

Kokodey T.A.

Ukraine
Sevastopol National Technical University/ Economics and Marketing department
Ostryakova 55, apt 36
99029 Sevastopol
Ukraine

The sustainability strategy in the strategic management system of a business

The process of globalization, intensive economic development and consumption leads to the bleak perspective of resource base shortage and decrease of the environment quality for future generations. This problem can be solved through efficient use and distribution of resources and constant control of adverse impacts – such as pollution - of all actions on the environment. A private business is one of the main resource consumers, which makes it a major cause of the problem. In the same time, a private business represents a basic structural element of the economy and the key to the problem solution through formulation and efficient implementation of four basic sustainability strategies.

The first definition of sustainability created in 1987 by the World Commission on Environment and Development stated that sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs [4]. The efficient implementation of this approach starts in both governmental and private sectors of the society. The downward transfer of sustainability laws – from the government to private individual and companies – should be accompanied by the simultaneous inner initiative of the latter. The implementation of sustainable developments starts within an individual business that is the main consumer of the economic resources, namely: land, capital, labor, and entrepreneurial ability according the traditional classification [1]. Most authors follow the four traditional resource categories. Land includes all natural resources such as actual land, oil and mineral deposits, forests, water, animal materials. Capital is defined as all manufactured aids to production – means of production (tools, machinery, buildings, transportation means) and processed in the production process land resources that aren't finished goods. Labor is all mental and physical efforts or services of men used in a production process. Entrepreneurial ability is considered separately from the labor resource by most authors [1] and is characterized by taking the initiative to combine all other resources, making innovative and business-policy decisions, and bearing a risk.

This traditional classification equalizes the first category of resources – land – with the notion of natural resources or “the gifts of nature”. While the land category, indeed, is a natural resource, the latter notion is not limited to it, as far as the human factor is as well the product of nature. Human beings are produced by the planet Earth as well as oil, trees or animals are that allows us to consider a broader concept of natural resources. In the production process, these resources have the same origin and equal meaning. Land resources, for instance, a cow skin, becomes a coat, which makes a cow a “natural resource”. In this case, the resource – cow- is given by nature and is processed to become a final product. The tailor who made the final product is also a resource given by the nature, but he has made an input of his ability to convert the cow's input into the final good. Thus, the only difference is the length of use – the number of production process it takes to consume each of the resources- and the original type of input of the two resources: not material input - physical and intellectual effort- of the worker, and material input of the cow. Both can be defined as “self-inputs”, the human resource ages and is used up after millions of production processes by the time of retirement or death and the cow in the example above is used up during one production process. Thus, we can include both land and labor resources of the traditional classification into one category of natural resources due to the similarity of their origin and final self-input into the production process. Consequently, the entrepreneurial ability can also be defined as a natural resource with a different function – that of the initiation of the production process. Capital resource is produced by the means of combining all natural resources: human, which includes labor and entrepreneurial ability, and

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material – land, flora, and fauna. Thus, the classification of economic resources with a broader concept of natural resources is as follows:

1. Natural
 - 1.1. Human
 - 1.1.1. Labor
 - 1.1.2. Entrepreneurial ability
 - 1.2. Material
 - 1.2.1. Renewable
 - 1.2.2. Not renewable
2. Derived from natural
 - 2.1. Means of production
 - 2.2. Unfinished goods

Referring to the original definition of sustainability, the main task is to determine what potentially can compromise the ability of future generations to meet their own needs or, in other words, which of these resources will become scarce or disappear in the long run leading human race to extinction. On the top of the list is the natural material not renewable resource, like oil and mineral deposits, which are under the most threat. The second endangered one is the natural material renewable resource – flora, fauna, and productive land- that can also vanish as a result of the unsustainable use. Despite the fact that the human resource is not to disappear so far as the human race exists, it also requires application of sustainable development to maintain the quality (education and training level) and quantity (the number of specialists in a certain area) of this resource.

On the company level efficient use of these resources can be achieved by formulating and implementing the strategy of sustainability. Strategy formulation follows the stage of setting goals and objectives in the strategic management system of a company [3]. (Exhibit 1.)

