THE CONFERENCE BOARD

RESEARCH REPORT

The Measure of Success

Evaluating Corporate Citizenship Performance

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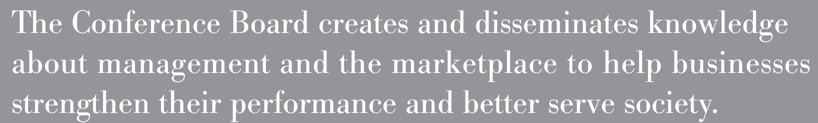

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ABOUT **THE MEASURE OF SUCCESS PROJECT**

In late 2003, The Conference Board in collaboration with the Committee to Encourage Corporate Philanthropy (CECP) undertook a research project called *The Measure of Success*. The project, funded by the Ford Foundation, is designed to explore the current corporate perspective on and practices in measuring corporate citizenship performance.

As a result of the *Measure of Success* project, The Conference Board is releasing two major publications. This report presents:

- A discussion of the evolution of corporate citizenship and how the political debates surrounding the topic have influenced measurement practice
- An overview and inventory of commonly used measurement techniques
- A discussion of measurement as a management tool in the design and implementation of corporate citizenship programs.

A separate report, *Corporate Citizenship Reporting: Best Practices*, presents case studies of five companies—BP, HP, Novo Nordisk, Procter & Gamble, and UPS—that exemplify best practices in the public reporting to stakeholders of citizenship performance. Materials presented in the report are based on the most recent information made available to the public.

The *Measure of Success* project has been conducted under the overall direction of Thomas E. Cavanagh, senior research associate in global corporate citizenship at The Conference Board.

The Measure of Success

Evaluating Corporate Citizenship Performance

by Thomas E. Cavanagh, Anu Oza, and Charles J. Bennett

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ABOUT **THE AUTHORS**

Thomas E. Cavanagh is a senior research associate in the Global Corporate Citizenship Group of The Conference Board, where he has been the lead author of *Corporate Security Management: Organization and Spending Since 9/11; After September 11: The Challenge Facing American Business*; and The Conference Board Executive Action series *Corporate Security in a Time of Crisis*. His other Conference Board reports include *Community Connections: Strategic Partnerships in the Digital Industries; Corporate Community Development: Meeting the Measurement Challenge; and Rebuilding Lower Manhattan: The Need for Cross-Sector Collaboration.*

Prior to joining The Conference Board in 1998, Mr. Cavanagh was a visiting lecturer in political science at Yale University and a research consultant. From 1988 to 1991, he was director of the Center for the Study of American Government at Johns Hopkins University, and in the 1980s served as a senior research associate at the Joint Center for Political Studies and the National Research Council.

Anu Oza has been working in public relations, marketing, communications, and corporate social responsibility for more than a decade. In addition to working with Unilever, both in Asia and in the United Kingdom, she has consulted for the UN Global Compact and the UN Population Fund. She has also provided a variety of pro bono services to nonprofits in Asia and elsewhere around the world.

Oza's HR background enables her to assist companies with issues of leadership, change management, cultural diagnosis, dialogue, conflict resolution, and labor compliance. She holds graduate degrees from Harvard and the London School of Economics, and has served as a guest lecturer at Harvard and the Columbia Business School.

Charles J. Bennett, Ph.D. is a senior research associate at The Conference Board, where he focuses on sustainability issues as a member of the Global Corporate Citizenship Group. Among the Conference Board publications Dr. Bennett has authored or coauthored are *A Roadmap for Strategic Energy Planning and Management*, *The Road to Sustainability: Business' First Steps*, and other reports on energy management, climate change, and workplace health and safety management. Dr. Bennett also coordinates The Conference Board's executive networking programs for senior environment, health and safety officers.

Prior to joining The Conference Board in 2001, he was environmental affairs director at Adolph Coors Company. As senior environmental and safety director at Nabisco, he led the development of global environmental and safety management systems and performance tracking metrics. From 1988 to 1993, Dr. Bennett helped to develop environmental policy for the state of Colorado through gubernatorial appointments and public-private partnerships. As a consultant, he has advised on the environmental aspects of major mining and industrial developments in the central and western United States.

ABOUT **THE COMMITTEE TO ENCOURAGE CORPORATE PHILANTHROPY**

The Committee to Encourage Corporate Philanthropy (CECP) is the only national forum of business CEOs and Chairpersons with an agenda exclusively focused on corporate philanthropy. Membership includes more than 100 CEOs and Chairpersons, whose companies' combined annual contributions account for about 45 percent of reported annual corporate giving. The CECP is online at www.corphilanthropy.org

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The Evolution

of Corporate Citizenship

Corporate citizenship has become a prime topic of discussion over the past decade. As companies have become ever more enmeshed in their ongoing relationships with external stakeholders, interest has grown in the question of how to assess the quality of those relationships. A wide variety of measurement tools and techniques have been developed to track performance in the citizenship arena. What follows is an overview of the many approaches to measurement that have attained currency in this burgeoning field.

There is no hard, fast, broadly accepted definition of what corporate citizenship is. We define corporate citizenship as the full range of corporate activities that contribute to the wellbeing of society,[1] and for us this embraces the related concepts of sustainability and corporate social responsibility (CSR). All of these terms have attained widespread use in the past decade, subsuming older, more narrowly constricted visions of the proper role of business in its relations with society.

From stewardship to stakeholding

For much of the twentieth century, corporate citizenship was discussed in terms of the paternalistic, slight musty concept of "stewardship." Company executives, in this view, were granted vast authority over their economic domains, both within their companies and by society in general. In return for enjoying this freedom, executives were expected to use their power responsibly in ways that would benefit society as well as their firms.

Corporate community involvement generally took the form of philanthropy, which was often devoted to subsidizing institutions of traditional "high culture" such as museums and symphony orchestras. Concern for the disadvantaged was channeled through charitable organizations like the United Way.

More recent thinking has emphasized the concept of "stakeholding," in which the many societal actors that interact with the corporation are seen as legitimate claimants on its conduct. Stakeholders include shareholders, of course. But they also include employees, consumers, community residents, and governments.

These other stakeholders may have no ownership stake in the company, but they are nonetheless affected (sometimes adversely) by its decisions. The firm should respect their rights and interests, too, according to the ideals of corporate citizenship, and incorporate these interests into its decision-making process.

The stakeholder notion has radically reoriented what is expected of business in its dealings with society. During the "stewardship" era, the prevailing ethos was one of *noblesse oblige*, with corporate executives largely initiating the terms of interaction. Today, companies are expected to genuinely engage their stakeholders, giving them a degree of real influence over decision making.

1 The term "corporate citizenship" implies an emphasis on enlightened self-interest on the part of the private sector, and the mutual benefits that flow from engaging with the broader community. See Craig Smith, "The New Corporate Philanthropy" in *Harvard Business Review*, May/June 1994.

Boundaries of Responsibility

As companies interact more and more with their stakeholders, they confront the increasingly hazy boundaries that define the scope of corporate activities. Management must reckon with the question others are asking, too: Just how far does the private sector's responsibility extend? Meanwhile, NGOs are seeking to expand the boundaries of corporate responsibility to include issues that traditionally have been viewed as being within the domain of government or the institutions of civil society.

Prompting this social movement, ironically, have been the free-market thinkers who, since the Reagan/Thatcher era, have been so successful in reorienting politics in the advanced industrial democracies. The collapse of communism, the abandonment of state socialism in much of Europe, and the ascendancy of laissez-faire economic policy in the United States are symptomatic of a marked shift to the right in political discourse.

With little hope of reconstructing society through government management of the economy, social progressives have turned to NGOs as a vehicle to pursue politics by other means. The tools of legislation and regulation have given way (at least tactically) to lobbying and moral suasion targeted directly at business by its various stakeholders. Hence, the movement to redefine the scope of business's accountability to society.

The problem of externalities

The issue of the boundaries of responsibility arises most clearly in the context of financial accounting, which is designed primarily to enable investors to make informed investment decisions. As the Sigma Project notes:

> [A]ccounting practice draws a narrow boundary around the company for [the purpose of] financial reporting. The boundary uses the concept of *control*: does the organisation have the ability to:
>
> 1 deploy economic resources, *and*
>
> 2 benefit (or suffer) from their deployment?
>
> If so, then the economic resources, and the benefits or costs which are associated with them, are included in the financial accounts. If not, the resources and the associated benefits or costs are not included.[2]

Conventional financial accounting does a poor job of recognizing externalities such as community decline or environmental pollution. This creates a serious "free rider" problem. Firms that are not socially responsible benefit unfairly from the current system, because they do not bear the costs of the externalities they create. As a result, they gain a competitive advantage in the marketplace. They have the freedom to undercut their sustainability-minded competitors on price or, alternatively, to maintain prices and increase their profit margins.

The perceived need to "level the playing field" with regard to externalities is precisely why NGOs and governments have expressed interest in adding social and environmental costs to the accounting picture. Fines, regulations, and public scrutiny ensure that social or environmental costs have to be borne by the offending firm. (In practice, of course, these costs are then passed along to the firm's customers.) Once these costs are assessed as economic, the firm has a powerful incentive to reduce them by modifying its behavior to meet social expectations.

Tangible and intangible risks

Costs imposed through regulation are tangible entries on the firm's balance sheet. But the risks posed in the social and environmental arenas are both tangible *and* intangible. Tangible risks include the potential costs of industrial accidents, resource depletion, severance benefits, fines, and, in extreme cases, loss of the license to operate.

Intangible risks include the potential costs in terms of brand identity, reputation as an employer of choice, and community opposition. Many of the corporations that have plunged into the citizenship arena have been responding because they perceive that their market position is under threat. A company that is singled out for socially harmful conduct may suffer tremendous damage to its reputation and brand. A "name and blame" campaign can harm the firm's image among consumers, which in turn can hurt sales and reduce profits. So corporate

2 *The Sigma Guidelines Toolkit: Sustainability Accounting Guide*, The Sigma Project, 2003, p. 7 (emphasis in the original).

citizenship activities are increasingly seen as an important component of the firm's risk management posture.

Shell discovered this new reality during the Brent Spar controversy, as did Nike when it was attacked for using "sweatshop" labor provided by Asian suppliers. These cases are particularly interesting because both companies ran afoul of public opinion even though they were complying with government regulations.

Most NGOs do not consider legal compliance as evidence of a real commitment to corporate citizenship; they simply regard it as a prerequisite for the license to operate. Corporate executives and investors, on the other hand, view legal compliance as the single most important component of corporate citizenship, suggesting a serious gap in perception.[3]

Like it or not, the standards to which companies are now being held to account are being defined not by sovereign governments but by NGOs, pressure groups, and the media. The fear of bad publicity has inspired many companies to identify and ameliorate potential problem areas before they can give rise to a public controversy.

As the boundaries of corporate responsibility are redrawn to include groups of stakeholders outside the immediate orbit of companies' economic activities, firms are being asked to take more responsibility for behavior—such as labor in the supply chain or human rights in developing countries—which they may have some ability to influence but over which they have no direct control.[4] The ongoing attempt to ascertain the precise boundaries of responsibility highlights the ambiguities that firms confront in defining their relationships to the broader society of which they are a part.

3 *The Importance of Corporate Responsibility*, Economist Intelligence Unit, 2005, p. 8.

4 With respect to multinational corporations, the concept of "boundaries of responsibility" is becoming intertwined with the emerging standards of international law relating to "spheres of influence." See *Beyond Voluntarism: Human Rights and the Developing International Legal Obligations of Companies*, International Council on Human Rights Policy, 2002, especially pp. 135-142; and the *Report of the Subcommission on the Promotion and Protection of Human Rights* (advance edited version of February 15, 2005), United Nations, pp. 13-16.

Globalization and emerging markets

It is expected, for example, that a firm will participate in its community, but precisely where is this "community" located? Today, a company's reach can extend well beyond the four walls of its headquarters location to a national, global, even virtual presence on the Internet, where its Web site may be the most important face it shows the world.

Globalization has vastly complicated the citizenship agenda. Major corporations are transnational in scope, but regulations are enforced by governments, and governments are organized as nation-states. So a company may confront a variety of regulatory regimes with wildly varying priorities and values in different parts of the world. Supranational bodies like the United Nations and the OECD are beginning to define standards of corporate conduct with a broader applicability. But for the most part, these groups lack enforcement authority and must rely instead on moral suasion and self-regulation on the part of corporate adherents.

In the United States, an individualistic ethos prevails. Companies tend to be skeptical of regulatory initiatives, preferring voluntary, consensual partnerships to pursue social goals. Companies in Western Europe, on the other hand, have been much more accepting of guidelines from national governments and the EU. American companies with large operations in Europe often find themselves caught in the middle of this field of forces. Indeed, because they must adapt their business practices to European standards, they are increasingly exceeding the mandates of U.S. federal and state governments.

Many of the larger American companies anticipate that the future holds more stringent regulation on such matters as privacy and the environment. So they are positioning themselves to be ready when such regulations take effect. Given these dynamics, American multinationals are sometimes more in tune with the international agenda on such issues as environmental management than federal regulatory policy makers are—an irony that may become increasingly pronounced in the near future.

Less developed countries (LDCs) can be a difficult environment in which to pursue citizenship priorities. In emerging markets, standards for corporate conduct are often poorly articulated and not widely accepted. Local governments often have little institutional capacity to enforce norms of business social accountability. And in some countries, the government may even be the primary source of problems including corruption, sacrificing the environment to development, human rights abuses, and inadequate commitment to the rule of law.

Perhaps the biggest challenge companies operating in developing countries face is the lack of a proper institutional framework for the functioning of markets. When the basic enforcement of contracts and property rights is not respected in spirit—or even in letter—companies struggle to define appropriate standards for internal and external conduct. Competitors with fewer scruples in dealing with such regimes may enjoy favor at the expense of more socially responsible companies—making it difficult for the management of firms in the second category to pursue enlightened corporate citizenship policies, even if they wish to do so.

The diversity of communities

Communities exist at many levels of geography, but they can also be defined in non-geographic terms. Corporate executives, by virtue of their networking activities, participate in "communities of practice." These peer groups may comprise managers of companies in the same industry, organized into trade associations or standards bodies that define expectations for appropriate corporate behavior. Or they may be defined by function, offering insights into the proper conduct of executives in finance, IT, human resources, or other management specialties. In either case, executives absorb values and enforce norms that are defined by the relevant community and outside the boundary of the firm per se.

Increasingly, corporate citizenship is viewed as a set of values to be applied not just within the company but throughout the "extended enterprise," i.e., encompassing the full range of companies from which the firm purchases and through which the firm markets its products and services. From this perspective, the boundaries of responsibility extend, forward and backward, to all points in the value chain and to companies that the firm does not own or manage.

The supply chain appears to be the next major frontier for citizenship initiatives. NGOs are demanding that companies insist on good citizenship as the price of admission for their prospective suppliers. Adherence to citizenship standards will increasingly become an entry-level cost of doing business with major multinational enterprises.

And NGOs themselves play a vital role in representing the community of stakeholders. While it is important that companies develop internal processes to manage their citizenship initiatives, many observers believe that independent verification is essential to ensure that companies are indeed achieving their performance targets. Companies are thus becoming accountable to NGOs that set standards and provide tools and certification to assure stakeholders that firms' claims of socially responsible behavior are accurate.

The Politics of Measurement

As corporations have become more engaged with stakeholders in the broader society, interest has grown in assessing the nature of the impact that companies have on the community (however "community" is defined). Much of the current thinking on this subject derives from the findings and recommendations presented by the United Nations' Brundtland Commission in *Our Common Future,* the Commission's influential 1987 report on sustainable development. Proponents of sustainability assert that profitability is not enough to secure a company's license to operate; rather, the firm must reflect the interests of all of its stakeholders.

The triple bottom line

Current attempts to measure sustainability have evolved from the "triple bottom line" (TBL) initially popularized by John Elkington of SustainAbility, the British consultancy. Under this rubric, the corporation is expected to provide three distinct sets of benefits:

Economic making products and profits at a reasonable cost

Environmental preserving and enhancing natural resources and ecosystems

Social improving the quality of life enjoyed by employees, residents, and society at large

In the last few years, the scandals at Enron, WorldCom, and other major corporations have created a demand for measurement tools that go beyond the triple bottom line. Transparency and accountability in corporate governance are beginning to gain recognition as a "fourth bottom line." Governance in this context pertains to how a company organizes itself to assure that it deploys its resources — especially shareholders' investments—with integrity and that it reports accurately on that performance. Examples of governance standards include the selection of independent directors and auditing by firms that have no other business relationship with the company.

Governance aside, the distinctions among the three basic TBL categories are not always watertight. For example, Elkington's economic bottom line includes a firm's contribution to the economic wellbeing of the community. Other analysts would consider corporate impact on living standards to be an aspect of social performance, leaving the economic bottom line focused strictly on financial performance.

We use the latter, narrower conception of "economic," believing that it illuminates an inherent tension in corporate life between financial performance, on the one hand, and social and environmental performance, on the other. Understanding this tension is key to grasping the complex political conflicts that are implicit (and often unstated) in how corporate citizenship is measured.

Pegging Grant Awards to Economic Sustainability

The Shell Foundation is distinctive in explicitly making economic sustainability the most important criterion for approving grants to NGO applicants. The foundation explains its philosophy of promoting enterprises to aid the disadvantaged this way:

"[T]he prime concern of all actors involved in the intervention must be the long-term financial viability of the enterprises being assisted. Socially or environmentally sound projects or enterprises that fail or remain permanently dependent on subsidy help nobody....

"[T]he enterprise-support interventions must themselves have a financially viable business model that can be scaled up using local capital and local capacities. There will never be enough aid funding available to support enough pro-poor enterprises to make an appreciable dent on the scale of poverty that still exists....

"[T]he most effective partners are those who can apply *business principles* and *business thinking*—assess risk, know your market, offer what your customer wants, find least-cost solutions—to the challenge of catalysing pro-poor enterprise."

Source: Shell Foundation, *Enterprise Solutions to Poverty*, 2005, p. 5 (emphasis in the original).

In practice, the financial bottom line remains dominant in how companies structure their performance incentives.[5] If a business is not successful and thriving in its traditional mission of providing an attractive financial return to investors, resources will not be available to support a broader citizenship commitment. For a business to be successful at contributing to better environmental and social conditions, in other words, it must first and foremost be successful as a business.[6]

5 A survey of multinational corporate executives by Deloitte and the Economist Intelligence Unit found that 86 percent say that financial results are the aspect of corporate performance that is "most heavily rewarded." See *In the Dark: What Boards and Executives Don't Know About the Health of Their Businesses*, Deloitte Touche Tomatsu, 2004, p. 18.

6 For an excellent discussion of this issue, see Paul Gilding, Murray Hogarth and Don Reed, *Single Bottom Line Sustainability*, ECOS Corporation, 2002. ECOS is a sustainability consulting group in Australia.

But NGOs are concerned primarily with improving social and environmental conditions. To be sure, environmental and social goals sometimes conflict, as when labor unions or branch-plant communities are hostile to "green" initiatives that threaten jobs. But as a rule, NGOs are more interested in social and environmental issues than in economic performance, and may even view development initiatives as harming important groups of stakeholders.

Not surprisingly, triple bottom line advocates are most commonly found in governments or NGOs; making corporations accountable to TBL accounting would enable these institutions to influence how private sector resources outside their ownership or control are allocated. The free-market view, stressing financial performance, is most often espoused by the business and financial communities.

The elusive business case

The ideal resolution of this dilemma—which, in general, has shareholders stressing the financial aspects of triple bottom line performance, with stakeholders stressing the environmental and social aspects—would be a "business case" proving that CSR improves a firm's economic performance. This would create a powerful incentive for businesses to engage in socially responsible conduct to serve their own self-interests. Governments would not need to regulate companies so as to *force* them to be good citizens; companies would modify their behavior on their own, because it was good for business.

Attempting to demonstrate the existence of a business case for CSR has been one of the NGO community's key pursuits over the last decade.[7] Despite a large body of research, the contribution of citizenship performance to overall corporate value remains a matter of dispute.

