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Features

IN PERSPECTIVE: MEASURING CSR PERFORMANCE

Getting the Dog to Bark – and Bite 1
What Is Measured Is Treasured

Is It All in Your Mind? 4
Intangibles and CSR

BSR Roundtable: A Tale of Two Companies 6
Measuring CSR Performance at Starbucks and BT

Moving from Gut to Metrics .. 8
Refocus on Bottom-line Outcomes

Of Measurement and Management Systems 10
Newmont's Five-Star Program

Teaching Pigs to Fly 12
David Vogel's Theory of Relativity for Measuring CSR Performance

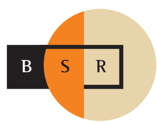
Full-Cost Accounting 14
Revealing the "True" Cost of Business

FDI and Development 16
Dispelling Myths, Increasing Local Benefits

Departments

BSR Leadership Perspective 2
Aron Cramer, President and CEO
"Retreating ... to Move Forward"

BSR@Work 18
Supply Chain Compliance Benchmarking Study
Sustainable Development Assessment Tool
BSR 2005 Conference Story Map
Labor Demographics Report

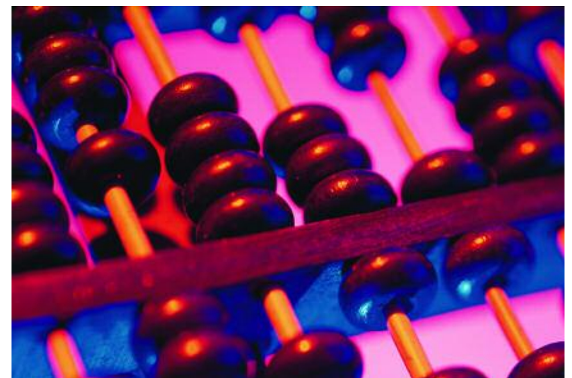


Business for Social Responsibility

IN PERSPECTIVE – MEASURING CSR PERFORMANCE

Getting the Dog to Bark – and Bite

BY MATTHEW HIRSCHLAND, BSR



CSR is often thought of as the dog that does not bark: It is the embarrassing media exposé that *never* happens because you have managed supply chain working conditions well. It is the effluent control system that increases local water quality and thereby *prevents* community health issues and crises of goodwill. It is the stakeholder engagement that *averts* costly acquisition and siting decisions.

In a previous issue of *Leading Perspectives* (Summer 2005), we explored how to make the CSR dog bark more loudly by investigating approaches to communicating the value of this work and the challenges in doing so. Along these lines, we see a real necessity in examining where our efforts to measure CSR performance are today, as measurement will give CSR the necessary bite that is crucial for its sustainability.

We are not so bold to lay claim to having found the Holy Grail for measuring and connecting CSR performance directly to financial performance. After producing this issue of *Leading Perspectives*, it is clear to us that tremendous work is left to be done. This issue instead offers a range of current experiences, trends, thinking and methods regarding how companies and others are approaching CSR measurement in ways that capture its real value in terms of financial and other key performance areas.

Inside you will read about what companies like Starbucks, Newmont and BT are

continued on page 21

Retreating...to Move Forward

BY ARON CRAMER, BSR

In recent months, BSR has convened retreats of small groups of our member companies to engage in some "blue sky" thinking about the successes of CSR, and more importantly, the barriers to deeper integration of CSR into core business. These two retreats, one outside San Francisco and one outside Paris, have provided a useful window into the thinking of leading practitioners about The Way We Live [CSR] Now.

For starters, these two groups created maps of the mega-trends shaping the world—and the world of business. If one assumes—as we do—that one way to define CSR is as successfully anticipating changes in the ways business and society connect, then these mapping exercises provide a valuable window into the collective minds of leading CSR practitioners and company strategists.

> What are the high-level trends shaping the intersection of business and society in the coming 10 years?

We put out for discussion the following question: "What are the high-level trends shaping the intersection of business and society in the coming 10 years?" What came forward was a mix of the predictable and surprising.

Let's start with trends safely within the category of conventional wisdom. Unsurprisingly, the rise of China and India, resource scarcity and heightened transparency all figured prominently in peoples' thinking. It is also interesting to note how quickly topics can move from the margins to the mainstream. The best example of this is the way the issue of pandemics is now front and center of peoples' thinking.

The main value in such activities, of course, is the opportunity to hear new ideas and to see how various ideas connect in new ways. Several candidates vie for this prize, and three seem to me to be worth further thought.

Consumers, not citizens – In many parts of the world, large numbers of people are increasingly defining themselves as consumers rather than citizens. In addition to the obvious political implications, there are immense business impacts of this shift. At a high level, as people change the way they define and channel their preferences, social concerns once expressed through and directed at public processes and institutions are now transferred to business. In a world where the boundaries between business and society are blurring, this suggests that further blending is likely, along with heightened expectations on businesses to deliver more.

Fragmentation – Social structures are mimicking nanotechnology: specializing by getting small. We see numerous examples of this: blogs trump "MSM" (mainstream media); NGOs are trusted more than "big government;" mass markets give way to niche segments, etc. To be sure, social and commercial interactions are being redefined by this fragmentation, which create "nanocommunities" of shared interests. In this environment, with narrow and deep affiliations, it is not hard to see a tough paradox to navigate—suspicion of multinational company motives and simultaneously expanding expectations on them resulting from the sizeable resources they control.

Demographic change – We live in a time when some societies are rapidly aging and some are getting younger. Often neighbors are moving in opposite directions; witness Vietnam's

youth bulge sitting next to China's aging population.

Migration is changing customer bases and workforces with record speed. In 2005, for the first time in human history, more people lived in cities than in rural areas. These are critical signs, pointing in different directions, with differing consequences for individual companies and industries.

One could read this as a set of issues to be managed and/or minimized. There is, however, a sunnier view of this picture. As one of the participants in our summer retreat put it, "We in the CSR community tend to see these kinds of things as issues and threats, when in fact many of them present opportunities." The challenge to all of us then is to anticipate the changes and seek ways to shape outcomes that ensure a more sustainable future.

From Blue Sky Thinking to Getting Grounded

Based on these two "deep dives" with seasoned observers, what conclusions can be drawn from these BSR gatherings?

First, the differences in perspective between companies based in the U.S. and Europe are overstated. It is folly to ignore real differences, which relate to culture, language, social contract and many more things. At the same time, it is damaging to fall back on easy stereotyping. As it often is, reality is more nuanced. Participants in our U.S. retreat agreed that government needed to be more involved in the debate, and the Europeans spoke passionately about the need for other institutions to understand better the positive role played by private enterprise in addressing social issues.

Second, there appears to be a growing appetite for companies to transcend a focus on individual company action in favor of more systemic impact. It may be that the CSR world has a collective case of "initiative fatigue," and is seeking more sustained progress. This requires taking risks on systemic change that is by definition more complex.

One participant in our Europe dialogue called for a "grand governance bargain" that would seek ways to address the boundaries between public and private efforts. It is only through such systems thinking that we can make sense and respond adequately to rapid demographic and technological change, and new social structures.

