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THE BALANCED SCORECARD

A TOOL TO MANAGE SOCIAL SUSTAINABILITY?*

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Abstract

This paper is a conceptual contribution to the field of corporate sustainability research. Building on recent literature on the Sustainability Balanced Scorecard (SBSC) the paper analyses how this tool might help managing social sustainability. Management accounting focuses traditionally on tangible assets. It records mainly backwards-looking financial data that can easily be quantified. However, as the wealth of firms consists more and more of intangible assets, accounting tools fail to provide management with meaningful information. Furthermore, most business accounts have little to say about the expected future development of a firm. In response to this shortcoming the ***Balanced Scorecard*** (BSC) has emerged as a tool for communicating both quantitative and *qualitative* data, on both lagging and *leading* indicators.[1]

The BSC has initially found its broadest use in firms wanting to account for their *intellectual capital*. However, recently authors have suggested that the concept can also be extended to account for *natural capital* and *social capital*.[2] Such a *Sustainability Balanced Scorecard* (SBSC) can help businesses to integrate their environmental and social management systems better into the core management systems.

Most publications on the Sustainability Balanced Scorecard have so far focused more on the environmental than the social dimension of sustainability. This paper will, therefore, discuss the ***possibilities and limits of the SBSC to integrate social sustainability issues into the core management systems.*** It will do this primarily by considering the major social issues firms face today, and analysing how these issues become relevant in the competitive field.

Based on this conceptual framework the paper will discuss how the SBSC can help firms:

- measure and control their direct and indirect social impacts;
- manage their relationship with different stakeholder groups;
- understand the competitive impact of social issues through transformational systems such as the market, politics, public pressure, or voluntary industry activity.
- analyse and predict the life cycle of social issues and their consequences for the competitive field.

Keywords: Corporate Sustainability, Balanced Scorecard (BSC), Social Responsibility

Introduction

In recent years the business strategy field has experienced the renaissance of corporate social responsibility (CSR) as a major topic of interest. The concept has not surfaced for the first time. CSR had already known considerable interest in the 1960s and 70s, spawning a broad range of scholarly contributions,[3] and a veritable industry of social auditors and consultants. However, the topic all but vanished from most managers' minds in the 1980s.[4] The shareholder value movement acted as a strong 'back-lash' towards any managerial activity that was not clearly seen as profit maximizing. Furthermore, the growing environmental movement increasingly crowded out concern about 'human' issues such as social responsibility and ethics. As firms started eagerly to publish environmental reports and to set up environmental management systems they silently dropped their social balances and audits.

CSR resurfaced forcefully in the 1990s in response to mounting public concern about globalization. Firms find themselves held responsible for human rights abuses by their suppliers in developing countries; stakeholders increasingly demand corporate governance to be transparent and accountable; rioters from Seattle to Genoa protest violently against the cost of free trade and other perceived negative consequences of globalization. However, nearly two decades of neglect have helped to undo much of the past achievements of corporate social responsibility. It is thus no surprise that both practitioners and scholars are struggling once again to answer the question whether or not firms have to consider social responsibility, and what its strategic implications are.

Consequently, interest in corporate social responsibility is surging. A keyword search among scholarly business journals included in the EBSCO database returned an average of 9 articles per year containing 'corporate social responsibility' for the first half of the 1990s. This number increased to an average of 14.5 articles in the second half. The years 2000 and 2001 finally saw this number jump to respectively 33 and 55 such publications. In the business world, ISO, the International Standards Organization, is reported to seriously study the option to launch a CSR standard,[5] and several private organizations have already set up their own standards which are taken up by some pioneer firms.[6] At the same time the number of firms publishing a social report (in addition to the mandatory financial accounts and the environmental reports, which are becoming more and more common among multi-nationals) is increasing rapidly.[7]

Both the current scholarly publications and the managers in the field grapple with two major problems, which have plagued the CSR debate since its inception:[8] explaining *why* firms should care about CSR, and *how* they should do so. The first question usually ensues philosophical discussions on whether firms should be allowed to aim at other goals besides profit maximization.[9] Authors demanding managers to go indeed beyond the pure 'business case' then face the messy issue of having to justify which moral framework should be used and whose values they should adhere to. These debates, although intellectually stimulating, often remain of limited value to the business world. On the other hand, publications on the *'how to do'* (such as the SA8000 standard for corporate social accountability) often provide a-theoretical checklists for practitioners with little analytic depth. Furthermore, as Vogel points out, they are often based on a rather naïve argumentation that 'good ethics' is also 'good business'.[10]

This article seeks to further our understanding of both questions by taking a business strategic perspective on corporate social responsibility. However, by discussing how it might generate competitive advantage we situate this paper clearly within the assumption of a 'business case' for corporate social responsibility. The model proposed here thus refers to those situations, in which proactive behavior helps firms to develop and maintain competitive advantages. The equally important topic of whether firms may also have motivations to go beyond the business case will remain outside this paper. An economist might retort that an analysis of the 'business case' for CSR is unnecessary, as rational managers will already have taken advantage of any such opportunities if they existed. However, most practitioners remain mystified by questions of why and how exactly CSR and competitiveness are linked, as any perusal of corporate social reports or audits reveals. The proposed model may thus offer a guiding framework for firms wanting to build their competitive position by systematically and proactively managing their social impacts.

The Balanced Scorecard – Motivation and Objective

When conceiving the Balanced Scorecard (BSC), Kaplan and Norton, maintained that today's companies need to adapt their financial management and controlling systems in order to stay competitive. They found that many firms lacked management techniques for intangible assets such as employees, infrastructures or technologies employed. To better address the challenges of the information age they designed the Balanced Scorecard (BSC) to include such intangible aspects as customer satisfaction, processes quality and organisational development, alongside more traditional financial indicators. An important motivation for this move was Kaplan and Norton’s assertion that most financial measures are backwards looking lagging indicators. To achieve sustainable business success, they claim, managers must increasingly use leading indicators related to aspects more difficult to translate in ‘hard’ financial. However, they also aim at linking ‘soft’ perspectives of customers, processes, and development to financial goals of the firm through a systematic architecture of causal relationships.

Kaplan and Norton position the BSC as a tool for organisations to manage the demands of their main stakeholders. The BSC wants to improve the conventional systems of controlling and accounting by introducing non-financial, more qualitative “soft facts“. It is thus only logical to study how the tool can also be extended to manage issues of corporate social responsibility. The BSC helps in making potential benefit of investments in intangible assets becomes more visible, thus encouraging all members of the firm to adopt a long-term view looking substantially beyond the next quarterly report.

