

5.7: Integrating Goals and Objectives with Corporate Social Responsibility

Learning Objectives

1. Understand the nature of corporate social responsibility.
2. See how corporate social responsibility, like other goals and objectives, can be incorporated using the Balanced Scorecard.
3. Understand that corporate social responsibility, like any other goal and objective, helps the firm only when aligned with its strategy, vision, and mission.

One of the overarching lessons of this chapter is that goals and objectives are only effective to the extent that they reinforce the organization's strategy and therefore the realization of its vision and mission. This section is somewhat integrative in that it provides knowledge about the ways that goals and objectives related to social and environmental issues can be tied back into strategy using a Balanced Scorecard approach.

Corporate Social Responsibility

The corporate social responsibility (CSR) movement is not new and has been gathering momentum for well over a decade. CSR is about how companies manage their business processes to produce an overall positive effect on society. This growth has raised questions—how to define the concept and how to integrate it into the larger body of an organization's goals and objectives. The Dow Jones Sustainability Index created a commonly accepted definition of CSR: “a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.” Specifically, the Dow Jones Sustainability Index looks at competence in five areas:

- *Strategy*: Integrating long-term economic, environmental, and social aspects in their business strategies while maintaining global competitiveness and brand reputation.
- *Financial*: Meeting shareholders' demands for sound financial returns, long-term economic growth, open communication, and transparent financial accounting.
- *Customer and Product*: Fostering loyalty by investing in customer relationship management, and product and service innovation that focuses on technologies and systems, which use financial, natural, and social resources in an efficient, effective, and economic manner over the long term.
- *Governance and Stakeholder*: Setting the highest standards of corporate governance and stakeholder engagement, including corporate codes of conduct and public reporting.
- *Human*: Managing human resources to maintain workforce capabilities and employee satisfaction through best-in-class organizational learning and knowledge management practices and remuneration and benefit programs.

CSR and the Balanced Scorecard

Since you are already familiar with the Balanced Scorecard from the previous section, you will probably already see how it can be used for CSR (a brief summary of the Balanced Scorecard concept is found in “The Balanced Scorecard at a Glance”). As experts from GreenBiz.com have observed:

“One of the fundamental opportunities for the CSR movement is how to effectively align consumer and employee values with strategy to generate long-term benefits—a better understanding of precisely with whom, what, when, where, how and why an enterprise makes a profit or surplus. CSR requires more holistic strategic thinking and a wider stakeholder perspective. Because the Balanced Scorecard is a recognized and established management tool, it is well positioned to support a knowledge-building effort to help organizations make their CSR values and visions a reality. The Balanced Scorecard enables individuals to make daily decisions based upon values and metrics that can be designed to support these long-term cognizant benefits.”

Thus, the Balanced Scorecard is an ideal vehicle for integrating CSR concerns with the organization's mission, vision, and strategy.

The Balanced Scorecard at a Glance

As you know, the Balanced Scorecard is a focused set of key financial and nonfinancial indicators. These indicators include leading, pacing, and lagging measures. The term “balanced” does not mean equivalence among the measures but rather an acknowledgment of other key performance metrics that are not financial. The now classic scorecard, as outlined by Robert Kaplan and David Norton, has four quadrants or perspectives: (1) learning and growth, (2) internal, (3) customer, and (4) financial. Moreover, the idea is that each of these perspectives should be linked. For example, increased training for employees (learning and

growth) can lead to enhanced operations or processes (internal), which leads to more satisfied customers through either improved delivery time and/or lower prices (customers), which finally leads to higher financial performance for the organization (financial).

A number of academic authors as well as global management consulting firms like McKinsey and KPMG have written about the pressures facing firms with regard to social and environmental issues. For instance, KPMG's "International Survey of Corporate Responsibility Reporting 2008" reflects the growing importance of corporate responsibility as a key indicator of nonfinancial performance, as well as a driver of financial performance. <http://www.kpmg.com/Global/IssuesAndInsights/ArticlesAndPublications/Pages/Sustainability-corporate-responsibility-reporting-2008.aspx> (accessed November 11, 2008). Also see <http://www.csrwire.com/News/13565.html> (accessed January 30, 2009). In the 2008 survey, KPMG noted a significant increase in the publication of corporate responsibility reports in the United States, from 37% in their 2005 survey to 74% in 2008. KPMG concluded that the survey findings also reflect a growing sense of responsibility in the business community to improve transparency and accountability to the wider community—not just to shareholders (see below for a summary of KPMG's analysis of U.S. CSR practices).

