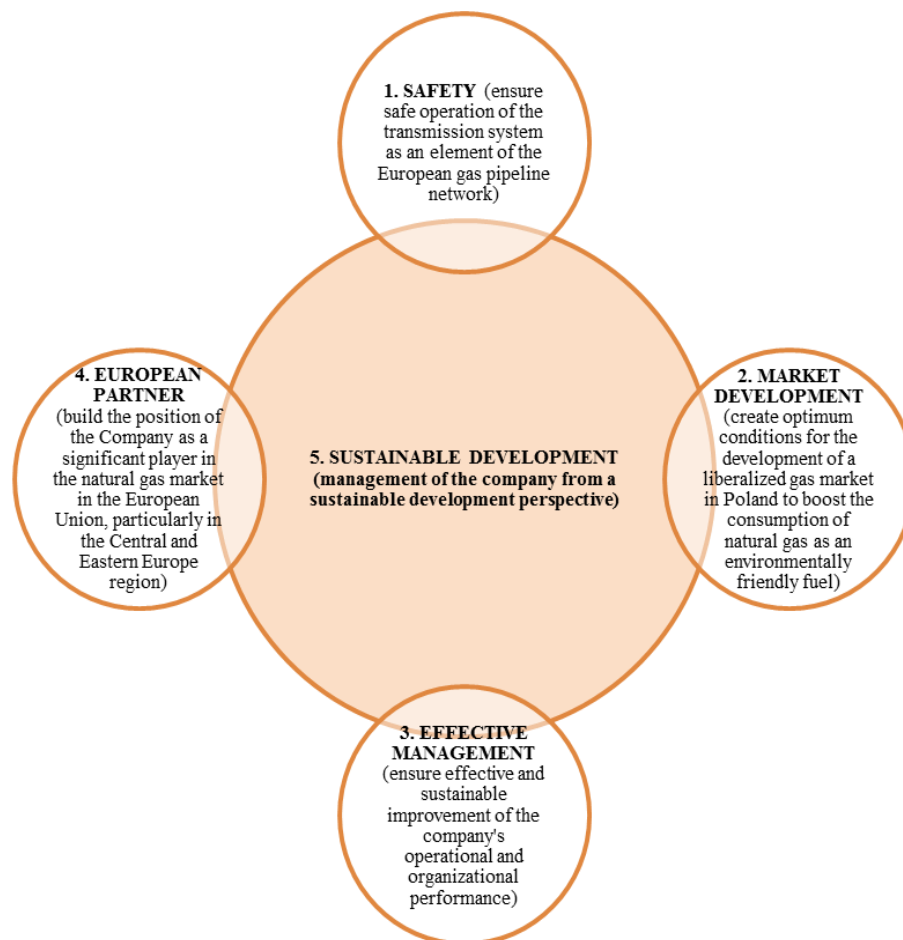


Figure 4: Strategic directions of GAZ-SYSTEM S.A.
Source: GAZ-SYSTEM S.A.

Case study: The value chain in GAZ-SYSTEM S.A. and the management from the sustainable development perspective

The incorporation of sustainable development dimension to the company's mission and vision, as a vital component of the management strategy and its close integration with all business areas of the company enabled a synergy effect and led to an individual value chain of the company (Figure 5). GAZ-SYSTEM S.A. understands CSR more broadly than mere community initiatives, philanthropy or promotion of environmental awareness, i.e. as an

inherent component of the management approach, which, in 2011, was incorporated to the company's strategy as the fifth strategic direction.