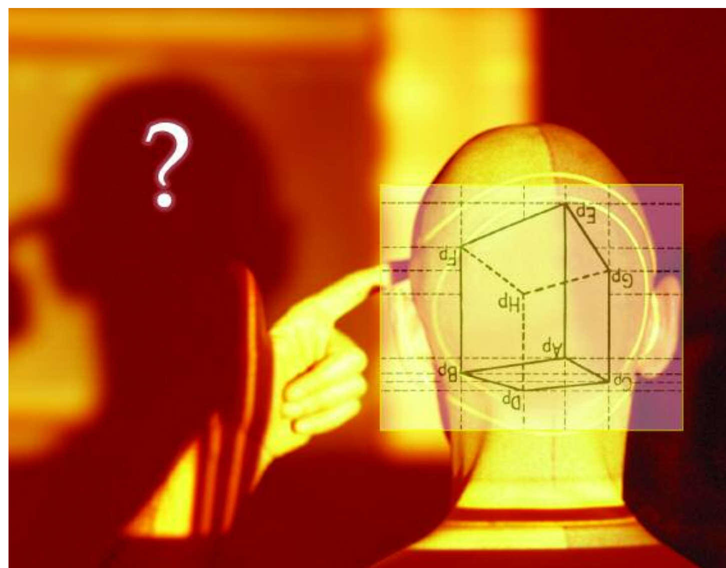
Third, refreshed leadership is necessary to move the agenda forward in a meaningful way. As one participant put it: "We need a business Gandhi." A tall order, to be sure, but the comment surely reflects the strong desire for refreshed leadership that cuts through the clutter of codes, conferences and conventional wisdom.

CSR at its best is about elevating "normal" business so that we can see and prepare for a more diverse array of questions and impacts. Leadership must come from all of us. Questions like climate change, the business role in promoting and respecting human rights, and new governance models all require a willingness to take risks, acknowledge the shortcomings of models that have become familiar and comfortable, involve government more fully in crafting solutions to systems issues, and accurately measuring the costs and benefits to business of achieving these goals. This would create a future that is very bright indeed. ■

__Aron Cramer__ is President and CEO of Business for Social Responsibility.

Is It All in Your Mind?
Intangibles and CSR

BY ALLEN WHITE, TELLUS INSTITUTE



Competitive advantage resides in the minds of managers far more than the portfolio of physical assets of the organization. Indeed, in 1997, business investment in intangibles (e.g. brand, training and R&D) exceeded investment in traditional tangibles (e.g. property, plant, equipment) for the first time. Calculations place this investment at about $1 trillion per year.

One need only observe the price-to-earnings and/or market-to-book ratios of companies like Microsoft, Google and Starbucks to see domination of intangibles in contributing to standard measures of value creation. The capacity to innovate — among the most potent of all intangibles — enables growth, not vice versa.

Notwithstanding these trends, managers live in a world where intangibles remain under-recognized, under-managed, under-reported and inadequately measured. While virtually every CEO is quick to point to human capital as the organization's primary asset, it is typically this asset that is first in the queue to feel the consequences of mergers, acquisitions and cost cutting.

These inadequacies are not lost on leading voices in government and business. Alan Greenspan has observed that "...Over time, and particularly during the last decade or two, an ever-increasing share of GDP has reflected the value of ideas more than material substance or manual labor input." And Walter Wriston, former CEO of Citicorp, is even more to the point: "Post-industrial enterprises run on intangible assets, such as information, research, development, brand equity, capacity for innovation, and human resources. Yet none of these intangible assets appear on a balance sheet. This is another way of saying that, according to today's accounting practices, the worth of a brand name like Citibank or Ford has no value."

Still, in the face of overwhelming evidence, little progress has been made in articulating and quantifying the impact and importance of intangible assets. This is even more disconcerting in light of the fact that as much as one-third of portfolio managers' investment decisions are based on intangibles.

Defining Intangibles

That no generally accepted definition of intangibles exists should come as little surprise. After all, these assets, unlike machinery and inventory, are not something a manager can kick, move and count. Nor do intangibles show up in any systematic way on the balance sheet, the profit-loss statement or as cash flow. Intangibles, in other words, are not only intangible; they are

largely invisible in relation to standard business management tools and disclosures.

Various accounting standards bodies, such as the U.S. Federal Accounting Standards Board and the International Accounting Standards Board, have dabbled with the intangibles question, but thus far have failed to establish more robust measurement and reporting approaches for this most critical area of business value creation.

> **The traditional concept of capital makes it difficult to grasp that human beings and their networks of interrelations are, in fact, society's principal means of wealth creation.**

Consider some alternative definitions:

- Intangible assets "drive economic performance. They don't show up on a balance sheet or an income statement—yet, they are the manageable and usually quantifiable drivers of corporate-value creation." (Low and Kalfut)
- An intangible asset is a "claim to future benefits that does not have a physical or financial (a stock or bond) embodiment." (Baruch)
- Intangibles are "nonphysical factors that contribute to or are used in producing goods or providing services, or that are expected to generate future productive benefits for the individuals or firms that control the use of those factors." (Blair and Wallman)

Two key threads running through these definitions are non-physical and knowledge-rooted assets. They are assets that depend on human creativity, not materials, and are transformed into enduring value for organizations by building know-how, innovating, and forming alliances and networks—all which lead to enhancing brand and reputation and are the stuff of corporate social responsibility (CSR).

Intangibles and the Business Case for CSR

Intangibles are integral to the CSR agenda. Astute management of global supply chains, visionary environmental products and services, and proactive risk management through anti-corruption and HIV/AIDS initiatives are the kinds of practices associated with both CSR and quality management.

And yet a continuing and unresolved debate focuses on whether CSR is profitable. The answer, of course, is "it depends." The nature of the action, the company, the market, the cost and many other factors determine if a particular activity yields net benefits in terms of standard measures of return on investment. It is fair to say that intangibles play a significant and growing role in the assessment of value enhancement even if they seldom appear in quantitative form. This is promising because a significant portion of CSR benefits are, in fact, of an intangible nature.

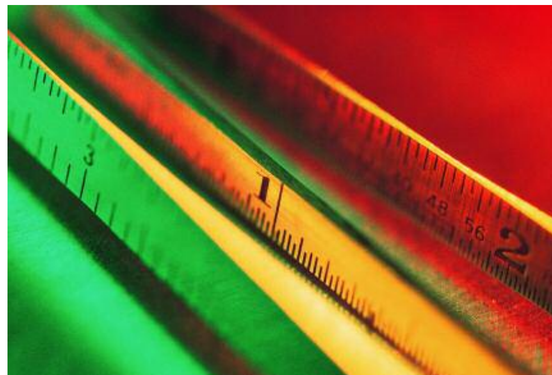
Still, the current and dominant view of capital as hard assets only is in many ways an outgrowth of the limited and skewed view of the purpose of the corporation. The ascendance of shareholder primacy during the last quarter century has obscured the pivotal role of non-financial capital. This shareholder focus diverts attention from the fact that both the efficiency and the quantity of production depend increasingly on organizational variables—the specific ways in which human beings and technology are brought together to yield products and services. The traditional concept of capital makes it difficult to grasp that human beings and their networks of interrelations are, in fact, society's principal means of wealth creation. When done well, CSR strengthens and is strengthened by this recognition.

The perpetuation of the financial-centric view of capital is explained in large measure by its simplicity and inertia. Its simplicity is that "all" company assets can be elegantly reduced to the bottom lines of financial performance. Its inertia is that those who manage this particular form of capital are the same as those who benefit from perpetuating its dominance. This dominance is embedded in the received wisdom that financial capital rises above all other forms of capital as the key to an organization's value. While this may be true in the terminology of the contemporary world of finance, it is at best a partial truth from the vantage point of building sustainable development.

The biases described here are at once a formidable obstacle and an enormous opportunity for CSR. Expanding the common understanding of capital formation to include a wide range of intangibles is at the heart of this challenge. ■

__Allen L. White, Ph.D.__, is a Senior Advisor to Business for Social Responsibility and a Senior Fellow at the Tellus Institute (www.tellus.org). This article is excerpted from the BSR Business Brief: "Intangibles and CSR," available at www.bsr.org.