Writing in the newsletter of Ethical Corporation, Peter Davis observes:

> Corporate responsibility remains short on credibility. In most companies the official line is that "corporate responsibility provides tangible commercial benefits."
>
> However, scratch the surface and one finds a high degree of cynicism about corporate responsibility, and a widespread belief that it is a costly, public relations-focused activity that adds little to the business.
>
> The reason is simple. Despite varied attempts to apply a quasi-scientific approach to the topic, most corporate social responsibility case studies still lack any degree of intellectual or academic rigor.
>
> As a result, many of the claims made for the commercial, environmental or social benefits of corporate responsibility cannot be legitimately substantiated.[8]

To be sure, top management now gives CSR concerns more weight than it has historically.[9] But a recent survey of multinational executives and institutional investors found that internal management issues remain the most important drivers of CSR. Executives regard customers, employees, investors, and their own boards of directors as their most important stakeholders; outside interests such as regulators, communities, and NGOs finish well down the list (see box). When asked how CSR can impact the bottom line, both executives and investors stress employee morale and brand enhancement as the major benefits.[10]

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7 See, for example, *To Whose Profit? Building a Business Case for Sustainability*, World Wildlife Fund UK, 2001; *Making the Business Case: Determining the Value of Corporate Community Involvement*, Center for Corporate Citizenship at Boston College, 2000; and John Weiser and Simon Zadek, *Conversations with Disbelievers: Persuading Companies to Address Social Challenges*, Ford Foundation, 2000. An extensive online inventory of case studies is available through the Win-Win Partnership (www.winwinpartner.com), which grew out of the Ford Foundation's recently concluded Corporate Involvement Initiative.

8 Peter Davis, "Comment: The Last Word" in *Ethical Corporation*, February 9, 2005.

9 In a recent survey of corporate executives and institutional investors conducted by the Economist Intelligence Unit, 85 percent said that corporate responsibility is a "central" or "important" consideration in their business decisions, compared to 44 percent who said it was "central" or "important" five years ago (*Importance of Corporate Responsibility*, p. 2). Another study of multinational executives found that 46 percent believe CSR factors are "more influential" in business decision-making than they were five years ago, and an additional 42 percent said CSR factors are "much more influential" (*Race to the Top: Attracting and Enabling Global Sustainable Business*, The World Bank, 2003, p. 3).

10 *Importance of Corporate Responsibility*, p. 18.

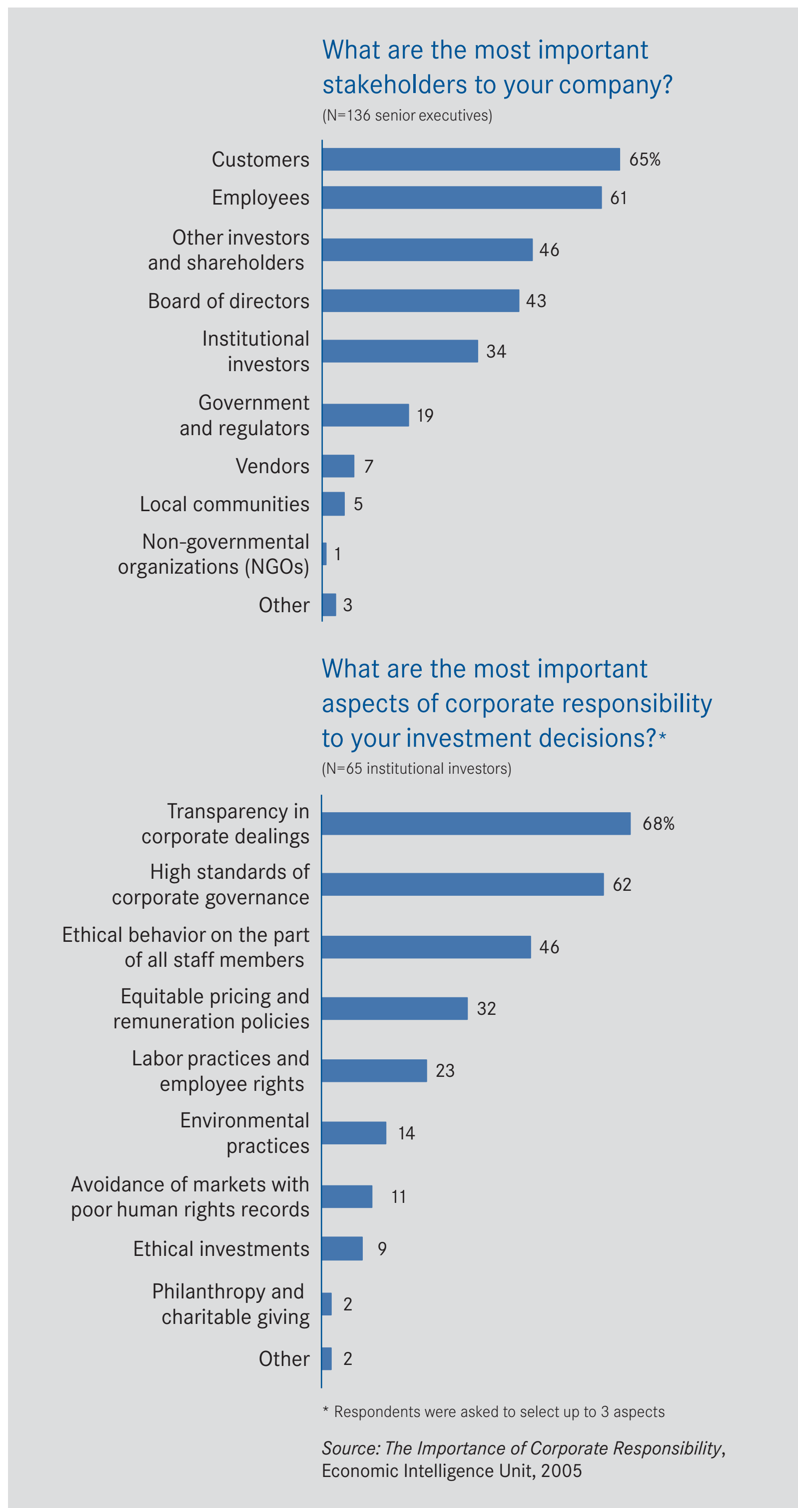
Consistent with this internal orientation, investors overwhelmingly emphasize transparency, governance, and ethics as the key citizenship elements that affect their investment decisions. They give broader social concerns such as labor practices, environmental protection, and human rights much less attention—and only 2 percent of institutional investors mention corporate philanthropy as an influence in their allocation of capital.

There is an increasingly widespread belief that corporate citizenship does increase business value, but much of the faith in this tenet seems rooted more in a kind of secular social theology than in quantitative empirical analysis. Two very different reactions to this perplexity have emerged.

One line of argument rules out CSR as a valid business activity, because it diverts management's attention from the bottom line. Ameliorating "society's" problems is somebody else's responsibility, in this view—to be handled by the public and nonprofit sectors, if it is to be handled at all. A company makes its contribution to the welfare of society simply by pursuing its business objectives as efficiently as possible.[11] Management guru Peter Drucker summarizes this position with a pithy bit of advice: "If you find an executive who wants to take on social responsibilities, fire him. Fast."[12]

Others believe that the business case for citizenship is valid, but only when it clearly helps the company to achieve its corporate goals. In this view, a corporate citizenship program is most effective when it is aligned with the firm's basic business objectives and can therefore be justified on business grounds. As Simon Zadek observes:

> [A]lthough the question "Does corporate citizenship pay?" is technically right, it is misleading in practice. Rephrasing the core question as "In what ways does corporate citizenship contribute to achieving the core business strategy?" is far preferable. This approach makes the strategy the starting point and corporate citizenship the contributor, rather than seeking to present it as a distinct profit center that subsequently seems isolated from the main thrust of the business.[13]



* Respondents were asked to select up to 3 aspects

Source: The Importance of Corporate Responsibility, Economic Intelligence Unit, 2005

[11] See "The Good Company: A Survey of Corporate Social Responsibility" in *The Economist*, January 22, 2005.

[12] Quoted in *Importance of Corporate Responsibility*, p. 21.

[13] Simon Zadek, *Doing Good and Doing Well: Making the Business Case for Corporate Citizenship*, Research Report 1282, The Conference Board, 2000, p. 22.

Evaluating the Business Case

A report by SustainAbility and the United Nations Environmental Programme (UNEP) suggests that evidence in favor of the business case for citizenship is particularly strong in certain areas of business performance. But the report, *Buried Treasure*, acknowledges a significant gap between what seems intuitively logical and what can be proven empirically. It analyzes the business case across ten facets of sustainable development performance and ten indicators of business success. The key messages of the report:

- Overall, corporate sustainable development performance has a positive impact on business success.
- Brand value and reputation are the measures of business success that appear to be most strongly linked to corporate sustainable development performance.
- Environmental performance presents the strongest business case for corporate social responsibility.
- Positive links between sustainable development performance and verified financial results are supported by business case research.
- The business case is strongest when multiple measures of business success are considered, and companies should adopt a more holistic view of business success: considering both financial results and the financial drivers that influence future financial results.
- The business case is strongest when companies incorporate sustainable development performance into mainstream business strategy.
- The biggest research gap in the business case debate is the lack of robust, generally accepted measures of corporate sustainable development performance.

Source: www.sustainability.com/business-case/keyconclusions.asp

In a similar vein, a recent report from researchers at Boston College and AccountAbility concludes that in order to succeed:

> CR [corporate responsibility] must become fully aligned and embedded into the strategic operations of the business. CR activities that are not aligned to core business goals may not be fully integrated into strategic planning processes or operational management systems, and will therefore be neither robust nor viable. One could argue that CR that is not aligned could deliver insignificant add-ons or, worse, a set of activities that actually undermine business models. In contrast, true alignment creates a commitment to CR that generates scalable, long-term sustainable value for both shareholders and society alike. Aligned CR also draws on the core competencies of business. While useful in different ways, the spectrum of CR standards, codes and tools indicates that existing CR initiatives do not support or inform strategic alignment and planning, and do not provide tools for continuous improvement.[14]

[14] Steve Rochlin, Kathleen Witter, Philip Monaghan, and Vicky Murray, "Putting the Corporate into Corporate Responsibility (CR)," *AccountAbility Forum* 5, Greenleaf Publishing and AccountAbility, 2005, pp. 5-13, quote at p. 6.

The end of the honeymoon

The belief that corporate citizenship could be aligned with the broader corporate mission led to many partnerships between companies and nonprofits in the 1990s. For a few years, there was considerable optimism that the efficiency and scalability of private enterprise could make an enormous contribution toward ameliorating social problems. But more recently, a new sobriety and even cynicism in some quarters suggests that the honeymoon is over and a more confrontational era may be taking shape.

Many NGOs, increasingly impatient with corporate citizenship performance, are calling for more activist postures from governments. *Gearing Up*, a recent report by SustainAbility and the Global Compact, exemplifies this mood:

> Despite achieving impressive momentum, the corporate responsibility movement is bumping up against real limits. Most company initiatives are too peripheral from core businesses, too isolated from one another, and too disconnected from wider systems to make much of a collective impact….

Sustainability in Emerging Markets

One of the more systematic analytical frameworks for making the business case for sustainability was published recently by the International Finance Corporation, the consulting and advocacy firm SustainAbility, and the Ethos Institute in Brazil. The report, *Developing Value: The Business Case for Sustainability in Emerging Markets*, draws on more than 200 emerging market cases to analyze the business risks and returns from social- and environmental-related activity. According to the report, companies can:

Save costs by reducing environmental impacts and treating employees well

Increase revenues by improving the environment and benefiting the local economy

Reduce risk by engaging stakeholders

Build reputation by increasing environmental efficiency

Develop human capital through better HR management

Improve access to capital through better governance

Reap the rewards of other opportunities from community development and environmental products

Source: Developing Value: The Business Case for Sustainability in Emerging Markets, SustainAbility and International Finance Corporation, 2002.

While a small but growing number of bold and visionary companies have made considerable strides and are to be commended for their achievements, their numbers will remain small as long as the business case for getting in front of the corporate pack remains weak.

So government involvement is going to be crucial.... Our recommendations will likely prove uncomfortable for those who fear greater government control over business and for those uneasy with greater business influence over governments.[15]

Calls for the private sector to be more aggressive in setting the agenda for social change are so far meeting with little enthusiasm from corporate managers. Most companies believe such a role falls well outside their sphere of competence or legitimacy. Of course, it is the contraction of the public sector's scope in the Western democracies that has created a demand for business participation, as was noted at a recent Wingspread conference:

[I]t is far from clear that business can deliver on the "promise" that they would fill the gap left by contractions in the public sector (particularly federal roles and resources) in the U.S. Nor is it clear that business really *wants* the roles that many suggest may be devolving to it.[16]

Meanwhile, social activists who are skeptical of the benefits of globalization and economic development, often portray stakeholders as "victims" of corporate operations that degrade the environment and disrupt the community. They assert that markets set in motion a "race to the bottom" in which health, safety, and social cohesion are ruthlessly sacrificed to the pursuit of profit, unless a process can be designed to protect the interests of nonfinancial stakeholders.[17] Many businesses worry that, in the hands of those who make such critiques, social and environmental accounting could become a mechanism for accumulating evidence that business is harmful to society.

Which also explains why many in the corporate world view with deep suspicion the current push toward "voluntary" reporting standards. On the surface, such standards suggest cooperation rather than coercion. But many in the private sector regard the standards as a stalking horse for eventual government mandates prescribing specific levels of social and environmental commitments.

15 *Gearing Up: From Corporate Responsibility to Good Governance and Scalable Solutions*, SustainAbility, 2004, pp. 2-3.

16 *Project Mapmaker: An Effort to Strengthen and Expand Corporate Citizenship* (summary of key points and proceedings), Hitachi Foundation, 2005, p. 1 (emphasis in the original).

17 For an extensive analysis reflecting this position, see *2004 LifeWorth Annual Review of Corporate Responsibility*, Greenleaf Publishing, 2005.

The Mechanics of Measurement

Measurement is an inherent component of any serious corporate citizenship program. Self-serving rhetoric is no longer enough. Indeed, public relations puffery can backfire badly if it is shown to be an inaccurate reflection of the company's actual behavior.

The demand for verification explains why so much attention is being paid to the issue of how to measure the effectiveness of corporate citizenship activities.

Returns on social investments

In years past, a company's measurement was generally restricted to the largesse of its contributions program. The emphasis was on inputs, since providing money and other resources to philanthropic programs was considered good in and of itself. The worthwhile nature of the spending was considered its own justification.

Traditional philanthropy assumes a zero-sum game in which the rich transfer resources to the less advantaged. These days, companies are less interested in making contributions than in knowing that their citizenship works as an investment.

But investment is not the same thing as redistribution. Through their citizenship activities, companies no longer want to simply move a fixed slice of the pie from one plate to another. They want to grow more pies. Indeed, social "investment" implies growth—and growth is possible only if the basic financial requirements for a return on investment have been met.

This ROI, like any ROI, should be measurable. So companies that provide corporate resources for socially beneficial objectives are working harder to determine the actual results of these efforts. How efficiently and effectively are their resources being translated into activities that accomplish worthwhile missions?

"If you can't measure it, you can't manage it," the old saying goes. A focus on ROI implies that both the inputs and outputs of social initiatives will be measured. Yet the available measurement techniques are rudimentary at best, with a bewildering array of conflicting models to choose from. Major challenges include:

- What to measure within each general performance category;
- How to track performance over time;
- How to compare performance among different companies and industries; and
- How to weight different categories of performance in devising an overall measure.

The last question highlights the issue of choice in devising any measurement framework. A meaningful set of metrics should reflect informed decisions about which elements of citizenship performance are most essential to the firm *and* to the society in which it operates—such metrics will express value judgments, not just technical ones.

Any company embarking on a citizenship program must first clarify both how the program's objectives relate to its corporate mission and why they are important, and set its priorities accordingly. No single formula applies to all companies; indeed, each company may well be unique.[18] It is no wonder that the challenge of developing appropriate, meaningful, and widely accepted measures of a company's citizenship performance is so formidable.

The proliferation of standards

One helpful way of thinking about measurement tools comes from the World Economic Forum.[19] While the WEF framework was designed for corporate philanthropy programs, we believe it can be usefully applied to

18 There is a growing interest in defining and measuring the "blended value" of companies. Conceptually, this idea—which has evolved from work done by Jed Emerson at Stanford, and others—extends beyond companies to NGOs and other organizations as well. As applied to businesses, the concept assumes that the true value of a company is an appropriate blend of economic, environmental, social, governance, and, probably, other performance. See *The Blended Value Map: Tracking the Intersects and Opportunities of Economic, Social and Environmental Value Creation*, October 2003; online at www.blendedvalue.org.

19 *Philanthropy Measures Up*, World Economic Forum, 2003.

citizenship programs in general. The framework divides measurement tools into three broad families:

Performance measurement Attaining goals—compiling quantitative data or qualitative judgments about the firm's compliance with a standard.

Comparative measurement Benchmarking against peers—evaluating the firm's performance in light of the performance of other, similar companies.

Results measurement Converting resources into results—analyzing the efficiency and effectiveness of the firm's citizenship program in terms of its impact on society.

While assessments of performance and efficiency might appear technical on the surface, normative considerations affect how these findings are interpreted. Analysts in both the private and nonprofit sectors seek to compare inputs and outputs, for example, but they often evaluate these ledger entries in starkly different ways. NGOs operate according to an ethos of redistribution that regards corporate spending on socially responsible initiatives as inherently virtuous—so they place a positive value on inputs. Companies, who want to minimize their costs, view inputs as a negative.

The costs (or inputs) of social and environmental projects are usually easier to tally than the benefits (or outputs). Due to this asymmetry, many corporations are less than open to the prospect of partnering with governments and NGOs to compile detailed reports on the effects of their operations on society as a whole. These companies feel that such reporting will by nature be disproportionately focused on demonstrating that corporations are spending heavily on initiatives that reap little economic benefit.

The dizzying array of reporting standards has prompted complaints about "codemania." The proliferation of standards is generating confusion and annoyance from corporate executives, who increasingly complain that the reporting process itself is time-consuming and unproductive. Nonetheless, standards from a handful of authoritative sources have attained widespread recognition and use (see box below).

A recent World Bank survey of executives in multinational firms found that ISO 14001 is the initiative that has had the most influence on business practice. The GRI, ILO Core Conventions, Global Compact, and efforts by the World Business Council for Sustainable Development were each cited by one-third or more of the respondents.[20]

Global Standards in Widespread Use

Global Reporting Initiative Indicators of sustainability and social impact. Arguably, the standard that is most widely accepted as a baseline for corporate citizenship reporting.

OECD Guidelines on Multinational Enterprises A checklist of standards of conduct for companies operating outside their home country.

AA 1000 Assurance Standard Extensive indicators for social and sustainability reporting, developed by AccountAbility, the British consultancy.

ISO 14001 A technical certification process for continuous improvement in corporate environmental management. Widely respected and accepted in the corporate community.

UN Universal Declaration of Human Rights International treaty setting forth basic standards for human rights among signatory countries.

ILO Tripartite Declaration of Principles Basic statement of employee rights.

SA 8000 Standards for workplace norms developed by Social Accountability.

Ethical Trading Initiative Base Code A set of workplace standards developed specifically for supply chain applications.

20 *Race to the Top*, pp. 13-14. An exhaustive inventory of measurement techniques is presented in *ABC of the Main Instruments of Corporate Social Responsibility*, European Commission, 2004.

Structure of the Report

Any attempt at this stage to review the dozens of indicators commonly used to evaluate corporate citizenship will be incomplete. The field is evolving and expanding too rapidly to permit a truly exhaustive review. Even as this report goes to press, the ISO is moving forward its decision to develop a CSR "guidance standard" (ISO 26000)—a determination the ISO made after a multi-year assessment team failed to agree that a formal CSR standard (equivalent to ISO 9000 for quality or ISO 14001 for environmental performance) is needed or desirable.