The BSC wants to balance a number of different aspects: First of all, short- and long-term goals are to be considered equally; furthermore, internal aspects (such as processes and organisational development) as well as external ones (i.e. customers and shareholders) are to be considered simultaneously. Apart from that, the BSC tries to provide ‘enablers’ that relate to a goal in the future (leading indicators) as well as results (lagging indicators) to depict the effect of aims and measures in the past. Finally, Kaplan and Norton suggest a balance of quantitative, financial hard facts and qualitative non-financial soft facts.

The BSC might thus offer a helpful tool to translate the value of social responsibility activities by illustrating relations of cause and effect that emerge from the strategic orientation of the company. This causal chain is not only important inside one perspective (e.g. social marketing increases sales) but also across dimensions: A firm that treats employees responsibly will encounter more motivated staff that in turn helps to improve internal processes, increase customer satisfaction and ultimately drive financial performance.

Corporate Social Responsibility Through the Ages

The intensity with which corporate social responsibility impacts a firm's competitive field is not a constant. Actually most of the time social issues hit businesses in a short burst followed by a phase of relative peace. Looking beyond the ethical scandal of the day one can identify several longer waves consisting of a group of similar social issues. These longer waves are usually driven by a particular stakeholder group. A first wave of social transformation started in the U.S. at the end of the 19th century as a response to the largely unchecked industrial capitalism.[11] Protest was mainly fuelled by concern about nonexistent workers' rights and the robber barons' quasi monopoly positions. Eventually the arrival of labor unions completely transformed the competitive field and also the lives of many workers.

Concern about corporate social behavior receded with the First World War, and the 'Golden 20s', saw unprecedented prosperity. However, social responsibility came back with a vengeance when in the late 1920s capitalism suddenly seemed to go terribly wrong. From the Great Depression emerged a North-American pattern of corporate social responsibility dubbed by Hay and Gray "trusteeship management".[12] In this phase managers were not only held responsible by their shareholders and workers. They were also forced to consider the interests of the wider community and the national interest. Thus companies came firmly under the influence of governments. This trend probably peaked in the U.S. with the "New Deal" of the 1930s, which included elaborate production and price control systems, banking reform, public utilities control, and labor protection.[13]

In the years after World War II, as corporate profits and societal wealth soared in unison, concern about corporate social impacts waned again. However, as of the 1960s, concern was increasingly voiced about consumer safety, equal employment, poverty pockets in a nation of plenty, and civil rights.[14] In this phase the market system emerged as the driving force behind transformation. The movement, also known as *consumerism*, is probably best epitomized by Ralph Nader, the 'attorney of consumers'.[15] For the first time corporations met resistance on their 'home turf' and were forced to adapt their marketing – in many cases even their whole management system.[16]
Social accounting and auditing systems were developed and several companies began to issue external social statements and reports on a regular basis. By the mid-1970s an astonishing 425 of the Fortune 500 firms were disclosing social information in their annual report or in separate documents. This prompted the Journal of Contemporary Business in 1978 to state: "[The] trend toward increased - and increasingly informative - corporate social reporting is clear. The

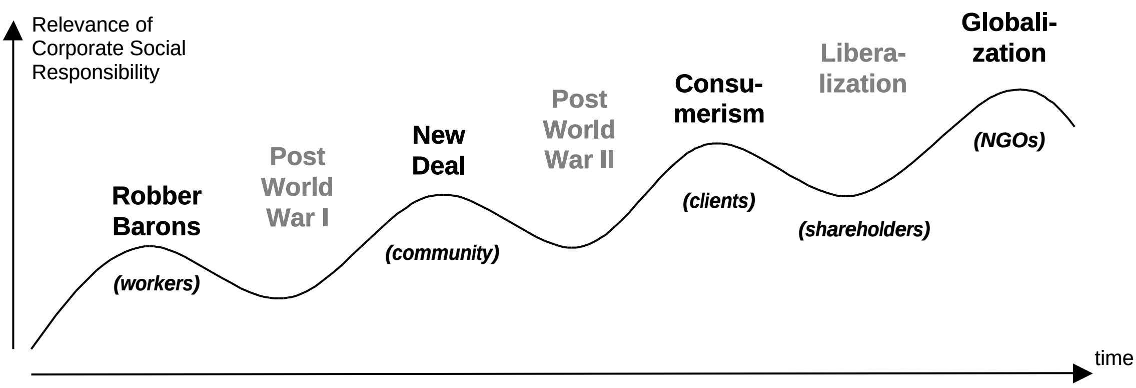
principal reasons that voluntary social reporting is not growing even more rapidly appear to be uncertainty about the method."[17]

However, in the 1980s two things happened that all but marginalized corporate social accounting: firstly, the liberalist movement – drawing on such economists as Hayek and Friedman – hit the political scene.[18] When it was the "the social responsibility of business to increase its profits"[19], as Friedman had claimed, then it was the responsibility of governments not to stand in the way. After a century in which first the workers, then the community, and finally the consumers had seized some control of corporate destiny, the original stakeholders fought back. Shareholder value maximization has, of course, not curbed all influence of other stakeholder groups. However, it has seized the advantage to adjust the playing field. A second moderating influence had been the emergence of corporate environmentalism. Pressure groups such Greenpeace or Friends of the Earth captured the imagination of consumers and the public, marginalizing many traditional CSR topics.

Ironically the last rise in concern about corporate social responsibility in the early 1990s was at least partly triggered by companies themselves. By wholeheartedly embracing globalization they have increased the pressure on wages and worker flexibility in their home countries. Furthermore, they have exposed themselves to criticism about the working conditions at their 3rd world subsidiaries and suppliers. With the political system in full retreat in the late 1990s public pressure groups were the driving forces behind the transformation of corporate social issues. Groups such as Amnesty International, Human Rights Watch, or Christian Aid, have learned how to effectively manage the equally globalized press.[20]

Figure 1 schematically indicates the four waves in which concern about corporate social responsibility has evolved in the U.S. The representation is, of course, only a rough sketch. Neither is it possible to accurately measure the amplitude of the graph nor can the waves be reduced to only one single transforming influence. The figure, is however, useful to illustrate the wave-like pattern that underlies the corporate social responsibility debate. The wave patterns will, of course, be different between industry sectors. Also, it is more difficult to detect patterns for Europe, where huge national differences require a country-by-country analysis.