BSR Roundtable:
A Tale of Two Companies: Measuring CSR Performance at Starbucks and BT



In March, BSR convened a roundtable discussion with two companies recognized for their efforts to measure and assess their CSR performances. The discussion ranged from their experiences doing this to their frustrations and their expectations for the future of CSR measurement.

Participants:

- **Chris Tuppen,** Head of Sustainable Development and Corporate Accountability, BT
- **Dub Hay,** Senior Vice President, Coffee and Global Procurement, Starbucks
- **Dennis Macray,** Director, Business Practices, Starbucks

Moderator:
Matthew Hirschland, BSR Director of Communications

BSR: *What does measuring CSR performance mean for your companies?*

Hay: For me, the most important thing is that we have our CSR goals that we measure and are embedded in our business. This means measuring a number of things ranging from how we buy our coffee—how much certified coffee we buy—to what we are doing in our community in terms of volunteerism and charitable contributions. It also allows us to look at the environment: GHG emissions, electricity, water, paper—any of those issues the business touches. We put our KPIs (key performance indicators) out there for all to see. If you miss them, you miss them, but at least you've put a stake in the ground and you've made it something meaningful.

Tuppen: I think I'd categorize it into three areas of performance measurement:

1. Performance against our impacts–We look at our impact on the environment, on communities, and on economic and social issues.

2. Perception–We survey our stakeholders either directly through our own surveys or via contributions to wider public opinion surveys where there are BT-specific questions, to get a sense of how our stakeholders perceive our performance.

3. Internal measures–These assess how well we are actually managing our CSR activities within the company.

BSR: *For Starbucks and BT, what have been some of the drivers for seeking to measure CSR goals and impacts?*

Hay: There are two factors that had a huge influence here at Starbucks. We had a CEO at the time who very much valued CSR-type activities and thought it was the right thing to do. Having a CEO who views this as something that's strategic to business is a must. If you have a strictly financially driven, earnings-per-share, shareholder value CEO, you'll never get there.

Second is the relationships built with many NGOs. Some of them you would consider allies, who were helpful, and

"We put our KPIs out there for all to see. If you miss them, you miss them, but at least you've put a stake in the ground."
Dub Hay, Starbucks

some you would consider pure critics, but both played a role in shaping our thinking because they challenged us.

Macray: I would add the CSR reporting process as a driver. We've had four years of formal CSR reporting. As the company evolves, it is a process that allows strategy integration, identifies opportunities for us to be involved in our communities, with the environment, and improve our operations.

Tuppen: At BT we have had 14 years of reporting our work in this area. The evolution of our thinking has been that one must go beyond the qualitative performance criteria that often focuses on questions like "Is there a policy in place?" to real, quantified performance measures.

BSR: *What about the actual metrics you each use? Some argue that it is a bit of a fool's errand to seek a straight-line connection between CSR performance and financial results. Are they right and can you make this type of measurement compelling for the more financially minded?*

Hay: I have seen a number of examples where you think a decision will go one way based purely on the financials, and it has gone the other way almost every single time. One such example is our experience with our efforts to launch an ethical cocoa sourcing program. It was going to cost us quite a bit of money to do that and it came at a time when budgets were already set. But we made it work because it was the right thing to do. It went beyond a discussion of earnings-per-share impact.

"The evolution of our thinking has been that one must go beyond the qualitative performance criteria that often focuses on questions like 'Is there a policy in place?' to real, quantified performance measures."
Chris Tuppen, BT

Macray: Items in Starbucks' KPIs that can be correlated to things in our retail business, like having low turnover among our retail partners, is an efficiency. Having energy efficiency measures and reducing our utility costs has an effect on finances and resonates with the audience you describe.

Tuppen: Do you do the right thing at any cost at Starbucks?

Macray: One of our guiding principles is profitability. If something is completely out of whack with that and our business success, it would be challenged. However, operating on a system of five-year goals allows us to have a longer-term vision beyond just a quarter-to-quarter analysis of ROI.

BSR: *We have all heard that "what's measured is treasured" and "what's measured gets managed." How closely are things like compensation tied to these kinds of measurable indicators and performance around them?*

Hay: At Starbucks, our bonus-able goals are built on very measurable events such as the KPIs. My personal one and my bosses' and everyone who reports to me also have hitting our C.A.F.É. Practices goals (C.A.F.É. Practices ensure that Starbucks sources sustainably grown and processed coffee). In procurement, for example, we have a post-consumer fiber content goal. And that is how we are bonused, so it's very much tied to compensation.

BSR: *Is it enough to get someone's attention?*

Hay: Yes—and it does.

Macray: Integrating KPIs into people's performance measures and even job descriptions is the ultimate place to be, so that regardless of who is in that spot, they know they have a responsibility to demonstrate progress or track it.

Tuppen: In BT, three measures affect every manager's bonus: earnings per share, cash flow and customer satisfaction. There is no CSR direct performance measure that is used across the whole company for every manager. To be honest, I think it would be very difficult to do that because you would have to have some way of aggregating all your CSR performance measures into a single figure.

Having said that, we have managed to show how CSR performance contributes to customer satisfaction—one of the three measures that goes right through the business. And a

continued on page 22

IN PERSPECTIVE

Moving From Gut to Metrics

BY FARRON LEVY, COST BENEFIT SYSTEMS

For years, companies seeking to justify and guide their investments in corporate social responsibility (CSR) have looked to each new research study seeking the elusive link between CSR and profitability, stock price and growth. This focus is misguided.

Enterprise-level metrics are too blunt to measure the value of individual environmental, human resource or community involvement programs. Sophisticated regressions and longitudinal studies are too costly in terms of time, resources and technical expertise for many managers.

While the quest continues for that elegant, singular equation that measures CSR's total return on investment (ROI), there is an interim solution: Refocus on bottom-line outcomes. This back-to-the-basics perspective can help you piece together an ROI picture from everyday business measures, and use the results to help continuously improve, guide and report on CSR programs.

Measuring Business Value

A key principle of this bottom-line perspective is remembering that regardless of your industry, there are essentially two ways to create business value: increase revenues or reduce costs. Calculating the business value of a CSR program is, then, the degree to which it contributes to either of these two outcomes. These basic dynamics often make monetizing direct business impacts a matter of simple arithmetic.

On the revenue side, CSR activities can, for example, help attract or retain customers or enable a company to charge a premium for its goods or services. The monetary value of these and similar outcomes is the profit from the resulting transactions—generally speaking, revenues multiplied by profit margin.

On the cost side, CSR activities can increase efficiency, for example, by improving recruiting, productivity or retention, or by reducing risk, energy use or waste. The monetary value of these impacts is the amount of time, materials, overhead and other costs avoided or reduced as a result.

In cases where a CSR program's impacts on revenues or costs are indirect, the data collection demands may increase, but the underlying dynamics—and the arithmetic—remain largely the same. For example, the impacts of CSR practices on brand, employee satisfaction, professional development and reputation can all be valuable, but *only to the degree they "drive" reduced costs and increased revenues.* Thus, increasing brand awareness is valuable if it helps attract or retain customers or employees, or otherwise lowers costs or increases revenues. If the increased awareness does not accomplish this, it creates no business value.

The impacts of CSR practices on brand, employee satisfaction, professional development and reputation can all be valuable, but only to the degree they "drive" reduced costs and increased revenues.