So there are undoubtedly omissions; this is a hazard that comes with the territory. But with that caveat in place, we are confident that what follows is a useful overview and organizational framework for practitioners seeking to understand the subject—a practical guide for working through complex and evolving corporate citizenship expectations and developing a company approach that reflects the company's business objectives. A companion report provides several case studies to illustrate how five companies have developed and implemented best practice approaches to publicly reporting on their citizenship activities.[21]

Internal and external management

The next two chapters present an extensive inventory and analysis of approaches, indicators and measures that have been developed to guide and evaluate corporate citizenship performance. One chapter is focused on factors that influence corporate citizenship actions in a company's "internal domain"— those over which a company has considerable managerial control:

- Corporate governance
- Labor
- Environment and sustainability
- Reputation

[21] Amy Kao, *Corporate Citizenship Reporting: Best Practices*, Research Report 1367, The Conference Board, 2005. For a study that indexes the quality of corporate sustainability reporting across multinational enterprises, see *Risk and Opportunity: Best Practice in Non-Financial Reporting*, SustainAbility, 2004.

The next discusses factors that influence the external domain, over which a company may have influence but rarely complete control:

- Philanthropy and community involvement
- Socially responsible investing
- Human rights

The internal-external division is not absolute, but it provides a useful framework for thinking about what the drivers of citizenship are and the available indicators for measuring achieved results.

The sequencing of topics reflects each topic's "spatial" immediacy to a firm's core functioning. Corporate governance issues strike right at the center of a firm, followed by two operational areas directly in the firm's sphere of influence: labor and environmental impact. Corporate reputation is central to building the business case for corporate citizenship, but—as an expression both of how a company relates to its customers and how its role is perceived in the broader society—reflects a transition to areas where perceptions cannot be completely controlled by the firm.

Issues relating to the community, to socially responsible investing, and to human rights delineate the outer circles of stakeholders, as the focus becomes increasingly distant from the company's core operations. But it is essential to note that the ordering of the chapters does not reflect value judgments, normative priorities, or a ranking of importance of various issues.

Each topical section in these chapters is broadly organized as follows:

- A discussion of general trends
- A brief list of some of the most commonly used performance indicators
- A summary of the advantages and disadvantages of various approaches

The following chapter presents a management approach through which individual companies can develop, implement, and monitor the performance of their corporate citizenship activities. This section examines measurement as a management tool within the context of the firm's primary business focus and the expectations of its diverse stakeholders.

An Overview of Key Sectoral Initiatives

Apparel and retail

Ethical Trading Initiative (ETI) 1998
ethicaltrade.org

An alliance between retail and consumer goods companies, NGOs, and trade unions, the ETI aims to improve labor conditions along global supply chains. The ETI's base code, derived from the ILO core conventions, sets performance standards in areas including:

- Collective bargaining
- Child labor
- Working hours
- Regularity of employment

Automotive

GRI Automotive Sector Supplement 2003
globalreporting.org/guidelines/sectors/automotive.asp

The Global Reporting Initiative (GRI), in collaboration with the UN Environment Programme Mobility Forum, has developed a set of preliminary performance indicators specific to the automobile industry. As with all GRI initiatives, these indicators are meant to supplement the General Guidelines. Sector-specific issues of concern include climate change, air quality, noise, access to mobility, congestion and infrastructure. Sample evaluation categories include:

- Contribution to air and noise pollution through emissions (and related indicators)
- Greenhouse gas emissions (and related climate changes)
- Choice of fuel (including natural gas, bio gas, and hydrogen fuels)
- Fuel efficiency
- Hybrid fuel cells
- Auto weight reduction

Chemicals

Responsible Care 1988
responsiblecare-us.com

Provides performance measurement benchmarks and standards for managing workplace health and safety, the environment, and security. Key areas include:

- Environmental impact
- Employee, product, and process safety
- Facility security
- Product stewardship
- Management system certification
- Contribution to the economy

Chocolate

International Cocoa Initiative (ICI) 2002
chocolateandcocoa.org/Labour/Child/Initiative/default.asp

Provides standards for responsible cocoa growing. It has been established by the global chocolate and cocoa industry, in partnership with local governments, organized labor unions, and NGOs. The stakeholders from the cocoa and chocolate industry include associations from Europe, Canada, and the United States.

Financial services

The Equator Principles 2002
equator-principles.com/principles.shtml

A framework of environmental and social standards for financial service activities worldwide, especially those in emerging markets. Financial institutions categorize the risk of a project in accordance with internal guidelines based upon the environmental and social screening criteria of the International Finance Corporation. The project is evaluated on the basis of an environmental assessment in the following categories:

- Baseline environmental and social conditions
- Host country laws and regulations; applicable international treaties and agreements

- Sustainable development and use of renewable natural resources
- Protection of human health, cultural properties, and biodiversity
- Impacts on indigenous peoples and communities
- Cumulative impacts of existing, proposed, and anticipated future projects
- Pollution prevention and waste minimization; pollution controls; and solid and chemical waste management

UNEP Finance Initiative (UNEP FI):
Innovative financing for sustainability 1991
unepfi.org

Promotes strategic alignment between environmental sustainability and financial performance. The UNEP Statement by Financial Institutions on the Environment and Sustainable Development and the UNEP Statement of Environmental Commitment by the Insurance Industry focuses the commitment of financial institutions on environmental sustainability in three key areas of their activities:

- Internal operations, looking at issues such as energy usage, resource throughput, and waste output
- Recognition that identifying and quantifying environmental risk should be part of the normal process of risk assessment and management
- Development of products and services that actively promote environmental protection and asset management

Forestry

Forest Stewardship Council (FSC)
fscus.org/standards_criteria/

Offers verification services for companies involved in various stages of forestry. FSC has developed Principles and Criteria for forest management that are applicable to all FSC-certified forests worldwide. There are 10 Principles and 57 Criteria that address legal issues, indigenous rights, labor rights, multiple social and environmental benefits, and environmental impacts associated with forest management.

Mining and extraction

Mining and Minerals for Sustainable Development Project (MMSD) 2000
iied.org/mmsd/what_is_mmsd.html

Addresses a broad spectrum of sustainable development issues in the mining and mineral industries. Evaluation categories and indicators include:

- Recommendations to follow the Convention on Biological Diversity, which sets out principles for engagement with biodiversity stakeholders
- Recommendations on environmental conservation during all stages of product extraction
- Efforts to combat the impact of artisanal and small-scale mining including mercury dumping, river pollution, and improper construction
- Analysis and management of the environmental aspects of mine closure

Kimberley Process Certification Scheme (KPCS) 2002
kimberleyprocess.com:8080

This international certification scheme aims to eliminate the trade of conflict diamonds. Based on national laws and practices and meeting internationally agreed minimum standards, it outlines the provisions by which the trade in rough diamonds is to be regulated by countries, regional organizations, and rough diamond-trading entities. The certification requirements include details about the origin and transportation of diamonds, as well as suggestions for proper internal controls, industry self-regulation, and cooperation between participants. Partners in the KPCS include the World Diamond Council and civil society partners like Global Witness, Amnesty International, and ActionAid UK. www.kimberleyprocess.comwww.amnesty.org

Pharmaceuticals

IFPMA Code of Pharmaceutical Marketing Practices 1981 (revised 1994)
ifpma.org/News/news_market.aspx

The International Federation of Pharmaceutical Manufacturers Associations has voluntarily adopted

a code to set out universal principles for ethical marketing conduct. Some of the evaluation categories include standards of promotion, the use of scientific evidence, safety data, and internal company procedures that guide marketing practices.

Technology

Digital Dividend Project of the World Resources Institute 2000
digitaldividend.org/

Aims to identify and promote sustainable solutions for bridging the global digital divide—catalyzing large-scale use of information and communications technologies to create social and economic "dividends" in poor communities throughout the developing world. It provides information services, data and analysis, business case studies, news alerts, and strategy consulting to help companies to profitably provide critical information, tools, and services in the LDCs.

Tourism

GRI Tour Operators Sector Supplement 2001
globalreporting.org/guidelines/sectors/tourop.asp

Aims to promote environment-friendly and socially responsible tourism. The GRI, in partnership with the UN's Tour Operators Initiative for Sustainable Tourism Development, has developed a set of product management and sustainability indicators and evaluation categories, including:

- Selection of destinations based on environmental, social, and economic issues
- Consumer awareness of controversies concerning a travel destination:
  - Travel retailers' policies on recycling of materials
  - Complaints regarding inaccurate portrayal of destinations
  - Methods of getting consumer feedback

Utilities

CERES Electric Utilities Report Form 1998 (revised 2001)
ceres.org/our_work/01_elec.doc

A sample of the core evaluation categories and indicators suggested by CERES:

- Emissions and waste handling, including:
  - Routine emissions
  - Spent nuclear material
  - Hazardous waste
  - Non-hazardous waste
  - Accidental releases
  - Spill prevention and leak detection
  - Overall emissions and waste
- Energy acquisition, conversion, distribution, and sales including:
  - Electricity generation, transmission/distribution, and sales
  - Natural gas supply, transportation, and distribution
- Community participation and accountability (including emergency response)
- Product stewardship
- Supplier relationships including fuel suppliers and other suppliers

Internal

Measurement Approaches

Corporate Governance

Issues relating to corporate governance have dramatically increased in importance over the past several years. Increasingly, in many cases, the distinctions between legal accountability and corporate responsibility are becoming blurred. Core corporate governance issues rest heavily on legal and regulatory frameworks, and these differ from country to country. In the UK, for example, where companies have a unitary board design, directors owe their obligations to the company, not explicitly to a spectrum of stakeholders. Germany's two-tier board architecture obliges directors to consider a broader spectrum of interests, including the public and employees. And companies in France have introduced split boards that include employee participation.[22]

Under amendments to the New York Stock Exchange's corporate governance rules recently approved by the U.S. Securities and Exchange Commission, listed companies are now required to have a majority of independent directors, as well as tighter qualifying standards for those serving in that role. Listed companies must have separate corporate governance and compensation committees, each composed entirely of independent directors. And audit committees must have more authority, responsibility, and independence.

Conceptually, initiatives that aim to measure a company's corporate governance performance can be divided into two categories:

Transparency concerning the internal functioning of companies. Earlier, these initiatives focused on nuts-and-bolts issues of legal compliance, filing of tax returns, fair shareholder returns, etc. Now, in light of recent corporate scandals, the focus is much more on the establishment of appropriate checks and balances to eliminate conflicts of interest in corporate reporting.

Managing the boundaries between business and government. These initiatives aim to combat bribery and corruption in business-government relations, and often focus extensively on emerging markets.

Initiatives to manage internal functioning

Some of the comprehensive frameworks for evaluating performance on corporate governance in the U.S. include:

The Sarbanes-Oxley Act, which regulates audit and accounting issues and prescribes severe penalties for non-compliance.

The Conference Board Commission on Public Trust and Private Enterprise. While this report is, strictly speaking, not a tool but a set of recommendations and best practices, these recommendations can inform evaluation categories and indicators.[23]

NASDAQ and NYSE corporate governance proposals, which borrow heavily from regulatory frameworks.

GMI Ratings produced by GovernanceMetrics International, an agency that produces indexes to rate major corporations on six criteria: board accountability; financial disclosure and internal controls; shareholder rights; executive compensation; ownership base; and CSR behavior.

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22 D. Summerfield, "Corporate Governance: The Stakeholder Debate" in *Business Ethics: Facing Up to the Issues*, The Economist Books, 2001.

23 *The Conference Board Commission on Public Trust and Private Enterprise: Findings and Recommendations*, Special Report 4, The Conference Board, 2003.

Categories and Indicators Corporate Governance

Most performance measurement frameworks examine corporate governance in some form, and many of them place these issues under the larger rubric of the economic and financial sustainability of the enterprise. The GRI is a useful model, in this regard. The following composite of some evaluation categories and indicators borrows from The Conference Board report as well as the GRI indicators.

Evaluation categories	Sample indicators
Management and governance	Relationship of board and management Policies to outline and fulfill responsibilities of the board Qualifications and independence of directors Written charter establishing role of the nominating/governance and compensation committees Hiring special investigative counsel Shareowner involvement Stakeholder involvement; mechanisms to map and measure stakeholder concerns; mechanisms to monitor performance on addressing these concerns at all levels Long-term share ownership Effective mechanism for transparent disclosure and compliance
Audit and accounting	Role of audit committee Audit committee education Policies to tighten internal controls and auditing Rules on ethical behavior, bribery, fraud Policies for auditor rotation Professional advisors for audit committee Managing services performed by accounting firms Expensing of stock options to offer "true" picture of company Legal accountability of senior executives for accuracy of financial reports CEO/CFO certification of financial statements
Executive compensation	Best-practice suggestions for: Roles and responsibilities of compensation committee; management of performance-based compensation; role of equity-based initiatives and creating a long-term focus; pricing and repricing of stock options
Financial returns	Information required in conventional financial statements as well as by growing public opinion including profitability; return on investment and capital employed; compliance with relevant national or local stock exchange requirements; share value appreciation; dividend income disbursed to shareholders; company EVA
Economic impact	GRI indicators on organization's direct and indirect impacts on economic resources of its stakeholders and on economic systems at local, national, and global levels. Includes (but is not limited to) taxes paid; subsidies received; monies received from customers; monies paid to suppliers; wages; pensions; other benefits paid to employees

Categories and Indicators Bribery and Corruption

The following composite of some of the evaluation categories used by various codes and conventions borrows extensively from the OECD guidelines.

Evaluation categories	Sample indicators
Standards/codes of conduct	Public disclosure of codes of business conduct and ethics Policies for developing and adopting standards of conduct and codes of business principles
Internal communication, training, and disciplinary procedures	Policies and procedures to promote employee awareness and compliance with codes; to identify issues of conflict of interest Appropriate disciplinary procedures to deal with noncompliance
Employment of agents	Lists of agents involved in transactions with public- or state-owned enterprises Accounts of payments made to them
External communication	Public statements about internal control mechanisms
Internal control systems and accounting practices	Policies to prevent and monitor off-the-books transactions Proper records of monies received and disbursed
External audit	Policies to ensure independence of external agencies, including requiring auditor to report suspicions and evidence of bribery and corruption to management, corporate monitoring bodies, or other external authorities
Whistle blowers	Channels provided (including an external conduit, such as an outside director) for documented and confidential communication ("ethics hotlines") Protection for employees to communicate concerns without fear of reprisal from immediate superiors or senior management

Initiatives to manage bribery and corruption

Corruption can directly impinge on business operations, especially in the less developed countries. A 2002 survey by the Control Risks Group found that 39 percent of companies believed they had lost business at some time in the preceding five years due to a bribe paid by a less ethical competitor.[24] Clearly, the enforcement of standards is essential to improvement in this area, but the political opposition to implementing such standards in the field can be formidable, especially since governments in host countries may actually encourage corrupt practices. Progress in this area is unlikely unless supranational governing bodies can work effectively with multinational enterprises and governments in the developed world.

24 *Facing Up to Corruption: A Practical Business Guide,* Control Risks Group, 2002, p. 2.

Some of the more well-known and influential codes are:

- OECD convention on combating bribery and corruption; OECD guidelines for Multinational Enterprises
- Foreign Corrupt Practices Act (U.S.)
- UN Draft Convention against Corruption
- Inter-American Convention against Corruption
- Council of Europe Criminal Law Convention on Corruption
- South African Development Community Protocol on Corruption
- Extractive Industries Transparency Initiative

There are innumerable country government codes relating to business conduct and business government relations. Many of them are very comprehensive. The U.S. government model guidelines, for example, cover "safety and health in the workplace, fair employment practices, responsible environmental protection and environmental practices, compliance with U.S. and local laws, and respect for free expression and encourage similar behavior by their partners, suppliers and sub-contractors." Transparency International is the best-known nonprofit analyzing bribery and corruption in the public sector.

Corporate Governance and Equity Returns

A recent study by the Open Compliance and Ethics Group reviewed the academic literature on the link between corporate governance and investment returns and found a strong relationship. In the words of the report:

1. There is a universal strong correlation between good corporate governance performance and firm financial and market returns performance.
2. This correlation exists across all jurisdictions and economies.
3. The effect in market return terms is much more pronounced in Asian and emerging economies with good corporate governance outperformance in terms of premiums willing to be paid by institutional investors reaching up to 40 percent above those firms regarded to be in the lowest corporate governance categories.
4. The premium willing to be paid by institutional investors in firms exhibiting good corporate governance in developed countries is much less, and is typically reported to be in the 10–15 percent range.
5. An obvious explanation for the larger "willingness to pay" for firms exhibiting good corporate governance in Asian and emerging markets is that the existence and enforcement of corporations law as well as listings rules and regulations is at a far lower ebb than it is in developed markets. Accordingly, corporate governance at the firm level becomes a replacement for the lack of structural control and compliance. Conversely, in developed markets, institutional investors are unwilling to pay the premium that they will in less controlled markets since the average level of expectations for conduct is much higher.
6. There are minimum expectations built into corporate governance and not meeting these will lead to serious and instant market (re)valuations. The market response to not meeting expectations for corporate governance conduct will often result in a serious valuation downgrade while exceeding expectations will not necessarily lead to a valuation upgrade.

The analysis is careful to note that the causal forces are unclear, so it is not necessarily true that good governance improves financial performance. It may be the case that improving financial returns permit an investment in improving governance procedures. It may also be that good management in general is associated both with good governance and excellent financial performance.

Source: Roland Burgman, *Corporate Governance: Firm and Market Performance*, Open Compliance and Ethics Group, 2004.

And some private sector consultants (such as Spencer Stuart and Sibson Consulting) have developed proprietary measurement techniques for their clients to determine the level of corporate transparency.[25]

There is growing evidence that governance issues can have a significant impact on a company's market value. Lipper and GovernanceMetrics International (GMI) issued a January 2004 study showing that mutual funds that overweight their portfolios with companies scoring above average on governance standards outperform funds with portfolios dominated by poorly governed companies. Shareholder activism can improve stock market returns by forcing companies to confront internal governance problems. A 2002 Wilshire Associates study found that after being publicly targeted by CalPERS, companies outperformed the S&P 500 Index during the next five years by over 14 percent.

Plus and Minus Column

Corporate Governance

Considerable progress has been made in developing tighter schemes to monitor both a company's internal and its external performance in corporate governance. These efforts are only likely to get more intense in light of the spate of recent governance scandals in the United States and Europe. Some of these scandals are rooted in faulty decision making and financial mismanagement; others are attributable to large-scale internal fraud and corruption.

Many of the frameworks to help a company combat corruption did not exist in any meaningful form until a few years ago. The resources available to companies are becoming quite rich, and the need for sound corporate governance is clearly recognized. For example, a recent study by Lipper, a global fund research firm, shows that managers of large-cap mutual funds tend to overweight their portfolios with companies having above-average corporate governance profiles. But as companies are now coping with disturbing realities, it remains to be seen how effective these evolving performance management systems are in helping companies actually manage their corporate governance activities. Meanwhile, the number of players who offer exhaustive analyses and monitoring of corporate legal compliance requirements is likely to increase sharply.

Multinational companies often carry out their activities in countries where basic institutional arrangements like the rule of law or protection of property rights are not respected in letter or spirit. In a very real sense, companies can lose competitive advantage by acting more responsibly in such an environment. The current frameworks need to address these dilemmas more fully.

Considerable attention is being focused on transparency in public sector activities. However, sector-wide initiatives need to expand in their reach and their sophistication. These initiatives often collide with messy and violent political realities. Companies need more than just a set of guidelines or a code of conduct when dealing with corrupt and abusive governments, but concrete and specific recommendations are not easy to come by. Possibly the best way to combat this limitation is for companies to continue engaging in a stakeholder dialogue process to sharpen their performance measurement indicators in the field of corporate governance.

[25] Some of this work is available to the public in summary form. See *Corporate Governance: A Human Capital Perspective*, The Segal Group, 2003.

Labor

Performance measurement categories for labor issues fall into two broad frameworks. These frameworks are used to evaluate how well a company manages:

direct labor, or employment

indirect labor, or supply chain management

The most evident trend in labor performance frameworks is the boom in the measurement of labor-related supply chain management issues. A number of organizations offer services to help companies map and measure their performance in this area. Most verification systems require that facilities seeking to gain and maintain certification demonstrate an effort, beyond simple compliance, to integrate the standard into their management systems and practices.

One of the most comprehensive performance frameworks is the International Ethical Standard: SA8000. This is an international social accountability standard to evaluate whether companies and other organizations are complying with basic standards of labor and human rights practices. SA8000 is based on international workplace norms set out in the International Labor Organization (ILO) conventions, the UN's Universal Declaration of Human Rights, and the UN's Convention on the Rights of the Child. Compliance with SA8000 is certified by Social Accountability International, a nonprofit based in the United States.

