

# Sustainability practices of abb report example

[Business](#), [Company](#)



## **Introduction: ABB**

This paper will present the case of a Global Multinational Enterprise (MNE) that operates in more than 180 countries, is building sustainability into its business strategies. This company's sustainability strategies go beyond social investment programs and instead go in deeper into the company's business processes and overall strategy. The company of choice is ABB, a MNE that was founded in Zurich but enjoys the luxury of being localized in each geographic region it operates in. ABB is one of the largest engineering companies in the world. In 2012, ABB reported gross revenue of US\$ 40 billion. It has achieved this by working in more than 100 countries and employing about 145, 000 people of many nationalities. Some key statistics of ABB for the years 2011 and 2012 are shown in the table below. According to its official website, ABB is a leader of automation and power technologies. It is a company that serves its clients and still takes care of the environment. ABB's products are reliable making its clients more competitive in terms of costs and productivity. ABB does this through its leadership in technology, application know-how, local capabilities and its global presence. This global presence, according to the ABB website, can be translated into easy access of ABB's products and services that can be purchased through ABB's local distributors or from its geographic sales centers.

In its website, ABB claims that it will contribute to a sustainable society (a "better world") through its business. This would be translated to a growing population that will have access to all the resources, well-being and health opportunities for this generation and the next, in a fair and equitable manner. The company claims to do so by engaging its stakeholders that

includes its customers, employees, suppliers, business partners and communities with the goal of creating innovative solutions to address the world's challenges. One of these challenges is the need to strengthen resource efficiency - which means finding ways on how to do more with less, a key principle in sustainable business. ABB does so by embedding this principle into its business practice. The company website states its objectives, which is quoted below.

“ By 2015 and beyond, ABB will be a leading contributor to a more sustainable world and will be recognized as a top-performing company in terms of sustainable business practice” (ABB, 2013).

The strategy of ABB to achieve this objective is to first and foremost communicate the company's sustainability considerations and values across the organization. This includes communicating an implementation program that is measurable throughout the company's value chain. The rationale is so that the members of the company's value chain become seamless, integrated parts of the business thus helping the process become more effective and successful. In summary, ABB will conduct its business knowing that sustainability is good not just for the company's sake but also for the sake of its customers and for society. The company's sustainability strategies focus on the following areas:

- Product development - ABB is endeavoring to develop world-class products, systems and services for the purpose of lowering the energy use of their customers, reduction of their emissions and improvement of their resource use on a long-term basis;
- Operations efficiency - ABB is endeavoring the promotion, implementation

and sustenance of energy and resource efficient business operations;

- Value chain integration - ABB is endeavoring to ensure that its suppliers, employees and business partners work in a safe, healthy and secure environment. The company is also proactively helping these groups to operate at the highest standards of integrity;
- Community development - ABB is helping develop communities where they are located in through the promotion of social development programs; and
- Employee empowerment - ABB is endeavoring to improve the commitment and involvement of the company's performance by improving the capabilities of its employees.

## **Sustainability and Company Performance**

With this sustainability program, ABB's financial performance remains very admirable. Between the years 2011 and 2012, the number of orders received by the company has remained relatively the same but its gross revenues have increased by US\$2 billion. However, the EBIT margin has decreased as well as the operating margins (14% from 15.8%) and net income (2.7 billion from 3.1 billion). This is due to the company loading up on new investments, as assets increase from 39 billion to 49 billion. While this has decreased the computed earnings per share for the company which is a bad news to shareholders (from 1.38 per share to 1.18 per share), the long term prospects of ABB remain very strong and its future very optimistic.

The table below summarizes ABB's core businesses, clients and products. The website also features the traits that ABB wishes their employees to possess, which are the core values of competency, integrity and ambition.

The company believes that these three core values are needed to fulfill the company's promise to its clients as well as to its stakeholders (employees, communities and society in general). Another key facet of ABB's strategy is its ability to make any location its home location. This is honed from the company knowing that there are differences in the personal, professional, corporate and even cultural aspects of business and that by respecting these differences and applying strategies that unify these differences, the company ultimately wins.

Figure 1 ABB's Offerings, Customers and Key Facts

## **Integrating Sustainability Practices**

ABB has not always been this successful. According to Jim Pinto, ABB was a successful company in the 1990s. However it faced a lot of trouble by 2002. ABB's management made tough and very quick decision that turned the company around, making it one of the most dramatic leaders in its industry by 2005. ABB's global strategy was focused on two key elements. First, it recognized two core divisions that are Power Technologies and Automation Technologies as its most lucrative segments. It is also the two core businesses that the corporation had clear advantage in over its competitors. The corporate strategy then became clear that ABB had to divest its non-core businesses and specialize. Internally, this meant that the company was going to find efficiencies that it could leverage on to save on costs.