Companies often monitor the effect of their operations on these drivers via surveys or other qualitative measures, but they stop short of evaluating how these drivers in turn affect the bottom line. You can fill these data gaps through some basic modeling. That is, you can convert your drivers into monetary terms by calculating their *estimated* impacts on costs and revenues.

For example, the impact of a community-involvement initiative on recruiting can be modeled using assumptions about the number of potential recruits reached and the percentage of that group likely to apply for work as a result of that outreach (with information provided, perhaps, by your recruiting department). The result, multiplied by your company's average cost per application generated, is the estimated business value of that initiative.

This kind of modeling can be an illuminating and compelling tool, provided that the underlying assumptions are transparent, credible and testable. Anecdotal data, industry averages or even the best guesses of colleagues most familiar with the functional area you are modeling are all valuable sources of data for your model.

Measuring Social Value

A focus on bottom-line outcomes can be just as useful in quantifying social value. Instead of dollars spent, volunteer hours donated, or nonprofit partnerships created (all measures of investment, i.e. inputs), assessing how your program ultimately improves education, the community or other social causes is what measures the return on that investment (i.e. outcomes).

In general, there are three ways to measure a program's social value: its effect on a social condition, its socio-economic impact or its market value. The first is simply a description of how a targeted social condition is improved as a result of your CSR program, in a "quantity times quality" format. For example, an environmental clean-up initiative might result in 1,000 acres of wetlands (quantity) improved from an unsatisfactory to a satisfactory level (quality); or an education initiative might result in 100 children (quantity) improved from grade 1 to grade 2 reading levels (quality).

The second, socio-economic impact, measures how your program results in reduced costs or increased revenues for society. Reduced crime or reduced demands on social services each translate to a reduction in societal costs. Job training programs that increase the number of taxpayers increase societal revenues. Each can be monetized in terms of costs saved or taxes collected.

Finally, market value represents what the goods or services provided by a program would cost if purchased commercially. For example, a company that donates $100,000 worth of computer equipment to nonprofits — half of which actually ends up being used — has provided $50,000 in market value to the social cause.

continued on page 22

Of Measurement and Management Systems: Newmont's Five-Star Program

BY HELEN MACDONALD, NEWMONT MINING

The standard ways of measuring the impact and success of corporate social responsibility (CSR) activities have included perception studies, media tracking and awards. We need to change this.

The reality that many of us who work in the CSR field know is that the social expectations of companies have changed over the last 10 years. Shareholders and the general public have a much greater interest in companies behaving in ethical and socially responsible ways. This has sparked a proliferation of initiatives that have undoubtedly raised the expectations on companies.

Newmont, like many companies, has volunteered to join many of these initiatives and to report on how we are implementing commitments to them. Most companies do this via their sustainability or CSR reports. We have sought to take this one step further by establishing an internal program of measurement and assessment that reports and also involves the use of external assessors. This program is called the Five-Star Program.

For Newmont, Five Star is about applying a management systems approach to assessing the way we manage the company's key global risk areas. The program measures performance across three disciplines: 1) community and external relations; 2) health, safety and loss prevention; and 3) the environment. (For a description of all the Newmont Standards and assessment criteria, see www.newmont.com/en/social/fivestar/index.asp)

For the environment and social responsibility team, Five Star is a tool to drive continuous improvement. It does so by providing an assessment of both our performance and the perceptions of this. Some of the areas that have been identified by Newmont as global social risks include land access and acquisition, mine closure and the management of sites with cultural and/or religious significance.

The performance and perception held by local community members about our performance in these areas is measured by Five Star. We have developed criteria for assessing performance and how well individual sites manage each. For example, one of our standards covers the Management of Sites with Cultural and/or Religious Significance to Indigenous People. Below are the system-level, performance and perception criteria we use to assess site performance on this standard:

Management of Sites with Cultural and/or Religious Significance to Indigenous People

SYSTEMS

General conformance with the requirements of this standard. The requirements have been actioned at the discipline-specific manager's level and implemented by the relevant functions.

PERFORMANCE

The facility has not had any unauthorized disturbances of sites in the past year.

PERCEPTION

The perceived performance of the facility is good and believed to meet the expectations of local community and Indigenous peoples.

Lessons from Five Star

The process of implementing our Five-Star Program has not been without its challenges. These have sometimes included discounting the importance of environmental and social performance by

focusing on production targets. This can occur because, as in most businesses, this is the aspect that most substantially impacts people's compensation. Overcoming this requires the development of a different approach to performance management that prevents discounting the importance of these areas.

One consequence of having a program that provides numeric measure of our performance in the company's agreed-upon global risk areas is the enthusiasm with which these social and environmental performance targets have been embraced. On one hand, this is exactly what you want to happen and we have enjoyed good progress here. And yet because the level of understanding of what is involved in developing a comprehensive management system around risk areas, initial targets have sometimes been unrealistic and not achievable. The effect of this can negatively impact staff morale.

We have also had to deal with balancing the creation of real targets and providing adequate documentation to this end. This sometimes encourages more of a "paper whipping" exercise rather than substantive changes in how the business is managed. This has led us to revise our assessment criteria so that simply putting forward the "right" looking document is not sufficient to get a good score.

Getting the Metrics Right

When embarking on a process to build measurement and management systems around CSR performance, it is important to understand what you are trying to achieve by collecting the metrics in the first place. Goals behind this may include driving the management of particular risks, providing a report on how well the company is managing this area of the business, or simply helping prioritize areas for future focus. At Newmont we have focused on measuring those areas that can provide us with leading and lagging indicators, plus those that are central to our strategic plan.

We have also learned that these metrics do not have to be static. They can be adjusted over time to reflect changing plans and the maturation of the issues and those impacted by them. Perhaps most critical in our case is the fact that metrics also need to take into account specific site needs. We have augmented the system by making sure that a site may have a set of additional metrics that reflect their particular risks.

Metrics and training systems and the development of measurement processes for external relations is largely uncharted water. From our efforts at Newmont, we have already learned that maximum take-up of the approach requires diligent and ongoing support and training. This has been an area that we did not adequately factor into our rollout of Five Star. The reality is that management systems, even with all their well thought-out design, are not always intuitive. Operators everywhere need a lot of hands-on experience and guidance to understand what is required to make these the valuable and strategic management tools they are designed to be. ■

Helen Macdonald *is the Director, Community Relations and Social Development, for Newmont Mining Co.*

What do all these people have in common?

- **Kevin McKinley**
  ISO Deputy Secretary-General
- **Michael Madnick**
  VP Partnership Development, United Nations Foundation
- **Scott Johnson**
  VP Global Environmental Safety & Actions, SC Johnson
- **Eric Pillmore**
  Senior Vice President, Corporate Governance, Tyco International
- **Meg Voorhes**
  Director - Social Issues Service at the Investor Responsibility Research Center (IRRC)

They have each been featured recently on a BSR Conversations with Newsmakers teleconference.

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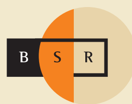

For more information, contact:
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Business for Social Responsibility

Teaching Pigs to Fly and Other Frustrating Pursuits

BY DAVID VOGEL, HAAS SCHOOL OF BUSINESS,
UNIVERSITY OF CALIFORNIA, BERKELEY

The relationship between CSR and corporate financial performance is paradoxical. On one hand, CSR provides companies with important business benefits. Without this, so many firms would not have adopted the wide-range of practices and policies we see today. But on the other hand, measuring the financial impact of these benefits has often proven elusive.