Recently, the Lawyers Committee for Human Rights released *Yardsticks for Workers Rights: Learning from Experience* and has launched a database that offers a wide range of measurement units for public access.[26] Many of these indicators overlap with the Committee's human rights indicators. Verite is another organization that has become active in conducting workplace audits of labor conditions and training programs about these issues.

Of course, scores of labor and trade union organizations play active and vocal roles in advancing worker rights, and offer evaluation categories for companies to map and measure their performance. Two of the most prominent are the AFL-CIO and the International Confederation of Free Trade Unions (ICFTU).

Direct labor

For-profit firms and others have developed innumerable frameworks to help companies evaluate their direct labor performance. Existing frameworks include a breadth of categories ranging from diversity and management practices to rewards and recognition systems and learning and training. Benchmarking standards are also high in many developed countries. Many of the frameworks suggest ways to look at employee satisfaction ratings as well.

An especially interesting initiative is BP's People Assurance Survey. The annual survey benchmarks employee satisfaction on a variety of HR performance concerns (such as management effectiveness, teamwork, and innovation) against data from 250 other major companies, and the results are released to the public.

26 The database is online at workersrights.lchr.org.

Categories and Indicators Direct Labor

The following framework, developed by Business in the Community, offers a good sample of categories and indicators, at various levels of sophistication. The indicators range from hard-data measures like wages and benefits to "softer" variables like training and learning inputs and employee communications.

Evaluation categories	Sample indicators
Health and safety	Number of legal non-compliance notices on health and safety
Equal opportunity	Compliance with the requirements of equal employment opportunity laws prohibiting discrimination on the basis of race, color, sex, national origin, religion, age, disability
Training and development	Value of staff training and development Workforce retention
Compensation	Pay and conditions, compared with local equivalent averages
Reputation	Impact evaluations of effects of downsizing, retraining, and other measures Perception of company on issues like equal opportunity and work-life balance
Diversity	Composition of workforce compared to composition of local labor pool: age, gender, race, religion

HR practices can also have an impact on corporate reputation. Business publications like *Fortune* magazine and *The Financial Times* publish annual rankings of the "best companies to work for." These rankings not only affect a company's ability to recruit employees but can affect the general brand image in the marketplace.

Indirect labor

The categories and definitions of most supply chain management metrics can be traced to international codes, especially the relevant ILO conventions on workplace practices, the UN Convention on the Rights of the Child, and the UN Universal Declaration of Human Rights. One of the more prominent governmental codes in relation to supply chain is the set of OECD guidelines.

AccountAbility recently launched the Gradient Index, which enables companies to benchmark themselves on how they manage supply chain labor issues. Companies are assessed on labor standards related to five major categories: governance and risk management; policy; management; stakeholder engagement; and auditing

Categories and Indicators Indirect Labor

Below is a composite sample of supply chain indicators.

Evaluation categories	Sample indicators
Personnel records	Personnel files for various categories of workers, apprentices, trainees, contract labor, etc., and all required legal documentation Appropriate documentation in place to ensure that workers can use benefits offered them by the state, if applicable
Forced labor	Workers do not pay any pre-employment fees or deposits to factory
Child labor	Appropriate registries of juvenile workers Procedures for verifying age
Contract labor	Appropriate licensing of contractors Registration of establishments Transparent and legally compliant payment schedules
Wages, benefits, overtime, statutory deductions	Compliance with law Procedures for disbursement of wages open and understood by workers
General treatment of workers	Workplace free of abuse Disciplinary procedures include verbal and written warnings prior to suspension or dismissal
Grievance mechanisms and discipline	Grievance procedures as required by law or as agreed between labor-management negotiations Measures to protect privacy Disciplinary procedures as required or recommended by law
Discrimination	No discrimination in hiring or termination based on gender, race, religion, disability, etc. Pregnant workers have reasonable accommodation in work; appropriate seating Accommodation for the disabled
Freedom of association	Freedom to unionize; awareness of this right
Work procedures	Workers' perceptions about fairness of work quotas Reports of verbal or physical abuse; arbitrary termination
Safety and emergency procedures	Exits, training, visibility, alarms, fire extinguishers, evacuation procedures Compliance, procedures, and training in personal protection equipment Availability of medical kits, training Adequate security arrangements
Sanitation and maintenance	Drinking water, canteen services, toilet facilities
Security of personnel (and facilities) in politically volatile regions	Security infrastructure established, possibly engaging both public and private security providers Conduct region-specific security risk assessment and conflict analysis

and reporting. Although the benchmarking data were initially based on companies' public reports, the index has evolved into a self-assessment tool that can be filled out and used to compare performance against various standards, relative to other companies.

A report on the initiative notes that ILO standards "are often not met, even where the countries are signatories to the relevant ILO conventions. In addition, laws are often not fully enforced by national and local governmental agencies charged with that responsibility. This is often due to a lack of capacity in these agencies, and corruption can undermine enforcement in some countries."[27]

Plus and Minus Column

Labor

The performance management frameworks for both direct and indirect labor are very sound for mapping and measuring the company's performance on the nuts and bolts of legal compliance. And the breadth and sophistication of measures used for direct labor performance is especially commendable.

The major weakness of the frameworks for measuring supply chain performance is that many of them do not look at broader human rights issues in the society of operation. On a more positive note, there is an increasing amount of work being done on what companies can do to address the toll of HIV/AIDS both in their workforce and in the community at large.

27 *Gradient: Promoting Best-Practice Management of Supply Chain Labour Standards*, AccountAbility, 2004, p. 7.

Environment and Sustainability

Environmental performance is arguably the single most advanced area of corporate citizenship measurement today. The systematic focus on measuring environmental performance indicators for companies has several sources, starting with the development of extensive regulatory and reporting requirements by governments, especially in North America and Europe, closely followed by the increasing awareness that reducing waste, emissions, and so forth has real value. Meanwhile, academic studies sought to link environmental and financial performance, and the growing interest in the triple bottom line approach threw the relevant issues into sharp focus. Finally, the increasing global focus on the need for sustainable development stimulated interest in environmental performance. [28]

Over the years, environmental management has strengthened and indicators have become increasingly fine-tuned, which has enabled a systematic improvement in performance evaluation measures. The concept of sustainable development has become inextricably linked with environmental issues, especially resource usage and conservation for current and future generations. Most existing performance frameworks aim to evaluate a company's performance on a wide range of environmental indicators, with a heavy focus on environmental management systems (EMS) and monitoring. And verification agencies play an important role. The ISO 14000 certification process focuses on environmental management systems, with evaluation categories encompassing audit, training, emergency preparedness, regulations, agency approvals, monitoring and measurement, corrective actions, and document control.

Over the past few years, greenhouse gas emissions, climate change and the performance management measures arising from these issues have become increasingly important. The concepts of environmental product stewardship and the environmental footprint are gaining increased attention as a result of regulatory trends and NGO interest, as the environmental management of production processes matures.

While the terms "environmental stewardship" and "environmental footprint" are now used in a variety of contexts, stewardship essentially refers to a company's efforts to map, manage, and monitor the environmental impact of a product *throughout* its life cycle, not just until it reaches the consumer. The environmental footprint is a sobering concept that highlights the difficulty of completely eliminating the environmental impact of a product and the processes involved in its production. Product choices are the results of inevitable environmental tradeoffs and compromises, especially if the needs of a business are kept in mind.

Governments have stepped up their environmental activities in recent years. The United Nations Conference on Environment and Development—held in Rio de Janeiro in 1992 and known as the Rio Summit—resulted in the Rio Declaration, a statement of 27 principles upon which countries agreed to base their actions in dealing with environmental and development issues. Also emerging from the Summit was a Declaration of Principles and an International Action Plan. The action plan, known as Agenda 21, is a 40-chapter blueprint on specific sustainable development issues that were addressed in Rio.

[28] The most often quoted definition of sustainable development is in the 1987 Brundtland Commission report *Our Common Future*: "Development that meets the need of the present without compromising the ability of future generations to meet their own needs."

Categories and Indicators Environment and Sustainability

A composite of some general environmental evaluation categories and sample indicators, adapted from the GRI, follows:

Evaluation categories	Sample indicators
Materials	Total material usage of various types; wastage
Energy	Direct and indirect energy usage Renewable energy sources Energy consumption footprint
Water	Usage, wastage Impacts on ground and surface water resources
Biodiversity	Environmental impacts on various environments: terrestrial, freshwater, marine
Emissions	Greenhouse gas emissions Use of ozone-depleting substances

Most of these codes also refer to the larger, "non-technical" evaluation categories and indicators, such as:

Suppliers, products, and services	Environmental compliance and various ramifications of environmental stewardship
Compliance	Incidence of fines and other breaches of compliance with codes/regulations at all levels

Based on these two declarations, the UN Global Compact has suggested three principles for companies to consider. According to the Compact, businesses should:

- Support a precautionary approach to environmental challenges.
- Undertake initiatives to promote greater environmental responsibility.
- Encourage the development and diffusion of environmentally friendly technologies.

The first of these, often termed "the precautionary principle," espouses four main tenets:

- Harm must be prevented by anticipatory action.
- The burden of proof of the harmlessness of a new technology or process lies with its proponents—not the general public.
- The complete range of alternatives to using a new technology or process must be examined before it is used. This includes the possibility of doing nothing.
- Decisions on how to apply the precautionary principle must be "open, informed and democratic," and must include all affected parties (monitor.net/rachel/r586.html)

Over the years, there has been extensive debate about how all-embracing the precautionary principle should be, and whether it is even realistic to execute. Does "the" precautionary principle lead inevitably to "the" precautionary approach, or should the term cover a multiplicity of approaches? With no answer forthcoming, the business world remains in several minds about the appropriateness of the precautionary approach for global economic development.

The general support codes

Innumerable institutions—from governments to nonprofits and think tanks to consulting firms—have offered a multitude of codes, guidelines, and recommendations on how to manage the process of measuring environmental performance. These include the WBCSD, IIED, World Watch, IISD, World Conservation Union, and the World Resources Institute. And BITC has released an environment index to aid companies in their environmental and sustainability efforts.

The Canadian government's Environment and Sustainable Development Indicators (ESDI) initiative is one of the most comprehensive efforts. ESDI is attempting to inventory measurement frameworks developed by Canadian companies and integrate the findings with the federal government's own statistical series on environmental phenomena. Statistics Canada is in the process of integrating a variety of sustainability indicators into the calculation of Canada's System of National Accounts, in order to calculate changes in human, environmental, and economic capital.

Plus and Minus Column

Environment and Sustainability

The business case for corporate citizenship is probably the strongest in the area of environmental impact measurement. The frameworks for managing environmental performance are very specific, and technical and engineering know-how have identified "solutions" for many of the issues causing concern. Trends in management literature have focused heavily on business process management. Concepts in quality control and engineering have been put to good use to significantly improve the efficiency of business processes and outputs in the area of the environment.

It is not very difficult to see why. A business process is a logically sequenced, repeatable set of activities. Technical business processes are normally conducive to being sharply defined, with well-documented stages and procedures and with clearly embedded and measurable quality control guidelines. While every business process is normally a mix of rule-based and judgment-based activities, the nature of the mix differs from process to process. Engineering and environmental management technical processes are likely to be skewed towards being more rule-based. Control over these processes, as well as cost savings or revenue enhancements, become more directly measurable, and the business case to continue these activities becomes stronger and stronger.

Many environmental performance management frameworks attempt to build flexibility into their design. For example, the APELL framework is intended to apply to any risk situation: industrial or natural. It can be initiated by any of the parties involved, while companies can be expected to take the lead. Governments or industry associations can facilitate the program, and it is applicable across remote and urban areas in both developing and developed countries.

Environmentalists are increasingly concerned about the lack of adequate focus on the "greening" of the supply chain, especially when supply chain issues are evaluated in LDCs. The environmental community is doing work in this area, but the available performance management tools need to become better known and more relevant to companies' immediate needs.

The APELL process

In 1988, the United Nations Environmental Programme (UNEP) launched an initiative to deal proactively with industrial accidents and natural disasters. Known as APELL (Awareness and Preparedness for Emergencies at the Local Level), the program delineates a process for communities to prepare in advance for environmental emergencies. The focus is on bringing together all relevant community stakeholders to engage in a dialogue about known risks and plan the most efficacious ways to respond to emergencies before they occur.

The APELL Handbook offers guidelines for designing an integrated emergency response plan involving governments, businesses, first responders, and local populations. The process creates awareness of potential hazards in locations near industrial facilities, and encourages risk reduction and mitigation, as well as preparation for emergencies. The framework has also been adapted for use to prepare for natural disasters such as hurricanes, floods, ice storms, and other events that can be anticipated and planned for.

Reputation

One of the most frequently quoted arguments for behaving responsibly has been that socially responsible activities help build a company's reputational advantage. A company builds its reputational capital with a wide range of stakeholders. Of course, since reputations may vary considerably with different stakeholders—which can range from investors to consumers to environmental advocates—managing reputation may be something of a balancing act.[29]

Measuring and ranking companies on the basis of their reputation is not new. What is interesting, however, is the trends in the attributes of companies that have led the various rankings. An article by Matthew Boyle in *Fortune* magazine outlines stages over the past twenty years that have each been characterized by the predominance of specific reputational indicators.[30]

First stage During the early 1980s, the key reputational drivers were company size, heritage, lineage, and longevity. Topping the rankings during this period were blue chip, established, old-money companies that made prosaic household items like telephones and breakfast foods. Even when some of these traditional powerhouses did not perform well financially, they still led the reputational rankings.

Second stage From the late 1980s to early 1990s, stock performance and shareholder return became so central to reputation that other company characteristics like community activities, environmental responsibility, and innovation took a back seat.

Third stage With the rise of the superstar CEO, beginning in the early 1990s, companies—and their reputations—became identified with the person sitting at the head of the C-suite. Companies like Coca-Cola and Microsoft raced ahead in the rankings. A Burson Marsteller study found that CEO standing accounted for almost half the overall reputation ranking of a company.[31]

Today, however, it seems evident that trust reigns supreme. The depth of managerial expertise necessary to ensure the company's longevity is increasingly recognized as essential. And, according to Paul Argenti, a professor at the Tuck Business School, "We admire companies that cater to constituencies more carefully."

Boyle elaborates: "Not only do today's Most Admired keep customers and shareholders happy, but they spend time courting employees, federal and international regulators, the media, nongovernmental organizations, corporate-governance watchdogs, retirees, suppliers and the local communities across the globe." Given the corporate scandals that have swept both the United States and Europe, this emphasis on corporate governance, trust, integrity, and transparency is likely to continue.

Tracking reputation

A number of organizations offer reputation-tracking services. The key players in the reputation space are:

Magazines, newspapers and other media channels. A number of major publications have developed annual rankings of "most admired companies," based

29 For a general discussion, see Charles J. Fombrun, *Reputation: Realizing the Value from the Corporate Image* (Boston: Harvard Business School Press, 1996).

30 Matthew Boyle, "The Right Stuff" in *Fortune*, March 4, 2002, p. 85.

31 Op. cit.

Categories and Indicators Reputation

The composite presented here is derived from an analysis of stakeholder surveys carried out by public relations firms, consulting firms, and news media like magazines and newspapers. The participants in many of these surveys are business peers such as CEOs and PR professionals. In some cases, the participants include non-business stakeholders such as regulators, consumers, and NGOs.

Evaluation categories	Sample indicators
Corporate governance/integrity	Honesty and transparency in dealing with range of stakeholder groups (customers, business partners, employees) Following the law Admitting mistakes quickly and taking quick, corrective action Quality of dealings abroad, including ethical behavior Dealing with employee misconduct
Quality of leadership and management	Financial soundness Depth of managerial talent Long-term investment value
Employee relations	Treatment of employees Treatment of supply-chain employees
Community activities	Corporate philanthropy and support for local communities and their social needs
Environmental record	Absence of environmental accidents Environmentally friendly products

on a variety of citizenship criteria. Among the most prominent are:

- The Sunday Times Corporate Responsibility Index, compiled by Business in the Community
- Management & Excellence (M&E) ratings on Ethics, Corporate Social Responsibility, and Transparency
- Business Ethics 100 Best Corporate Citizens
- *Forbes* and *Business Week* rankings of corporate philanthropy
- *Financial Times* and *Fortune* rankings of best workplaces

Public relations firms that offer reputation tracking services at various levels of sophistication, ranging from news clips services to tracking company presence and mention in a variety of media to conducting comparative surveys. Some of these firms also offer strategic advice.

Consulting firms that carry out market research and offer a variety of marketing services, like branding and advertising, that can help firms build and manage their reputational capital. PricewaterhouseCoopers and the Reputation Institute are two of the key players here.

Categories and Indicators Consumer Relations

The following composite of some the major evaluation categories and sample indicators is adapted from some of the publicly available frameworks noted above.

Evaluation categories	Sample indicators
Competition and anti-trust	Compliance with relevant legislation on price fixing and other restrictive business practices Upheld cases of anti-competitive behavior
Marketing practices	Public availability of written policies on advertising, marketing, promotions Compliance with International Chamber of Commerce codes on advertising and sales promotion Complaints procedures for breach of codes Training systems for employees to ensure compliance with codes
Marketing practices aimed at vulnerable groups	Policies to prevent marketing of dangerous products to children (e.g., alcohol, tobacco) Policies to prevent predatory exploitation of consumers' vulnerabilities (e.g., health, financial, cosmetic, and weight loss products)
Product innovation/meeting needs	Service populations with special needs Customer loyalty and retention measures
Product safety	Policies to ensure product safety Policies to manage product recalls
Environmental stewardship	Measures to manage the environmental impact of product production, transportation, disposal
Product labeling	Following relevant laws Labels being tested for clarity and content (i.e., use of languages and symbols) Include relevant diversity components in product labeling Information on product reusability, recyclability, disposal
Complaints	Kinds of complaints upheld Complaints procedures Compensation policies
Guarantees	Policies to cover guarantees Kinds of guarantees over and above legal obligations

The academic community, which provides theoretical frameworks for understanding how reputations are built and how reputation systems work, and analyzes the complex strategies companies use to build reputation and manage reputational risk. The University of Michigan's Reputation Research Institute examines how reputation systems work in theory and practice. Boston College's Center for Corporate Citizenship offers companies resources for managing their reputational strategy and initiatives.

Consumer relations

Performance evaluation frameworks in the field of consumer relations aim to provide either broad measurement categories or specific checklists to improve performance on issues related to product safety and advertising ethics.

The trend in consumer evaluations is to move beyond the consideration of indicators like the number of advertising complaints and consumer grievances to monitoring and measuring customer loyalty issues and reputation rankings. Many frameworks also aim to measure corporate performance beyond mere legal compliance to include issues like diversity in advertising and the impacts of cause-related marketing.

A number of organizations offer recommendations and guidelines that deal with various aspects of consumer relations. One of the more comprehensive frameworks is from the nonprofit group Consumers International. Business in the Community offers several levels of indicators for issues relating to product stewardship. The International Chamber of Commerce has published codes of advertising practices and sales promotion practices. The GRI and the Dow Jones Sustainability Index (DJSI) offer a number of categories for evaluating product stewardship issues. Some of these product management indicators are relevant to environmental performance as well.

Conjoint analysis

Conjoint analysis is a popular market research tool that enables a researcher to understand the kinds of tradeoffs the consumer makes among a variety of product attributes, and the relative weight or preference the consumer gives to each attribute. Thus able to value or "price" these tradeoffs, the researcher can make fairly specific predictions about buyer behavior. The term itself highlights a researcher's ability to "jointly" assess a number of attributes, which is what consumers do in real-life situations.

Conjoint analysis involves measuring consumer preferences based on the perceived similarity or dissimilarity between choice alternatives. Using ranking or rating scores to evaluate either pairs of attributes or attribute profiles, the researcher can specify a mathematical function of brand attributes.

The technique is based on the premise that evaluated objects can be at least weakly ordered in terms of preference. It also assumes that the overall utility or value that the consumer expresses for an object can be represented as the sum of the utility value of each of its attributes. Several alternative data collection, measurement, and analysis techniques can be used to generate the conjoint mathematical function. The most often used include maximum likelihood estimation, OLS regression, and linear programming. Where demographic data is available, it is possible to predict preferences for different combinations of attributes as a function of demographic characteristics.