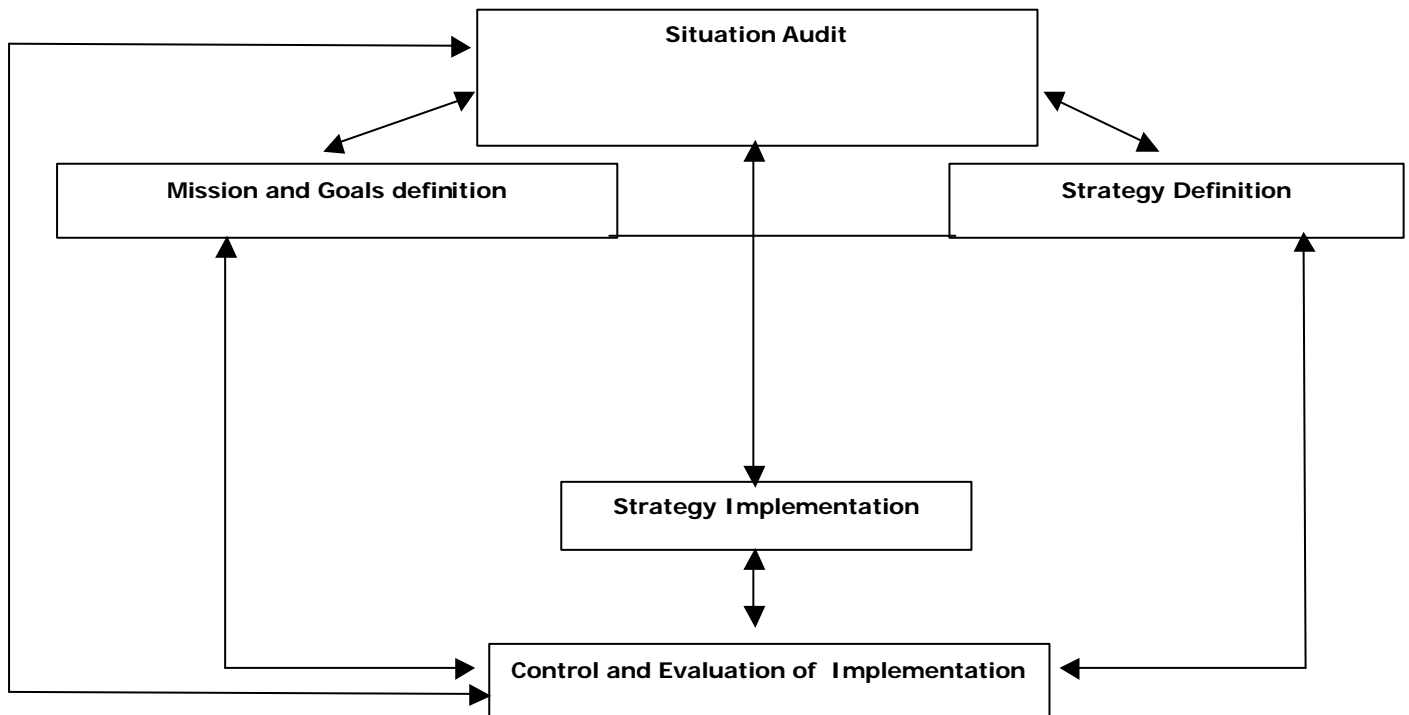


Exhibit 1. - Strategic Management System.

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The system of goals of an enterprise should be oriented on availability of all economic resources and preserved environment for future generations.

Traditional system of goals is focused on achieving present moment efficiency and profitability. Sustainability strategy development within the strategic management system starts with reconsidering the system of goals. Sustainability goals are preserving/limiting negative impact on the environment and improving/minimizing the decrease of inner resource base of natural and derived from natural resources of the company in the comparison with past performance. Competitive and unstable economic environment and the lack of strong motivation in situations when certain parameters of sustainable development aren't determined by the legislation and are voluntarily chosen by the company makes the goal of sustainability subordinate to the other company goals concerned with the present day amount of profit and the volume of production. There are two types of sustainability goals depending on its scope: the goal of overall sustainability and that of individual sustainability. Overall sustainability assumes the increase in all resources' efficiency and in the ecological soundness of a company's operations. Individual sustainability is concerned only with the efficient use of some of the resources and/ or environmental soundness. Most of the time, company's general goals are controversial, especially not specifically stated sustainability and profitability/efficiency goals. Thus, there are separate strategies for achieving each opposite goal. Formulation of a joint strategy as a result of combining the two controversial strategies allows the company to pursue its goals and preserve the resource base and environment for the future use.

Strategy is a flexible system of means influencing the target object and focused on the modification of this object according to the fixed goals.

Strategy can be formed on four different management levels(Exhibit 2.): company level, functional or departmental level, business units level, and operating units level. Company level strategy is the overall strategy of the organization; it's fundamentally concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of these businesses. It includes approaches to the company scale management, overall competitive, and international strategies.