Externally this meant that the company could focus on providing high quality service to the company without the burden of shouldering unwarranted costs. The second corporate strategy of ABB is more global in nature. ABB dealt with the cultural differences in all of its 100 locations. While this

seemed to be trivial compared to a business decision such as specializing in only two core businesses, this was in fact a more difficult undertaking.

Organizationally, ABB's top management had created an organization that operated at a very high level of efficiency through integration and using the most it could out of national responsiveness. With only a four-year implementing horizon, ABB managed to start with only ten selected people to implement its 60-global business area strategy over what is considered to be about 1,300 individual local companies in over 100 countries. ABB, with this global strategy of integration has become "transnational" (Maguire, 2004), defined as one that acknowledges the importance of local responsiveness which leads to a broader and more encompassing national responsiveness. ABB, because of its operations in more than 100 countries operate as a multinational corporation but has to respond to the specific requirements of different countries it operates in. To be able to operate in these varied environments, the company has to become more innovative and flexible and would have to evaluate and choose different market positions it would take in different countries while balancing corporate goals and objectives.

This made ABB a global company that was localized. It also required that ABB was both a big company and a small company. To add another irony, it required that the company is centrally controlled but also decentralized thoroughly. It essentially became everything at once. And to be able to do this, the company followed a simple rule: local managers are responsible for the management of the local business. This made ABB a global company that had "local" touch. Managers at this level of the organization were made

to understand their importance and were compensated accordingly, to ensure that they remain motivated and focused at what they were needed for. This is shown in the simple diagram below.

This directive included sustainability measures. To do so, the global strategy of ABB included strengthening the company's overall governance structure. ABB created the ABB Sustainability Board, which is the entire executive committee of the company, as the sole authority in directing sustainability programs for the organization. The ABB Sustainability Board focused on programs concerning the environment, social reform, health, safety, human reforms, ethics, supply chain and value creation. The ABB Sustainability Board established the following to principles for effective governance:

- Key performance matrix for sustainability programs - this means that business-relevant objectives and Key Performance Indicators (KPIs) are developed with the help of relevant organizational users and with respect to their businesses and specific functions. These key performance objectives and indicators are shown in the table below.
  
- Competence management and organizational development programs for sustainability issues
  
- Communications, awareness enhancement and stakeholder engagement programs for sustainability issues

ABB's focus has also been on environmental protection and preservation. The company does so by passion on its expertise on energy efficiency and environmental friendly programs to its customers and suppliers. In its factories, the company uses energy efficient materials and endeavour to reduce the impact of transport, travel, hazardous materials while promoting

eco-efficiency, recycling and supplier performance. Best practice sharing, has made this work for ABB with one successful practice being implemented in all its factories worldwide. One best practice is in the process of design. The company's design engineers receive adequate training and the proper tools to enable them to carry out a Life Cycle Assessment of a product and its impacts on the environment. These engineers are called " sustainability officers" and currently there are 400 sustainability officers based in all of ABB's factories worldwide. These officers ensure that the design standards are met and that they comply with stringent regulations including the ISO 14001 and OHSAS 18001, two standards for managing environment, health and safety risks. Added to that are collaborative efforts with support programs from various private institutions and universities.

Part of the company's sustainability policy is to ensure that it follows a strict code for business ethics and corporate governance. This includes ABB's Code of Conduct, policies for social groups and human rights, as well as several instructions provided by an internal management group. ABB recognizes that many of its stakeholders are affected by its many business policies thus they also recognize that they have to seek the stakeholder engagement to ensure that their business practices are sustainable and beneficial to the same stakeholders. ABB employs sustainability experts that work with each of the company's divisions and groups that are deployed to ensure that these internal divisions are made aware of their potential risks. They are also assisted in how they can improve their performance sustainably. This includes the area of " human rights" which is critical since the company operates in many countries worldwide. It also includes the issues relating to



corporate citizenship which translates to ABB supporting the communities it has operated in. A good example is the support of the company given to communities in Tanzania. ABB strived to provide a rural community in Tanzania access to electricity as part of its desire to become “ good corporate citizens” of the world.