Figure 1: Historical Trends of Corporate Social Responsibility in the U.S.



Source: K. Hockerts, " Corporate Social Responsibility as a Source for Sustainable Competitive Advantage", INSEAD Working Paper, 2002

Nonetheless, it is interesting to note that over the past century different stakeholder groups have been instrumental in transforming the business context: the workers, government, consumers, shareholders, and more recently public pressure groups. Although the emergence of a new stakeholder group can weaken the incumbent groups, the competitive field usually remains in favor of the older stakeholder group as well (albeit at a level below its peak of influence). The next section takes a look at different types of social impacts and stakeholder groups.

Understanding Corporate Social Impacts – Key Performance Indicators

In order to better understand the link between CSR and firm performance we need as a first step an analytical framework to analyze social impacts. Such a social impact matrix would have to be generic enough to accommodate future issues as well as to provide categories specific enough for application in the real world. The problem of corporate social responsibility is not a shortage of indicators. In its benchmark database on social indicators, PricewaterhouseCoopers has collected a total of 125 indicators of social responsibility in as much as 24 main categories.[21] The 1997 Body Shop "Values Report" detailed as many as 173 targets for social change in 13 main categories.[22] Yet although social indicators are abundant we still lack a systematic theoretical framework explaining what social effects of corporate activity are and where they come from. Expanding earlier work[23], this paper proposes a two dimensional social impact matrix.

Types of Social Impacts

A first point of departure of analysis might be ***monetary flows***. Besides amassing profit for their own sake firms also generate economic income for their stakeholders: employees receive a salary, business partners in the supply chain capture part of the value added, local communities receive taxes, and shareholders benefit from dividends and capital gains. An important social impact of firms lies in the creation of wealth for numerous members and non-members of the firm – these are often referred to as its stakeholders.[24]

However, to limit the social impacts of a firm to their mere financial aspect would be largely insufficient.[25] Firms do also provide ***security***. For example, by hiring people on permanent contracts firms offer them the possibility to plan their lives: to buy a house, have a family, and make plans for their retirement. Layoffs thus have an impact beyond the direct economic consequences. Even employees who keep their jobs are negatively affected by the layoffs, as the event destroys their illusion of job security.[26] Other stakeholders benefit from the security aspect as well. Unless firms only deal in spot markets they offer some planning security to their business partners as well. This can take the form of quite elaborate co-operation agreements binding otherwise independent companies together for a defined period of time.[27]

And yet firms have even more social impacts. When, for example, much of the coal and steel industry closed down in the 1980s in Germany and Britain, this sorely hit the morale of whole cities. In most cases unemployment benefits helped to fend off the worst economic losses and insecurity. Indeed many families adjusted after some initial problems in lowering their income levels. What really hit the communities, however, was the breaking up of its social structures. Corporations give their stakeholders the feeling of ***belonging to a distinct group***.

There is another impact corporate activity has on its stakeholders: it gives them the feeling of being needed. For many employees jobs are the basis of ***social recognition*** as well as a source of income. Companies further this trend by making the importance of its employees visible through status symbols such as a company car, a chauffeur, or a large office.[28] An explicit goal of many fair trade operations is also to restore the self esteem of their Third World suppliers.[29]

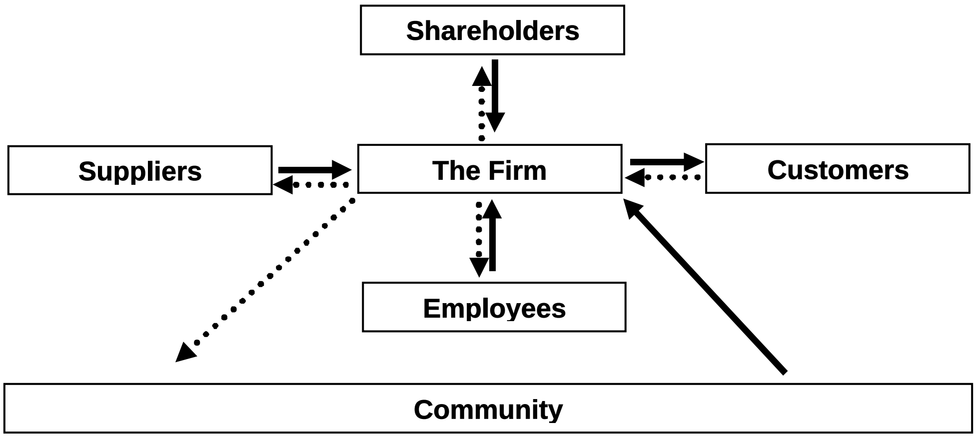
Jobs have yet another and even more subtle function as a means of ***self fulfillment***.[30] This goes much beyond social recognition because self-fulfillment is not defined in relation to what others think but in relation to one's very personal aspirations. Take the example of a division manager putting all his personal effort into a new break-through product, who is taken off the project due to changes in strategy. Even if the manager is promoted (higher salary, social recognition etc.) the net social effect of this may very well be negative, as the manager feels disillusioned.

A problem firms face when trying to understand its social impacts lies in the fact that a given objective impact may be interpreted differently by different stakeholder groups. How the external impacts of a firm are perceived, depends on the subjective needs of each individual stakeholder. What might be considered real corporate generosity by one person may be irresponsible exploitation for someone else. Furthermore, corporate social impacts are time dependant as well. What is seen today as a genuinely positive contribution, can turn into a reason for concern in the future.

Types of Stakeholder Groups

Besides the kind of impact a firm has, its managers will also have to consider different stakeholder groups. Scholars have suggested several different ways to differentiate stakeholders. This paper follows the value chain of the firm (see Figure 2), which has the advantage of being close to traditional management practice.

Figure 2: Different Stakeholders Groups Along the Firm's Value Chain



Source: Hockerts, 2002, op. cit.

A very tangible social impact firms have on their ***employees*** is the *creation of jobs*. While the hiring of staff is often taken for granted, it is in an economic slowdown that people expect companies to act responsible towards its staff.[31] As nation states lose their capacity to create jobs at will, people increasingly look towards corporations to deliver more jobs. Yet, the uncertainty about the economic slowdown notwithstanding, job security is still mainly a hygiene factor[32] for the majority of employees. As was discussed above, people are looking for different benefits from employment such as *group belonging, self-esteem, and self-fulfillment*. Resulting fields of dispute usually deal with *corporate discrimination and inequality*: women resent earning less than their male counterparts for equal work; minority groups challenge employers that discriminate against them; and low wage workers resent a permanently increasing gap between top management's remuneration and their own salary.