Conjoint analysis has been used across a variety of disciplines, ranging from healthcare to economics and public policy. A number of academic studies using the tool highlight its relevance and applicability for citizenship practitioners.

A study focused on forecasting the market for electric vehicles in California was able to offer insight into the market for cars that ran on alternative fuels. The study showed that the market for natural gas vehicles was potentially very large, while the market for electric cars was very small.[32] A study of consumer preferences found that respondents who showed clear environmental concerns displayed a difference in their readiness to accept a variety of energy-saving measures.[33] Another study analyzed environmental impacts connected to the development of wind farms. The study suggests that it would be feasible to design wind farms in a manner that minimizes social costs and optimizes overall benefit.[34]

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32 Robin Segal, "Forecasting the Market for Electric Vehicles in California Using Conjoint Analysis" in *The Energy Journal*, 1995 (vol. 16, no. 3).

33 W. Poortinga et al., "Household Preferences for Energy-Saving Measures: A Conjoint Analysis" in *Journal of Economic Psychology*, February 2003 (vol. 24, no. 1).

34 B. Alvarez-Farizo et al., "Using Conjoint Analysis to Quantify Public Preferences over the Environmental Impacts of Wind-Farms: An Example from Spain" in *Energy Policy*, January 2002 (vol. 30, no. 2).

CSR and Brand Reputation A Market Research Perspective

In September 2004, Millward Brown conducted an extensive study of consumer attitudes toward over 100 top companies in the United States and the United Kingdom. Based on interviews with over 21,000 consumers, the results indicate that CSR concerns are generally peripheral to consumer purchase decisions.

The attributes of brand perception were divided into three major buckets as follows:

Consumer fairness

- Charges fair prices
- A company you trust
- Advertises responsibly
- Produces good products and services
- Cares about its customers

Leadership and success

- A company that's leading the way
- Always coming up with new ideas
- Seems to have strong leadership
- Is successful

Public responsibility

- Supports good causes
- Supports local communities
- Behaves in a socially responsible way
- Behaves in a responsible way to the environment
- Treats its employees well
- Is different to other companies
- Has a useful role in society

The survey found that "leadership and success" and "consumer fairness" together account for 90 percent of the effect of brand reputation on consumer purchasing, while "public responsibility" accounts for only 10 percent. The analysis concludes:

"When we ask if people have ever chosen to boycott products or services because they don't agree with the way a company behaves and then look at the reasons why, we see that they focus on product quality, level of service, customer support and prices. This is what they mean by 'trust.' Ethical concerns, the environment and support for local causes come low down the list….

"This is not to say that CSR efforts are wasted. But rather that the communication and focus of CSR should ideally support aspects that suggest 'Consumer Fairness' or 'Leadership and Success.' It will then have greater resonance and effect amongst the consumer audience. If behaving in a responsible way toward the environment emphasises innovation and leadership (as perhaps BP has done with its Beyond Petroleum stance and actions) then the payback will be greater. While there is clearly a latent demand for corporate responsibility consumers don't seem to be directly motivated by goodness for goodness' sake. It has to reach into their experience."

Source: Peter Walshe, *ReputationZ: The Consumer Perspective on Top Corporations* (London: Millward Brown, 2005).

Reputation measurement tools

A readily usable reputation analysis tool developed by the National Forum on the Purpose and Values of Business can be used by a company to map and measure its reputational standing across sectors.[35] The organizing principles of the tool are:

- Inclusiveness. It targets responses from a variety of stakeholders.
- Based on the idea of building a reputation from the inside out, it aims to understand the extent to which the central values and purposes of the company are translated and observable in action.

The tool defines reputation as the difference between a stakeholders' actual experiences with the company and what the stakeholder would expect the company and its people to do in specific situations. Drawing from five central stakeholder groups—customers, employees, directors, shareholders, and the community (with an effort made to take representative samples from each)—the tool is designed to provide a gap analysis of the closeness of fit between experiences and expectations.

35 Oonagh Harpur, "Building a Sustainable Reputation" in *Business Ethics: Facing Up to the Issues,* Clive Bonny and Chris Moon, eds. (London: Economist Books, 2001).

A questionnaire provides respondents with a group of hypothetical situations designed to reflect the kinds of experiences the stakeholders are likely to have with the company and its operations. For each situation, respondents choose, from a set of answer choices, the answer that come closest to identifying:

- What they would do in the situation if they were in charge of making the decision on behalf of the company
- What action, from their experience, was most likely to be taken by the company

More precisely: Reputation = Experiences – Expectations.

The Reputation Institute (reputationinstitute.com) tracks and measures corporate reputation and maps the perceptions of key players including investors, employees, and boycotters. The Institute's standardized survey instrument, the Reputation Quotient, is intended to capture the perceptions of corporate stakeholder groups such as consumers, investors, employees and other key influentials. The Institute also has designed a tool called the Media Reputation Index, which communicates a company's media relations performance relative to the 100 largest U.S. companies. The reputational dimensions monitored are:

- Emotional appeal
- Social responsibility
- Workplace environment
- Financial performance
- Vision and leadership
- Products and services

Event study methodology

Widely used in the fields of econometrics, accounting, and finance, event study methodology aims to understand the effect of a particular event on the price of a stock or a firm's value. Among the "events" considered are publicly available announcements of corporate actions, such as an announcements of earnings, dividend payments, stock splits, or M&A activities. An event can also be an "external" action like a regulatory initiative or litigation. If markets were perfectly efficient, the argument goes, the effect of any event would be instantly reflected in the stock price of a company.

Although this technique is most commonly applied to the market values of publicly traded companies, it can also be used to analyze the change in sales or profits as the dependent variable. In this form, the technique can be applied to companies that are privately held. If negative events like lawsuits, intensely negative press, and public relations disasters have damaged the firm monetarily, the technique can help build the case for more responsible company activity.

The first step involved in an event study is to define a clear "event" that can be hypothesized to have had an effect on the stock price of a company. A perfect point of entry for business risk analysis is to define events—like public relations disasters or consumer-related litigation—that can significantly affect the reputation of the firm.

The second step is to define an "event window," the time period used for evaluating whether the returns of the stock price were normal or "abnormal." These windows are usually fairly short, restricted to a few days or so before and after the event. It is also possible to choose longer event windows, of even up to a year, but these windows have a lot of "noise" that might make relationships between the event and the stock price hard to determine with acceptable accuracy.

Event Studies

A considerable body of research demonstrates a significant short-term impact on the market value of a company immediately following the release of information about its citizenship performance, confirming that financial markets take into account corporate responsibility behavior.

Waste management lawsuits

A 1990 study examines the impact of hazardous waste mismanagement lawsuits on stockholder returns of U.S. companies over the period 1977-1986. The sample consists of 128 initial lawsuits and 74 case settlements announced in the print media. Abnormal losses of -1.2 percent of market value on average were found at the time of the announcement of the lawsuit. No abnormal returns were found at the time of the announcement of settlements, suggesting that the financial penalties of lawsuits are assessed at the time when the information first becomes publicly available. Pollution management firms are found to suffer the largest shareholder losses, 6.25 percent of market value on average.[a]

CERES principles

In a study of 6 companies, the signing of CERES principles by firms produced positive abnormal returns for shareholders on the day of signing. On average, shareholders enjoyed a +1.05 percent increase in the value of holdings the day after the signing.[b]

Illegal management activity

A study of 69 companies examines the financial market reaction to announcements in the *Wall Street Journal* that firms or senior management were involved in some alleged illegal activity over the period 1988-1992. The illegal activities examined include fraud, kickbacks, patent infringement, conflict of interest, OSHA violations and EPA violations. The estimates of abnormal return indicate that the financial markets on average impose a statistically significant -1.3 percent to -2.3 percent loss over a seven-day period.[c]

The Tylenol incident

On October 1, 1982, five deaths resulting from consumption of cyanide-laced Tylenol capsules were reported in the media. A study examines the market impact of the event and the subsequent packaging regulation over the course of 25 days by tracking abnormal returns on the stock prices of Johnson and Johnson, the manufacturer of Tylenol, and other companies in the pharmaceutical industry.

Johnson and Johnson experienced significant negative abnormal returns of –28.9 percent over the 25-day period surrounding the incident, which amounted to a $2.3 billion loss in its stock value. During the immediate four-day period surrounding the event, the stock suffered an abnormal return of -11.9 percent. During the subsequent period when new FDA regulations on tamper-proof packaging were introduced (days 6-25), it experienced additional abnormal returns of – 13.2 percent.

The study concludes that the valuation of other companies in the pharmaceutical industry was impacted negatively due to the anticipated costs of regulatory measures imposing tamper-proof packaging and not because of the Tylenol incident itself. During the immediate four-day period of the Tylenol incident, companies of other companies in the pharmaceutical industry showed insignificant negative abnormal returns. However, during the ensuing period when packaging regulatory measures were introduced, the stock value of other companies in the pharmaceutical industry experienced significant abnormal returns of – 12.3 percent.[d]

The Exxon Valdez oil spill

On March 24, 1989, the Exxon Valdez oil tanker grounded on Bligh Reef and spilled nearly 11 million gallons of oil into the waters of Prince William Sound in Alaska. Exxon stock suffered sustained negative effects. Exxon share prices showed – 12.44 percent abnormal returns cumulatively over a thirty-day period following the event; –20.12 percent abnormal returns in a three-month period; and -19.04 percent over a four-month period cumulatively. The prolonged negative impact can be contributed to Exxon's mishandling of information in the aftermath, costs of clean-up, anticipated future liabilities, supply interruptions and loss of sales due to adverse consumer reactions.[e]

a Michael I. Muoghalu, David H. Robinson, and J.L. Glascock, "Hazardous Waste Lawsuits, Stockholder Returns and Deterrence" in *Southern Economic Journal*, 1990, pp. 357-370 (cited in Meryanne Grieg-Gran, *Financial Incentives for Improved Sustainability Performance: The Business Case and the Sustainability Dividend*, International Institute for Environment and Development, April 2002.

b Mark A. White, *Corporate Environmental Performance and Shareholder Value*, University of Virginia, 1996 (cited in Grieg-Gran, op. cit.).

c Deborah Gunthorpe, "Business Ethics: A Quantitative Analysis of the Impact of Unethical Behaviour by Publicly Traded Corporations" in *Journal of Business Ethics*, vol. 16, 1997, pp. 537–543 (cited in Grieg-Gran, op. cit.).

d Thomas Dowell, Suresh Govindaraji, and Prem Jain, "The Tylenol Incident, Ensuing Regulation, and Stock Prices" in *Journal of Financial and Quantitative Analysis*, June 1992.

e Mark A. White, *Investor Response to the Exxon Valdez Oil Spill*, University of Virginia, 1996.

The third step is to select a sample for the study. Sample selection can be influenced by a number of factors including availability of adequate data. Choices can be made on the basis of variables like industry sectors and market capitalization of the firms under scrutiny.

The final step is to measure or estimate “normal” and “abnormal” returns. The normal return—what would have been realized, controlling for risk, if the event had not taken place—can be estimated using a multiplicity of standard pricing models, such the Capital Asset Pricing Model. The abnormal return is the difference between the actual return and the estimate of the normal return.

Event study methodology is one more opportunity for reputation professionals to build their case in the language of business itself.

Plus and Minus Column
Reputation

Several of these reputation management and evaluation frameworks are capable of very high levels of sophistication. Valuation of intangibles like corporate reputation is an increasingly important area in corporate finance and accounting. It is also commendable that a range of stakeholders is polled, so that reputation management strategies become more and more fine-tuned.

The existing set of frameworks for consumer relations is very sophisticated, and is worthy of detailed examination. A major weakness is the lack of hard, quantitative evidence that socially responsible products can add to a company’s bottom line. But there is a wealth of market research tools that can help a company determine what kind of premium a consumer is willing to pay for the socially responsible facets of a brand.

Many of the more “quantitative” techniques of measuring reputation are not readily available to CSR practitioners to buttress the business case for CSR. These techniques are most likely to reside within the boundaries of academic disciplines or within the proprietary practices of consulting and other professional services firms. But the analytical organizing principles of these techniques should be more widely disseminated to CSR practitioners.

External

Measurement Approaches

Philanthropy and Community Involvement

Community involvement was one of the first elements of corporate citizenship to develop in the United States. Indeed, for many years, corporate contributions to community groups were considered the most important aspect of corporate involvement with the broader society. United Way campaigns and donations to the arts were visible and popular manifestations of corporate "caring." More recently, companies have moved toward supporting educational initiatives and attempting to link their community involvement programs with their core business missions to produce closer alignment and synergy with their routine business operations.

The longstanding emphasis on corporate philanthropy has been reflected in detailed tools for measuring and benchmarking corporate contributions programs in terms of their donations, or "inputs." In the past decade or so, much more attention has been placed on measuring the *effectiveness* of community involvement programs, both in terms of the impacts on society and the efficiency with which inputs are converted into measurable outputs. Because corporations often partner with nonprofits and governments in their community initiatives, the measurement challenges are often complex.

The Center for Corporate Citizenship at Boston College offers companies a smorgasbord of services including executive education, convening activities, and research and consulting services. One of the key product offerings is the Standards of Excellence framework for managing a company's corporate community involvement. The framework identifies seven management practices, processes, and policies to link a company's community activities to core business goals, and to create excellence:

- leadership
- issues management
- relationship building
- strategy
- accountability
- infrastructure
- measurement

The Center offers a companion Diagnostic Tool, an assessment and planning instrument that provides detailed indicators for implementing and meeting the Standards of Excellence.

Business for Social Responsibility offers a variety of research and advisory services to assist companies in implementing corporate social responsibility programs. BSR's consulting services are generally customer-designed to fit the needs of a specific company, and they offer services targeted at specific industry sectors.

A number of organizations assess the quality of nonprofit management by using evaluation tools and promulgating organizational standards. The Better Business Bureau's Wise Giving Alliance has launched an online tool to enable charities to make their organizational information readily available to potential donors according to twenty voluntary standards. The Standards for Excellence Institute awards a Seal of Excellence to nonprofits that adhere to 55 performance standards.

Measuring corporate philanthropy

The Conference Board has compiled survey data on corporate contributions programs since 1945. The focus is on spending and in-kind donations by larger companies (Fortune 1000 level). The data are compiled using a standard questionnaire, with donations categorized by program (e.g., education, health and human services). Results are reported by industry group and size of company, with separate breakouts for non-cash, foundation, and international grants. The annually published results are widely used for benchmarking purposes.

The Foundation Center releases reports on philanthropy efforts undertaken by corporate foundations, as part of its annual *Foundation Giving Trends* and *Foundation Yearbook* compilations. The reports detail information on the amount of giving by individual foundations, as well as the beneficiaries of the foundation funds. In 2004, the Foundation Center began reporting data on foundation staffing.

Giving USA is an annual report on philanthropy compiled from Internal Revenue Service data. The report—a project of the American Association of Fundraising Counsel and the Center on Philanthropy at Indiana University—offers data on total giving by individuals, foundations, and corporations since 1962, and breaks down the contributions by type of recipient.

Some commercial publishers (e.g., Taft) also compile and annually release survey data on corporate contributions programs. An annual survey conducted by the Council on Foundations benchmarks the administrative costs and salaries of corporations and foundations that are active in the philanthropy arena. And The Consulting Network conducts surveys among its client members to benchmark corporate citizenship efforts.

GuideStar provides an online data service with comprehensive information on corporate foundations and other nonprofit grantmakers, compiled from Form 990 filings obtained from the Internal Revenue Service. It offers information on compensation and benefits; grants and recipients; and a variety of financial management and reporting tools. Since 2002, GuideStar has conducted an annual survey of the expected contributions to charitable organizations.

The Committee to Encourage Corporate Philanthropy (CECP) launched the Corporate Giving Standard (CGS) program four years ago, in a partnership with B2P Commerce Corporation and The Center for Corporate Citizenship at Boston College. The program is designed as a detailed online data collection and benchmarking system. The effort measures direct and foundation cash grants, in-kind contributions, budget source of giving, management and program costs, volunteerism, and giving motivation; and categorizes end-user recipients by ethnicity, gender, and geography.

A number of publications conduct surveys of companies' charitable and philanthropic activities. Some of the indicators used in recent compilations by *Forbes* magazine, the *Chronicle of Philanthropy*, and *Business Week* include:

- Cash donations as a percentage of operating income or as a percentage of revenues
- Percentage change in donations over the previous year
- Skills donated—financial and strategic planning skills (monetary value of company time expensed for employee volunteerism)
- In-kind donations or gifts as percentage of revenues

U.S. companies receive a tax write-off for in-kind donations which is roughly equivalent to the cost incurred by the company in buying or making the product. Such donations are measured in different ways by different sources. Companies in the pharmaceutical and technology industries have especially strong incentives to donate their inventory of unsold products to charity, because of their relatively high price points and short shelf life, and these industries often lead in non-cash contributions.[36]

36 In federal corporate income tax returns, "Noncash donations are reported at fair market value, and the amount allowed as a deduction is fair market value minus the income and capital gains that would be earned if the product were sold at fair market value. In effect, this means that the corporation can deduct its cost for purchasing or manufacturing the property. These two different methods of valuing in-kind contributions lead to differences between the methods used by corporations to value product donations for their tax returns, on which Giving USA estimates and The Conference Board study are based, and reports using survey responses, such as those from the Committee to Encourage Corporate Philanthropy and the Chronicle of Philanthropy, both of which ask firms to report the fair market value of their product donations." *Giving USA 2005*, AAFRC Trust for Philanthropy, 2005, p. 86.

Measures of program efficiency and results

Some of the more comprehensive general frameworks for evaluating corporate community investment and involvement are:

1. United Way Model
2. Council on Foundation's joint project work with Walker Information
3. Center for Effective Philanthropy's Grantee Perception Report
4. London Benchmarking Group's input-output model
5. CECP Corporate Giving Standard
6. EVA model developed by The Conference Board
7. Initiative for a Competitive Inner City (ICIC) models
8. Foundation Strategy Group's work

United Way Model

The United Way Model, the first input-output model to be adopted widely in the community development field, remains very popular among nonprofit organizations. It tracks resources as they move through four stages:

Inputs resources expended (cash, staff time)

Activities services provided (programs, classes, meetings)

Outputs recipients assisted (number of clients, graduates, trainees, patients)

Outcomes changes effected (jobs, crime reduction, better quality of life)

Corporate Philanthropy Index

The survey-based Corporate Philanthropy Index (CPI) has been created to assist organizations in conducting measurement programs of their own. The CPI was developed by Walker Information in partnership with the Council on Foundations as part of a project entitled "Measuring the Business Value of Corporate Philanthropy." The index rates perceptions of companies' philanthropic activity in three areas:

- Compared to other companies, does the company in question do its fair share to help the community and society?
- Overall, is the company the kind that helps the community and society by contributing things like time; volunteers; money; and sponsorships of nonprofits, events, and causes?
- Does the company really seem to care about giving and making contributions to help the community and society?

Walker provides a toolkit (available for purchase) that enables a company or NGO to conduct its own survey, which can be benchmarked against similar programs. The index is distinctive for its emphasis on stakeholder perceptions (among employees and customers) as a key measure of program effectiveness.[37]

Center for Effective Philanthropy

The Center for Effective Philanthropy provides a variety of assessment tools to help foundations compare their performance with that of other foundations. The tools include:

Performance Assessment Worksheet indirect indicators of grant impact

Grantee Perception Report surveys of grant recipients

Applicant Perceptions Report reactions of declined applicants

Comparative Board Report self-assessment of governance capabilities

Staff Perception Report employee job satisfaction

Operational Benchmarking Report comparisons on caseloads and grant processing

London Benchmarking Group Model

The London Benchmarking Group's measuring tool—developed in the early 1990s specifically for corporations (as opposed to NGOs)—identifies three broad categories of community involvement:

Charitable gifts philanthropic donations

Community investment activities that bring various long-term benefits to the company, including increases in goodwill and reputation

Commercial initiatives in the community activities that build direct competitive advantage

The model assesses corporate community investments in terms of:

Inputs financial, human, and in-kind resources

Outputs goods and services provided

Impacts long-term benefits to the community

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37 For an overview of recent benchmark results, see *National Benchmark Study: Measuring the Business Value of Corporate Philanthropy*, Walker Information, 2002.

