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## Improving the Organization in the Context of Building Sustainable Value for Stakeholders: A Polish Company Experience

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**Abstract:**

**Purpose:** The aim of the research was to identify critical variables for improving the organization in the context of building lasting value for stakeholders, to define the role of stakeholders in the process of creating and implementing the strategy of systematically managed organizations.

**Design/Methodology/Approach:** The study covered 180 organizations with at least three implemented management systems: QMS (based on the requirements of ISO 9001); EMS (based on the requirements of ISO 14001) and OHSAS (based on the requirements of PN-N 18001 or OHSAS 18001). The following methods were used in our study: document research method, diagnostic survey method, survey method, observation method, CAWI (Computer Assisted Web Interviews).

**Findings:** As a result, it was determined that the organization's efforts should focus on the implementation of sustainable development assumptions and require a comprehensive and multidimensional approach to management. Organizations striving to ensure sustainability should undertake extensive interaction and cooperation with external stakeholders. Sustainable Value Creation Framework can be used as a diagnostic tool to assess business progress towards achieving a sustainable strategy. The results also showed that most organizations considered activities aimed at constant market analysis to be a key factor in the success of their activities. The policy of the integrated management system focuses on maintaining partnership relations with suppliers, recipients, and customers.

**Practical Implications:** The dominant management paradigm for contemporary organizations is the process of creating value for stakeholders. The organization should focus on identifying individual groups of stakeholders and then on understanding their needs and expectations.

**Originality/Value:** The issue of building sustainable value for stakeholders is still a current and important trend in research, as it contributes to the improvement of the organization's strategy.

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## **1. Introduction**

Improvement is a key goal of any organization. The way the organization is perceived, its structure, forms and approach to effectiveness have changed over the last hundred years. Currently, the managers of the organization should pay attention to the common trend of increasing the complexity of organizational structures and the changing conditions in which organizations operate. The secret of an organization's long-term success and sustainability is based on the effective involvement of stakeholders and beneficiaries.

The organizational and management literature presents a clear shift in the approach to organization. Initially, the organization was perceived as a closed unit, and then it began to be recognized as an open system. Recently, attention has been focused on its links with the external environment. The expectations of the stakeholders of a given organization are important, they influence the strategy of the organization, and knowing them and meeting them determines success. Management should be aware that they change over time and require analysis from the management of the organization. Sustainable Value Creation is an organization's operating philosophy which assumes achieving goals in economic, ethical, and environmental areas, it is a multidimensional model of creating value for shareholders.

## **2. Literature Review**

### **2.1 Improving the Organization in Management Theory and Practice versus Modern Management Paradigms**

Contemporary challenges that organizations face, related to the continuous process of change, have contributed to the fact that in order to guarantee success in the long-term perspective, organizations should include the continuous improvement process in the framework of strategy design. To perfect means to "make something better and more perfect, progress, improve" (SJPD). Perfect means "distinguished by the highest quality, free from any errors, faults, defects, having all positive features, all advantages; the best, exemplary, incomparable" (SJPSZ) (Szymczak, 1978).

The representatives of the scientific management school based on work processes and saw excellence in terms of having the best way to get work done. F.W. Taylor introduced the concept of the "exemplary" (perfect) worker. The law of harmony, formulated by K. Adamiecki, reflected the way of achieving the perfect functioning of the team, whose actions ensure the maximum result with the minimum expenditure.

The representatives of the administrative faculty relief on the activities of people in managerial positions and the way of managing the organization, and their reach focused on improving the organizational structure. The most important achievements of the school of administrative management include the separation of four

management functions: planning, organizing, leading, and controlling, which are currently the basis of improvement processes. The concept of “perfect” bureaucracy was also introduced.

According to the assumptions of the school of interpersonal relations, the behaviour of employees has a decisive influence on the effectiveness of each organization, which is why the representatives of this school focus in their research on searching for the qualities of a perfect manager. The quantitative theory of management is based on the development and use of mathematical models in the decision-making process in the organization and the development of models that define the ideal, target and perfect state.

