Towards a Balanced CSR Performance Measurement Framework

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Abstract

In order to evaluate the real contribution of Corporate Social Responsibility (CSR) to a company as well as to its stakeholders, it must be measurable. The difficult task of measuring the results of CSR has been a matter of long discussion both by academics and practitioners. Some of the literature on Corporate Social Responsibility combines CSR with stakeholder theory introducing corporate social performance. The literature has attempted to describe emerging models of the issues that lead to a coherent model of what would represent corporate social performance. However, it is the case that social aspects are “soft” in nature, therefore being difficult to quantify. Innovated methods of performance measurement such as this of Balanced Scorecard has lately been introduced in some companies in their attempt to include non-financial indicators to give more balance and forecasting power to the traditional financial performance assessment system, but the view of Corporate Social Responsibility is rarely taken into account. On the other hand, management frameworks that try to cover social and environmental aspects, such as Global Reporting Initiative (GRI) by
providing a plethora of related performance measures cannot connect them to corporate strategy and are weak in the recognition of their cause and effect relationships. The purpose of this paper is to suggest a CSR performance measurement framework based on the adoption of the Balanced Scorecard approach. For the development of the proposed framework, the existing assessment of CSR and Corporate Sustainability actions of the Greek companies of different sectors was analysed in order to identify common practices in CSR performance evaluation as well as existing limitations. Taking into account the social indicators suggested by the traditional balanced scorecard views, an extension of its structure is proposed in order to better embody the environmental and social aspects of a company’s performance.

Key-Words

Corporate Social Responsibility (CSR), Performance Measurement, Balanced Scorecard, GRI, Qualitative & Quantitative Evaluation Process.

1. Introduction

Over the last decade, there has been an apparent shift from adopting more responsible business practices as a result of regulatory citations, consumer complaints, and special interest group pressures, to proactive research exploring corporate solutions to social problems and incorporating new business practices that will support these issues (Business for Social Responsibility Education Fund, 2000). In fact, it is only in recent years that the number of organisations engaging in social behaviours and activities has increased markedly (McWilliams et al., 2006; Stainer and Stainer, 2003; McIntosh et al., 2003). According to Pryce (2002), the current focus, is driven by five forces: customer pressure, changes in business procurement, government legislation and pressure, the rise of socially responsible investment, and the changing expectations of employees.
However, despite the interest that CSR has generated, a number of issues have not yet been satisfactorily addressed. Whilst the rhetoric encourages organisations to aspire to be more socially responsible, there is not a sufficiently explicit or detailed description of what it is they should be aiming for, nor is there a well developed or convincing body of literature that can clearly articulate the value to organisations of engaging in such behaviours (Van Marrewijk, 2003). Indeed, much of the current interest in CSR centres on the need to engage in such behaviours as a matter of course but there is none, or very little, consideration of the incidence and types of initiatives that are seen in practice, or of why CSR initiatives are undertaken in some organisations and not in others. As a result, the meaning of CSR and the issues surrounding it remain clouded for many organisations (Webley, 2001; McWilliams et al., 2006).

With a lack of a commonly agreed definition of CSR, the formation of a performance measurement framework for its evaluation and the communication of the results to the stakeholders of the organisation become very difficult. Whilst organisations have generally recognised a responsibility to society (Boatright, 2003), the implementation of this at a strategic level is much more problematic. To many, CSR remains “a vague and intangible term”, with “unclear boundaries” (Frankental, 2001; Lantos, 2001). Therefore, although the debate about CSR has continued to grow, we remain far from consensus on what it means and its value. Some companies see it as a source of business opportunity and improved competitiveness, while others view it as simply good business practice. To better understand the impact and value of social responsibility, a new perspective of the organisation is needed to be developed, one that better reflects the changing role of business and society and integrates it in corporate strategy and performance measurement. This paper tries to focus on this
idea and proposes a CSR evaluation framework based on the Balanced Scorecard approach and its integration with the GRI performance indicators concerning social responsibility.