Another important beneficiary of external social impacts are a firm's ***suppliers***. Over the past decade the corporate landscape has been transformed by outsourcing and globalization. "Global sourcing" has long become a reality not only for large transnational corporations but for many SMEs as well. Responses to this trend are diverse. In developing countries global trade is seen as a means to participate in the wealth of the Western World; and for people in these countries financial gains can still be a strong incentive. However, at home, corporations are much less applauded as more and more jobs come under pressure: *job security and salaries start to slide downwards*. Another issue on the corporate agenda, especially relevant to their relations with suppliers, is the observance of human rights.[33] Many a firm, tempted by cost opportunities, has turned a blind eye on *human rights abuses* at their suppliers' facilities. Multinational corporations are also resented for throwing around their economic weight to extort favors for their presence in a certain municipality (e.g. lower taxes, lax labor and environmental standards). Moreover, the presence of firms in undemocratic societies is believed by many to *stabilize repressive undemocratic governments*. Increased global co-operation can also have negative effects on *cultural diversity*. As the boundaries between cultures blur, "weaker" nations fear being "assimilated".

Are ***customers*** a forgotten stakeholder in CSR terms? Most managers would reject such a counter-intuitive idea: after all aren't the customers at the very heart of every business process? Aren't total quality and attractive prices, at the end of the day, all about serving the market in ever better ways? Reality, however, can differ substantially from this rhetoric. When it comes to acting in their clients' best interests many firms are seen to fail the test. Many poor customers, for example, aren't even able to satisfy their basic needs. This segment (which Prahalad and Hart call the "*bottom of the pyramid*"[34]), constitutes about 2/3 of the world population. As an increasing portion of the world population has no access to such basic products as food, health care, or a roof over the head, firms come under pressure to provide products and services to the poor. But even in serving customers in the developed world firms cannot always claim to act in the client's best intention. Not all products turned out by firms are truly beneficial to the people at whom they are targeted. Some indeed decrease the social welfare of their clients. Companies typically under attack from social pressure groups are those providing tobacco, alcohol, and gambling. Their products cause human tragedies as well as incurring societal costs. Furthermore, aggressive advertisements targeted at kids (particularly concerning war toys, violent horror movies and video games) are subject to criticism. The trend of globalization to sell the same products in all markets is rejected in some places violently because a deterioration (or "McDonaldization"[35]) in national and regional culture is feared.

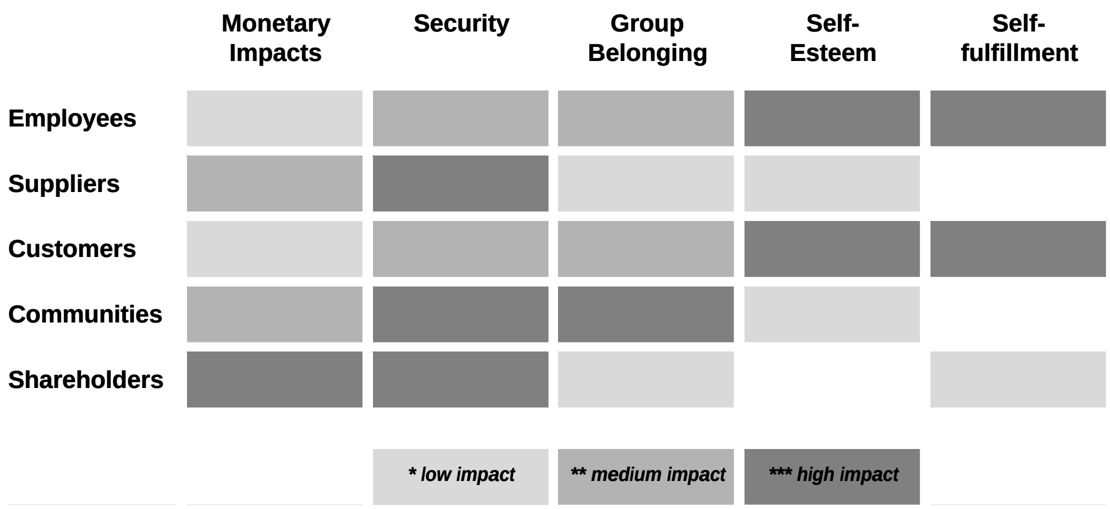
Firms also have an important role to play in the local and global ***communities*** in which they participate. Many firms feel community relations to be sufficiently addressed by *corporate philanthropy* and charitable giving. However, McIntosh criticizes that "philanthropy [is], after all, the distribution of excess wealth after shareholders and others have been paid off."[36] He points out that many citizens expect firms to act "as caring, honest, decent organizations with real concerns for local and global communities. [In which case] there would be little or no need for philanthropy."[37] One way in which firms can act as change agents (and thus give back some of the wealth created with the help of local communities) is to systematically *increase the community-based intellectual capital*. Firms can also help to systematically *build local capacities*.[38] For example, by opting for procurement from local suppliers or by helping to set up local enterprises corporations they can create the software and the hardware for a community to prosper.[39] Another option is to donate their employee's time to aid in voluntary management training programs for local authorities and NGOs aimed at building capacities for sound governance and management.[40]

Many CSR proponents like to overlook a final stakeholder group, because they appear to be already so well represented – the ***shareholders*** of the firm. Problems in this group can stem from the fact that, though shareholders technically own a business, they do not actually control its management decisions.[41] Economic theory calls this a "principal-agent problem" suggesting that managers may act "opportunistically" and to the disadvantage of the shareholders.[42] This dilemma has culminated in the shareholder value debate of the 1980s/1990s, which has prompted many managers to place the interest of their shareholders (again) at the top of their agenda.[43] However, in many Asian (and even in some European) companies management still has a mentality of cover-up. The *handling of minority stockholders* has been another issue of complaint over the past decades. Only too often management sees minority shareholder resolutions merely as an inconvenience. Accordingly such positions receive a less than equal share of attention from the management.