Summary of KPMG's 2008 Report on U.S. Firm CSR Practices

"The increase in corporate responsibility reporting by the top 100 companies in the United States may be attributed to an increased focus on sustainability issues within US business in the last several years. This year's survey found that the top three drivers for corporate responsibility reporting remained the same as in ethical considerations, economic considerations, and innovation and learning.

"However, within these drivers, ethical considerations (70 percent) replaced economic considerations (50 percent) as the primary driver. We also noticed a gradual maturation of corporate responsibility programs by US companies. Of the 74 percent that reported publicly, 82 percent had a defined corporate responsibility or sustainability strategy, and 77 percent had implemented management systems for their corporate responsibility goals. Furthermore, 78 percent had defined specific indicators relating to stated objectives and 68 percent actually reported on performance against the stated objectives."

<http://www.kpmg.com/Global/IssuesAndInsights/ArticlesAndPublications/Pages/Sustainability-corporate-responsibility-reporting-2008.aspx> (accessed November 11, 2008).

The actual effect of these challenges and opportunities was recently identified in an earlier (2006) KPMG's "International Survey of Corporate Responsibility Reporting." http://www.kpmg.nl/Docs/Corporate_Site/Publicaties/International_Survey_Corporate_Responsibility_2005.pdf. This report surveyed more than 1,600 companies worldwide and documented the top 10 motivators driving corporations to engage in CSR for competitive reasons, which are:

- Economic considerations
- Ethical considerations
- Innovation and learning
- Employee motivation
- Risk management or risk reduction
- Access to capital or increased shareholder value
- Reputation or brand
- Market position or share
- Strengthened supplier relationships
- Cost savings

By creatively responding to these market forces, and others generated by the CSR movement, organizations can reap considerable benefits. There are many examples of how companies are being affected by CSR drivers and motivators. The following two examples are just a brief sample of the myriad CSR performance motivators that are top of mind for managers.

IKEA

Swedish home furnishings retailer IKEA discloses a lot of detailed information with regard to supply chain management in its annual CSR report. <http://www.ikea-group.ikea.com/> (accessed November 11, 2008). As IKEA has suppliers in countries where the risk of labor rights abuses are perceived as high, they are obligated to work on these issues in a systematic way, which can be followed up on both internally and externally. IKEA's 2007 "Social and Environmental Responsibility Report" is noteworthy because of its transparency on its supply chain. For example, IKEA reported on the top five purchasing countries as well as on how

many IKEA suppliers are IWAY approved (The IKEA Way on Purchasing Home Furnishing Products). http://www.ikea.com/ms/en_US/about_ikea/social_environmental/the_ikea_way.html (accessed January 30, 2009). China is number one in the top five purchasing countries at 22%, yet at the same time has the lowest number of IWAY-approved suppliers (4%). IKEA seems aware that transparency also calls for completeness and has disclosed well-developed information about the challenges in Asia in general and in China specifically.

PEMEX

PEMEX (Mexico) is a government-controlled body that was created as a decentralized government agency of the Federal Public Administration. Its core purpose is to drive the nation's central and strategic development activities in the state's petroleum industry. PEMEX holds the number 11 position as a crude oil producer and is one of the three main suppliers of crude oil for the U.S. market. In 2007, total sales amounted to approximately \$104.5 billion. Active personnel at PEMEX at the end of 2007 rose to 154,802 workers. PEMEX has been publishing corporate responsibility reports since 1999. The 2007 report complies with the indicators set forth in the Global Reporting Initiative (GRI) Guidelines and was the first Mexican GRI Application Level A+ report—the highest level. <http://www.pemex.com> (accessed 2008, November 11). Moreover, the report meets the guidelines of the United Nations Global Compact for communication in progress. The report addressed the needs of a complex sector, including the *national oil and gas industry*, a vast list of stakeholders, and a citizen participation group composed of highly renowned specialists to address citizens' concerns.

Measures and CSR

One of the organizational challenges with CSR is that it requires firms to measure and report on aspects of their operations that were either previously unmonitored or don't clearly map into the firm's strategy. Thus, goals and objectives related to growing revenues through green consumers in the Lifestyles of Health and Sustainability (LOHAS) marketplace comes with the price of increased transparency—this customer group demands the necessary data to make informed decisions. Ethical considerations, KPMG's second driver, are directly linked to the LOHAS market. LOHAS describes a \$226.8 billion marketplace for goods and services focused on health, the environment, social justice, personal development, and sustainable living. The consumers attracted to this market have been collectively referred to as "cultural creatives" and represent a sizable group in the United States. Florida, R. (2005). *The flight of the creative class: The global competition for talent*. New York: HarperCollins. Interested stakeholders, such as employees, regulators, investors, and nongovernmental organizations (NGOs), pressure organizations to disclose more CSR information. Companies in particular are increasingly expected to generate annual CSR reports in addition to their annual financial reports.