According to the assumptions of the systemic school, organizations should be seen as systems composed of many interacting elements. Each of them is equally important in the process of achieving the organization’s goals. The starting point for designing an organization should be an ideal system (theoretically unattainable in practice). The ideal system approach contributes to the achievement of better results than when organizations start with the analysis of the existing system (Ejdys, 2011). Organizational improvement should be the basis at the stage of formulating strategic goals. Many organizations take fundamental steps in this area, such as:

- compliance of the implemented processes with management standards,
- innovation and guaranteeing the safety of products to individual stakeholders,
- ensuring the development of employees,
- striving for the sustainable development of the organization,
- ethical behaviour and creating value for stakeholders (Urbaniak, 2010).

Striving for success is a natural striving in business, and success itself, as Jim Rohn, an American businessman and business coach, argues, is not something magical and mysterious. What is more, he claims that success is nothing more than the application of basic principles. Consistency in action was also emphasized by E. Lauder, one of the richest women in the world. A paradigm is the adopted way of seeing reality in a given field. It is a set of laws and recommendations that set boundaries and describe how to deal with problems within them. It is a model of behaviour in the process of management and conduct in an organization (Penc, 2007).

The term paradigm was introduced into sociological sciences by T. Kuhn, who defined it as a set of questions directed at objective reality and a set of ways of answering these questions (Kuhn, 1962). Continuous improvement is an important management paradigm. Enterprises that want to achieve success must treat quality as an important element of their strategy (Skrzypek, 2006a).

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Organizations, wishing to improve the efficiency of systemic management, should focus on the implementation of modern management concepts and organizational improvement tools. In the conditions of the knowledge-based economy and the information society, knowledge and information play an important role (Skrzypek, 2006b). According to Drucker, the fundamental change in the approach to management in an enterprise is the transition from managing things to managing information. The key success factors include stakeholder involvement, the role of top management in creating an effective organization, teamwork, innovation and improvement, and effective management methods and techniques.

## **2.2 Focus on Stakeholders**

The dominant management paradigm for organizations operating today is the process of creating “shareholder value” and continuously increasing shareholder value. Freeman defined stakeholders as: “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 2015).

Although the stakeholder approach is derived from the area of management and business ethics (Freeman, 2015), it is strongly associated with corporate social responsibility (Maj, 2020). After the key stakeholders, the second stage of stakeholder analysis follows which consists in mapping their strength and impact on the organization (Noto, 2020).

There are many methods of stakeholder identification available in the literature. These include, among others, focus groups, semi-structured interviews, brainstorming (Clausen and Hansen 2020). Effective stakeholder analysis aims to properly assess stakeholder expectations (Pirozzi, 2020). Identification of stakeholders should be related to the formulation and deconstruction of strategic goals of the organization (Wang, 2015).

Four groups of stakeholders can be adequately distinguished. The first group has a large impact on the organization and shows a great interest in the activities of the organization, the second is low interest, high influence, the third high interest, low impact, and the fourth no interest, no impact (Horschig, Schaubach, Sutor, and Thrän 2020). Ian Davis, a long-time director of the consulting company McKinsey & Company, wrote in *The Economist Magazine* (By Invitation, 26th May 2005) that, paradoxically, striving to maximize shareholder value in the short term may hinder or even prevent organizations from maximizing shareholder value in the long term. The practically mindless focus of organization managers on improving short-term performance causes neglect or even inability to perceive long-term opportunities. Long-term opportunities relate to social issues, customer confidence, investment in innovation and growth prospects.

The organization should focus on identifying individual groups of stakeholders and then on understanding their needs and expectations. The aspect of particular

importance is establishing quick forms of communication with stakeholders, as neglecting this element determines the success or failure of the brand or organization. This is evidenced by the example of the Bonaqua brand belonging to Coca-Cola Company, where, in the face of contamination of dozens of bottles with mould, improper communication caused the collapse of a brand worth tens of millions of dollars. Moreover, Potocki (2011) states that without proper communication in an organization, its various resources remain either completely useless or insufficiently used.