By combining the two dimensions of corporate social impacts (the need categories and the stakeholder groups) firms can start to understand their external social impacts. The resulting 'impact matrix' accounts firstly for the fact that firms cause a variety of different social impacts ranging from monetary impacts through to less tangible impacts such as self-esteem and self-fulfillment. Furthermore, the matrix takes into account that different stakeholder groups (such as employees, clients, shareholders etc.) may perceive impacts differently. Measuring whether a firm's social impacts have a positive or a negative impact as well as the perceived intensity will require a mix of instruments such as stakeholder questionnaires, focus groups, and expert surveys.

The ***corporate social impact matrix*** allows a quick overview about the two dimensions. Of course, the matrix will look different from industry sector to industry sector as well as from one individual firm to another. In the illustrative example (see Figure 3) employees and customers would be expected to perceive the firm's impact most strongly in the categories of self-esteem and self-fulfillment. Suppliers, communities and shareholders on the other hand are probably more interested in monetary impacts and security.

Figure 3: Illustrative Example for a Social Impact Matrix



Source: Hockerts, 2002, op. cit.

The Transformation of Corporate Social Impacts – the Leading Indicators

Knowing that a firm has high or low external effects on specific stakeholder groups does not in itself say anything about the relevance of these issues for management decisions. Only through "transformation" become social impacts relevant for the competitive situation of a firm. Not all stakeholders resort to civil war (as happened in North-America in the wake of the crusade to end slavery) to make their claims heard. Nonetheless, ever since the days of Jefferson, entrepreneurs have found that individual stakeholders were willing to stand up and fight for their ideals causing companies high cost. Dyllick suggests three transformational systems through which stakeholders can make their claims heard:[44] either directly through the market (i.e. preferences of customers, employees, suppliers, or investors), or more indirectly through the political system (i.e. regulation and litigation), or the general public (i.e. civil society). Each of these three systems is taken in turn below to discuss their peculiar role in the transformation of competitive fields.

Mechanisms of Transformation

Market forces having transformed the competitive field based on corporate social impacts include the *collective bargaining* position of workers. However, after having exerted a high transformational influence in the 1960s and 1970s trade unions have recently lost some of their clout over corporations. With unions in retreat the individual bargaining position of employees is becoming increasingly more important. Firms, which are perceived as caring about employers may find it easier to attract and retain highly qualified employees.[45] Suppliers and franchisees also recognize firms acting as a caring and responsible business partner. Unsurprisingly automakers experienced a backlash when they turned up the pressure on their suppliers in the early 1990s.[46] Furthermore, many markets have seen the emergence of *'alternative' customer preferences* (e.g. for fair trade products, or goods with an ethical label) as an opposition to abusive behavior of transnational corporations. What started as a negligible minority movement has long captured a considerable market niche. A survey carried out by London's market research firm MORI reports that three-quarters of consumers say social responsibility is important to some of their purchasing behavior.[47] Finally, the *financial markets* have been an unlikely driver for social responsibility. Many traditional investors, interested primarily in high returns, are starting to worry about corporate social responsibility. A survey conducted by MORI found that one in three financial analysts and institutional investors believes that a company's contribution to society and the communities in which it operates can affect its financial performance.[48]

Where markets fail the ***political forces*** often take over the transformation of the competitive field. Shortly after multinational corporations made their first appearances governments started to regulate aspects of corporate social behavior. Around the turn of the 19th century laws came into being in Europe and the US regarding such issue as the right to form labor unions, restrictions on the use of child or forced labor, or health and safety regulations. Later in the century antitrust laws, regulations on consumer protection, anti-discrimination laws, and many other regulations followed. The political institutions overseeing corporate behavior evolved together with these topics. The US, for example, created as early as 1914, the Federal Trade Commission (FTC) as an antitrust weapon.[49] However, over time the FTC's mission broadened to include customer protection as well. In some cases such as telecom, postal services, equal credit opportunity and health services a "requirement-to-serve"[50] was made to ensure that clients at the bottom of the pyramid are not denied service if they could not afford to pay the usually market price. In 1965, Austin pointed out the enormous role government can play in transforming the competitive field in an article in the Harvard Business Review, and urged firms to take charge of social responsibility lest the government do it for them in unsuspected and unpleasant ways.[51] Notwithstanding the immense influence, which the political system has had on the social performance of corporations, the last decade has been mainly driven by a trend towards *deregulation*. Furthermore, globalization makes it ever more difficult for politicians to effectively regulate multinational firms.

As the political system has lost some of its transformational influence the ***public*** – in form of the civil society and more particularly its aggressive pressure groups – has emerged as a new force impacting the competitive field. Firms, oblivious to the increasing importance of public opinion, risk being punished severely. Groups such as Amnesty International, Human Rights Watch, or Christian Aid, are highly effective at voicing ethical concerns. They are media-savvy and know how to spin a story to the journalists always waiting for a David and Goliath story. Firms might hope social concerns to be a passing phenomenon (much like it has been in the 1970s). However, for the time being the signs point into the opposite direction. Researchers at MORI report that for the past decade the amount of people considering corporate social issues to be "very important" has increased year by year.[52] Firms that are perceived as unethical may well face attacks on corporate fixed assets, such as farmland and buildings.

Usually such resistance to corporate activity is difficult to root out, even when the protesters are clearly putting themselves outside the law: if a firm pursues their critics in court it may cause even worse damage to the corporate reputation by *giving the activists a platform* from which to voice their concerns. A more subtle but nonetheless powerful approach towards attacking unethical behavior of corporations are spoof ads or "*subvertisements*" that turn advertisement campaigns against their own creators. Organizations such as "Adbusters" in North-America are working successfully with such tools and have turned what they call "culture jamming" into an art form by its own right. "Culture jamming," they expect to be, "to our era what civil rights was to the '60s, what feminism was to the '70s, and what environmental activism was to the '80s. It will alter the way we live and think. It will change the way information flows, the way institutions wield power, the way TV stations are run, the way the food, fashion, automobile, sports, music and culture industries set their agendas. Above all, it will change the way meaning is produced in our society."[53]