CSR reporting measures an organization's economic, social, and environmental performance and impacts. The measurement of CSR's three dimensions is commonly called the triple bottom line (TBL). The Global Reporting Initiative (GRI), mentioned in the case of PEMEX, is the internationally accepted standard for TBL reporting. The GRI was created in 1997 to bring consistency to the TBL reporting process by enhancing the quality, rigor, and utility of sustainability reporting. GRI issued its first comprehensive reporting guidelines in 2002 and its G3 Reporting Framework in October 2006. Since GRI was established, more than 1,000 international companies had registered with the GRI and issued corporate sustainability reports using its standards. <http://www.globalreporting.org/Home>.

Representatives from business, accounting societies, organized labor, investors, and other stakeholders all participated in the development of what are now known as the GRI Sustainability Guidelines. The guidelines are composed of both qualitative and quantitative indicators. The guidelines and indicators were not designed, nor intended, to replace Generally Accepted Accounting Principles (GAAP) or other mandatory financial reporting requirements. Rather, the guidelines are intended to complement GAAP by providing the basis for credibility and precision in non-financial reporting.

Some firms develop and apply their own sets of metrics. Royal Dutch Shell spent in excess of \$1 million to develop its environmental and social responsibility metrics. Instead of picking numbers from established sources, such as the GRI template, Shell held 33 meetings with stakeholders and shareholders. The Shell metrics effort was widely reported in a number of newsletters and articles. See, for example, http://www.juergendaum.com/news/05_12_2001.htm. The derived metrics became a much more accurate reflection of what its customers and other stakeholders wanted, and thus, a true reflection of its strategy, mission, and vision.

One of the key benefits for an organization using a Balanced Scorecard is improved strategic alignment. The Balanced Scorecard can be an effective format for reporting TBL indicators, as it illustrates the cause-and-effect relationship between good corporate citizenship and a successful business. Enterprises can use the combination of the Balanced Scorecard and CSR to help create a

competitive advantage by letting decision makers know whether they are truly entering into a CSR virtuous cycle in which economic and environmental performance, coupled with social impacts, combine to improve organizational performance exponentially.

What do we mean by virtuous cycle? A company could begin to compete on cost leadership as a result of improved technology and effective and efficient processes, which leads to improved ecological protection, which results in better risk management and a lower cost of capital. Alternatively, a company could differentiate from its competitors' values and performance as a result of its community-building activities, which can improve corporate reputation, result in improved brand equity, creating customer satisfaction, which increases sales. The move to a broad differentiation strategy can also be achieved through extensive knowledge of green consumers and leveraging their information needs through appropriate CSR reporting to improve brand equity and reputation. These examples are designed to illustrate the interrelationships in an organization's triple bottom line.

Several organizations have already recognized this powerful combination and have adapted or introduced a Balanced Scorecard that includes CSR elements to successfully implement strategy reflective of evolving societal values. Many managers are familiar with the Balanced Scorecard and thus have a tool at their disposal to help them navigate the sometimes foggy worlds of strategy and CSR. The Balanced Scorecard can help organizations strategically manage the alignment of cause-and-effect relationships of external market forces and impacts with internal CSR drivers, values, and behavior. It is this alignment combined with CSR reporting that can enable enterprises to implement either broad differentiation or cost leadership strategies. If managers believe there will be resistance to stand-alone CSR initiatives, they can use the Balanced Scorecard to address CSR opportunities and challenges. If you are so motivated, the managerial skills and tools you gain through an understanding of P-O-L-C will help you to lead your organization toward a CSR virtuous cycle of cognizant benefits, understanding precisely how and why their company's profits are made.

Key Takeaway

This section explored the challenges and opportunities of incorporating social and environmental goals and objectives into the P-O-L-C process. Many organizations refer to social and environmental activities as corporate social responsibility (CSR). For many firms, general operating goals and objectives have not been well integrated with strategy, vision, and mission, so it may not be surprising that social and environmental goals, in particular, have not gained much traction. However, when an organization uses tools such as the Balanced Scorecard to manage goals and objectives, then there is a coherent vehicle for incorporating social and environmental objectives in the mix as well.

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