Overall	<i>Functional</i>	Business	<i>Operative</i>
1. Growth strategy: focused growth, diversification, contraction.	1. Marketing	1. Differentiation	Competitive strategy: cost leadership, differentiation, and focus
2. General Competitive strategy: cost leadership, differentiation, and focus	2. Innovative	2. Cost leadership	Functional strategy: Marketing, Innovative, Personnel Finance, Production
3. International strategy	3. Personnel management	3. Mixed	
	4. Finance	1. Focus 1.1. Cost leadership 1.2. Differentiation	
	5. Production		

Supplementary strategy
1. Sustainability 1.2. Human resource sustainability strategy 1.3. Material resource sustainability strategy 1.4. Derived from natural resource sustainability strategy 1.5. External environment sustainability strategy.

Exhibit 2. - Strategy Classification according to the level and object of Strategic Influence.

The functional level of the organization is the level of the operating divisions, such as marketing, innovative, personnel, finance, and production. This strategic level involves coordination of resources through which business level strategies can be efficiently implemented and provision of information for company level strategy forming. Business level strategies – such as specific product lines- determines action on maintaining and developing competitive advantages of the product through differentiation or cost leadership. Operating units level strategies develop narrower approaches to support functional and business strategies.

The specificity of the sustainability strategy is that it's formed on all management levels. Four sustainability strategies can be delineated in accordance to the goals mentioned above:

1. Human resource sustainability strategy
2. Material resource sustainability strategy
3. Derived from natural resource sustainability strategy
4. External environment sustainability strategy.

Sustainability strategy is formulated on all the four levels and is used as a supplementary tool with all other strategies of an enterprise to achieve efficient use of resources and environmental soundness.

Human resource sustainability strategy is a means to increase long and short-term future quality of personnel service quality and/or quantity. The specific measures undertaken can be personnel training, education programs for employees and their children, positive motivation techniques, psychologically benign working environment creation, medical care programs for employees and their children, limiting the number of work hours. Human resource sustainability strategy supplements the personnel strategy by orienting it towards the "future status" of the resource. Personnel strategy is focused on the current efficiency of labor in pursuing set profit and production goals a lot of times ignoring the resource durability – one the main human resource sustainability goals. Unlike the personnel strategy that uses motivation to primarily increase productivity, human resource sustainability strategy is mostly concerned with the goal of improving the durability of the work force, making the resource current productivity a secondary priority, necessitating, for example, the limitation of the number of work hours. A compromise between the two strategies would result in the joint personnel strategy encompassing interests of the future generations and current production efficiency goals.

Material resource sustainability strategy is aimed at either minimization of not renewable resource decrease or increase of renewable resources. The strategy is also formulated on all levels to supplement such strategies as growth, production, innovative, differentiation, cost leadership as well as mostly any strategy of the classification. Innovative strategy can consider a new technology of creative a substitute artificial resource as an alternative to a natural non-renewable one. Cost leadership strategy can decrease expenses by limiting the use of non-renewable resources. Material resource factor can put a certain limitation on the scale of differentiation and diversification by making adjustments in the following strategies. Derived from natural resource sustainability strategy focuses on efficient use of means of production and unfinished goods, which indirectly affects the availability of natural resources. It's used with the production and innovative strategies including the element of economizing into these strategies. External environment sustainability strategy is used with all company's strategies and is directed at eliminating harmful effects on the environment as a result of company's operations. It mostly deals with neutralizing wastes of production, minimizing the natural resource destruction as a result of a company's territorial expansion, and other interferences into the nature. The external environment sustainability strategy can alter the strategy of territorial growth by changing the locations or size of new affiliates to preserve a certain natural landscape.

Control and Evaluation of the sustainability strategy implementation are conducted by the comparison of the present and past performance (t) resource efficiency and degree of environmental harm. Individual index of human resource sustainability (Sh) is determined by the change in the average ration containing worker education (E), health(H), and productivity (Pw) components. The positive result is achieved if

$$Sht+1(E1,H1,Pw1)- Sht (E,H,Pw) =>0, \text{ where}$$

Material resource efficiency individual index (M) is determined by the absolute value of change of the resource consumption in the comparison with the past performance.

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Environmental soundness index (I) is an absolute value change of the volume of negative impact during the period of time under consideration. Criteria of the overall sustainability strategy efficiency is reflected by the aggregated index (S), determined by the previous three individual indexes. Overall sustainability strategy was efficient if $S_{t+1}(Sh, M, I) - S_t(Sh, M, I) \geq 0$

In sum, the sustainability strategy is developed and implemented on all management levels as a supplement to all other strategies and is used to form joint strategies in order to achieve controversial general goals of the company and realize the practice of sustainable development in a business.

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