The Life Cycle of CSR Issues and Their Impact on the Competitive Field

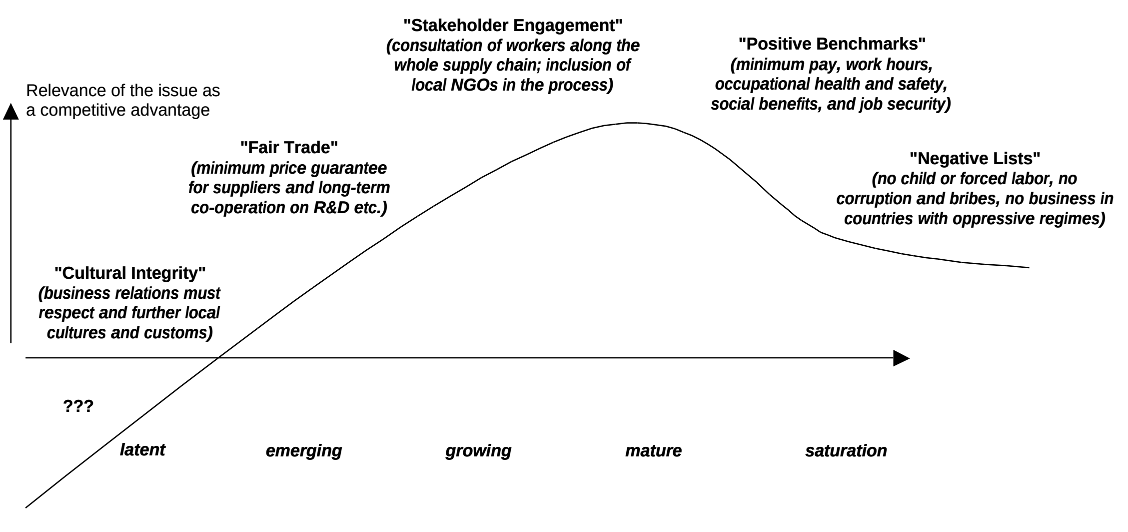
The transformation of a competitive field usually undergoes a life cycle of its own. Thus firms are constantly confronted with new latent, emerging, growing, mature, or declining issues.[54] Actually most corporate social impacts are irrelevant to the competitive field when they surface. As none of the three transforming systems (market, politics, or public) has yet started to pick up on the impact, they remain ***latent***. Later when an article is published in a scientific journal, or a concerned citizen writes a letter to the local newspaper, the issue starts to ***emerge*** and begins slowly to transform the competitive field. In this phase some few pioneers can reap benefits from acting proactively. Actually, at this point of time a mere token initiative can be enough to generate a considerable amount of goodwill.

Opportunities for competitive advantages (e.g. higher profits or reduced costs) accumulate for proactive firms as the transforming power of the issue ***grows***. Now token initiatives will no longer be sufficient. Firms have to compete for a leading position. In this phase usually award schemes are introduced to laud the 'best practice' in the industry sector. On the other hand firms that have been inactive until now, may face considerable costs as NGOs, politicians, and consumers start to turn increasingly demanding concerning the issue at hand. As an issue ***matures*** usually all firms in a competitive field are influenced by the transformation. In order to realize competitive advantages in the late phase firms have to compete fiercely. On the other hand, businesses that were able to thwart extra costs so far (e.g. because they were too small to be considered by activists, or because they had been inconspicuous) may now get also drawn into the dispute as well.

Eventually, interest in any issue is bound to ***decline*** at some point. However, this does not mean that the issue disappears from the corporate radar screens. It has merely become a "hygiene factor".[55] The expenditure related to the issue is accepted by everybody as the cost of doing business. On the other hand taking a proactive stand will no longer raise much attention. 'Equal opportunity employment', for example, can be seen as an example for a recent issue of concern about corporate behavior that is on its way to become a hygiene factor. A firm stressing in its job advertisement that it is encouraging women and minorities to apply, will no longer receive any positive consideration. On the other hand being found to have discriminated against an employee on the grounds of sex, race, or religion, usually comes at a high cost to businesses.

The knowledge of the life cycle of issues relating to corporate sustainability is highly relevant to managers because it defines their ***zone of managerial discretion***.[56] Managers facing latent or emerging issues have a variety of options available for approaching the problem. As the issue matures the available options are narrowed down or even eliminated completely. The transformation of the competitive field thus reduces dramatically the alternatives managers can chose from. While early action may come at relatively low costs, managers risk paying a higher price if they decide to act only when the ethical crusaders have already mounted their heavy boycott machinery.

Figure 4: Exemplary Illustration of CSR Issues and their Competitive Relevance in the Apparel Industry



Source: Hockerts, 2002, op. cit.

Figure 4 illustrates the life cycle of social issues at the example of the apparel industry. At the outset pressure groups focused primarily on negative issues, requiring firms to stop child or forced labor, and to stop business activities in countries with oppressive regimes.[57] Although such campaigns are still underway firms that subscribe to such negative lists will no longer be perceived as socially responsible. At least for large multi-national apparel makers such practices are becoming a mere hygiene factor. In a second round of attacks pressure groups started to set positive benchmarks (i.e. minimum pay, social benefits, and job security), which they expect firms to meet and exceed.

However, firms can no longer be sure to be on the safe side, by simply adopting negative lists and positive benchmarks proposed by Western NGOs. As points out Kapstein, many firms have been doing more harm than good by single-mindedly reacting to demands by pressure groups.[58] For example, when firms terminate contracts involving child labor they may satisfy the immediate claims by Western protestors, but they often leave the children both out of school and out of a job, or any form of financial security. As both firms and pressure groups are realizing this fact a third wave of social responsibility is now building up for the apparel industry. By developing elaborate stakeholder engagement processes along the supply chain, they aim to understand the needs of their stakeholders in both the developing countries and in the market place back home. Codes of conducts and the rare social audit cannot reach the root of the problem. Accordingly firms such as Nike, Rebook, and Adidas are now looking for new ways to address their social issues by entering in quite elaborate co-operations with NGOs in the field. For example, realizing that it is neither desirable nor possible to police all suppliers, Nike is now encouraging trade unions in supplier firms to take over the role of watchdogs.[59]

Further issues now starting to register on the radar screen of the apparel industry include topics such as fair trade labeling (which some textile firms have already begun), and a critical reflection of the impact global fashion firms have on cultural diversity. Both waves are still in the early stages. However, proactive firms are well advised to pay attention early on. When pressure groups start to pinpoint issues managers are still able to choose from a wide range of responses. However, when managers dig in their heels, the room for maneuver quickly runs out, as past experience shows. Boycott campaigns increase the stakes on both sides, making it impossible for pressure groups and firms to find common ground. When the multi-nationals under fire finally decide to meet the pressure group's demands, they have no choice but to capitulate along the whole line. A decision, such as terminating trade with all contractors that are suspected of using child labor, is not only a costly strategy, it is also questionable from an ethical point of view. On the other hand by acting early on firms may succeed to stay on top of an issue's transformation. By being able to negotiate both the agenda and the time schedule such firms may avoid both damage to their reputation, and the higher cost of last minute action. An example, of such a strategy is Unilever's initiative to set up the Marine Stewardship Council together with the Worldwide Fund for Nature.[60]

Strategic Responses to Changes in the Competitive Field – the Lagging Indicators

Firms may track their social performance indicators and their exposure on these aspects. However, this still does not provide a link with firm strategy. The last step is, therefore, to establish the link with the lagging indicators that actually drive competitive advantage. Two facets (reporting and marketing) will be analyzed as illustrative examples.