In striving to increase the effectiveness of the organization, it is important to consider the needs and expectations of stakeholders customers, employees, non-governmental organizations, the government, and the local community in the organization's strategy.

The organization's efforts to achieve lasting success require the implementation of a long-term development strategy that will be directed at meeting the needs and expectations of stakeholders. Therefore, organizations should constantly analyse the threats that may appear in the processes of building relationships with stakeholders (Urbaniak, 2020).

Freeman (1984), and Harrison and Caron (1998) present the view that the expectations of stakeholders of a given organization are important, they influence the organization's strategy, and knowing and meeting them determine success. Management should be aware that they change over time and require analysis from the management of the organization.

Carroll (1993) is of the opinion that the management of the organization should identify various groups or people that have their share in the activities and decisions of the organization and focus on their needs and expectations and take them into account in the strategic planning process. Harrison and Caron distinguished entities operating in the organization (owners and/or management, managers and employees) and in the organization's environment (customers, suppliers, governmental and non-governmental institutions, unions, competitors, financial intermediaries, local communities) and all entities operating in within the wider environment of the organization: socio-cultural, economic, political, legal and technological. They emphasize the importance of identifying, understanding the needs and expectations of its key stakeholders and building positive relationships with stakeholders and including these entities in the formulation of organizational strategy (Harrison and Caron 1998).

Vroom and Yetton (1993) indicate several models that represent stakeholder participation in decision making in an organization:

- Decisions in organizations are made autonomously by the manager, who does not take into account the views of the organization's stakeholders.

- The manager seeks information and suggestions from stakeholders but decides for himself in a way that may or may not reflect stakeholder views.
- The decision-making process is that the manager analyses a given problem separately by stakeholders, listens to their ideas and suggestions, and then makes a decision that takes into account the interests of individual groups.
- The manager discusses the issue with all stakeholders, then takes into account their ideas and suggestions and makes a decision that reflects the impact of all stakeholders, without breaking down into groups.
- The organisation's manager makes decisions in consultation with stakeholders. The task of the management of the organization should be to focus on setting the goals and strategy of the organization. To achieve this, managers must establish the expectations of employees and other stakeholders of the organization, and then agree on a way to measure performance in relations to these expectations, measure performance regularly and, on this basis, take appropriate actions aimed at continuous improvement of the organization's performance (Vroom and Yetton 1993).

### **2.3 Sustainable Value Creation**

An organization's pursuit of sustainable development requires a comprehensive and multidimensional approach to management. Organizations should focus on minimizing losses from ongoing operations (pollution prevention), while focusing on the implementation of sustainable technologies (clean technologies).

In addition, organizations striving to ensure sustainability should undertake extensive interaction and cooperation with external stakeholders who should be treated not only as an outlet, but also organizations should create awareness and focus on economic, social and environmental goals among them. Only such action allows to achieve sustainable development on a global scale (global sustainability).

This way of looking at stakeholders and running a business allows you to reduce costs and risk and build a positive image, ensure compliance with applicable legal regulations, trigger innovation and allow you to define a development and improvement scenario while creating value for shareholders. It is a difficult challenge for the organization to identify the activities and initiatives that need to be carried out and how to manage them to reconcile the sometimes-conflicting goals of stakeholders and shareholders.