The result has been frustrating to CSR proponents. For while they are confident that CSR makes business sense, they fear that unless they can demonstrate a clear relationship between this work and financial performance, companies will be unwilling to commit additional resources to these efforts. Accordingly, CSR scholars and professionals have devoted substantial efforts to develop metrics that can persuasively demonstrate the business value of CSR programs and policies.

My own view is that such efforts are unlikely to succeed—a bit like teaching pigs to fly. The reason is not because CSR creates no value for firms. It often does. Rather, for most firms most of the time, neither the benefits of acting "responsibly" nor the financial consequences of acting "irresponsible" are likely to be sufficient enough to have a measurable impact on corporate financial performance. Instead, what matters is the *relative* rather than the absolute importance of CSR. Let me explain.

The Theory of Relativity

The financial impacts of a company's CSR efforts are typically overshadowed by other business threats and opportunities. The *relative* lack of measurable impact that CSR has on earnings is largely reflected in the way the business press reports on a company's financial performance and prospects. Most media treatments of business typically only describe a firm's previous and current business performance and, most importantly, offer an assessment of its future prospects. This information in turn, helps investors predict a company's future earnings, which is then, in principle, reflected in the value of its shares.

Notwithstanding the repeated claims of many CSR advocates that a company's CSR practices have important financial implications, what is striking is how rarely the press coverage ever mentions anything to do with a company's CSR practices or policies. This is true even for those firms whose CSR practices—either positive or negative—have recently been in the news. Whatever the financial importance of these practices, they are almost invariably overshadowed by "normal" business threats and opportunities.

For example, consider Gap Inc. A few years ago the company, like many other apparel retailers, found itself criticized for the labor practices of its suppliers. It has responded in an exemplary fashion and arguably now has one of the most responsible and effective programs to help insure that the workers who produce its products are treated fairly. These policies made business sense in that they prevented its brand from being tarnished by continued activist pressures, and assured its current and prospective employees that the firm had strong social commitments.

More recently, the Gap has experienced financial difficulties. These difficulties are completely unrelated to its social performance. Rather they are entirely due to the fact that its fickle consumers now regard its products as less attractive or appealing than those of other brands. Not surprisingly, many financial analysts have become less sanguine about its future earnings and its share price has become depressed. In short,

> We do need better metrics of CSR, but these metrics should not focus on the relationship between CSR and financial performance. Rather, they should measure the actual impact of CSR expenditures on the social or environmental problems they are designed to address.

whatever the business implications of the Gap's responsible outsourcing policies, investors are either unaware or uninterested in them. All that matters to them are Gap's future sales.

This does not mean that the Gap should not have adopted responsible procurement policies or that it should now abandon them. Nor does it mean that other highly visible companies should avoid similar policies in order to protect their reputations. What it *does* imply is that we should not expect the financial markets to appreciate or reward these efforts. Instead of bemoaning the unwillingness of the financial markets and the media to reward CSR policies, perhaps we should be grateful that they do not penalize them.

Lowered Expectations

CSR advocates need to lower their expectations. Corporations can and do many worthwhile things whose impacts on their financial performance are difficult to measure or demonstrate. Corporate philanthropy is one example. Since the 1950s, virtually all large firms have established corporate foundations that make contributions to educational, cultural and social institutions and organizations, typically 1 percent of pretax earnings. The measurable business benefits of such expenditures are elusive; yet firms still make them.

Why? They do so because the public, company employees and consumers expect them to do so. A company that did not contribute to the support of civic institutions in the communities in which it had significant numbers of employees would find itself strongly criticized by its peers as well as by society.

CSR should be understood in similar terms: it now has become a business norm. The more firms that embrace its principles and practices, the more other firms will feel obligated or pressured to do so. Accordingly, we can and should expect an increasing number of firms to issue annual social reports, engage with stakeholders, adopt codes of conduct, and in general use some of their resources to advance various social and environmental objectives—even if such efforts have little or no discernable impacts on their sales, profitability or share prices.

We *do* need better metrics of CSR, but these metrics should not focus on the relationship between CSR and financial performance. Rather, they should measure the actual impact of CSR expenditures on the social or environmental problems they are designed to address. By clearly defining the objectives of their CSR expenditures, firms can then determine the extent to which they are achieving them and determine if these objectives are being accomplished in the most cost-effective manner. This is the most sensible and useful way for firms to measure the business benefits of CSR and for the public to assess improvements in corporate social performance. Approaching the measurement of CSR in any other way promises a frustrating and futile exercise that will likely be unable to trump more direct and traditional measures of financial performance. ■

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Full Cost Accounting: Revealing the "True" Cost of Business

BY JAN BEBBINGTON, UNIVERSITY OF ST. ANDREWS

A recent headline in *The Observer* newspaper in the United Kingdom pointed out, "On Treasury model calculations, oil giant's £11bn bonanza becomes a £18bn loss when damage to the environment is counted." The headline captures the essence of the technique called full cost accounting.

Full cost accounting (FCA) seeks to capture and quantify the real costs of business for decision makers inside and outside the firm. Stated simply, FCA is an established accounting method that assigns monetary value to the externalities associated with business activity and offsets them against profits.

Not always well known or understood, FCA has waxed and waned in popularity over the last decade. Currently, there are small pockets of work being undertaken, but the groundswell of work in FCA that was experienced five years ago has not been repeated. The reasons for this are varied, but one stands out in particular: with no move in government policies that forces companies to internalize their externalities, FCA is relegated to an informative exercise, but one that has not garnered more serious attention.

Understanding Externalities

As we are taught in our introduction to economics courses, externalities are those impacts from the activities of one entity that have an effect on others, and where that impact is not fully accounted for in terms of its costs to the first party. Externalities can be of an economic, environmental or social nature, and may be either positive or negative. Examples include the over-exploitation of natural resources like water, or the creation of pollution that may not even have immediate costs associated with them. FCA focuses on measuring and assigning a monetary value to the negative externalities of business.

Ultimately, full cost accounting begs the question: What would the world look like if the cost of all externalities were internalized to business? While there is no way to answer this question definitively, it is highly likely that the prices of many commodities and products would be considerably more expensive than they are today as a result of understanding the environmental and social costs of production that go un-captured today.

Information Is Power?

There have been a number of experiments and trial-runs with full cost accounting. Two examples and their findings are detailed below:

- Landcare Research Ltd (New Zealand) experimented with estimating the full costs associated with the activities of its consulting business.
  Result/Learning: For Landcare it proved difficult to reduce its externalities profile because it was constrained by reliance on air transport. If the organization wished to continue to do the work it was contracted to do, there were effectively no ways for the company to reduce its travel externalities.
- In 2001, BP developed a full cost accounting methodology

called the Sustainable Assessment Model, which sought to identify externalities and incorporate them within BP's project appraisal process.

Result/Learning: The value of this approach appears to be in the way the costing exercise stimulated thinking within project teams around issues of sustainable development. This has also lead to some more strategic thinking around how society can have the "good" things associated with oil and gas (mobility, for example), without the generation of those goods leading to large externalities.

As a result of engaging in full cost accounting, some organizations have sought to re-design their operations so that their externalities profile is reduced.

In these and other cases, the benefits of full cost accounting appear to follow the maxim that information is power. As a result of engaging in an FCA process, some organizations have sought to re-design their operations so that their externalities profile is reduced (through, for example, better logistics planning). For others, information about externalities has allowed them to attempt to "future-proof"' their current investments on the assumption that externalities will eventually be internalized by public policy or other means. Other companies still use this information as part of their disclosures about their impacts via CSR reporting. When done well, information generated from FCA work can also feed into strategic decision-making processes within organizations.