Corporate Accountability and Social Reporting

Companies that come under pressure from a transformed competitive field usually turn first to measures aimed at improving their reputation. On the lowest level ***accountability*** is merely an extension of traditional reputation management. In response to public pressure firms have adopted corporate policies and codes of conduct ruling out specific socially unsustainable behavior and setting minimum standards. For example, in response to concern about its mining activities (and the negative press coverage) the Anglo-Australian mining company Rio Tinto has given itself a statement of business practice entitled "The Way We Work" and emphasizing the company's support for the United Nation's Universal Declaration of Human Rights as well as the importance of local consultation throughout its operations.[61]

A survey of 360 US firms by the New York-based Council on Economic Priorities (CEP) found that one in five had a code of conduct of its own.[62] However, not all companies were equally quick to make sure that these codes are also properly enforced. Only a third of the firms reporting a code had procedures in place for monitoring. Feeling that such efforts were in reality only empty PR gestures many activists increased their protests adding hypocrisy to the list of their charges. Under the mounting pressure many codes have evolved and now include elaborate external verification and certification procedures. The apparel industry, for example, can seek independent certification of its suppliers and subcontractors according to SA 8000, a dedicated standard.[63] This standard covers a range of issues such as child and forced labor, discrimination, health and safety, working hours, and compensation. The SA 8000 is an auditable standard for third party verification for which now several of the big traditional verification bodies (e.g. SGS, DNV, BVQI) have accreditation.

Companies interested in achieving advantages *vis a vis* their competitors face the challenge of communicating their social performance to the world at large. ***Social reports*** help to communicate the corporate performance in relation to a firm's own goals as well as external benchmarks. In its sustainability report, the French building material company Lafarge is, for example, reporting its performance as rated by five major ethical rating agencies (such as the FTSE4GOOD) and compares its performance with the industry average as reported by these agencies.[64]

Currently three types of content dominate social reports:
- A first type, the ***case study report*** mainly consists of a selection of anecdotal case examples. These are supplemented by a documentation of corporate policies and codes of conducts.

These kind of social reports have been published by firms such as BP, Shell, and Grand Metropolitan.[65] They address specific problems, which are currently at the heart of a company's CSR policies. Although they cover all stakeholder groups the social reports of BP and Shell, for example, gravitate both around the problems these firms had with reported human rights violations.

- A second type of reports consists of a combination of ***corporate goals and social indicators***. Social reports in this category include Novo Nordisk in Denmark, ABB in Switzerland, Traidcraft and British Telecom in the UK, and VanCity in Canada.[66] These reports usually cover several stakeholder groups more or less equally and allow to track both the absolute performance of a company as well as its achievements in relation to internal goals and external benchmarks over time.
- A last kind of report consists of the publication of ***full constituency accounts***. SBN Bank, and Ben & Jerry's, for example, publish regularly the results of their stakeholder consultation alongside their financial reports.[67]

Social Marketing and Brand Building

There is another perspective to social sustainability as well: the social and ethical side of marketing. When customers are either willing to stay loyal to a brand or to pay more for a product, which they perceive as socially or ethically superior, new business opportunities unfold. Businesses increasingly see social marketing[68] as a means to achieve just this means.

Strong brands build around the notion of social responsibility include the British cosmetics company Body Shop, and the U.S. ice-cream maker Ben & Jerry's. Both companies make aggressive use of public campaigning thus mixing advertisements with their ambition to further social causes.[69] However, as the social agenda moves on, socially responsive companies have to learn that a brand image can not remain for ever. Companies such as Migros of Switzerland, Marks and Spencer of Britain, and C&A of Germany, for example, face problems as new social issues emerge while their brands still stand for traditional values (e.g. cultural sponsoring at Migros, local sourcing at M&S, and high employee benefits at C&A). Social and ethical brands (like any other form of brand) have to keep in step with changes in public values and demonstrate that they address new challenges (fair trade, community development etc).

Firms that can not or do not want to build their whole brand around CSR issues can adopt ***cause-related marketing*** strategies. Sheraton Hotels, for example, has raised over US $3 million dollars for the United Nations Children’s Fund UNICEF since launching its Check Out For Children program in November 1995. Nambarrie Tea Company received the 1999 Cause-Related Marketing Award for Excellence issued by Business in the Community, a British corporate social responsibility group. The firm guaranteed a donation to Action Cancer from sales of specially designed packs of Nambarrie tea which also carried information on the campaign and were sold at the normal price. Nambarrie reports that the campaign exceeded expectations for both partners generating substantial media coverage, awareness, employee pride and shared learning as well as raising over £200,000 for the cause.[70]

A more grassroots oriented development within social marketing are ***"fair trade" products and markets***. As early as the 1940's organizations such as Ten Thousand Villages (formerly Selfhelp Crafts) in the U.S. sold alternatively traded products. Oxfam in the UK started selling crafts made by Chinese refugees in the 1950s and initiated a scheme known as 'Helping by Selling' in the early sixties. Fair trade organizations point out that especially many Third World commodities, such as agricultural products, textiles or metalwork, are traded on unequal terms. Because many small suppliers face a few multinational processing and retailing companies, the latter can virtually squeeze prices to rock bottom levels, leaving the farmers with hardly enough return to cover their costs. For example, as little as 8% of the price consumers pay for coffee actually reaches the producer.[71]

Fair trade started to hit the main street retailers in the late 1980s when organizations such as the Dutch Max Havelaar Foundation, the German TransFair, and the British Fairtrade Foundation were founded. Fair trade organizations offer a label certifying that a "fair" share of the proceeds of a commodity are returned to the original producer. Furthermore, they help potential retailers and third world producers to get together. The different label organizations have now come together under one international umbrella organization, the 'Fairtrade Labelling Organisations International' (FLO) aiming at a harmonization of the fair trade criteria used by the different labels.