The framework suggests ways in which cash value of inputs can be quantified and outputs estimated in terms of leverage, community benefits, and business benefits.[38]

CECP Corporate Giving Standard

The Committee to Encourage Corporate Philanthropy (CECP) and B2P Commerce Corporation are expanding the Corporate Giving Standard by including impact measurement. The measurement system assumes that the impact of a corporation's community involvement reflects the performance of an underlying portfolio of philanthropic investments. The system defines metrics for success and aligns strategies for accomplishing the stated goals of a particular giving program (i.e., desired outcomes).

The Conference Board EVA Model

The Conference Board offers a template for evaluating the returns on corporate community investments by using an Economic Value Added (EVA) methodology.[39] Taking the London Benchmarking Group model as a point of departure, it incorporates the opportunity cost of capital in assessing the returns on investment (ROI). The model calculates ROI by comparing total outputs to the total of all inputs from all sources, and adjusting for the cost of capital.

Initiative for a Competitive Inner City (ICIC)

Started under the direction of Michael Porter of the Harvard Business School, the Initiative for a Competitive Inner City (ICIC) attempts to shift perceptions about the market potential and competitive advantage of inner cities. The ICIC's activities are divided into three categories: research, consulting, and convening activities, with research occupying the role of "first amongst equals."

The ICIC has identified and used three sets of activities to assess impact. It uses a range of opinion surveys. It analyses media inquiries and other measures of "demand" for its intellectual capital. And it uses a set of differing methodologies to measure the project-level impact of its research initiatives.

Foundation Strategy Group

This group, again guided by Michael Porter, advises a variety of foundations, including corporate, community, and family foundations.[40] The group recommends that, to build community foundation sustainability, a product-focused approach underpinned by systematic cost-revenue analysis is essential. This approach is based on an Activity- Based Costing model and identifies the "costs and revenues associated with every activity, service and product that a foundation handles." The cost-revenue analysis helps the foundation clearly identify its products and align its accounting system with the performance of its organizational mission. Some of the following kinds of distinct products can be identified:

Bundled services provided to customers/donors for a published fee (scholarships, donor-advised funds, designated funds)

Customized sets of services provided to customers/ donors for negotiated fees

Activities like leadership initiatives, which are designed to serve the community or the field but might not generate revenue

Systematically working through the template, the foundation can arrive at the contribution generated or the subsidy required for each product. The Group also advises corporate foundations on how to build company–wide philanthropic agendas.

38 David Logan and Michael Tuffey, *Companies in Communities: Assessing the Impact* (London: The Corporate Citizenship Company, 2000).

39 The model is presented in Thomas E. Cavanagh, *Corporate Community Development: Meeting the Measurement Challenge*, Research Report 1310, The Conference Board, 2002. The EVA methodology was first advanced by the consulting firm Stern Stewart in a series of books and papers. Especially, see G. Bennett Stewart III, *The Quest for Value* (New York: HarperCollins, 1991) and Al Ehrbar, *EVA: The Real Key to Creating Wealth* (New York: John Wiley & Sons, 1998).

40 The Foundation Strategy Group is online at www.foundationstrategy.com

The venture philanthropy model

The venture philanthropy model, which uses the concept of social enterprise, had its origins in the IT industry and in the connections of its chief founders to the venture capital community in Silicon Valley. Most major players recommend that businesses look at social impact and social outcomes, as well as blended measures that give appropriate weight to financial and social parameters. Indicators are divided into internal and external performance categories.

An example of this model is the Social Return on Investment (SROI) metrics of the Roberts Enterprise Development Fund, which measure impact and outcomes at three levels: individual, enterprise, and society and community. Six primary metrics are divided into two broad categories:

Measuring value enterprise value; social purpose value; blended value

Measuring return enterprise index of return; social purpose index of return; blended index of return

Plus and Minus Column

Philanthropy and Community Involvement

The central problem of measuring corporate performance in community involvement is, simply put: It is much easier to measure inputs than outputs. Inputs are not wholly free of controversy, of course. There are considerable disagreements in the field over the treatment of non-cash contributions, “leverage” (inputs obtained through partnerships), volunteerism, and administrative expenses. Nonetheless, there is general agreement—conceptually, at least—that these various facets of corporate community involvement are important and worthy of measurement.

The field becomes very murky when the focus shifts to measurement of program outputs and impacts. It is not always clear what these impacts are or how they are related to program inputs, let alone how they should be measured or whether it is possible to measure them at all. But this issue has to be resolved to some degree (no matter how arbitrarily) in order to assess the efficiency of a program, i.e., the translation of inputs into outputs.

Overall, it would be difficult to improve upon the formulation offered by the Rockefeller and Goldman Sachs Foundations in summarizing these difficulties:

“The field has yet to establish a common understanding of ‘social impact’—what it is or how to measure it. Currently, measures of impact vary from funder to funder, and organization to organization. The more sophisticated measurement tools integrate organizational and process metrics with quantifiable outcome data, but in the absence of a common measure (like shareholder value) investors and grantmakers are making it up as they go along.” *

The proliferation of measurement tools and agencies has provoked a great deal of consternation in this sector. Survey response rates are being harmed by the unwillingness of many corporate community relations officers to fill out the many surveys they receive. Some consolidation and standardization of measurement tools in this field is clearly overdue.

As noted in the Goldman Sachs/Rockefeller report, greater standardization and alignment are needed with regard to other aspects of the measurement process as well. For example, in evaluating a given project, a theory of change (a “logic model,” in the terms of the trade) needs to be clearly articulated and agreed upon to inform the choice of appropriate measurements. And the use of third parties for data collection and analysis can improve the quality and integrity of the evaluation process.

* *Social Impact Assessment: A Discussion Among Grantmakers*, The Rockefeller Foundation and the Goldman Sachs Foundation, 2003, p. 2.

The balanced scorecard

The balanced scorecard uses indicators for internal and external performance:

Internal indicators financial stability; capacity for organizational learning and growth; improvement in business processes

External indicators social outcomes and impacts (in terms of targets covered and ability to reach out to other organizations in a broader social system); customer satisfaction and retention

When it was originally developed,[41] the concept of the balanced scorecard suggested that an organization requires a focus on both financial and operational measures of performance, which arise out of translating the organization's mission and strategy into specific objectives and measures. The operational measures are the drivers for future financial performance. It suggested that managers must focus on a few central, critical measures that reflect a set of perspectives. The original set of perspectives, on which subsequent adaptations are based, are:

Customer How do customers see us?

Internal What must we excel at?

Innovation and learning Can we continue to improve and create value?

Financial How do we look to shareholders?

[41] R.S. Kaplan and D.P. Norton, "The Balanced Scorecard: Measures That Drive Performance" in *Harvard Business Review*, January/February 1992.

Socially Responsible Investing

Socially responsible investing (SRI), as a field, has become increasingly popular over the past several years after modest beginnings a few decades ago. Milton Friedman had argued that the role of business was to maximize profits and that social causes were best left to individuals. Friedman's perspective has been representative of mainstream business thinking for several decades. The SRI community has constructed an alternative paradigm where business and social interests converge, and this field has become increasingly respected and influential in recent years.

Interest in SRI is likely to grow in coming years. A recent study of European investment professionals found that market forces are increasingly driving this movement, while pressure group and regulatory activity are becoming relatively less important, suggesting that the business case is gaining adherents among portfolio managers.[42] That said, Europe appears to be well ahead of the United States on SRI concerns. U.S. companies tend to focus their CSR agendas more narrowly on governance and philanthropy, while U.S. fund managers are relatively less concerned with broader issues related to social and environmental performance; as a consequence, these issues are believed to exert less influence over investment decisions in the U.S. financial markets.[43]

The Dow Jones Sustainability Index (DJSI), the FTSE4Good, and the Domini Indices use a variety of screens to evaluate companies on a number of CSR parameters. These screens determine which companies can be included in the mutual funds that cater to the needs of investors with special CSR interests.

Specialist rating agencies like Innovest and CoreRatings award CSR ratings in the same style as the debt markets. Innovest has undertaken detailed analyses of stocks that are ranked within specific industry sectors; it also releases studies and advisories warning of the financial risks that may be posed by the CSR policies of specific companies. Every year, Innovest names the Global 100 Most Sustainable Corporations, based on its Intangible Value Assessment (IVA) of leading companies' capacity to manage social and environmental risks.

The Interfaith Center on Corporate Responsibility (ICCR) is one of the bigger players in the SRI arena. ICCR is a 30-year-old international coalition of 275 faith-based institutional investors including denominations, religious communities, pension funds, healthcare corporations, foundations, and dioceses, with combined portfolios worth an estimated $100 billion.

The aims of the performance measurement frameworks used by the SRI community are to direct and manage mutual fund operations so as to achieve at least a market rate of return. Screens are broadly categorized as those that exclude companies and those that help SRI managers to make a qualitative and quantitative evaluation of a company's performance on specific issues.

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42 CSR Europe, Deloitte, and Euronext, *Investing in Responsible Business*, 2003.

43 *CSR and the Financial Community: Friends or Foes?*, Echo Research, 2004.

Domini 400 Social Index

The earliest and best-known social investment index is the Domini 400 Social Index, launched on May 1, 1990. The Domini index was established as a benchmark for the Domini Social Equity Fund, which avoids companies involved in defense contracting, tobacco, or environmentally harmful industries. The Domini 400 has actually outperformed the S&P 500 over the long term; as of May 31, 2004, its total return since inception was nearly 435 percent, as opposed to just over 359 percent for the S&P. The Domini's annualized return over the most recent 10-year period was 12.33 percent *vs.* 11.34 percent for the S&P. Most of this outperformance was generated during the "Internet bubble" from 1997 to 2000; in the three years from 2000 to 2003, the Domini generally underperformed the S&P. The recent trends may have been due to the relatively heavy weighting of technology shares in the index.

Dow Jones Sustainability Index (DJSI)

The DJSI compiles financial returns on a worldwide universe of stocks of companies that follow principles of sustainable management. Corporate sustainability is a business approach to create long-term shareholder value. Sustainability leaders embrace opportunities and manage risks which derive from economic, environmental, and social developments. Sustainability becomes a proxy indicator for innovative and future-oriented management.

The index carries out monitoring and assessment using sources like annual reports; social and sustainability reports; company consultation; and stakeholder feedback. The DJSI family follows a best-in-class approach comprising the sustainability leaders in the investable universe from each industry. Categorized into 60 DJSI industry groups, companies are assessed in line with general and industry-specific criteria. They are compared against their peers and ranked accordingly. The index uses Sustainability Asset Management (the SAM Group) to carry out extensive sector-specific analyses of corporate sustainability performance.

The DJSI is organized into 40 different sub-indexes differentiated by geographic region and industries excluded from participation, with returns calculated both in euros and in U.S. dollars. The Europe-only indexes are known as DJI STOXX. The most inclusive master index, known as the DJSI World Index, is the one most commonly employed as a proxy for an SRI portfolio in benchmarking against competing financial investment opportunities.

FTSE4Good Index

The FTSE4Good is a subset of the Financial Times Stock Exchange (FTSE) Index, which is the most frequently employed benchmark for British equities. To qualify for inclusion in the FTSE4Good Index series, companies need to be in one of two FTSE starting universes and must meet criteria requirements in three areas: working towards environmental sustainability; developing positive relationships with stakeholders; and upholding and supporting universal human rights.

Companies that have been identified as having business interests in the following industries are excluded from the index series: tobacco producers; companies manufacturing either parts for nuclear weapons systems, or whole systems; companies manufacturing whole weapons systems; owners or operators of nuclear power stations; and companies involved in the extraction or processing of uranium. The FTSE uses a research agency (EIRIS) to carry out much of its research work.

Investment returns

It has not been widely noted, but social equity indices have generally underperformed their benchmark indices during the difficult stock market environment of the past few years. The lagging performance of the Domini 400 from 2000 to 2003 was noted above (although this index has tended to outperform the market over longer periods). Goldman Sachs observed the same tendency in a recent report about the more recently established DJSI World and FTSE4Good indices. As of February 2004, according to Goldman, "[t]hese indices have underperformed their broader market peers by 8.5 and 2.8 percent, respectively, since their creation in September 1999 and July 2001."[44]

44 *Global Energy: Introducing the Goldman Sachs Energy Environmental and Social Index*, Goldman Sachs Global Investment Research, 2004, p. 28. The performances of the DJSI and FTSE4Good indices are compared to the Dow Jones World Stock Index and the FTSE Global 100 Index, respectively.

KLD Research & Analytics launched two other SRI indices on January 1, 2001, with similar results. The KLD Broad Market Social (BMS) Index dropped 9.7 percent from its inception to May 31, 2004, compared to a loss of 7.5 percent in the benchmark Russell 3000 during that period. The KLD Large Cap Social (LCS) Index fell 12.2 percent in that period, compared to a loss of 9.6 percent in the benchmark Russell 1000.[45] As with the Domini 400, the most likely explanation is the overweighting of technology shares in the SRI indices. It remains to be seen how these newer indices will perform over longer periods of time that include rising as well as falling markets.

KLD Select Social Index Fund

A frequent criticism of SRI portfolios is that they increase investment risk by screening out such a large number of industries to meet social criteria. KLD has recently devised a new index to mitigate this problem. The KLD Select Social Index Fund maintains diversification by weighting companies according to their social and economic performance, rather than simply eliminating companies or industries altogether. (The only industry excluded completely is tobacco.) This weighting scheme yields a portfolio where consumer packaged goods are the most heavily overweighted, and energy and utility companies are the most heavily underweighted. The index is constructed to track the return of the Russell 1000 within 2 percent.

Academic studies

The academic community has devoted a great deal of study to the interrelationships of financial, social, and environmental performance. There has been greater focus on environmental performance and financial indicators than on the social dimension, although researchers have been attempting to study the relationship between corporate social and financial performance for 30 years.

From the 1970s to the early 1990s, it is possible to locate over 50 academic studies that look for correlations between corporate financial and ethical performance: 32 found a positive correlation, 14 suggested no correlation or inconclusive results, and 5 found negative correlations.[46]

According to a more recent overview, 95 empirical studies examining this relationship have been conducted between 1972 and 2000.[47] Of the studies that looked at corporate social performance (CSP) as an independent variable, 42 found a positive relationship between CSP and corporate financial performance (CFP); 19 found no relationship; and 4 found a negative relationship. Fifteen found a mixture of results. Of the studies that looked at CSP as a dependent variable predicted by strong financial performance, 13 found a positive relationship; 3 found no relationship at all; and 3 found a mixed set of results.

Finally, a meta-analysis of 52 studies of this relationship found that certain elements of CSP and CFP appear to account for the bulk of the positive findings. According to the authors, "CSP appears to be more highly correlated with accounting-based measures of CFP than with market-based indicators, and CSP reputation indices are more highly correlated with CFP than are other indicators of CSP." In other words, the effect of corporate social responsibility on financial performance appears to be due more to a positive corporate reputation than to actual social performance.[48]

On the whole, there seems to be fairly strong evidence of a positive association between CSP and CFP, and relatively little evidence of a negative relationship. But these studies have been challenged on selection bias, on the inconsistency or arbitrariness of social performance indicators, and on various other methodological questions. The relatively strong performance of technology shares in recent decades (and the underweighting of slow-growth sectors like industrial manufacturing, tobacco, and utilities in CSR portfolios) may account for many of the

45 Detailed tables on investment returns for the KLD and Domini 400 indices are updated monthly on the KLD Web site at kld.com/benchmarks/dsi.html

46 For a comprehensive overview of studies carried out over the past few decades, see M.L. Pava et al., "Corporate Responsibility and Financial Performance" in *The Paradox of Social Cost* (Westport, CT: Quorum Books, 1995).

47 J.D. Margolis and J.P. Walsh, *Misery Loves Companies: Whither Social Initiatives by Business?*, Harvard Business School Working Paper, 2001.

48 Marc Orlitzky, Frank L. Schmidt, and Sara L. Rynes, "Corporate Social and Financial Performance: A Meta-Analysis" in *Organizational Studies* 24, 2003, pp. 403-441 (quote at p. 403).

Categories and Indicators Socially Responsible Investment Funds

Some of the issues covered and measured under various screens:

Evaluation categories	Sample indicators
Environment policy, performance, and reporting	Existence of relevant policies, targets, certifications Greenhouse gas emissions Ecological disasters
Human capital development	Knowledge management and organizational learning Systems to reward talent Data on workplace conflicts, layoffs, discrimination, child labor, fatal accidents, and other labor indicators Performance indicators for employee satisfaction and employee training
Corporate governance	Data relating to tax fraud, money laundering, antitrust, balance sheet fraud, and corruption
Human rights records	Including forced resettlements and discrimination against indigenous people
Product management	Including advertising ethics, product recall, incorporating customer feedback

Sample indicators addressed by academic studies include:

Financial indicators	ROE ROA EPS growth Market-based returns adjusted for risk P/E ratios
Social indicators	Social responsibility ratings by Milton Moskowitz Proportion of annual report text devoted to social responsibility and environmental issues

observed findings. Nor is it clear what causal mechanisms produce the positive correlation that is frequently observed. It is likely that positive social performance is simply one aspect of good management by a company in general, so the positive association may be produced by the quality of management, rather than adherence to CSR principles. The “strong” version of the business case (that CSR *enhances* financial performance) may be difficult to establish conclusively. The recent underperformance of SRI indices relative to their benchmarks is also a matter of concern to investment managers tasked with a fiduciary responsibility to safeguard their clients’ financial interests.

Plus and Minus Column

Socially Responsible Investing

Evaluating performance management frameworks on SRI issues is difficult, because both the proponents and the opponents of SRI often take heavily value-laden positions that can bias or skew the results that one sees. For example, it is likely that researchers who care deeply about SRI are the ones who work to build a case for SRI, although this does not mean that the researchers who carry out the SRI investigations are unscientific or subjective.

The difficulty of choosing appropriate benchmarks to evaluate results can form a barrier to getting a true picture of the business case for SRI. For most of the the past quarter century, the technology industry has yielded outstanding investment results, and the industry is considered less environmentally harmful than other industries like extraction and manufacturing. But these "socially responsible characteristics" are part of the very nature of the industry's operations, and may not have much to do with the specific citizenship initiatives carried out by industry participants.

Many studies finding positive SRI results may simply be reporting on long-term structural shifts in the economy away from the "dirty" primary and manufacturing industries and toward the "clean" service and technology sectors; the observed correlation between CSR attributes and financial results may therefore be largely spurious. The industry-weighting factors may also explain why SRI performance has been relatively weak since the year 2000. On the other hand, studies that compare companies *within* industries often develop methodologies that are so industry-specific that it is difficult to assess or compare the results in a broader context.

It is important to make sense of the general trend of results reported in empirical work. SRI apparently does not harm, and may even enhance, investment performance over long periods of a decade or more; but SRI indices have clearly underperformed their benchmarks during the period since the year 2000. More research is needed to understand the reason for this discrepancy. It may simply be an artifact of the collapse of technology shares after the end of the Internet boom—but this needs to be proven, not merely asserted.

Many researchers suspect that strong management is an attribute that drives *all* aspects of corporate performance, both those related directly to the business and those related to the impact that the business has on the broader society. Here again, one must be careful to observe that correlation is not causation, and a positive relationship between financial and citizenship performance may simply be the result of management excellence in general.

More research is needed to determine if this pattern is unique to the investment climate of the past few years, and particularly if it is related to the bursting of the "technology bubble" in the equity markets of the late 1990s. It may be that SRI results are hypercyclical, i.e., CSR investments outperform the broader market in boom cycles and underperform in down cycles.

Looking at the results compiled over longer time frames, it may be defensible to assert a "weak" version of the business case: that the use of CSR criteria in constructing a portfolio has not been demonstrated to cause statistically significant underperformance relevant to other benchmark portfolios over long periods of time.[49] In other words, if one views CSR as a positive feature that one wishes to reward in constructing a portfolio, it appears to be possible to indulge this taste through the careful construction of a portfolio without hurting one's long-term investment performance. Considering the long-standing conventional wisdom to the contrary, this is an important conclusion.

49 For a review of studies produced by the financial services industry, see Michael Hopkins and Roger Cowe, *Corporate Social Responsibility: Is There a Business Case?*, Association of Chartered Certified Accountants, 2002.