Still, FCA is an established, but not frequently used tool for identifying externalities that arise from business activity. As a result, the future of FCA is uncertain. The technique has at its foundation the rationale that once we gather a better assessment of what the polluter should really be paying we can build this into the price of goods and services, thereby providing incentives for different choices. FCA's strength is also its Achilles' heel. In providing a candid assessment of these real costs it consistently delivers what, for many businesses, is the "wrong" answer. That is, when the environmental and social costs of production are factored in, things get more expensive.

The reality is that the externalities profile of most businesses is very large. Actually recognizing those costs through a method like FCA suggests that businesses should be held to account for their impacts and for redesigning their activities to reduce and or eliminate them. Not surprisingly, and in the absence of a government mandate to ensure that cost internalization takes place, FCA will continue to attract interest, but is not likely to become the norm in spite of the valuable information it generates. Undoubtedly, FCA tells an important story about measuring impact. It is a story, however, that many are unprepared to hear what it really tells us about the true costs of commerce. ■

Jan Bebbington *is Professor of Accounting and Sustainable Development in the School of Management at the University of St. Andrews (www.st-andrews.ac.uk/management). She is the co-author of* Full Cost Accounting: An Agenda for Action.

Full Cost Accounting Follows a Five-Stage Approach:

1) The focus of the full cost account item should be identified (for example, a product, process, waste disposal option, or a sample of activities within a geographically defined area).

2) The scope of the full cost account item needs to be defined. It is impossible to identify all externalities, so some boundaries need to be placed around the target.

3) The activity's external impacts need to be identified and measured. This is the capture of the physical description of the externality.

4) A calculation of the costs of these impacts (to the extent they are not already captured in prices) needs to be done.

5) At the end of this process, the value of the externalities are subtracted from/added to profits to see if there has been valued added or subtracted from an activity.

FDI and Development:
Dispelling Myths, Increasing Local Benefits

BY LYUBA ZARSKY, BSR

Last September, 300 global business leaders gathered in Sydney for a conference convened by one of the world's richest men: billionaire, publisher, and one-time U.S. presidential candidate Steve Forbes. As hundreds of torch-carrying anti-globalization protestors climbed the fence outside the Sydney Opera House, a visibly irate Forbes told the evening news that globalization was not the problem but the solution to global poverty. Echoing conventional wisdom, he asserted that private foreign investment "is the ladder to development." Is Forbes right?

At the heart of the current conventional wisdom about the role of foreign direct investment (FDI) are two arguments. The first is that FDI provides value in developing economies via job creation and related income generation. Second, FDI builds local capacities that result in growing levels of know-how and innovation. What is the evidence that FDI—almost exclusively provided by businesses—actually promotes sustained economic development in developing countries? Testing Forbes' assertion against a sizeable bit of research on the subject suggests that the conventional wisdom is perhaps not so wise, or at least not so black and white.

Testing the Conventional Wisdom

So, does FDI provide value in developing contexts in terms of net job creation and income? A recent report on Indonesia produced by Oxfam and Unilever examines whether and how FDI generates local employment and income. They report that Unilever Indonesia makes a large contribution to national employment, primarily by buying from local suppliers and via its national distribution chain of micro retailers.

Other studies, however, have found FDI to be correlated not with rising but with falling national employment and income. In Mexico, for example, unemployment skyrocketed despite a five-fold increase in FDI inflows in the 1990s. The problem? Domestic investment decreased by one-half, essentially "crowded out" by high flows of FDI and the policies that

generated them. Hardest hit were small- and medium-sized manufacturing firms, which account for the bulk of manufacturing jobs.

This problem of "crowding out" afflicted other Latin American countries in the 1990s, including Chile, Bolivia and Guatemala. Yet in some Asian countries, including Korea, Thailand and Pakistan, FDI inflows resulted in the reverse and saw the "crowding in" of domestic investment, boosting GNP. For most developing countries, however, the impact of FDI turns out to be a net neutral.

What about the claim that FDI helps to build local capacities in local firms, workers and institutions resulting in sustained production know-how and innovation? On this score, conventional wisdom holds that the most important potential benefit of FDI is that multinationals deliver locally scarce information assets—technology, management expertise, connection to global markets. These, in turn, increase local productivity and drive economic growth via knowledge "spillovers."

Again, the evidence is mixed. Studies have found no evidence in developing countries that FDI delivers positive horizontal "spillovers" (that is, know-how to firms in the same industry as the foreign company). A few studies find evidence of vertical spillovers, that is, from foreign companies to local suppliers. Some studies actually point to negative spillovers, meaning a drop in the productivity of local firms.

Case studies also paint an ambiguous picture. In Taiwan, for example, strategic partnerships between foreign and local firms starting in the 1960s were central in the evolution of a highly innovative, globally competitive domestic electronics industry. Currently China has a record of effectively using FDI to drive innovation in selected industries, including information and communications technology. Malaysia, on the other hand, has remained stuck in low-value-added functions within high-tech industries, despite a large foreign presence, and is thus vulnerable to industry contraction.

Clearly, there is no simple relationship between FDI and development, leaving the conventional wisdom looking much less wise than those espousing would have us believe. So what to do?

If We've Learned Anything. . .

The real take-away for those seeking to put into place business practices that actually lead to real and sustainable development is twofold. While difficult, measuring the impact of FDI, as with CSR itself, is worthwhile to test assumptions about what is working and what is not. Second, we need to redirect our focus to the *quality* of FDI rather than its *quantity*. Simply increasing investment in developing regions will not necessarily deliver development benefits.

But what then determines the quality of FDI? The evidence suggests that certain contextual elements need to be in place first for FDI to have desired benefits. FDI has positive social impacts where government strategy articulates development objectives and seeks partnership with companies to effectively implement it. Countries like Mexico that largely "let the market do it" reaped far fewer benefits from FDI than those like Taiwan who had pro-active governments. Elements of successful government action range from strategically picking (or courting) industries and even particular firms, to actively supporting local firms, to building firms to be suppliers to overseas manufacturers doing business in the country.

continued on page 23

Companies committed to meaningful development that assures the effects of FDI result in long-term "spillover" to local stakeholders must consider:

- Helping prospective suppliers set up production facilities
- Providing training to meet high-quality management and environmental standards
- Providing training in business management
- Helping suppliers find additional markets, including in affiliates
- Establishing partnerships with universities and research institutes to develop upstream skills

Supply Chain Social Compliance: A Decade of Experience and the Road Ahead

Results from the BSR Benchmarking Study: What 17 companies from the apparel, consumer products, food, footwear, retail, technology and toy industries are saying about managing this aspect of their businesses.

For most companies, a high degree of command-and-control over factory conditions remains elusive, and managing social conditions in the facilities where they source their products and components is difficult work.

These are among the findings from the most recent BSR benchmarking study examining supply chain social compliance. Of particular note are the high levels of successful implementation of social compliance programs, even in the face of modest company-reported gains in improving global workplace conditions after a decade of social compliance work. Sample highlights include:

- Respondents had an average of 14 full-time employees devoted to social compliance, with an average of two full-time senior management executives overseeing the programs.
- On average, internal auditors (conducted by company personnel) cost $1,000 - $2,500 and take 1-4 days to complete; external (professional third party; non-NGO) audits are typically one to two days in duration and cost $1,500 - $2,500.
- The average number of supplier factory contract terminations for non-compliance last year totaled an average 50.8 factories per company, with over one-third of companies reporting an increase in the number of terminations than in previous years.
- The sharing and acceptance of audit data is a sensitive issue; just over half of respondents report that they are unwilling to accept other companies' audit results in lieu of their own even if it covers shared or other facilities of interest.
- 93% of respondents cited competing priorities as the reason it was difficult to integrate social compliance into their company's core business units (For example, purchasing procurement is pressured to obtain best prices at quickest turnaround time often driving suppliers to cut wages and work overtime, whereas compliance departments are trying to increase wages and limit overtime).
- In the face of disappointing results and inadequate protection from poor contractor compliance, companies are shifting attention and resources to training, education, management systems, database systems and stakeholder engagement to assure results that protect workers, company reputation, sales and profits.