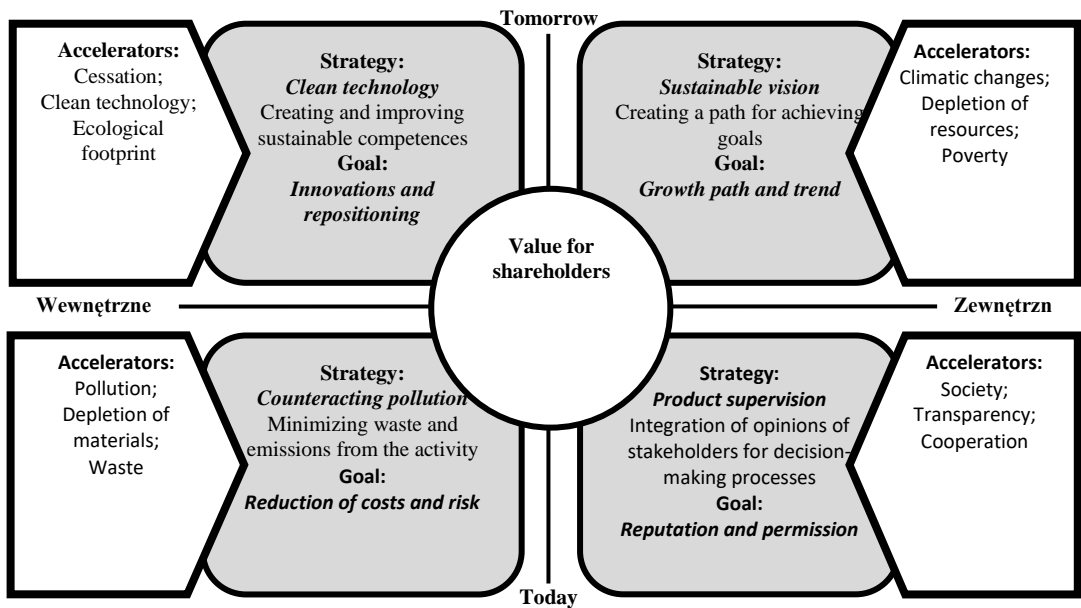
Accordingly, it is recommended to take the following steps to achieve sustainable value for stakeholders and shareholders:

- diagnosis of the current situation in the organization;
- assessment of opportunities (strengths and weaknesses);
- implementation (designing activities and experiments).

The ability to create lasting value for the organization’s shareholders guides the organization towards more sustainable development. Sustainable Value Creation Framework can be used as a diagnostic tool. An organization assessing its activity and assigning it to one of the four options defined in this method can evaluate its progress towards the implementation of the sustainability strategy. Such a diagnosis makes it possible to identify lost opportunities and possible areas for improvement.

SVC – Sustainable Value Creation is an organization’s operating philosophy that assumes achieving goals in economic, ethical and environmental areas, it is a multi-dimensional model of creating value for shareholders (Christensen 1998; Schumpeter 1942; Foster and Kaplan 2001). Figure 1 presents the assumptions of the Sustainable Value Framework model.

**Figure 1.** Sustainable Value Framework



**Source:** Hart S.L., Milstein M.B., *Creating sustainable value*, *Academy of Management Executive*, Vol. 17, No. 2, 2003, p. 60.

Organizations should simultaneously take into account the indications in all four fields of the model in a continuous manner, if they are aimed at maximizing value for shareholders, similar to the BSC model, where four areas on which organization should focus their activities were indicated (Hart and Milstein 2003).

Each set of sustainability drivers and related business strategies and practices has a specific dimensions of shareholder value. Recognizing the benefits and opportunities for the organization is the first step towards creating sustainable value for the organization. Addressing the problems of material consumption, waste and pollution

associated with industrialization provides an opportunity for organizations to reduce costs and risks by developing pollution prevention skills and capabilities, and ensure their eco-efficiency (DeSimone and Popoff 1997).

The Sustainable Value Framework defines four types of business strategies and practices that correspond to a specific dimension of shareholder value. Organizations should incorporate the indications in all four fields of the model simultaneously on a continuous basis if they are geared towards maximizing shareholder value. The recommended strategies include the following:

- *Pollution prevention:* It focuses on improving the environmental performance of modern products and processes, that is, reducing waste and emissions from ongoing operations. Less waste means better use of production factors, resulting in lower raw material costs and waste disposal. Effective pollution prevention requires a strong commitment of employees and a well-developed capacity for continuous improvement and quality management (Hart, 1995).