By the mid-1990s fair trade was a growing market segment in Western Europe, Australia and New Zealand, with total sales estimated at $400 million to $500 million a year.[72] Compared with such developments fair trade in the United States and Canada is still in its infancy, with annual sales no more than $40 million. Fair trade products can today be bought in many traditional supermarket chains. In the UK Co-op, Iceland, Morrisons, Sainsbury's, Tesco, Waitrose all offer products with the Fairtrade Mark label. The two leading food retailers in Switzerland, Migros and Coop, both offer Max Havelaar products. In the Netherlands Max Havelaar can today be bought in 90% of the supermarkets and has reached market shares from nearing three percent for coffee to ten percent for bananas. More and more fair trade also reaches beyond the traditional products such as coffee, cocao and tea. 1999, for example saw the introduction of a fair trade scheme for fresh fish caught of the African coast.

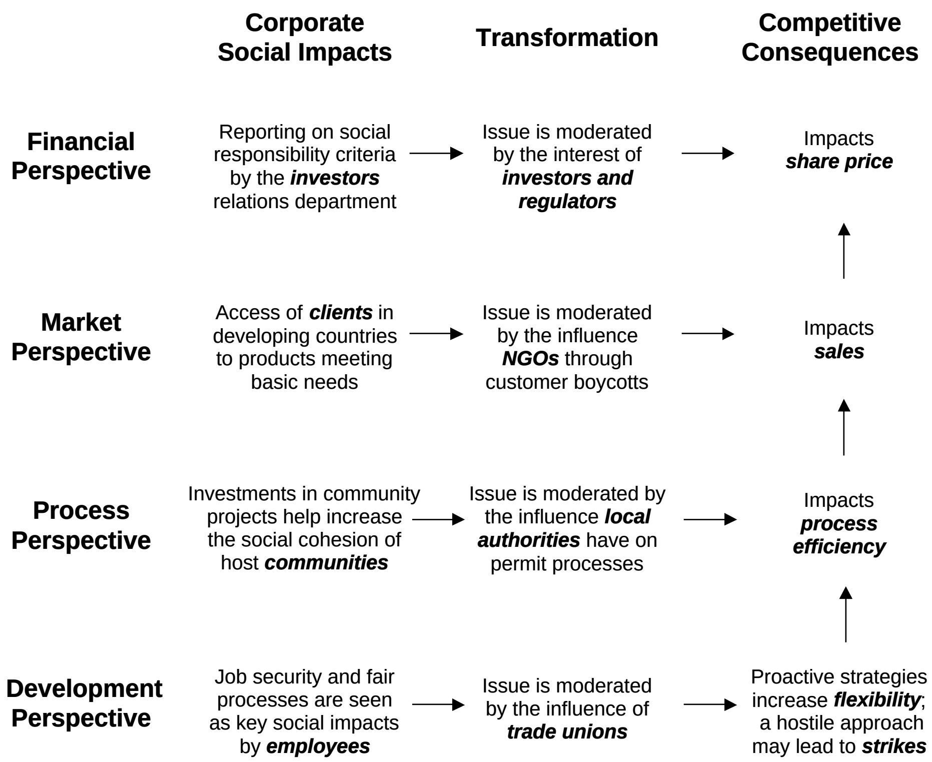
More recently firms have also turned their attention to the possibilities ***social entrepreneurship*** might offer as a means to reach completely new markets. Traditionally many firms have worked hard to serve their clients in the developed world. However, the consumers to whom these products and services are available make up only a small portion of the world population. A large part of the bottom of the pyramid is still excluded from even the most basic services and products such as food, health and financial services, or communication. Social entrepreneurship aims to reach these so far underserved markets, aiming particularly at the development and vitalization of poor communities.

Conclusions

In this paper we propose an analytical framework for differentiating the corporate social impacts a firm has on different stakeholder groups. These impacts have a priori no competitive consequences, as they are by definition external impacts without direct costs or benefits for the firm causing these impacts. The paper advances a matrix through which social impacts may be differentiated across different stakeholder groups. However, external social impacts will become relevant to a competitive field only when direct or indirect market players (i.e. customers, capital markets, trade unions, politics, media, public pressure groups) pick up these impacts and introduce them in the market equation. As many other issues, they have a life cycle of their own running from emerging via growth to saturation. The proposed differentiation of social issues, transformation, and strategic impacts is particularly relevant for firms that want to manage corporate sustainability through the use of a balanced scorecard. By differentiating between social impacts, as well as leading and lagging indicators the framework allows managers to analyze the causal links between social and financial performance.

Figure 5 provides an illustrative example for a balanced scorecard that has been enhanced by social performance indicators. In this fictive case only four social impacts are considered. In the financial perspective the question is addressed whether a firm should communicate its social performance to investors alongside financial data. Increasing interest by investors and regulators has brought this topic to the forefront for many firms. The scenario underlying the market perspectives has been based on recent developments in the pharmaceuticals sector, where pressure groups have initiated consumer boycotts of firms that have refused to provide essential medication at a lower price in developing countries. The impact of community relation in this example is linked to the influence of local authorities, while the role of employee relations is assumed to be moderated by trade union power. In reality each company will, of course, have different impacts that are relevant as well as facing different transformation mechanisms. The challenge for management is to keep all current and latent issues on their radar screen, and deciding on which aspects they focus on primarily.

Figure 5: Illustrative Example for a Balanced Scorecard Enhanced by Social Performance Indicators



At this point a word of caution is required. Wherever transformational forces are not at work (or not strong enough) to make corporate social responsibility worthwhile for the firm, the framework developed here does not provide an argument for adopting a proactive stance. The question how firms can be motivated to chose socially responsible actions even in the absence of competitive advantages (i.e. when they would have to go "beyond the business case") is largely a topic of moral discussion and business ethics discourse, which the proposed model does not want to address. However, by introducing the notion of a life cycle of social issues, the framework illustrates that issues, which are not yet of competitive relevance, may become so one day. What seems to be altruistic one day may turn out to have been good business sense the next day.

It is important to note that the transformation of social issue does not always follow an objective or even rational path. The outcome of many a campaign to increase the social welfare of the disentranced has inadvertently reached the opposite.[73] In using and being used by the media pressure groups may distort or plainly misrepresent the interests of their constituents. In such cases the social-impact matrix may help all parties involved to better understand the expectations of different stakeholder groups. Using such tools proactively firms may even turn out to have an equally important impact on furthering the social welfare of their stakeholders as have social activists and pressure groups.

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