While business has traditionally eschewed greater governmental regulation, there is a rapidly growing understanding that the pendulum has swung too far away from public sector responsibility for ensuring fair working conditions.

More systemic and sustainable change requires a range of steps inside individual companies, within industry groups, and in the relations among companies, government and civil society.

Inside companies – It is widely acknowledged that breaking down institutional and territorial barriers inside companies will bring more progress. Changes in the structures of value chains and reductions of inconsistencies between procurement and compliance staffs are necessary to reduce the incidence of unwanted social and environmental practices.

Between companies – There are welcome signs that industry-wide collaboration is on the upswing. This suggests that mechanisms for industry-wide coordination on these issues are overdue and need to be expedited. Examples do exist, like the IT industry's Electronic Industry Code of Conduct (EICC), and other nascent efforts that hold considerable promise.

Cross-sectoral collaboration – Finally, it is important to note that there are growing voices calling for the re-engagement of government on this topic. While business has traditionally eschewed greater governmental regulation, there is a rapidly growing understanding that the pendulum has swung too far away from public sector responsibility for ensuring fair working conditions.

The reality is that the capability and willingness of governments in many places where global production is occurring to address these issues is often weak. This fact points to the need for greater collaboration among a variety of actors—business, civil society, public policy—to better stabilize expectations and the conditions under which companies operate.

Ten years on, we have learned much about managing factory conditions and the complexity of this task. However, it is likely that businesses will not have the luxury of another decade for better coordination and integration of this task. Finding new ways to secure sustainable and acceptable working conditions today requires collaboration not seen to date. The question before us is not whether this will happen, but when and what the cost will be to business the longer we wait. ■

BSR is preparing to conduct its 2006 version of this benchmarking work. If your company is interested in participating or purchasing the results from the last administration, please contact Lisa Kantor at lkantor@bsr.org.

BSR Develops New Sustainable Development Assessment Tool

Business for Social Responsibility's new Sustainable Development Assessment (SDA) is a proprietary framework that helps companies measure their impacts on local sustainable development. In addition to measuring site-specific performance, the SDA is designed to help a company shape its strategy for community investment based on a set of identified risks and opportunities.

Implicit in the demands on companies is the idea that they must demonstrate contributions that go beyond traditional metrics such as employment, taxes or other royalties. Worldwide targets, such as the United Nation's Millennium Development Goals (MDGs) or project lending requirements, like the Equator Principles and the IFC's new Performance Standards, are just a few developments that illustrate these evolving expectations.

"A distinguishing feature of BSR's SDA is that its methodology pays close attention to internal management and decision-making processes to ensure that any opportunity identified by the tool fits into local systems and operational goals," said Sandra Seru, BSR manager in advisory services, who is currently piloting SDA's use with companies in Latin America.

While the measurement framework is new, the SDA represents more than a decade of experience working with the energy and extractive sector to mitigate the financial and reputational risks associated with social and environmental performance, and maximize meaningful, lasting contributions to local communities.

Culturally and context specific, the SDA provides a comprehensive framework that:

- Identifies a company's key risks and opportunities related to social and environmental performance
- Analyzes a company's short- and long-term impacts on sustainable development
- Addresses the specific local, regional and national context in which a company operates
- Establishes consistency and efficiency across a company's internal systems, strategies and decision-making processes
- Enhances corporate reporting
- Complements existing initiatives and standards
- Facilitates access to capital, licensing and approvals

BSR's SDA tool can be applied to all aspects of an operation's impacts, including activities such as security, human resources, operations, local procurement and environmental performance. Working with your company, BSR analyzes these activities against a comprehensive set of indicators while also considering the impact that the local, regional and national context will have on a company's ability to contribute successfully to sustainable development.

"Of the few existing tools, most do not adequately address the need to engage stakeholders directly in decisions affecting their social and cultural livelihoods," says Seru. "Because we look at each of the ways a company interacts with local communities, our tool enables a company to assess the full picture of potential risks." ■

For information about BSR's Sustainable Development Assessment tool, contact Matt Jeschke, Director in BSR's advisory services, at mjeschke@bsr.org.

BSR 2005 Conference Story Map Available Online

The BSR Annual Conference is both our main construction site and exhibition hall for building a more just and sustainable global economy by working with companies to promote responsible business practices, innovation and collaboration. BSR's Conference provides an opportunity to take stock of how we are doing in terms of the uptake, integration and impact of responsible business practices, and is a fertile site from which to mine emerging risks, trends and opportunities. The key messages and learnings from BSR's 2005 Conference in November are now available in a new story map, which provides a snapshot of what is being done and considered to bring CSR to life inside companies. It also calls out the challenges and dilemmas that frame CSR, as well as the trends that will shape BSR's work going forward. These issues and ideas will all be revisited at the BSR 2006 Conference to be held November 7-10 in New York City. Download a copy of the BSR Conference story map at: www.bsr.org/meta/bsr-storymap.pdf. ■

New BSR Report:

"Changing Labor-Demographic Trends and Their Implications for Responsible Business"

In the next 20 years, the world will see an unprecedented transformation of its population and workforce, and these demographic labor shifts will have broad repercussions for companies' CSR agendas. Based upon in-house research and input from experts convened recently by BSR and the Population Reference Bureau, this report provides an overview of these trends and explores best practices for managing their impacts in a responsible and strategic manner. Download "Changing Labor Demographic Trends" at: www.bsr.org. ■

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The Solution
for managing and understanding the complexity of your company's stakeholder relations.

The Business for Social Responsibility Stakeholder Mapping Database Tool is easy-to-use software that helps you:

- Identify a variety of stakeholders' orientations toward company activities
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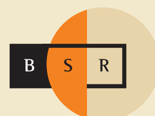
- Generate a visual map that illustrates the stakeholder environment in which your company operates
- Manage communications and track the impact of your community engagement efforts



For a demonstration or further information, contact:
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Business for Social Responsibility

Getting the Dog to Bark—and Bite *continued from page 1*

thinking and doing to operationalize and systematize CSR measurement in the form of management systems, as well as the challenges they and others face. We also look at different approaches to thinking about intangible assets, and alternative ways to measure and communicate about them. In addition, we describe some of BSR's recent work to support measurement of CSR performance through two proprietary tools.

In the end, while chronicling some of the good work being done on this front, this edition of *Leading Perspectives* sounds a call to redouble efforts to provide rigorous and compelling measures of how CSR contributes to business success and a more sustainable economy. Failure to do so consigns CSR to the "nice to have" category, and misses the chance to demonstrate its essential status in the minds of those that control core business units. This must change.

What Is Measured Is Treasured

While assessments of business value continue to focus on traditional measures of tangible assets, there is increasing recognition that intangible assets can make up a majority of a company's value. This intangible territory is where much of the work that makes up CSR practice is carried out. As Allen White cites in his contribution here (p. 4), intangible assets "don't show up on a balance sheet or an income statement—yet, they are the manageable and usually quantifiable drivers of corporate-value creation."