2. Corporate Social Responsibility & Performance Measurement

Social responsibility refers to the obligation of a firm, beyond that required by law or economics, to pursue long-term goals that are good for society. (Buchholz, 1990; Robbins and Decenzo, 2001) Trying to give a simple definition, it could be said that corporate social responsibility (CSR) is the necessity and the duty of a company to behave responsibly, ethically and sustainably, and to be transparently accountable to its stakeholders. The different definitions provided in the literature refer to ethical behaviour, sustainable development, the environment, and to philanthropic ideas. It is important that organizations are committed to fulfilling expectations and moral obligations at the level of society. This means that right conduct takes into account the welfare of the larger society (Papasolomou – Doukakis et al., 2005)

Executives are increasingly aware that they are expected to offer some sort of benefit to the wider world. However, for many companies, core business and CSR are an awkward pairing. According to Pricket (2007), if their product base or services do not overlap with any pressing environmental or societal concerns, they feel that CSR is an “extra-curricular” activity that has to be taken part in merely to appease public relations. CSR thus becomes costly and distracting, and furthermore offers little real benefit to the company.
There are signs that the Management of companies believe that CSR can be connected with the achievement of improved financial results (Aravosis et al., 2006). A global CEO survey undertaken by Pricewaterhouse Coopers/World Economic Forum found that seventy per cent of chief executives globally agree that CSR is vital to profitability (fifth global CEO survey). In Western Europe, fifty-eight per cent of large companies report that a mix of both financial and non-financial performance measures (such as these related to social and environmental factors) are of high interest, compared with sixty per cent in the United States (Pricewaterhouse Coopers/Management Barometer, 2002). It is understandable that Corporate Social Responsibility will be really adopted by a company as far as this is in line with its business. Porter and Kramer (2006) advise strongly that the most effective CSR models start by only considering social issues that are directly relevant to the firm’s business. Further, they seek to find ways to reinforce corporate strategy by advancing social conditions. As a result, what is essential to a strategic approach is finding a link between business activities and the society in which it operates.

Trying to complement financial measures with non-financial ones, some firms have introduced ‘balanced scorecard’ systems (Kaplan & Norton, 1992). The Balanced Scorecard methodology suggested by Kaplan & Norton is a management tool helping an organisation define its strategic objectives and set specific targets for them. It was developed in order to cover the inability of the financial indicators to describe the strategic priorities of an organisation. Balanced Scorecard translates the vision, mission and strategy of the organisation into specific objectives classified into four important views: financial, customer, process and growth. The impact of the Balanced Scorecard approach in the organisations is proved by surveys such as this of Business
Intelligence in the USA (Business Intelligence Survey, 1998) reporting that 54% of a sample of 221 organisations uses it as its main strategic management tool.

The omission of a society view as well as the loose cause and effect connection between performance measures seem to be some limitations of the Balanced Scorecard approach as far as Corporate Social Responsibility is concerned. It is a fact that social aspects are often seen by practitioners as ‘soft’, therefore being difficult to quantify (Epstein, 2001). However, it is also true that Balanced Scorecard already displays a number of social intangible assets, which are demonstrated in numerous case studies that directly contribute to the financial bottom-line. Inclusion of value drivers such as the customer perspective, learning and growth, internal business processes and even financial performance (satisfaction of shareholders and management), already suggest a social agenda and imply why the Balanced Scorecard was named ‘Balanced’ in the first place. These socially related dimensions were already assigned an important role, before any discussions of sustainability made it on the agenda. Trying to highlight the social view of the Balanced Scorecard, Epstein (1999), and Epstein & Wisner (2001) suggest the addition of more social indicators into the existing structure of the Balanced Scorecard. However, he does not articulate a framework for how and why they are allocated, nor what types of firms should account for the different social indicators. Even Kaplan & Norton (1996) encourage companies to add other perspectives, such as the social one, if this proves to be important for them. However, no substantive criteria are given to indicate that an organisation should follow in the case that managers are supposed to increase the number of perspectives.
The development of the various quality and excellence frameworks has resulted in the inclusion of measures relating to corporate and social responsibility alongside their more traditional measures relating to organisational practice and performance. For example, corporate social responsibility and environmental responsibility appear as core values and concepts in Baldrige (NIST, 2002) or as a fundamental concept in EFQM (EFQM, 1999). These issues are assessed as results criteria under the context of “stakeholders and society” and are driven from the models’ enabling TQM drivers in common with other operating and key performance criteria. Within the European Quality Award, there is a section looking at “Impact on society”, which considers two aspects of this process, a community’s perception at how the organisation meets its expectations and how the organisation impacts upon the society in which it is located (EFQM, 1999). This impact on society is measured from the perspective of performance, not the role of any explicit or implicit enablers that support this process.