Research conducted around the world shows that having a certain set of skills by an organization, such as employee involvement, continuous improvement, increases the organization's ability to prevent pollution and reduce waste, thanks to which these organizations can reduce costs and increase profits (Christmann 1998; Sharma and Vredenburg 1998).

- *Improving reputation and compliance with requirements through product management:* While pollution prevention focuses on internal processes, product compliance covers the entire product life cycle, from raw material extraction, through the production process, to product application and disposal of used products (Roome and Hinnells 1993; Welford 1995; Steger 1996).

Ensuring product compliance considers the requirements and commitment of individual stakeholders of the organization: suppliers, customers, non-governmental organizations, media. The involvement of stakeholders in the course of individual processes that make up product management contributes to increasing compliance with the requirements and improving the reputation of the organization (Wheeler and Sillanpaa 1997). Through constructive stakeholder engagement, organizations increase confidence in their intentions and actions, which helps improve the company's reputation and accelerate the spread of more sustainable practices throughout the business system (Elkington, 1998).

- *Accelerating innovation and repositioning through the use of clean technology:* Organizations seek to solve social and environmental problems through internal development or the use of new opportunities that address problems related to the risk of losing stability (McDonough and Braungart 2002).

An increasing number of organizations have started to develop a new generation of clean technologies that contribute to sustainable economic growth. BP and Shell



implement investments using solar energy, wind energy and other renewable technologies. In the automotive sector, Toyota and Honda have already launched hybrid power systems for cars.

An example of a large corporation that uses clean technologies is DuPont. The company focuses its activities on sustainable development, which is a key factor in determining the organization's strategy. This is evidenced by the ambitious goals pursued by the company, such as the reduction of greenhouse gas emissions by two-thirds, and increased use of renewable resources and renewable energy sources. To accelerate the process of achieving sustainability goals, DuPont creates a venture fund, focusing on the sustainable development of technology and innovation contributing to sustainable development in the world.

It should be noted that important strategies that involve investing in clean technologies are still less popular among large organization. Large corporations are more focused on pollution prevention and product liability activities.

- *Vision of the sustainable development of the organization:* The Sustainability Vision outlines the organization's future strategy to achieve sustainable development. Provides guidance for employees on organizational priorities, technology development strategies, resource allocation, and business model design.

Grameen Bank in Bangladesh is perhaps the most famous example of how the vision of sustainable development can open a whole new path for business development. In 2006, Grameen Bank and its founder Muhammad Yunus were awarded the Nobel Prize "for their efforts to create the conditions for economic and social development from scratch".

Similarly, other organizations, such as Hewlett-Packard and Unilever, recognized that by listening to the voices of poor societies and striving to improve their living conditions, they contribute to the implementation of the sustainable development strategy, and their actions can contribute to the growth of creativity and innovation, which in the longer term will contribute to improving their competitiveness. These organizations focused on sustainable development recognized that poverty is the greatest barrier to sustainable development on a global scale, therefore they implement numerous initiatives to counteract this phenomenon. An example of such an organization is Hindustan Lever Ltd. (HLL), a subsidiary of Unilever PLC, which is a pioneer in market development in India and Brazil (Prahalad, 2010; Prahalad and Hart, 2002).

Sustainable Value Framework explores the chances and opportunities associated with sustainable development and translates them into the language of specific benefits that organizations can achieve. The method is very simple in design, but it does not mean that it is easy to implement, understanding the relationships is not the

same as implementing strategies and practices successfully. These activities are complex and challenge the organization. Presumably, only a few organizations will initially be able to manage all activities simultaneously in the four dimensions of the Sustainable Value Creation Framework.

### **3. Research Methodology and Results**

The aim of the research was to identify the critical variables to perfect the organization in the context of building lasting value for stakeholders, to define the role of stakeholders in the process of creating and implementing the strategy of systematically managed organizations:

- What are the key variables for the improvement of the organization in terms of building lasting shareholder value?
- To what extent does building value for shareholders contribute to the improvement of the organization?

