EMPHASIS IN ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE [ESG] IN BUSINESS EXCELLENCE FRAMEWORKS

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Abstract

Business Excellence (BE) Frameworks such as the Baldrige Framework and the EFQM Model have led the drive to improve business performance in many countries over the past 30 years. Many BE Frameworks have since been established globally to promote business excellence in their local organizations. These frameworks have been used to guide both for-profit and not-for-profit organizations to systematically improve their internal operations and structure as well as management practices. The frameworks are also used as the basis for identifying excellent organizations to qualify as recipients of national Excellence Awards or Quality Awards in many countries. As BE Frameworks are adopted by many organizations globally, it would be of social and research interests to identify the extent of emphasis that environmental, social and corporate governance (ESG) requirements is represented in many of these frameworks. This paper attempts to review the extent of ESG requirements in some of the major frameworks. The methodology used literature review to identify major frameworks followed by an analytical and comparative study of the extent of ESG emphasis in the major frameworks. Findings from the comparative study provide a better understanding of how BE frameworks support ESG and also provide discussions and suggestions on improvements could be made to the BE Frameworks to reinforce ESG considerations as an important and integral attribute of business excellence in organizations. Findings and discussion from this paper will encourage BE frameworks to adopt progressive ESG practices in 21st corporations that will benefit society.

Keywords: *ESG, Business Excellence, Quality, Sustainability, Leadership, Management.*

1. INTRODUCTION

Business Excellence (BE) Frameworks such as the Baldrige Framework and the EFQM Model have led the drive to improve business performance in many countries over the past 30 years. Many BE Frameworks have since been established in many countries to promote business excellence in their domestic organizations. These national frameworks have been used to guide both the for-profit and the not-for-profit organizations in making improvements to their internal operations and structure as well as management practices. These national frameworks are also used as assessment frameworks for identifying excellent organizations to qualify as recipients of national Excellence Awards or Quality Awards in many of these countries.

Business excellence could be defined as an organization that is able to compete successfully in the marketplace and to achieve positive business and organizational performance results that are sustainable. There could be many ways for an organization to achieve business excellence and one do find many excellent organizations in this world who may not have started out by following a prescribed framework. However, many other organizations do require a BE framework to provide them with a structured roadmap for guidance on where and what to do make improvements towards excellence.

2. LITERATURE REVIEW

Business Excellence frameworks have its roots from Total Quality Management (TQM) concepts (Mann et. el, 2011). TQM evolves from the quality movement that started in the 1950s with the Deming Prize in Japan and the TQM concepts and its principles were widely accepted in the 1980s in the West through the work of prominent quality experts such as W. Edwards Deming, Philip B. Crosby and Joseph M. Juran. With many organizations applying TQM concepts in their workplace in the 1980s, national governments started to use formal programs to encourage more organizations to embrace TQM concepts in order to improve operational excellence and to provide quality products and services. Like the Deming Prize, formal frameworks were created to guide organizations as well as to assess their performance. The Canada Awards for Excellence (CAE) was introduced in 1984 (Excellence Canada, 2020), followed shortly by the Malcom Baldrige National Quality Award (MBNQA) in 1987. The European Foundation for Quality Management (EFQM) framework for excellence was created in 1992 (EFQM, 2020). From these awards and frameworks sprung many other countries' awards and today's national awards and frameworks probably exceeded 80 countries (Musli Mohammad, et. el. 2011).

The adverse impacts on environment and social consequences derived from business operations and business practices are numerous and often hard to gauge unless in cases where catastrophic failures happened and impacted the public. Thus, it is imperative that there is good governance in businesses to minimize and/or eliminate adverse impacts on environment and community caused by business operations. It is this critical relation that Environmental, Social and Corporate Governance (ESG) are put together as a terminology to describe one of business primary activities. The development of ESG has its roots from multiple sources including the Stakeholder Theory (Freeman, 1984), the need for sustainable development spelt out in the UN Brundtland Commission Report (Brundtland Commission, 1987), the advocation of environmental protection by organizations through certification such as the ISO14000 Standard on Environmental Management established in 1996 (ISO14000, 2020), and the advocation on social responsibility by organizations through guidance such as the ISO26000 Standard on Social Responsibility established in 2010 (ISO26000, 2020).

In the Stakeholder Theory, businesses were made aware that shareholders and employees are not their only stakeholders. The organization's stakeholders include all groups who are impacted by the actions and policies of the business, and thus may include the community within the vicinity of the business operations as well as the wider public. The UN Brundtland Commission Report subsequently culminated into the UN Sustainable Development Goals adopted by all members in 2015 (Sustainable Development Goals, 2015). The ISO14000 Standard on Environmental Management provided guidelines to organizations on how they can manage their operations to minimize adverse impacts on the environment. The ISO26000 Standard on Social Responsibility provides guidance to corporations on how to establish effective corporate social responsibility activities and systems.

The developments of Business Excellence Frameworks and ESG are relevant to businesses and these developments occurred within similar time spans, thus it is inevitable that both will cross paths. Over the years, the refinements of many BE Frameworks have put in increasing emphasis on ESG requirements. This paper presents analysis and findings on the state of emphasis in ESG in major BE Frameworks' requirements.

3. ANALYSIS AND FINDINGS

As most BE frameworks follow to a large extent on the MBNQA or the EFQM frameworks, the focus of this analysis will be on these two main frameworks. The Singapore

BE framework, which follows closely to the MBNQA framework, is also used in the analysis for comparison purpose.

There are commonalities found among these BE frameworks. The seven commonalities, which are practices to inculcate a set of excellence attributes into the operating environment of organizations include; effecting good organizational leadership, implementing effective strategy planning, emphasis on customer focus, focus on employee management and development, stressing on continuous innovations and improvement for operations, the need for productive utilization of information and knowledge, and lastly, maintaining sustainable organization results to drive business excellence.