The Global Reporting Initiative (GRI) is a relatively new voluntary quality-driven initiative, multi-stakeholder in structure, emphasising on corporate social responsibility issues. Started in 1997, the GRI was a project of CERES and the United Nations Environment Programme (UNEP). The GRI became independent in 2002, is an official collaborating centre of UNEP, and works in cooperation with UN Secretary-General Kofi Annan's Global Compact. It is a 'practical expression' of the Global Compact, and those businesses that wish to report on their CSR performance can use the GRI Guidelines as a template. The reporting framework covers Vision and Strategy, Profile, and Governance Structure and Management Systems, plus the 'three pillars' of sustainability: Economic, Environmental and Social. The GRI recognizes that not all its indicators are relevant to all businesses - and also that businesses
embracing CSR have begun a journey. Incremental reporting against the Guidelines is the expected progression.

The growth in support for the objectives of the GRI has been wide-ranging. Apart from around 500 organizations across 45 countries which currently use the GRI in whole or in part as a basis for developing their own corporate sustainability reports, the GRI has received widespread support at the governmental and institutional level as a tool that has the potential to provide the transparency and accountability increasingly being demanded of multinational companies by their stakeholders (Brown, 2005). The second, expanded version of the GRI reporting guidelines (GRI, 2002) represents an important step forward for sustainability reporting, containing an improved set of environmental indicators alongside much-expanded sets of social and economic performance indicators, however it does not provides solutions on how CSR can be incorporated in the organisational strategy.

Drawing on the research conducted, this paper acknowledges that while both researchers and organisations have generally recognised the need for responsibility to society, the implementation of this at a strategic level is still problematic and suggests a framework for incorporating CSR in strategy through the combined use of Balanced Scorecard and GRI performance indicators.

3. A Proposed CSR Performance Measurement Framework

The proposed methodological framework is based on the combined use of the Balanced Scorecard Method and the GRI performance indicators repository in order
to incorporate social responsibility into organisational strategy, define CSR measures of strategic importance, measure and control the results.

There are many reasons justifying the adoption of Balanced Scorecard (represented in Figure 1) in the definition of an organisation’s strategy, connected with environmental and social issues. The most important of them are the following:

- CSR has no meaning of existence if it is not seen integrated with the corporate strategy. The Balanced Scorecard is one of the most acceptable strategic frameworks by companies worldwide.
- The Balanced Scorecard approach places weight in the existence of qualitative performance measures such as measures connected with environmental and social issues, as far as these are perceived to be of strategic importance.
- By putting pressure in the management of the organisation for a commonly acceptable definition of organisational strategy, there is the opportunity for Corporate Social Responsibility to communicate and explain the importance of CSR to everyone.

![Figure 1: The Kaplan & Norton’s Balanced Scorecard Approach](image)

Although the Balanced Scorecard approach is capable of including performance indicators concerning society, it does not provide a suggested repository, leaving this
task to the companies themselves. It is a fact that at the moment, GRI is the most frequently used framework by the companies for the description and measurement of their Corporate Social Responsibility initiatives, something that is proved by CSR reports published by companies all over the world (see for example the cases of Greece (Panayiotou et al., 2007) and the Netherlands (Castka et al., 2004)). Existing directives and guidelines of GRI offer a plethora of performance indicators (for example, the GRI reporting guidelines issued in 2002 (GRI, 2002), grouped in the three categories of financial performance, environment and society). Although GRI offers a good repository of performance indicators concerning social responsibility, it does not connect these indicators with strategy, nor does it explains how social responsible behaviour can be connected with the increase of the value of an organisation. The incorporation of the GRI indicators in the Balanced Scorecard method combines the advantages of both approaches.

An important issue that had to be decided in the proposed approach concerned the architecture of the Balanced Scorecard system incorporating CSR. The most popular approaches available are presented in a structured way in a paper of Figge et al. (2001). The first alternative is the addition of a non-market perspective where issues that are not easy to include in the traditional perspectives are gathered. This approach is relevant with the proposition of some authors for the addition of others’ stakeholders perspectives (Epstein, 1999; Radcliffe, 1999; Johnson, 1998). A second alternative is an Environmental/ Social Balanced Scorecard that would manage the coordination of all these issues throughout the company. The third alternative is the inclusion of social issues in the four existing views of the corporate balanced scorecard. Taking into account that CSR issues concern the company as a whole and
cannot be separated from other strategic issues, the second alternative was dismissed. In order to decide on the most appropriate architecture suggested by the two remaining alternatives, a test was carried out. All the proposed performance indicators by GRI were classified using the existing Balanced Scorecard views. In case this classification was possible, then the formulation of a new Balanced Scorecard view would not be necessary. Otherwise, the definition of a new view should be seriously taken into account, and the appropriate classification of the CSR performance measures that would be common with performance indicators of existing views should be managed.