The research covered 180 organizations with at least three implemented management systems: QMS (based on the requirements of ISO 9001); EMS (based on the requirements of ISO 14001) and OHSAS (based on the requirements of PN-N 18001 or OHSAS 18001).

The following methods were used in our study: document research method, diagnostic survey method, survey method, observation method, CAWI (Computer Assisted Web Interviews), analysis of case studies.

Most of the analysed entities are limited liability companies – 53.9%, 23.9% were joint-stock companies, 10.6% – partnerships, 8.3% – state-owned enterprises, and 3.3% – local government units. Among the surveyed entities, the largest group, in terms of employment, were medium-sized organizations – 45.6%, followed by large – 31.1%, small – 14.4% and micro ones – 8.9%

Among the surveyed organizations, 37.2% direct their offer mainly to the international market, the domestic market – 35%, regional – 11.7%, and the local market – 16.1%. The largest group were organizations classified under the EA code as producers in the group – Food products, beverages, tobacco products, in turn: Wholesale and retail trade; repair of motor vehicles, motorcycles, personal and household goods, Other services, Electrical and optical devices, Construction.

The results of the conducted research indicate that 78% of organizations considered activities aimed at constant market analysis to be the key factor determining the success of their activities, and the importance of this factor (WRO) was estimated at 0.8. Market analysis allows an organization to monitor all changes taking place in its environment and to take ongoing actions to adapt to changes and use the opportunities that result from them. In addition, 88.3% of the analysed organizations

considered that the implementation of integrated management systems contributes to the improvement of customer knowledge (WRO – 0.7). The policy of the integrated management system in many organizations focuses on maintaining partnership relations with suppliers, recipients, and customers. To enable this, organizations should undertake activities aimed at understanding the needs and expectations of their stakeholders.

Table 1 shows that both in the case of organizations that had 3 management systems implemented and those with only a quality management system implemented, the most important stakeholders turned out to be customers, employees, and suppliers.

**Table 1.** *The most important stakeholders by organizations with 3 certified management systems and a certified QMS*

Stakeholders	3 certificates		only ISO	9001
	%	WRO	%	WRO
Customers	96.1	0.89	95.0	0.88
Employees	90.6	0.64	89.4	0.60
Suppliers	88.3	0.83	87.8	0.84
Media	84.4	0.55	60.6	0.48
Social communities	82.8	0.53	58.9	0.62
Competitors	80.0	0.76	79.4	0.70
Financial institutions	76.1	0.77	75.6	0.69
Business centres (local government, regional, etc. ...)	75.0	0.83	74.4	0.72
Shareholders	71.1	0.69	83.3	0.68
State authorities	70.0	0.57	69.4	0.58
Universities, research institutes	68.3	0.60	67.8	0.49
Supervisory boards	65.0	0.63	64.4	0.6
Other business units (internal information exchange within the company)	64.4	0.75	63.9	0.70
Business support institutions (PARP, WARP)	63.3	0.83	63.3	0.79

Trade unions	61.7	0.51	61.1	0.36
Business associations	60.0	0.70	59.4	0.68
Innovative clusters	60.0	0.68	58.9	0.65
Special interest groups (lobby)	58.3	0.61	57.8	0.57

*Source: Own studies 2020.*

The fourth place among organizations within 3 management systems implemented was the media, while among organizations with only one management system implemented, media was not so important. This is mainly due to the fact that organizations implementing integrated systems are usually larger and more mature. These organizations focused on creating a positive opinion among local communities. Universities and research institutes were ranked quite low. It is important that organizations not only identify the current factors that affect the organization's operations at any given time, but, if possible, make long-term forecasts of these factors. For example, Steve Jobs, as early as 1984, predicted the need for tablets, but technology did not follow Jobs' vision for more than 20 years.