## **Improving ABB’s Sustainability Strategy**

In terms of opportunities, ABB can optimize on infrastructure it has already built in its organization, a very strong balance sheet and strong compliance with environmental regulations. ABB’s management structure has allowed the company to utilize the best persons possible for the position, at any position and in any location the company operates in. ABB’s managers are often multilingual and have operated in various significant posts in many parts of the world. This human resource infrastructure is one of the many infrastructures that ABB can leverage on and optimize even further to create more opportunities for the company. The company also, because of its strong and stable financial performance in the last 10 years, possess a very strong balance sheet in the sense that it has a very large asset base and a near-optimum capital structure. Both these factors provide ABB with the financial flexibility to get into new markets, invest in those markets and retain the trust and confidence of ABB stakeholders worldwide. This can be leveraged for growing opportunities as ABB continues to expand into new markets and products. Finally, the company is also compliant with environmental regulations and follows strict adherence rules as part of its corporate social responsibilities.

ABB’s weakness is that it once had complex business lines and muddled

business operations. If the company is not careful, it may go into a frenzy of purchasing new business lines without considering its overall impact on the organization. A threat to ABB is its high decentralization approach to management. This may lead to local managers running off and making decisions that are unaligned with the overall goals of the company. Lastly, the global economic recession is a threat to ABB but is also a threat to all other businesses. Once the macroeconomic drivers are corrected, this should be a manageable threat point. Based on this analysis the strength and opportunities for ABB are substantial and outweigh the weaknesses and threats. The current position, both operationally and financially of ABB are very strong such that it is able to use its resources well and to its advantage to gain an edge over competition.

## **Conclusions and Recommendations**

ABB is a perfect example of a company that operates sustainably globally and yet operates sustainably locally as well. It proudly features itself as a company whose country of origin is the country that it is, even though the company was founded in Zurich. It is a company that prides itself on its ability to utilize the differences of the cultures of the countries it operates in a profitable manner. It is a company that utilizes its personnel optimally, by empowering them through a top down approach to business responsibilities and from a bottom to top approach on company responsibilities. It has enabled people to work in their home countries and yet follow a global standard that is not commonly followed, if successful at all, by other multinational enterprises or MNEs.

Because of this strategy, ABB has been able to reap rewards financially,

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socially and ecologically. ABB is a company that is considered by many analysts as stable stock. It has helped 145, 000 people receive stable compensation and has enlarged its asset base by 10 billion in the span of one year. It has effectively utilized its financing such that its capital structure is near optimum. It has prudent management such that ABB is not a company that has been linked to any corporate anomalies in any part of the world. Socially and ecologically, ABB promotes environmental protection and gender/race workplace equality. Of the latter, the company promotes managers from nationals of the country it operates in. This gives the local managers a sense of pride and ownership over the company thus becoming more productive and thus making the company operationally stronger. The company is also adept at knowledge management. Because of the diversity of its operating work areas, it is important that the right information is made available to specific users and that lessons from other businesses, i. e. best practices, are communicated. This structure of information is very complex but ABB has managed to simplify it into three tiers, the standard intelligence, business intelligence and business cycle tiers. These tiers not only help any particular user of this system to know their environment (i. e. what competitors are doing, how regulations are changing, the emergence of a worldwide trend, among others) but also help them understand, adopt, modify or create new practices that would enable the company to keep its competitive level and its productive and financial viability. The intelligence system is important and critical for a global organization and is one of the reasons why ABB has retained a competitive advantage over competition in the sense that it responds very well to domestic requirements while ensuring

that the company as a whole reaches its global objectives.

ABB demonstrates the importance of factoring sustainability as part of the business. Through its many programs for its various stakeholders throughout the organization, ABB has managed to create a culture of business that values the resource it uses, the partners it works with, the businesses it creates, the communities it locates in, and its shareholders making the company a responsible, admirable global citizen and staunch competitor in the global economic marketplace. However, it may do better if it can focus on the following areas as well:

- Security for personnel and facilities - I feel that this has been overlooked by the company basically because it calls itself a “ local global company”. While that is laudable, the idea of having standard security protocols improved for the sake of its facilities and personnel should be increased or should take a larger level of importance to ABB as part of their sustainability objectives.
- Health and safety training in all locations - this is also a component that I have not read or was not extensively included in ABB’s sustainability. This could be due to the fact that ABB suffered only 4 fatalities in 2012 and none in 2011. Still it would be worthwhile to add safety training and health awareness for all personnel as part of the sustainability agenda.
- Renewable Energy support - because of its industrial capabilities, ABB should lead the way in utilizing renewable energy sources for its business processes.

There is still a long-way to go for ABB to realize its full potential and to become optimum in terms of sustainability. But the company is getting there

and has made successful strides in the last decade and will continue to do so for many years to come.

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