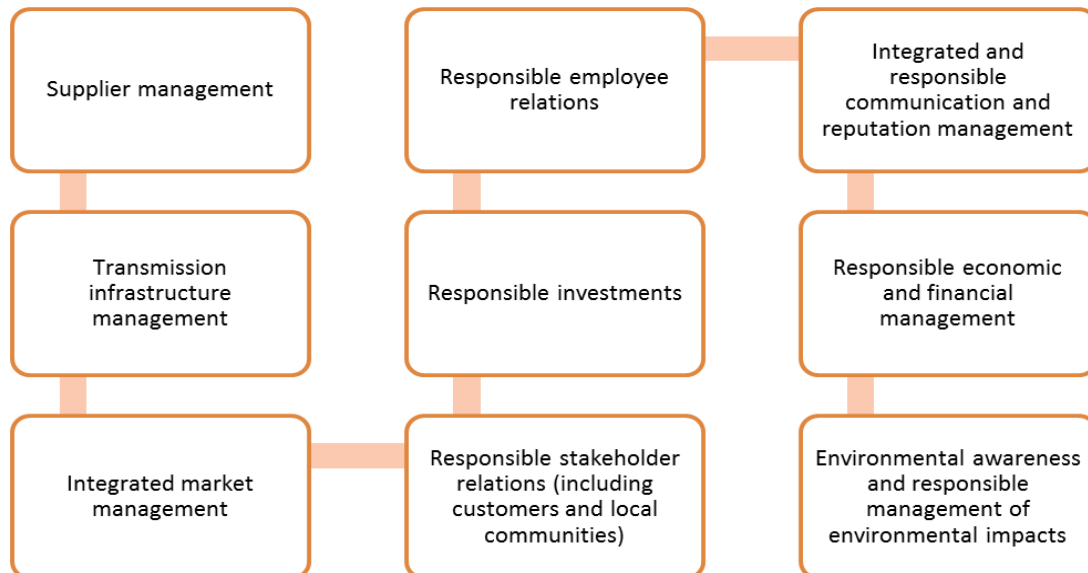


Figure 5. The value chain in GAS-SYSTEM S.A. as the effect of company management from the sustainable development perspective

Source: own analysis based on case of GAZ-SYSTEM S.A.

The integration of sustainable development aspects with the business areas of the company enables a comprehensive approach to building the organisation's value in individual areas, taking into account the influence on the society, the environment and the economy.

Owing to such business philosophy it is possible to build responsible relations with employees. For several years, the company has been ranked among Top Employers in Poland and in Europe, according to surveys carried out by the international firm A.ON Hewitt. Over a few years' time employee commitment increased from the level of 28% in 2007 to 85% in 2012.

In addition, for the last few years GAZ-SYSTEM S.A. has been implementing an ambitious investment programme including the construction of over 1000 km new gas pipelines in Poland and the first receiving terminal for liquefied natural gas (LNG) in Świnoujście on the Baltic coast. The value of the investment programme by 2014 is estimated at approx. USD 3 billion. The company attaches great importance to responsible execution of its investment projects in terms of their environmental, social and economic impact. Comprehensive communication with local communities about the projects being underway is also recognised as a key part of the investment process. GAZ-SYSTEM S.A. regularly organises information meetings for local authorities and landowners whose property is affected by the pipelines developed by the company. The meetings are attended by the employees of GAS-SYSTEM S.A. who are responsible for the project implementation. The representatives of contractors are also invited. The meetings offer an opportunity for discussing key issues concerning the project implementation, rights of way to property for the time of construction and



compensation payable to landowners. The participants receive information materials (leaflets on the project and the compensation procedure, posters with the pipeline route, etc.). Some meetings take the form individual consultations during which landowners may obtain information about issues of their concern, and trace the route of the gas pipeline running through their properties on professional maps.

In some municipalities information points are also being set up; these are an additional source of information for residents and anyone interested in the company's projects. In the years 2011-2012, in connection with the implemented in different regions of Poland, GAZ-SYSTEM S.A. held over 100 meetings with local communities, which were attended by over 2000 people. At present, the company is engaged in communication activities in over 70 municipalities in Poland. Each year, the company organises, on average, over 100 initiatives addressed to local communities.

The management of the company from the sustainable development perspective also facilitated the enterprise risk management (ERM) resulting in a more comprehensive and effective solution.