The surveyed organizations used four main forms of stakeholder engagement: communication (86%), consultation (75%), partnership (65%) and dialogue (60%). In their relations with stakeholders, the organizations used the following forms of communication: advisory panels, stakeholder forums, summary meetings with key stakeholders, virtual involvement in the Internet. A very important determinant of building sustainable value for stakeholders is its measurement, therefore the author of the study proposes an indicator showing mutually beneficial relations with stakeholders in the organization.

The creation of sustainable development of the organization is influenced by the achievement of goals in the following areas: C10 – Mutually beneficial relations with customers, C11 – Mutually beneficial relations with employees, C12 – Mutually beneficial relations with the management, C13 – Mutually beneficial relations with suppliers, C14 – Mutually beneficial relations with legislators, C15 – Mutually beneficial relations with the society, C16 – Minimization of environment impact, C17 – Fulfilled requirements of standards and optional codes, C18 – Mutually beneficial relations with other stakeholders.

*Equation 1. Mutually beneficial relationships with stakeholders*

$$fS_{(C_{10}-C_{18})} = 0,20C_{10} \times 0,15C_{11} \times 0,14C_{12} \times 0,12C_{13} \times 0,11C_{14} \times 0,10C_{15} \times 0,06C_{16} \times 0,06C_{17} \times 0,06C_{18}$$

where:

$f_{S(C_{10}-C_{18})}$  – Mutually beneficial relations with stakeholders,

C<sub>10</sub> – Mutually beneficial relations with customers,

C<sub>11</sub> – Mutually beneficial relations with employees,

C<sub>12</sub> – Mutually beneficial relations with management,

C<sub>13</sub> – Mutually beneficial relations with suppliers,

C<sub>14</sub> – Mutually beneficial relations with legislators,

C<sub>15</sub> – Mutually beneficial relations with the society,

C<sub>16</sub> – Minimizing the impact on the environment,

C<sub>17</sub> – Fulfilled requirements of optional standards and codes,

C<sub>18</sub> – Mutually beneficial relations with other stakeholders.

In the case of creating high market value, the panel of experts concluded that intangible assets are more important in achieving goal C<sub>03</sub> – Sustainable market value than tangible values, therefore, for goal C<sub>04</sub> – Sustainable intangible value – a factor of 0.6 was assigned, and for goal C<sub>05</sub> – Sustainable tangible value – factor 0.4.

The surveyed organizations indicated the most important benefits resulting from a properly conducted dialogue process with stakeholders: enabling the acquisition of information on the expectations and preferences of key stakeholders; building trust in the organization, assisting stakeholders in identifying areas for improvement in the organization.

#### **4. Conclusion**

Organization improvement should be the basis at the stage of formulating strategic goals. The modern organization should be treated as an element of a network structure within which mutual cooperation takes place. Organizations should be focused on building effective internal and external relations with stakeholders and mutual cooperation. In such an organization, the environment is fluid and devoid of a permanent context, which forces the construction of flexible and fluid forms of the network. Such an organization is focused on achieving a competitive advantage in the external environment. The added value here comes from partnership and cooperation. It focuses on continuous improvement.

On the way to continuous improvement and efficiency gains, organizations identify new ways to improve performance, such as: change management, organizational learning, knowledge management, partnership and organizational networking, innovation, and creativity. The key success factors for the organization are: stakeholder involvement, the role of top management in creating an effective organization, teamwork, innovation and improvement, as well as effective management methods and techniques.

The aspect of particular importance is establishing quick forms of communication with stakeholders, as neglecting this element determines the success or failure of the brand or organization. The organization's efforts to achieve lasting success require the implementation of a long-term development strategy that will be directed at meeting the needs and expectations of stakeholders. Research has shown that organizations analyse the needs and expectations of stakeholders, however, they focus insufficiently on the analysis of the related threats. The analysis of threats that may appear in the processes of building relationships with stakeholders is important when improving the organization.

Organizational managers should focus on implementing a consensus decision-making approach with stakeholders. Organizations measure performance in relation to these expectations to a small extent. It is recommended to regularly measure performance and, on this basis, take appropriate actions aimed at continuous improvement of the organization's performance and increased value for stakeholders.

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