SRI in emerging economies

There is only scattered research available on the effects of CSR criteria on market values in emerging economies. The conventional wisdom is that emerging economies are attractive investment magnets partly because the expectations concerning environmental and social performance are much lower, reducing the cost to the firm and increasing profit margins. Indeed, governments in LDCs often lobby against international regulations with social and environmental conditions because they believe such regulations would reduce their comparative advantage.

So it is intriguing that a few studies indicate positive, rather than negative, SRI results in emerging economies. Using an event study methodology, the World Bank found that recognition of positive environmental performance by local governments significantly improved the market value of firms in Argentina, Chile, Mexico, and the Philippines, while controversies related to citizen complaints over environmental performance significantly hurt market value in these countries.[50]

The Johannesburg Stock Exchange (JSE) has marketed its stringent corporate governance standards and development of an SRI index for member companies as a means of appealing for international capital investment in the South African economy.[51] In Brazil, companies that adhere to a new set of governance standards become eligible for listing on the Novo Mercado, the most prestigious listing available in the Bovespa (Brazilian stock exchange). The assumption behind the program is that stocks in the Novo Mercado will carry a premium valuation relative to other Brazilian stocks, due to their better management of risk. The exchange has also established the Bolsa de Valores Sociais, a mechanism for NGOs to raise funds for specific social projects that provide investment returns. There are no comprehensive studies of the results of these initiatives available as yet, but they suggest that the business case for SRI may be applicable to LDCs as well as the more advanced economies.

50 Susmita Dasgupta, Benoit Laplante, and Nlandu Mamingi, *Capital Market Responses to Environmental Performance in Developing Countries,* World Bank Development Research Group, 1997.

51 Leanne Parsons, "The JSE and the Triple Bottom Line," presentation to the Global Compact Meeting with World Exchanges, 2004.

Human Rights

One of the hottest areas of contention between businesses and civil society organizations is the area of human rights. Businesses have long argued that their human rights capabilities and responsibilities are limited—especially in brutally repressive regimes. Protecting human rights, it is argued, is a responsibility that properly falls within the sphere of governments.[52]

The central dilemma here is that governments, especially in LDCs, are often the principal *perpetrators* of human rights abuses. In some cases, these abuses are due to corruption or obsession with retaining political power at all cost. In other cases, the governments reflect either local cultural traditions with regard to women's rights or religious values that may be at variance with the developed world's norms of equality or toleration.

Although multinational corporations may be predisposed to support human rights in such situations, such a stance can place them at loggerheads with local authorities. In extreme cases, adherence to Western values may even leave companies at risk of losing the license to operate, being prosecuted for violating laws of the host country, or having their assets expropriated. Even so, companies are under increasing pressure to monitor and ameliorate human rights concerns within their spheres of influence.

52 A typical statement of this position comes from the Human Rights and Business Project, sponsored by the Confederation of Danish Industries: "It is the role of governments to address and regulate macro-economic or wider social problems that arise from the collective activities of business. In most cases, asking individual businesses to solve 'collective' problems which belong to the global market as a whole is unreasonable and effectively asks them to commit commercial suicide." Quoted in Margaret Jungk, *Defining the Scope of Business Responsibility for Human Rights Abroad*, Danish Center for Human Rights, 2000, p. 3. The Center has developed a Human Rights Compliance Assessment that can be used as a diagnostic tool by corporations to track their performance on human rights issues.

The relevant frameworks derive from international codes and conventions on human rights—especially, of course, the Universal Declaration of Human Rights, adopted by the UN in 1948. In addition to the Universal Declaration, some of the most important norms and conventions include[53]:

- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social and Cultural Rights
- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
- Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW)
- UN Security Council Resolution 1325 (on the inclusion of civil society groups in postwar peace processes and reconciliation)

Draft UN Norms

In August 2003, the UN Subcommission on the Promotion and Protection of Human Rights adopted a draft version of the Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises With Regard to Human Rights. The UN Commission on Human Rights considered the Norms in March 2004, but the full commission declined to formally approve them, partly in response to widespread business opposition spearheaded by the U.S. Chamber of International Business.

The Norms, along with an accompanying commentary, outline the responsibilities of companies and provide a broad checklist for evaluating their operations. The Norms obligate multinational corporations to respect the rule of law and the security of persons in their dealings abroad. Section 12 prescribes positive

53 Good lists can be obtained at business-humanrights.org and at web.amnesty.org/library/index/engACT700011998?open&of=eng-398

Business Responsibilities and the UN Human Rights Norms

The UN Human Rights Norms are currently in draft form and have not yet been formally approved by the UN Commission on Human Rights. But it is widely expected that some version of the Norms (possibly revised) will be approved in the next few years.

The Norms envision an extensive role to be played by multinational enterprises in assuring human rights within host countries. A fact sheet prepared by AccountAbility notes that "the draft code is a 'non-voluntary' set of obligations that would partly transfer responsibility for protecting human rights from national governments to companies…. [The Norms would] create a new international legal framework, cutting across virtually every area of business operation, with companies, rather than the governments that negotiated them, responsible for implementing international treaties and conventions."

The Norms would require businesses to "establish internal structures and contract clauses to ensure compliance," and businesses "will be obliged to provide reparations to any party affected by non-compliance." In particular: "Implementation procedures for businesses would require companies to:

- Incorporate the draft norms into an internal code of conduct.
- Apply the norms throughout the company's entire supply chain.
- Agree to periodic monitoring by national, international, governmental, and nongovernmental mechanisms.
- Conduct periodic evaluations of the company's impacts on human rights.
- Pay reparations to anyone affected by failures to comply with the norms.
- [Create] a panel of experts to receive and investigate complaints against companies."

Source: Strategic Challenges for Business in the Use of Corporate Responsibility Codes, Standards, and Frameworks, AccountAbility, 2004, pp. 13–14.

actions by the business community on a variety of human rights concerns:

Transnational corporations and other business enterprises shall respect economic, social and cultural rights as well as civil and political rights and *contribute to their realization*, in particular the rights to development, adequate food and drinking water, the highest attainable standard of physical and mental health, adequate housing, privacy, education, freedom of thought, conscience, and religion and freedom of opinion and expression, and shall refrain from actions which obstruct or impede the realization of those rights (emphasis added).[54]

According to the Norms:

- States have the primary responsibility to promote and secure the fulfillment of human rights recognized in international as well as national law, including ensuring that multinational corporations and other business enterprises respect human rights.
- Within their respective spheres of activity and influence, which encompass both the multinational's home country as well as any other country of activity, the business should ensure that:
  - It uses due diligence to ensure that its activities do not directly or indirectly contribute to or benefit from human rights abuses of which it was or should have been aware of. Companies should inform themselves of the human rights impact of their principal activities and proposed activities to avoid complicity in abuses.
  - It uses its influence to promote and ensure respect for human rights.

Some business groups have objected to the Norms because they offer a "benchmark" or "roadmap" which may prove quite onerous if it were to be strictly enforced as a requirement for the license to operate (see box).

[54] For a thorough discussion of emerging concepts in international law, see *Beyond Voluntarism: Human Rights and the Developing International Legal Obligations of Companies*, International Council on Human Rights Policy, 2002. Some NGOs have been even more expansive in affirming the human rights obligations of business. The International Business Leaders Forum has recommended that the private sector engage in extensive "policy dialogue and advocacy activities" to lobby LDC governments to protect the environment, eliminate corruption, improve healthcare and education, and attract investment; and to lobby developed country governments to increase aid to LDCs and improve their access to OECD domestic markets. See *Business and the Millennium Development Goals: A Framework for Action*, International Business Leaders Forum, 2003, p. 6.

The Business Case for Development Assistance

The recently released "Sachs Report" on the Millennium Development Goals is noteworthy for its extensive discussion of the "business case" for governments and corporations in the developed world to provide development assistance to achieve human rights. According to the report, "Achieving the Goals is largely about making core investments in infrastructure and human capital that enable poor people to join the global economy." Yet at the same time, the report offers a sophisticated analysis of the market imperfections that hamper the effectiveness of a pure laissez-faire approach to development:

"Without basic infrastructure and human capital, countries are condemned to export a narrow range of low-margin primary commodities based on natural (physical) endowments, rather than a diversified set of exports based on technology, skills, and capital investments. In such circumstances, globalization can have significant adverse effects—including brain drain, environmental degradation, biodiversity loss, capital flight, and terms-of-trade declines—rather than bring benefits through increased foreign direct investment inflows and technological advances....

"Market forces alone will not rescue the village. Indeed, markets tend to bypass villages with little if any monetary income, and no ready means to earn it, given the low productivity and poor connections with the regional and world economy. The village barely lives off its own food production. Without money it cannot attract doctors, teachers, or transport firms. Without electricity or access to modern fuels it cannot run food processing equipment, irrigation pumps, computers, or electric tools for carpentry or apparel. Villagers do not have enough income to save. And since infrastructure and a skilled workforce are lacking, private investors do not come. Young men and women, particularly the literate, leave the village for cities—and the best educated leave the country.

"The same downward spiral applies to many urban areas... Yet practical steps can be taken to turn the tide...If every city has a reliable electricity grid, competitive telecommunications, access to transport, accessible and affordable housing for the poor, a water and sanitation system, and access to global markets through modern ports or roads, jobs and foreign investment will flow in—rather than educated workers flowing out."

Source: Jeffrey D. Sachs, ed., *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (overview), United Nations Development Programme, 2005, ch. 1, p. 19–22; online at unmp.forumone.com/eng_html_08.html

There is particular concern about the scope of responsibilities envisioned for the private sector under the Norms. In some cases, multinational enterprises believe the Norms would conflict with local laws in host countries where they are currently doing business.[55]

Millennium Development Goals

The most ambitious human rights benchmarks are the Millennium Development Goals, adopted by the UN General Assembly in September 2000. The objective of the Goals is the worldwide elimination of "extreme poverty," defined as "poverty that kills—depriving individuals of the means to stay alive in the face of hunger, disease, and environmental hazards."[56] The Goals spell out a comprehensive series of numeric targets to be achieved by 2015 at the country level through concerted action by national governments, acting in partnership with the private sector.

Reviewing the progress towards the Goals thus far, the UN believes that the developed world as a whole needs to devote 0.7 percent of GDP to overseas development assistance for the LDCs by 2015 in order to make the Goals attainable.[57] This is roughly double the current level for the developed world as a whole; and, despite commitments at this level from a considerable number of European countries, there is skepticism that this target will actually be met.

55 There is a lucid discussion of both sides of this controversy in the *Report of the Subcommission on the Promotion and Protection of Human Rights* (advance edited version of February 15, 2005), United Nations.

56 Jeffrey D. Sachs, ed., *Investing in Development: A P ractical Plan to Achieve the Millennium Development Goals* (overview), United Nations Development Programme, 2005, ch. 1, p. 5; online at unmp.forumone.com/eng_html_08.html

57 Ibid., ch. 4, pp. 3-9.

Categories and Indicators Human Rights

The composite below borrows from the UN Global Compact's *Impact Assessment and Risk Management Guide* for companies operating in zones of conflict.

Evaluation categories	Sample indicators/measures
International humanitarian law	Identifying most important humanitarian principles and adopting commitments to uphold them
Management processes	Explicit policy on human rights Absence of human rights litigation against company Existence of personnel policies that follow ILO convention indicators (strong overlap with current supply-chain tools) Training and awareness-building measures for company officials on human rights standards
Business processes and operations	Have company operations led to protests that were repressed by the police or the military? Have company operations led to displacement of a large number of people? Suppliers screened for compliance Guidelines to analyze and evaluate human rights impact of company and subcontractor operations, both current and planned Security protocols for managing private and public security forces based on principles like U.S.-UK Voluntary Principles on Security and Human Rights
Stakeholder engagement	External monitoring of performance Consultation with NGOs on training, awareness-building, labor standards

Below is a sample human rights tool from the UN Global Compact's *Impact Assessment and Risk Management Guide* for companies operating in zones of conflict. It succinctly addresses a number of concerns that are relevant to companies working in emerging markets.

Governance	Social investment programs with objective of increasing government capacity or providing substitute for government Clear policies to guide employees so they do not contribute to corruption Is company perceived as providing key support to repressive regimes?
Economics	Are revenues the subject of disputes between local and central authorities? Company transparency on taxes Policies to investigate supplier-criminal nexus
Labor	Protection of core labor rights within operations
Human rights	Have company operations led to protests that were repressed by police or military? Have company operations led to displacement of a large number of people?
International humanitarian law	Has company identified most important humanitarian principles and adopted commitments to uphold them? How are principles operationalized?
Security	Security protocols for managing private and public security forces based on principles like U.S.-UK Voluntary Principles on Security and Human Rights
Environment and community	Measurement and monitoring of the local environmental system to reduce damage on local communities, wildlife, biodiversity

In the field of human rights, most of the existing performance management frameworks designed for companies aim at providing either broad measurement categories or specific checklists to improve their performance. Tools are being developed that will expand the abilities of companies to analyze where they stand on a number of human rights parameters.

The general codes and guidelines in common use are very comprehensive and overlap extensively with almost all the chapters in this report. The International Chamber of Commerce has expressed broad support for a number of international codes and conventions. Various business nonprofits including Business in the Community and Ethos, the Brazil-based CSR organization, have developed their own sets of indicators for companies to use. Business for Social Responsibility has addressed issues relating to indigenous communities and offers a variety of tools (available for purchase). The Danish Center for Human Rights is working on a comprehensive program to help companies map and measure their position on human rights issues.

In 2003, seven major worldwide companies formed the Business Leaders Initiative on Human Rights (BLIHR) to develop human rights evidentiary and measurement tools for multinational corporations. The effort explicitly recognizes the confusion among business leaders in determining where their responsibilities lie, how far their spheres of influence extend, and how to demarcate a "fair division of labor" between business and other societal actors in assuring human rights in less developed countries. The BLIHR is a voluntary initiative to "integrate human rights into business decision making" and harmonize corporate practice with existing standards.

Developing civil society

An area of human rights that has received extensive attention in recent years is the development of civil society. According to the Centre for Civil Society at the London School of Economics, "Civil society refers to the arena of uncoerced collective action around shared interests, purposes and values."[58] Analysts have been eager to track the growth of civil society in areas like the former Soviet bloc, where freedom of association has traditionally been restricted. There has also been interest in promoting the development of civil society in zones of conflict, both during a conflict and in the transition period after a conflict has been settled.[59]

Civil society is generally demarcated in one of two ways, either (1) the sector of institutions, voluntary organizations, and citizen activity outside the realm of the state (public sector) and the market (private sector) or (2) as the realm where these three sectors intersect and interact. Civil society includes interest groups; social movements; advocacy groups; labor unions; business and professional associations; membership organizations; self-help groups; women's organizations; community groups; religious denominations and faith-based organizations; recreational and cultural organizations; and charities.

The performance of institutions in civil society is generally measured at the country level. One of the earliest tools developed for this purpose was the CIVICUS Civil Society Index. This self-assessment tool is applied through meetings of key stakeholders to arrive at a consensus for rating a country's performance on aspects of *structure*, *environment*, *values*, and *impact* of civil society organizations. Since the average measures for these four basic categories are arrayed graphically in the form of a diamond, the system is also known as the CIVICUS Civil Society Diamond. The assessments are used to prioritize an action plan for improving the standing of civil society in the country.[60]

The Global Civil Society Index (GCSI), currently being developed at the Johns Hopkins Institute for Policy Studies, employs an alternative approach. This project assembles available data into a series of empirical indexes arrayed along three dimensions: the *capacity*, *sustainability*, and *impact* of the civil sector in a given country. Preliminary results for 34 countries show the Netherlands scoring the

58 *What is Civil Society?*, Centre for Civil Society, London School of Economics, 2004; online at lse.ac.uk/collections/CCS/what_is_civil_society.htm

59 See *Inclusive Security, Sustainable Peace: A Toolkit for Advocacy and Action*, International Alert, 2004.

60 Richard Holloway, *Using the Civil Society Index: Assessing the Health of Civil Society*, CIVICUS, 2001.

highest by a considerable margin, followed by Norway and the United States. Israel, Argentina, and Tanzania are the only countries outside the Anglo-European community of nations to score in the top 15.

One of the best-known indices tracking human rights at the country level is maintained by Freedom House, whose annual *Freedom in the World* report scores the performance of countries on political rights and civil liberties, based on criteria derived from the UN Universal Declaration of Human Rights. The organization has found a gradual but persistent rise in global freedom over the course of the past three decades (see table).

Global Trends in Freedom

Number and percent of countries

Year	*Free*	*Partly free*	*Not free*
1974	41 (27%)	48 (32%)	63 (41%)
1984	53 (32%)	59 (35%)	55 (33%)
1994	76 (40%)	61 (32%)	54 (28%)
2004	89 (46%)	54 (28%)	49 (26%)

Source: Freedom in the World 2005, Freedom House (online at freedomhouse.org/research/survey2005.htm)

Economic liberty and human rights

Although NGOs do not always emphasize economic liberties as an essential element of human rights, these liberties are obviously important in a business context.[61] The absence of property rights is a particularly thorny problem. If title to property cannot be obtained (or is prohibitively expensive due to exorbitant transaction costs), entrepreneurs lack the collateral they need to obtain loans, creating a problem of "dead capital." Burdensome entry regulations and high taxes drive businesses into the informal economy, depriving them of legal protection and hampering their growth potential.

The World Bank has devised a comprehensive set of indicators for measuring aspects of economic liberty at the country level. The analysis highlights the following problems:

- Businesses in poor countries face much larger regulatory burdens than those in rich countries. They face three times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries.
- Heavy regulation and weak property rights exclude the poor from doing business. In poor countries 40 percent of the economy is informal. Women, young and low-skilled workers are hurt the most.
- The payoffs from reform appear large. A hypothetical improvement to the top quartile of countries on the ease of doing business is associated with up to 2 percentage points more annual economic growth.[62]

Indeed, a panel of Nobel laureates recently concluded that regulatory reform is "one of the most cost-effective ways to spur development—ahead of investing in infrastructure, developing the financial sector and scaling up health services."[63]

61 For a general overview, see *Unleashing Entrepreneurship: Making Business Work for the Poor*, United Nations Development Programme, 2004.

62 *Doing Business in 2005: Removing Obstacles to Growth*, The World Bank, 2005, p. 3.

63 Ibid., p. 6.

Plus and Minus Column

Human Rights

More work is needed to help companies improve their human rights performance. The biggest impediment is that many corporations simply do not accept human rights as a legitimate sphere of corporate activity, believing it is properly in the realm of government and NGO activity. Defining an appropriate role and responsibility for the private sector is a prerequisite for establishing any meaningful standards of performance, but obtaining private sector "buy-in" for this process has proven quite difficult. By and large, expectations for human rights performance have been generated from NGOs, rather than from within the corporate community itself.

Indeed, many multinational companies are reluctant to endorse specific human rights standards because of a sort of Catch-22: On the one hand, these companies fear that non-compliance could leave them open to legal liability. On the other hand, aggressive compliance might disrupt their relationships with national and local governments that do not share Western values on human rights, leaving them vulnerable to losing business to less ethical competitors.

Only once an appropriate corporate mission has been defined can one begin to devise a framework for measuring performance. So it is not surprising that the development of human rights measurement techniques is in its infancy, and that the existing measurement frameworks are quite crude. They generally fall into the category of compliance assessment. With the exception of country-level analyses of development assistance and economic regulation, benchmarking and results measurement are virtually unknown in this field.

One of the biggest areas of concern for nonprofits like Amnesty International is that many companies tend to look at human rights issues almost solely in terms of supply chain labor management. In fact, they argue, human rights issues should cover a range of topics such as the proper training and use of security forces; treating local communities with respect; and handling resettlement and land access issues responsibly and as democratically as possible.

Measurement as a

Management Tool

for Corporate Citizenship

Companies are being measured and evaluated on their citizenship performance, whether they want to be or not. Many companies are developing internal measurement systems; almost all large companies are subject to the evaluations of third-party NGOs. In order to devise an effective set of metrics for their own use, companies must first develop an appropriate corporate citizenship strategy. Then they can implement appropriate measures for assessing both the success of the strategy and the value it contributes to the company and the broader society.