Each BE Framework may have a slightly different set of excellence attributes. Table 1 below shows the sets of excellence attributes defined by the Singapore BE, MBNQA and the EFQM. The excellence attributes are arranged in a manner where similar attributes are placed across rows. Thus, one can see there are many similarities in excellence attributes that different BE frameworks wanted organizations to inculcate in its operational environments. This is not surprising given the fact that BE frameworks have its roots from TQM concepts and principles.

Table 1: Comparison of Excellence Attributes in Different BE Frameworks

Singapore BE Framework - Excellence Attributes	EFQM BE Framework - Excellence Attributes	MBNQA Framework - Excellence Attributes
Lead with Vision and Integrity	Leading with Vision, Inspiration & Integrity	Visionary Leadership
Create Value for Customers	Adding Value for Customers	Customer-Driven Excellence
Drive Innovation and Productivity	Harnessing Creativity & Innovation	Managing for Innovation
Develop Organisational Capability	Develop Organisational Capability	Organizational Learning & Agility
Value People and Partners	Succeeding through Talent of People	Valuing People
Manage with Agility	Manage with Agility	Agility
Adopt an Integrated Perspective		Systems Perspective
Anticipate the Future		Focus on Success
Sustain Outstanding Results	Sustain Outstanding Results	Delivering Value & Results
	Create a Sustainable Future	Societal Contributions
		Ethics and transparency

Since organizations use the BE framework as a roadmap to help themselves to institute good practices to achieve business excellence, the seven common practices mentioned above are where we could assess whether ESG emphasis has been embedded. From a more in-depth review of the requirements in each of these three BE Framework requirements, Table 2 shows the seven common practices where ESG emphasis has been embedded in its requirements and the extent of ESG requirement guidelines given in the frameworks.

Table 2: Extent of ESG Emphasis in BE Frameworks

	Singapore BE	MBNQA	EFQM	Current ESG Practices
Good Organizational leadership	🟡	🟡	🟡	★★★
Effective Strategy planning				☆☆☆
A Customer focus				☆☆☆
Importance of Employee management and development			◖	★☆☆
Continuous Innovations and improvement for operations	◖	◖	🟡	★★☆
Productive Utilization of Information and knowledge, and			◖	★☆☆
Sustainable organization results to drive business excellence	◖	🟡	🟡	★★★

Nomenclature:

🟡 ESG emphasis well embeded in requirements

◖ ESG emphasis partially embedded in requirements

★★★ Current requirement guide on ESG practices are well developed

★☆☆ Current requirement guide on ESG practices are few

☆☆☆ Current requirement guide on ESG practices are almost non-existent

To illustrate, let's take a look at how ESG is emphasized in the EFQM framework. ESG emphasis is found extensively in the requirements of the EFQM framework under the Leadership, Partnerships and Resources, and the Processes, Products and Services, as well as also the Society Results criteria. Some emphasis on ESG is found in the People criterion. Based on an analysis of these related requirements, it could be concluded that for the EFQM framework, emphasis on ESG is extensively emphasized in 3 of its seven common practices [*good organizational leadership, continuous innovations and improvements for operations, sustainable organizational results to drive business excellence*], while evidence of some emphasis is found in another 2 common practices [*importance of employee management and development, productive utilization of information and knowledge*].

4. DISCUSSION OF FINDINGS

The BE Frameworks provide a useful platform to encourage businesses and all organizations alike to implement ESG initiatives. Based on the comparison given in Table 2, it could be seen that currently, the EFQM framework provides the most extensive emphasis on ESG in relation to other major frameworks. However, it has to be noted that this is a relative comparison. More could be done to increase ESG emphasis in BE frameworks.

Currently, ESG emphasis is focused in areas of leadership, operations and results. This is not surprising as without leadership commitment, ESG will not be effective, while environmental as well as social responsibility activities are much easier to implement in

operations, and of course outcomes of these efforts could be seen in targeted performance results of the organization.

However, more could be done to reinforce ESG emphasis in other areas of the BE frameworks. The BE framework has seven commonalities and in each of this common area, there is no reason why ESG emphasis could not be innovatively embedded into its requirements. As illustrated in the last column of Table 2 above, ESG emphasis is particularly weak in areas such as strategy planning and customer focus, and not much ESG emphasis is found in employee management and development as well as in productive utilization of information and knowledge.

To strengthen ESG in organizations, areas such as customer focus and strategy planning should see more active consideration of ESG activities. Strategic planning drives short-term and long-term operations in the organization and key goals are usually established in these plans. Thus, it is imperative that ESG considerations are given emphasis in strategy planning. Likewise, customers are becoming more aware that businesses are a key source for protection of the environment and the maintenance of social justice and social equality. Thus, embedding ESG activities in customer focus and customer experience will allow the organization to build positive customer experience and goodwill.

Likewise, employees could be made more aware of ESG requirements and activities so as to allow them to build ES decision-making into their work and to develop innovative ES activities to support organization efforts in ESG. Information and data collection could also put more emphasis on ESG activities' outcomes to allow organization to have a better picture of its ESG efforts and to plan for future ESG initiatives.

5. CONCLUSION

This paper has presented an analysis of the emphasis on environmental, social responsibility, and corporate governance, in the major business excellence frameworks. It has shown that the major BE frameworks do embed ESG emphasis in its requirements for organizations to follow. However, as the world moves into the 21st century and faces many challenges related to the environment such as impending climate changes, and to social impacts such as equality and disparity in global human developments, businesses and organizations could do more to negate these challenges through ESG. The BE frameworks, as roadmaps and guidelines for organizations to achieve excellence, should be the platform where this emphasis could be reinforced.

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