In this sense, CSR is no different than a number of other critical business activities. Marketing, communications and even human resources practices come immediately to mind as areas where tracing performance in a straight-line fashion back to tangible business results is often elusive—an art more than a science.

Still, in light of limited performance metrics in areas such as these, managers often shrug their shoulders in the absence of direct connections between efforts and results, and continue to provide generous resources to them year after year. CSR, however, faces a much higher bar in justifying its existence. An opportunity exists therefore to derive substantial advantage by understanding the value of this work more thoroughly.

Internalizing External Costs and Benefits

"Measuring CSR" is not a single question and must be viewed through different lenses, as the articles here demonstrate. There are two broad categories we look at here. First are reliable and credible measures of the connection between CSR and financial results. This can involve a look at new product development, employee productivity and retention, and consumer loyalty. Second is the impact on society, which can range from questions about climate to human rights, to broader questions about business impacts on the presence of conflict and rule of law. It is also about considering new ways of thinking about business accounting.

It is important to note one thing CSR measurement is not about: reporting. The two are often conflated, and while they are certainly related and mutually supportive, they are not the same.

Some will argue, as David Vogel does here (p. 12), that the search for the link between CSR and financial performance is a bit of a fool's errand—a futile search that may never yield the kind of "hard" results connecting it to financial results. Even without such a link, CSR undoubtedly adds business value. It provides a framework for companies to begin internalizing and understanding the costs and benefits of their business activities.

We are not prepared to give up the search just yet. Ultimately, this is all about the identification of the kinds of information that would be widely accepted by CFOs and others as demonstrating that these efforts are returning real value and are therefore worthy of continued and expanded investment for company success.

BSR will continue to explore methods to effectively measure and tie CSR results back to business success. This means generating trusted information that links CSR to value generation either directly or through compelling proxy measures. The theme of the BSR Annual Conference this November (see back cover) reflects our interest and commitment to this: "Innovative Strategies—Measurable Impacts." There, we will craft a program where measurement shares center stage. ■

***Matthew Hirschland, Ph.D.**, is Director of Communications at Business for Social Responsibility. He can be reached at mhirschland@bsr.org.*

BSR Roundtable *continued from page 7*

number of departments in BT have relevant CSR measures in their pay scorecards.

BSR: *What have been some of the internal reactions in terms of pushback to the KPIs and other systems you use to measure CSR performance?*

Hay: While it has been well received here, the headaches that have come from this are in the area of data capture. There are no IT systems to capture this kind of information and yet we demand that it be audited. Thus, there is a lot of manual labor until we can get our systems up to where our heads are.

Macray: It takes a tremendous amount of time to track and prepare this kind of information from different departments, each with different systems. We caution those coming into this space to be prepared and not tread lightly. It is a substantial investment to be able to manage this information, to report accurately and have it audited.

Tuppen: I agree with Dub's assessment of data collection systems, and setting up bespoke data collection processes is very expensive. However, sometimes you may find the data in current company systems, but just not in the form you might wish it to be for use in CSR analysis. We sometimes find by asking questions in a different way, you find the information you need in the current business IT systems.

This year we have invested a huge amount of work on a process to determine the most significant performance issues for BT, and thereby the indicators one ought to measure, target and report. We call this our materiality determination process. We consider each issue from internal and external perspectives. For the internal perspective, for each issue we look at the extent to which we have established policies and procedures, and the size of related financial impacts on BT. For the external perspective, we identify those issues that have been raised spontaneously within stakeholder focus group sessions and the level of media coverage that issue has received, weighted according to our geography of revenue generation. We have tested hundreds of indicators through this process and it has identified the most significant.

> "Operating on a system of five-year goals allows us to have a longer-term vision beyond just a quarter-to-quarter analysis of ROI."
> Dennis Macray, Starbucks

BSR: *What can we expect of the future in terms of measuring CSR performance?*

Hay: The ultimate flattery would be for others to adopt and adapt the practices we've developed and change their companies. If the work we've done puts a little pressure on corporations in the United States, that would make me very happy. Our C.A.F.É. Practices are intended to give away, so that anyone can take this and utilize our six years of work on it.

Tuppen: I think the future of performance measurement lies in two areas. First, reporting based on robust materiality determination processes that identify the most critical CSR issues we should manage and therefore report on. Not the other way around! Second, a much better demonstration of the links between the company's commercial strategy and its CSR activities. ■

Moving From Gut to Metrics *continued from page 9*

Making It Happen

One of the biggest obstacles to CSR measurement is when people hold themselves to a higher standard of measurement than in other functional areas of their business. Investments in and assessments of R&D, advertising, recruiting and almost every aspect of business operations are often made based on a mix of anecdotal experience, pilot tests and estimates that are suggestive—if not statistically valid predictors—of certain outcomes. CSR measurement, evaluation and management should be no different.

Training yourself to focus on bottom-line outcomes and to model results when data gaps appear can help you evaluate even complex CSR programs using existing metrics, and manage those programs to maximize returns. Indeed, you may find that you don't need that elusive and magical equation for assessing the value of CSR after all. That is, if it ever comes to be. ■

***Farron Levy** is CEO of Cost Benefit Systems (www.true-impact.com), which provides web-based tools and consultation to companies seeking to measure the social and business value of their operating practices.*

Can employers withhold passports in the UAE?

Is it legal to record overtime separate from payroll in Brazil?

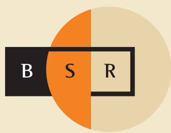
Are unions allowed in Bangladesh's EPZs?

BSR's Labor Law Database (LLDB) is a unique and comprehensive information source on the legal framework and specific laws governing employment relations in many of the world's most important economies. This is an essential tool for companies seeking to manage their supply chain practices effectively.

Subscribers are better able to manage and assess their performance and legal responsibilities with respect to workplaces across countries, and reduce the number of staff hours and resources devoted to this challenge, which is often complicated by multiple languages, cultures and legal regimes.

A subscription to the LLDB includes:

- Labor laws of over 60 countries covering the key aspects of employment relations, including labor contracts, wages, working time, unions, disciplinary practices, and health and safety
- Access to experienced BSR staff for questions and advice relating to specific labor law issues
- A powerful search function that enables users to create custom reports across multiple countries (e.g., for child labor laws or minimum wage rates)
- Easy access via the Internet from anywhere at any time



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FDI and Development *continued from page 17*

Some of these public policy choices that proved successful in the 1970s and 1980s, including domestic content and joint venture requirements, are now prohibited by trade agreements such as the WTO and NAFTA. Nonetheless, there is substantial scope for companies and governments to be pro-active in the way FDI funds are targeted and deployed (see sidebar on page 17).

A truly responsible business commitment to development requires companies to think and act in developing countries like long-term partners, working in tandem with government, other firms and community groups to nurture sustainable local industries. And just as business needs good governments, governments need willing and creative company partners that are willing to listen and to collaborate in setting—and investing in—long-term development objectives.

Many questions remain to be fleshed out around which methods are most effective to assure more meaningful economic development, and around the willingness and capacity of business to do work like this with longer-timeline commitments and sustained government engagement. ■

***Lyuba Zarsky, Ph.D.**, is BSR's Director of Research & Development and can be reached at lzarsky@bsr.org. BSR's R&D efforts over the next three years will look at various aspects of the intersection of public policy and CSR, including ways to maximize positive social impacts of FDI.*

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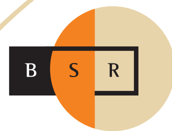

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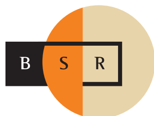

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