Assessments of corporate citizenship

Since there is no simple formula for defining corporate citizenship, there is no standard set of measures. The situation can be summarized as follows:

- Companies have abundant guidance available on what could constitute an "appropriate" citizenship approach and actions. This may come from:
  - An internal evaluation and weighting of the company's perceived needs and preferences
  - An interpretation of risks and opportunities based on secondary information (e.g., research studies or the media)
  - An assessment of risks and opportunities through interaction with other companies in their sector
  - The assistance of a third party such as a consultant or NGO
  - A broad-ranging assessment developed through direct interaction with multiple internal and external stakeholders, either at the company level or by sector
- External assessors of performance may weigh and evaluate a company's citizenship program—and its results—based on:
  - Direct information that the company provides via reports, Web sites, direct stakeholder interactions, sector reports, and other channels
  - Indirect information from various sources, e.g., government reports, the media, LexisNexis
  - Opinions and assessments made by others
- A consensus about the success and value of a company's citizenship commitment and efforts will likely be the result of:
  - The extent to which there is agreement inside and outside of the company that the *approach* is aligned with stakeholders' expectations
  - The extent to which the *results* of the company's commitments and actions satisfy both the company and external stakeholders – in other words, whether it can demonstrate positive impacts and not just stated intentions

To cite a simple example, a company and its stakeholders may agree that workforce diversity is an appropriate need and objective. A diversity policy and hiring guidelines may be a necessary component of the company's citizenship approach, but it will not be sufficient to meet stakeholder expectations. Only if there is a stated, measurable performance target (e.g., that workforce diversity will reflect the diversity of the larger community); objective measurement (ethnic composition of the total workforce, as well as in key segments like management); and reporting of progress toward the target will the company and the broader stakeholder constituency actually know whether or not it has been successful.

Setting Goals

More and more companies are being asked to respond to queries about their citizenship performance. Multiple screenings and ratings are underway. Increasingly, given the potential impact on a company's market valuation, real dollars are involved.

The ISO has been unable to reach a consensus on whether or not to develop a standard for corporate citizenship. The business world may not yet be ready for such a standard and a concomitant measurement system.

- The field of corporate citizenship is complex, with many different perspectives on what citizenship is;
- Companies and industries are different, and what is appropriate for one may not be for another;
- Externally imposed measures of performance (e.g., by rating organizations) are diverse and not always compatible; thus
- A standard, consensual approach to performance measures is unlikely at the present time.

But for any given company, there is a logical approach to measurement that can be systematically applied, resulting in a solid and meaningful measurement system. Such a company-level approach will improve information quality for external evaluators as well, if the company chooses to make it available. The perceived success of the effort depends on how the process is carried out, who is defining success, and the degree to which there is there is alignment among those players.

Strategy Is the Key

Ironically, effective measurement can be achieved only if it is *not* the primary objective of a company's citizenship process. It is seductive, but dangerous, to define goals because their associated targets are easy to measure. The real test is whether achieving the selected goals contributes in a meaningful way to the company's broader objectives.

To be truly effective, a company's citizenship strategy and goals must come first—with measures developed later, to assess progress and results. If this does not occur, ease of measurement may trivialize the selection of objectives.

Certain principles must inform the effective measurement of citizenship performance. A citizenship strategy will synthesize the expectations of "good corporate citizenship" with the company's objectives, capabilities, and resources. This is much more easily said than done in most cases, and is very likely to be an evolutionary process: "good citizenship" does not spring fully developed from the womb of corporate planning.

While different companies will take different approaches to developing a citizenship strategy, two essential steps are involved:

- **Determine where the company is in terms of citizenship.** This step implies a "gap analysis" against a selected benchmark; since there is no universally accepted benchmark yet, a company may choose one such as the Global Reporting Initiative to work from. The analysis may be done by an appropriate internal group, by an external group like a professional services firm or group of stakeholders, or— frequently—by both. Whatever the benchmark selected and however the gap analysis is done, both should be well documented so that they can be understood by relevant stakeholders.

- **Determine, through the strategic planning process, where the company wants to be.** This is the process of defining a set of goals for the company, based where the company is now and where it wants to be in the future.

Strategic planning for citizenship should be integrated with the company's broader strategic planning to facilitate alignment, understanding, and acceptance within the organization about how citizenship activities relate to broader business goals. The strategic plan and goals involve two overarching directives:

- **Do no harm.** While intuitively obvious, a company's basic business activities should be evaluated to assure that risks of harm are minimized, whether in the realm of worker health and safety; accurate financial reporting for investors; product safety for consumers; or off-site environmental effects. This is an essential foundation for an effective citizenship approach: A company's being found to be "doing harm" in any area of public concern will likely trump any conscious attempt to "do good," which is the second perspective of a citizenship approach. This imperative is compounded for global companies in particular, since what constitutes "harm" may be interpreted very differently in different regions and cultures, possibly creating complex challenges in setting goals for the entire organization (especially when it comes to getting the buy-in necessary for ultimate success).

- **Do conscious good.** Increasingly, companies embark on programs or activities that go beyond the expectation of doing no harm. Examples of such approaches include employee compensation or benefits well beyond the norm in a particular industry, or community outreach in a variety of areas. Frequently—but not always—this component of a citizenship strategy is externally focused.

This process sets the vision and direction for the company's citizenship program and the goals that establish the desired results—results which become the targeted success of the citizenship process. In addition to strategic goals, the planning process should determine strategic tactics for achieving the goals—the breakdown of component actions, timing, and interim targets. It is at this point that measurement becomes essential, both to guide and "meter" the process and to evaluate its success.

Determining What to Measure

Once the citizenship strategy and its relationship to the broader corporate business strategy are established, the measurement system for assessing progress and ultimate success should be established. To reiterate, measures are set to assess progress toward strategic (and interim tactical) goals—goals are not set based on what is readily measurable. Although measurability will probably be a consideration in the strategic planning process, it should not be the driving force in the selection of goals.

Two fundamental questions arise immediately:

What should be measured?

How should it be measured?

Measuring citizenship success is not unlike measuring general business success, but —because citizenship goals are much less straightforward than production or financial goals—it is often more complicated. There is no universal currency for assessing citizenship success, so different measures may be appropriate to different situations.

The ultimate goals of the measurement process are:

- determining whether or not the strategic and interim tactical citizenship goals are achieved
- communicating those achievements to diverse stakeholders inside and outside the company
- assessing the value of the results to the company and, as appropriate, to the broader society

Three measures corresponding to these goals are immediately relevant:

Inputs or activities that lead to achievement of a goal

Outputs or results of achieving the goal

Value of the results

The selection of metrics[64] should be informed by the following concerns:

- Is the measure appropriate for its purpose?
- Is it consistent with accepted measurement approaches both inside and outside the company?
- Is it appropriate for its audience(s)?
- Is it clear, or might it produce illusory results?
- Can it be manipulated to disguise nonperformance?
- Does a measure (or set of measures) potentially stifle creativity and innovation?
- Does it provide the opportunity to learn why a certain tactic was—or wasn't—successful?

A company should weigh these and other factors while it is establishing the measurement system, in order to maximize the benefit of the measures selected. Not all factors will apply to each measure, but all should be considered.

To illustrate how measures may be established, the table below shows examples of two citizenship initiatives: one is internally focused, the other is externally focused. Beginning with an overarching goal, each case works "backward" through a series of component target results (only one of which is shown) and sample process inputs designed to help achieve the result. The listed "measures of success" include, in the first case, those that address the value of the results to the company and, in the second case, to the larger community. This example is intended to illustrate approaches rather than a complete system.

64 Thoughtful discussions of measurement approaches can be found in *Philanthropy Measures Up*, World Economic Forum, 2003, pp. 43-44; Karl-Erik Sveiby, *Methods for Measuring Intangible Assets*, 2004 (online at sveiby.com/articles/IntangibleMethods.htm); and chapter 5 of William R. Blackburn, *The Sustainability Handbook for Business*, forthcoming from The Environmental Law Institute.

Citizenship goal/Measure of success	Component targets	Process inputs
To be one of the top-ranking companies in safety performance within X years • Benchmarking • Stakeholder feedback (e.g., regulatory agency recognition) • (Value) Employee retention/application rates	Reduce accident/injury rates by X% per year to Y% in the year Z • Actual rates • Rates by individual business component/plant ongoing • (Value) Changes in medical costs/insurance rates	Increased training • Employee contact rates • Incremental costs • Increased behavioral observation and feedback • Number of interactions • Cost in time committed
To contribute to increased literacy in communities in which we operate • Community literacy rates or test scores • Rates of higher education completion • (Value) Improving competency of new employees? • (Value) Increased workforce productivity? retention?	Contribute X hours of literacy training via employee volunteers • Hours actually delivered • Citizens contacted • (Value) Employee satisfaction with individual contribution/company commitment • Is productivity affected?	Attract employees to program and develop competency to deliver literacy training • Employee participation rate • Cost of employee training • Cost of time (if donated) • Cost of materials or space (if donated)

Although these are but two of the many examples that could be developed, they suggest both the variety of inputs/results that may need to be measured and the kinds of approaches to measurement that may be applicable. Certain measures may be quite precise, and information may be readily available; while others may be much more difficult to get at, even though they may be important both to the company and to the broader society. This reinforces the point that if goals are set based primarily on measurability, potentially important goals may be omitted from a company's citizenship program.

Philanthropy Measures Up, the World Economic Forum's 2003 report on benchmarking philanthropy, identified three basic families of measurement tools:

Performance measurement the extent to which performance approaches pre-set operational, financial, and programmatic goals

Comparative measurement benchmarking performance against organizational peers

Results measurement assessing the conversion of program inputs and resources into program activities, outputs, and societal impacts

These three families of tools have different purposes and applications, and companies should keep these distinctions in mind as they consider how both they and external organizations may use the tools to evaluate their corporate citizenship performance.

For example, a *performance measurement* framework can be used to assess how well a companies' citizenship efforts conform to various codes of conduct that have proliferated in recent years. *Comparative measurement* is appropriate for highlighting best practices or ranking companies according to an index or some other standard of citizenship performance. *Results measurement* is useful as a diagnostic tool for analyzing strengths and weaknesses of program performance, and also as a means of determining where resources should be allocated.

These three approaches are appropriate for measuring citizenship performance and success, because they are already familiar to corporations and frequently used to execute routine business processes. Indeed, in some cases they can be integrated into broader measurement systems already in use. The exception is in cases of community engagement where the outputs, or results, can be more difficult to measure, especially if the inputs to the specific goal (e.g., improved literacy) come from multiple sources including, for example, the government.

The balanced scorecard

To understand how the three measurement approaches can work and contribute to the measurement of the overall success of the citizenship program, it is important to briefly consider the process of designing the program.

Once the overarching goal of citizenship as a component of the overall business strategic plan and commitment is established —"We will enhance the company's reputation as a responsible corporate citizen by…."—the company designates its measures of success: internal achievements as well as awards, stakeholder surveys, etc. This goal is included on the company's Balanced Scorecard, along with financial, market share, new product development, and other goals.

Because the overarching goal is so general, the company establishes a subset of goals, based on the elements of citizenship that it deems relevant during the time period covered by the strategic plan. There may be an environmental goal, a health and safety goal, several workforce goals, and one or more community involvement goals, depending on how ambitious the company's commitment is. It may well be that only a subset of the long-term goals is established during any planning period. If so, these goals become the basis for the citizenship portion of the corporate-level balanced scorecard.

Next, the company subdivides each of the corporate-level goals into components. The environmental goal, for example, may consist of reducing waste; reducing air emissions; reductions, and reducing or eliminating hazardous components in certain products. At this stage in the process, the company develops a balanced scorecard for each of the subcomponents and, frequently, for each appropriate location and assigned individual or group. It establishes a tactical plan for achieving each of the objectives, together with targeted achievement times, and the process is underway.

The development of balanced scorecards at each level of the process for achieving the overarching goal can be thought of as a nested hierarchy, with each level containing narrower and more specific objectives and increasingly precise measures. The balanced scorecard thus becomes both the management tool and the standard for measuring progress on both the inputs—which are part of the tactical plans—and the desired outputs, or results. Inherent in the balanced scorecard concept is:

A set of objectives What we are trying to accomplish (recognized citizenship performance)

Measures of progress How we will know if we're on track (e.g., stakeholder surveys)

Goals Performance standards for determining success (e.g., x percent of stakeholders affirming)

For a company adopting the improvement of its citizenship performance and reputation as an overarching goal, the use of balanced scorecards to set out, track, and report progress has the added benefit of being very transparent. By using ordinary and straightforward language and widely recognized and accepted terminology and measures, balanced scorecards can be useful communications tools. Indeed, a balanced scorecard with current performance indicators (e.g., number of training sessions conducted to date *vs.* a target) can provide real-time information either internally, via an intranet site, or externally, via a Web site.[65]

Measuring the value of citizenship results

While the balanced scorecard can be an excellent management tool for monitoring progress and achievement on targeted results, it does not provide insight into the *value* of the results, either to the company or to the larger community. Unlike inputs and even the achievement of targeted results, value can be much more difficult to measure. Yet it is important for a variety of reasons:

- Companies want to be able to measure the return on their investments of time and resources in citizenship activities to determine whether a specific activity makes the best use of these investments (even though this alone may not determine whether to continue, given other factors like public concern).
- Stakeholders from shareholders to interest groups want to understand value for a whole variety of reasons (often in other-than-dollar terms), ranging from whether the company is making good use of its resources (shareholders) to whether an activity has real merit through results or it is simply an activity that appears "good" but does not lead to real results (interest groups, NGOs).

65 Extensive information is available at balancedscorecard.org

Some aspects of value can be readily measured in terms familiar to business; others cannot.

Take the case of a company's commitment to eliminating its use of hazardous chemicals. Assuming that comparably effective and priced substitutes can be obtained, a direct, tangible economic benefit may be measurable as the reduced or eliminated cost of hazardous waste disposal. Another objective factor might be the reduction in employee illness—measured in reduced healthcare costs, insurance rates, or absenteeism—as a result of eliminating exposure to the materials. This is fairly straightforward. But if the company publicizes its elimination of hazardous materials in an effort to enhance its products' market appeal, identifying and measuring that factor's contribution to increased sales is far more difficult to measure precisely—especially in the face of other potentially contributing factors, such as increased marketing activity.

For an external commitment such as contributing employee volunteer time to improving literacy in a community, it is easy to measure the cost of the time contributed. It is also possible to measure this time's value to the community, for example, as an offset to hiring literacy instructors. But measuring the value of the results of this effort—to the company, perhaps through a larger qualified labor pool (lessened training costs), and to the community through, for example, increased employability and reduced social service costs—is much more complex, especially if the company contribution is only part of a larger process.

The key to measuring the value of citizenship initiatives is to define how it will be measured as a part of the strategic planning process. This requires setting standards for success—often with the concurrence of relevant stakeholders—that may not be fully measurable in economic terms. Wherever possible, economic value measures should be identified. But where this is not possible, other measures (survey responses, stakeholder feedback) should be established at the outset and tracked.

Consensus and transparency are essential. If consensus is achieved up front and results—however measured—are shared, value can be imputed to results, even if it cannot be precisely measured. This will not be simple, because different stakeholders will have different expectations—and they will have them, in effect, simultaneously. But if this is understood, incorporated into the citizenship planning process, and openly communicated, success can be demonstrated. If certain expectations are not met, a change in direction or a change in relevant measures may then be justified.

The role of benchmarking

The use of a balanced scorecard to set up, monitor, and measure citizenship performance can provide important insights into how well a particular company is executing its own plan. It does not provide insights into how a company is doing compared to others, either in its sector or generally. These insights may be achieved through benchmarking.

Companies frequently benchmark on many levels that are not directly competitive, and various aspects of citizenship lend themselves to benchmarking. Certain measures—in certain countries—are available through required government reporting. Compliance with environmental permits is a case in point.

Companies may also benchmark among themselves around issues of common interest, such as workplace safety or how to effectively carry out public outreach programs. Benchmarking provides useful insights into what works and what does not work, and how companies compare with one another on certain aspects of citizenship. Some excellent benchmarking organizations include the sector working groups of the World Business Council on Sustainable Development (e.g., mining and minerals) or trade associations such as the American Chemistry Council.

However, "one-to-one" comprehensive benchmarking of corporate citizenship between companies is virtually impossible today, for two fundamental reasons that have been discussed elsewhere.

- Because of the vast range of program possibilities and the diversity of companies, no two citizenship programs are exactly alike. Thus components or elements of citizenship can be benchmarked (e.g., safety performance or philanthropic giving), but entire programs cannot, because they are not fully comparable.
- There is no standard, comprehensive format for compiling and presenting information, and there is little consistency among reports. This situation is beginning to change with the growth of the Global Reporting Initiative. Approximately 600 companies use the GRI to some extent in their citizenship reporting approach.

These observations do not discount the value of benchmarking for companies that are initiating a corporate citizenship program or striving to improve their performance and results. But the limitations are real. Companies need to be aware of them and should not attribute too much weight to information that is publicly available. The best benchmarking opportunities are probably still those that companies negotiate among themselves, where they can focus in depth on best practices that achieve real results.

In addition to benchmarking between or across companies, internal benchmarking can be very valuable in improving citizenship (as well as overall business) performance. Companies frequently benchmark among similar operations or business units to raise the overall level of corporate performance. Internal benchmarking may often be easier to do simply because some of the confidentiality issues present in external benchmarking do not apply. Well-designed benchmarking initiatives can effectively take advantage of creativity and innovation that frequently and naturally varies from one part of an organization to another.

The Bottom Line

Corporate citizenship can be measured. Different tools are useful for different purposes. The limitations and strengths of the different tools must be understood, so that results can be verified and evaluated. The balanced scorecard is the most reliable of the tools, if it is carefully constructed and used with integrity.

Value can be measured in some situations, but it is often difficult. Care must be taken to assure that values (and costs) are not misrepresented. Where uncertainties are encountered, appropriate caveats should be incorporated.

Benchmarking is a valuable measurement tool. But in corporate citizenship, its applications are frequently limited to components of programs rather than to entire programs. It is not meaningful to say that one citizenship program is "better" than another, if they are not really similar in makeup. It is difficult to weight the overall importance of different citizenship activities and results to arrive at a single measure that ranks one company ahead of another in terms of the "success" of its citizenship program—not least because the companies themselves may have different strategies, different goals, and different definitions of success!

The true measure of success

While the measures discussed above are important and useful, they will never provide the ultimate measure of success for corporate citizenship. If corporate citizenship is defined as how a company fulfills the expectations of the society in which it operates, only the judgment of that society will provide the full measure of how successful it has been.

Because society's expectations are constantly changing, it is unlikely that a consensus will ever be reached as to what corporate citizenship is. This is why setting objective citizenship goals must be a dynamic process, as a company attempts to align its behavior and performance with evolving societal expectations. Companies are striving to understand the evolving paradigms (which are not necessarily the same around the world) and respond to them. The programs and measures that have been discussed here are thus tools for designing, managing, and measuring corporate citizenship programs and performance to respond to evolving expectations.

Whatever one thinks of the triple bottom line, the ultimate bottom line is not the success of a citizenship program per se, no matter what the indicators might say. The true measure of success is the viability of the company's products and services in the marketplace, the continuing productivity and innovation of its employees, and the ways in which the conduct of the business contributes to the welfare of society.

These are the true and enduring measures. Citizenship commitments and measures of *their* success are important, but not exclusive, tools for getting there.

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Research Director **David Vidal**

Project Director **Thomas E. Cavanagh**

Authors **Thomas E. Cavanagh, Anu Oza, and Charles J. Bennett**

Publishing Director **Chuck Mitchell**

Editor **John Lumea**

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The Conference Board, Inc.
845 Third Avenue
New York, NY 10022-6679
United States
Tel 212 759 0900
Fax 212 980 7014
conference-board.org

The Conference Board Europe
Chaussée de La Hulpe 130, box 11
B-1000 Brussels
Belgium
Tel 32 2 675 5405
Fax 32 2 675 0395
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The Conference Board Asia-Pacific
2502C Admiralty Centre, Tower 1
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The Conference Board of Canada
255 Smyth Road
Ottawa, Ontario K1H 8M7
Canada
Tel 613 526 3280
Fax 613 526 4857
conferenceboard.ca

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