As a notable evidence of its commitment to balancing its economic interests with the expectations of customers, the company decided to reduced, already twice, its tariffs for gas transmission services. Thereby the company demonstrated that it is capable of financing a costly investment programme (worth over USD 3 billion until 2014) in a responsible manner, through efficient cost management and attracting favourable forms of financing for its investment projects (support from the EU, EBRD and EIB). The above-mentioned financial institutions operate very restrictive lending regimes, which involve examining the applicants' eligibility in terms of social performance and compliance with European standards. GAZ-SYSTEM reporting policy, including the annual COP reports for Global Compact and the reporting based on the internationally recognised GRI standard, greatly improve our credibility vis-à-vis the European financing institutions involved in our investment projects.

The integrated management of sustainable development aspects also enables the comprehensive management of corporate communication and image. Earlier In 2012, GAZ-SYSTEM opted for integrated reporting in accordance with the guidelines of the Global Reporting Initiative (GRI). The reports describe in detail the sustainable development initiatives undertaken by the company and present both the financial and non-financial performance. The document is updated annually. In order to ensure the comprehensiveness of the report, the company organised a series of workshops for its key staff and managers to define practical reporting guidelines. The participants collected essential data concerning the projects implemented by the company within respective areas of the business strategy. As a result, the report provides a comprehensive overview of the company's performance, including economic, environmental and social aspects according to GRI level B criteria. Its content was developed in consultation with our key internal stakeholders and approved by leaders of particular thematic areas. The reported data has been selected based on its materiality, which is defined by the company as the issues that are relevant in the context of sustainable development, both for the organisation itself and its stakeholders.

The impact of the integrated approach adopted by GAZ-SYSTEM in the field of corporate social responsibility, including integrated, consistent and reliable communication, is also



reflected in our positive media image. In 2012, over 90% of the nearly 6000 articles published gave a positive impression of the company, with the rest being predominantly neutral (a mere 0.02% of the publications carried negative overtones), which created a substantial positive media equivalent value.

The company did also implement a framework for managing the sustainable development aspects. To this end, the company prepared a document that describes the rights and obligations of the individual parties in the organisation and sets out the relevant communication principles. It is also an effective tool for the integration of social responsibility initiatives on a company-wide basis, and for the management of environmental, social and economic aspects.

In a 2012 survey conducted by a marketing research company, GAZ-SYSTEM was found to be perceived as modern, innovative and trustworthy brand. It enjoys the image of a prestigious employer that takes care of its employees and is a desirable place to work. Other features that make GAZ-SYSTEM S.A. from other companies include professional staff and dynamic growth, as well as overall reliability, integrity and trustworthiness. The brand connotations most frequently mentioned by the respondents were related to responsibility. The level of employee identification with the corporate brand is very strong, as demonstrated by the score of 82 out of 100. In the survey, business partners highlighted such advantages of the relationship with GAZ-SYSTEM S.A. as equal treatment afforded to all parties, operational effectiveness, responsiveness to customers' needs and professionalism of employees. The general perception is that the company has set the right directions for its growth and should carry on pursuing them. While local authorities are also positive about the cooperation with GAZ-SYSTEM S.A., some of them have expressed the need for more active policies designed to inform stakeholders of on-going and upcoming investment projects.

The company continuously develops its responsible approach to business and to this end, in 2013, it is planning to implement the ISO 26000 standard and integrate it with the currently operated Integrated Management Systems (for environment, quality and OHS).

CONCLUSIONS

Our consistent and long-term CSR policy which is fully integrated with the company's business strategy have brought measurable benefits to GAZ-SYSTEM by enhancing employee commitment and community trust levels. Socially responsible company management also translates into improved relations with stakeholders (business partners, financing institutions). The change of management philosophy allowed the company to build new economic, social and environmental capital. It also enabled the development of new competencies within the organisation and the fulfilment of new ambitious challenges related to the execution of investment projects that lead to improved competitiveness of the economy and energy security in Europe. This management model supports an effective creation of shared value and responsiveness to the expectations of customers and local communities as regards the company's commitment to promoting community interests. GAZ-SYSTEM S.A. brought a new quality to building stakeholder relations based on the responsibility of the company and its employees for their actions and for creating value also for the communities they operate in.



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