The process of classification of the GRI performance indicators using the balanced scorecard view was successful in all indicators. The matrix of Figure 2 depicts the correlation of performance indicators of the three pillars of the GRI (represented as rows) to the four views of the Balanced Scorecard (BSC) (represented as columns).

<table>
<thead>
<tr>
<th>GRI Financial Performance</th>
<th>BSC Financial View</th>
<th>BSC Customers &amp; External Stakeholders View</th>
<th>BSC Process View</th>
<th>BSC Growth View</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRI Environmental Performance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>GRI Social Performance</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(2) Human Rights</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>(3) Society</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Incorporation of GRI Performance Measures in the BSC Views
The successful incorporation of the CSR performance indicators provided by the GRI in the Balanced Scorecard views, concluded in a revised version of Balanced Scorecard depicted in Figure 3. Based on the strategic orientation of the organisation, a balanced mix of selected CSR performance indicators is selected in the same way that strategic performance indicators are selected in the four views of the Balanced Scorecard. The concept of cause and effect relationship of the Balanced Scorecard, although abstract, facilitates corporate social and environmental action.

![Figure 3: Balanced Scorecard With CSR Performance Measures](image)

The strategy formulation with the help of the Balanced Scorecard approach including CSR performance measures consists of three distinct stages (Figure 4): CSR Analysis, Execution and Performance Evaluation. The suggested framework permits the development of corporate CSR programmes adapted to the unique characteristics of each sector and company, emphasizing on different stages according to organisational activities, missions and the resources that can be utilised.

The analysis and definition of the factors that affect the strategic orientation of the organisation concerning CSR is in fact an inseparable part of the formulation of the
corporate strategy. The analysis must assess the external and internal environment of
the organisation with the use of the appropriate management methodologies. PEST
(Political, Economical, Social & Technological) analysis examines factors that can
affect the organisation directly or indirectly. The environmental assessment enables a
consequent SWOT analysis (Strengths, Weaknesses, Opportunities and Threats),
which combines the external assessment with an internal one. The organisation
analyses the internal strengths and weaknesses it possesses and, taking into account
the external environment, it defines the opportunities and threats that can recognise.
The aim of the organisation must be to transform strengths into opportunities and
neutralise weaknesses in order to avoid future threats. Taking into account both the
internal and external strategic analysis, the organisation must define specific CSR
targets and related performance measures in the four views of the Balanced
Scorecard. The incorporated GRI repository can assist the process of performance
measures selection. The targets must be formulated in such a way that they can be
measured, but they can be either quantitative (e.g. a specific level of energy
consumption) or qualitative (e.g. a specific level of customer satisfaction). The targets
must be coherent with the existing organisational culture and the predefined corporate
vision and must be the result of contribution of different organisational departments.
The cooperation of the Top Management with the employees encourages CSR
initiatives and creativity.
After the assessment of corporate practices, new specific action plans have to be defined. The selection of alternative courses of actions depends on the strategic priorities and the particular characteristics of the market in which the organisation operates. It is a usual case that an organisation must adopt different CSR approaches in different target-communities.

The implementation stage includes the social actions that have been decided to be undertaken by the corporation. This stage executes specific CSR plans in order to fulfil the targets set in the first stage of the proposed methodology.

Specific CSR plans and practices are formulated and executed for different CSR areas. From the organisational point of view, a CSR Committee should be appointed that are responsible for the coordination of CSR actions of the different organisational units in the corporation. Detailed instructions can be provided to the involved employees through specific action plans.

The third stage concerns the evaluation of Corporate Social Responsibility based on the combined Balanced Scorecard and GRI approach. This evaluation aims at the
measurement of the objectives’ achievement, and the investigation of suitability of the policies deployed. The evaluation process is very difficult by nature because it is mostly based on qualitative attributes, which can difficulty be translated in measurable results.

The feedback provided by the evaluation process will permit the adjustment of the CSR strategy and the corporate strategy in general.

4. A Short Case Study

Trying to identify the performance measures used by the companies in Greece concerning CSR, a research was carried out in 2007 (Panayiotou et al., 2007). Making the assumption that the companies that are active in CSR are these which will disclose CSR information to their stakeholders through related reports, these companies was tried to be identified.

A finding of the research was that 28 organisations in Greece report formal CSR results through dedicated CSR reports or through a section of their annual reports. The CSR reports of the above companies were examined in order to identify the CSR performance measures each company uses. The lack of standards and the fact that the report has no defined audience but is aimed at the world at large has led to a wide variation in what is reported. In order to overcome this problem, an attempt was made to categorize the corporate social responsible behaviour of the companies in Greece according to which categories were more common among the CSR reports published by the companies. The analysis of the results revealed eight distinctive categories of
CSR performance measures mostly used (in a non-formal way) by companies operating in Greece. These categories are: economy, internal business processes, learning and growth, environmental impact, human resources, society, marketplace, health and safety.

Table 1 summarizes some statistics concerning the performance measures used. It has to be stated that these performance measures were not always expressed directly in the reporting of the companies, but in many cases they were implied in the paragraphs of the CSR reports.

Table 1: Number of Companies’ Performance Measures in identified CSR Category

<table>
<thead>
<tr>
<th>Company</th>
<th>Economy</th>
<th>Internal Business Processes</th>
<th>Learning &amp; Growth</th>
<th>Environmental Impact</th>
<th>Human Resources</th>
<th>Society</th>
<th>Marketplace</th>
<th>Health and Safety</th>
<th>SUM</th>
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<td>6</td>
<td>16</td>
<td>11</td>
<td>24</td>
<td>11</td>
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<tr>
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<td>7</td>
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<td>14</td>
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<td>3</td>
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A first outcome of the research related to the proposed performance measurement framework of this paper is that nearly 90% of the indicators used by all companies were derived by GRI, showing the influence this has to companies for CSR-related issues. The influence of GRI explains the existence of the recognised categories of performance indicators. However, in the majority of the companies the absence of a formal framework for CSR evaluation was evident by the way the results were reported to the public. Moreover, the large number of the selected indicators by each organisation and the lack of their sound and conscious classification indicate absence of their formal incorporation into the organisational strategy.

Another outcome of the research was the fact that many of the performance indicators used could be organised in hierarchies, as some of them were operational expressions of other, higher-level, strategic performance indicators. The confused use of both
strategic and operational indicators without distinction in many CSR reports confirmed the loose connection of CSR with strategy.

The identified performance measures of the eight recognised categories of all companies were correlated with the four views of the balanced scorecard in order to inspect whether such a correlation is practically achievable. It was found out that there was no problem in the categorisation of the performance indicators in the Balanced Scorecard categories. The only issue that was encountered was the participation of some performance measures in more than one Balanced Scorecard categories, something that was not perceived as a serious problem.

5. Conclusions & Further Research

The main assumption of the proposed methodological framework is that Corporate Social Responsibility has no real meaning for an organisation if it is not an important constituent of its corporate strategy. If it is, it should be measured and controlled by the Top Management. The use of a Balanced Scorecard approach can help in the definition and control of the appropriate mix of lead and lag performance indicators in the four views of financial results, customer service, business processes and organisational growth. It is suggested that a balanced mix of CSR measures should be found in the performance indicators of the Balanced Scorecard views in a CSR-oriented company. A repository of proposed performance indicators, offered by GRI, although not exhaustive, is a good start for identification of the measures that are compatible with the selected strategy of the organisation. The correspondence of the GRI performance indicators with the four views of the Balanced Scorecard approach can facilitate the selection of the appropriate CSR indicators. The selected
performance indicators affect the processes of the whole organisation and its stakeholders as well, calling for the active participation of all the members of the Top Management.

It is understandable that there are many issues arising in the CSR evaluation process that have to be further discussed. First of all, a CSR performance measurement is meaningful only in case the organisation considers that it can provide to it a competitive advantage. Only in this case, CSR becomes part of the organisation’s core business and CSR activities have great impact on its strategy. A second important issue arising is the difficulty of quantification of CSR, both in the scoring procedure as well as in the weighting process of the selected criteria. In particular, the cause and effect relationships, although defined through the proposed Balanced Scorecard approach, cannot be easily quantified. Moreover, the weighted balance is not easy to calculate and its application does not always have the expected results.

Summarizing, it is believed that a Balanced Scorecard approach, integrated with a compatible GRI CSR repository can support CSR orientation of organisations in the feature, establishing it as a strategic horizontal process “running” across the supply chain processes. The use of the proposed approach should be tested in companies in the future, in order to check its applicability and practicality. Its application should include the strategy formulation phase and should not be confined in the evaluation phase. Further research should be carried out in the area of CSR results quantification as this continues to be a weakness of the suggested approach.

6. References


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