

## **Corporate Ethics as a Factor for Success – the Measurement Instrument of the University of Agricultural Sciences (BOKU) Vienna**

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### **Abstract**

Over the past decade, a growing number of companies have recognized the business benefits of corporate social responsibilities policies and practices. Their experiences are bolstered by a growing body of empirical studies which demonstrate that corporate social responsibility has a positive impact on business economic performance, and is not harmful to shareholder value.

There are six key responsibilities or dimensions of corporate social responsibility: costumers, employees, business partners, the environment, communities and investors. Corporate social responsibility is really how to manage these six responsibilities.

Companies employing such a new values-based business approach have found that it can improve financial performance, increase employees' motivation and commitment to work, and enhance customer loyalty and corporate reputation.

The Model in use (theoretical language), created with the reference to the theoretical background of business ethics, is able to explain the impact of CSR with the help of a bundle of dependent variables such as

- Financial Performance,
- Employee Commitment and Motivation,
- Customer Loyalty,
- Risk,
- Operating Costs and
- Brand Image and Reputation.

Measuring CSR effects additional benefits: Improved stakeholder relationship, improved standing among investors, reduced internal operating costs, better internal coordination, identification of non-financial aspects, better defined priorities, improved compliance and identification of potential liabilities.

The “BOKU Approach” defines the independent variables (objective language) for the CSR working model and shows the way to measure (correspondential language) the independent variables by auditing using a “reduced design”, austriacism and a “mystery” shift to enhance the acceptance rate.

## 1. INTRODUCTION

Many companies are choosing to make an explicit commitment to corporate social responsibility (CSR) in their mission, vision and values statements. Such statements frequently extend beyond profit maximization to include an acknowledgement of a company's responsibilities to a broad range of stakeholders, including employees, customers, communities and the environment. This strategy, by which a company's core values -- independent of specific strategic goals -- serve as the guiding force in determining a company's mission and vision, as well as its day-to-day policies and practices, is often described as a "values-based business approach."

Over the past decade, a growing number of companies have recognized the business benefits of CSR policies and practices. Their experiences are bolstered by a growing body of empirical studies which demonstrate that CSR has a positive impact on business economic performance, and is not harmful to shareholder value.

Companies also have been encouraged to adopt or expand CSR efforts as the result of pressures from customers, suppliers, employees, communities, investors, activist organizations and other stakeholders. As a result, CSR has grown dramatically in recent years, with companies of all sizes and sectors developing innovative strategies

## 2. THEORY

In Western Europe, Japan, and North America, an increasing number of companies are finding that it makes good business sense to fully integrate the interests and needs of customers, employees, suppliers, communities, and our planet – as well as to those of shareholders – into corporate strategies. Over the long term, this approach can generate more profits and growth. Sometimes referred to as the “stakeholder concept”, it implies that management task’s is to seek an optimum balance in responding to the diverse needs of the various interest groups and constituencies affected by its decisions, than is by those that have a “stake” in the business. By including societal actors – not just financial interests – the stakeholder model assumes that enterprise has a social responsibility.

What observations can be made about the concept of social responsibility (Palazzi/Starcher 2000) ?

- “There is no common definition. Each company responds in its own unique way, depending upon its core competencies and stake-holder interests. Country and cultural tradition also influence how companies respond.
- Social responsibility is fundamentally a philosophy or a vision about the relationship of business and society, one requiring leadership to implement and sustain it over time. It is most effectively treated as an investment, not a cost, much like quality management. It is a process of continuous improvement, not a fad, which begins small and grows and expands over time. It has been referred to as “caring capitalism” in contrast to “financial

capitalism” or “cowboy capitalism” and other more aggressive forms of free enterprise.

- It is inextricably linked to profitability, as there can be no social responsibility without profits. As Joel Makeover points out, “One of the most socially responsible things most companies can do is to be profitable.” Profits are essential not only to reward investors but also to provide sustainable jobs, pay fair wages, pay taxes, develop new products, invest in services, and contribute to the prosperity of the communities in which business operates.

There are six key responsibilities or dimensions of corporate social responsibility (CSR): customers, employees, business partners, the environment, communities and investors. CSR is really how to manage these six responsibilities.”

Companies employing a values-based business approach have found that it can improve financial performance, increase employees' motivation and commitment to work, and enhance customer loyalty and corporate reputation. These and other benefits are outlined below.

**Improved Financial Performance (FP):** Business and investment communities have long debated whether there is a real connection between socially responsible business practices and positive financial performance. Several academic studies have shown such a correlation.

**Greater Employee Commitment and Motivation (ECM):** A stated and demonstrated corporate commitment to certain values and goals can help employees find meaning and purpose in their work, care about what the company is doing, and link their individual efforts to those of the company as a whole. Studies show that this perception of shared values and purpose contributes to organizational performance by: (1) motivating employees, (2) inspiring feelings of commitment, contributing to increased retention, and (3) helping to attract prospective employees.

**Enhanced Customer Loyalty (CL):** Increasingly, consumers are factoring companies' business practices and perceived values into their purchasing decisions. Several companies that are typically associated with values-based business practices in the media and by consumers credit their commercial success, in large part, to brand loyalty among customers who support the company's values and/or mission. A 1996 survey by Bozell Worldwide, The Wall Street Journal International Edition, and Japanese business newspaper Nihon Keizai Shimbun found that, when compared against nine "extremely important" general corporate citizenship categories or activities, "ethics and values" ranked highest among consumers in the United States and Europe, and third highest in Japan.

**Minimized Risk (R):** Companies that institutionalize a values-based decision-making process can proactively address a broad range of legal and ethical dilemmas. As a result, these companies reduce their vulnerability to misconduct and the damage this can do to profitability, brand image, and management focus. Clearly defined values, when integrated into a company's organizational infrastructure, provide employees with the necessary tools and conceptual framework to make independent decisions in their daily operations that are consistent with the company's underlying values.

Reduced Operating Costs (OC): Some CSR initiatives, particularly environmentally-oriented and workplace initiatives, can reduce costs dramatically by cutting waste and inefficiencies or improving productivity.

Enhanced Brand Image and Reputation (BIR): Customers often are drawn to brands and companies considered to have good reputations in CSR-related areas. A company considered socially responsible can benefit both from its enhanced reputation with the public, as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. Companies also have been encouraged to adopt or expand CSR efforts as the result of pressures from customers, suppliers, employees, communities, investors, activist organizations and other stakeholders.

## **2.1 THE WORKING MODEL**

(FP, ECM, CL, R, OC, BIR) = f(CSR).

## **2.2 THE MEASUREMENT OF CSR**

During the past ten years, a number of business networks and companies have engaged in environmental and social accounting. The recently created "Institute for Social and Ethical Accountability", located in London, is pioneering the development of standards, terminology, and accreditation procedures for social and ethical accounting and auditing.

There are a number of pioneering efforts on the part of socially companies to implement social and ethical auditing. The retailing group Migros in Switzerland was involved in this process in the 1960's. Further pioneering work was carried out in Denmark in the 1980s with the Danish Bank Sbn, a regional cooperative bank, which began five years ago to publishing annual social reports on results against social objectives and past performance in a number of areas considered important by each of the stakeholder groups. Companies like The Body Shop in the United Kingdom and Ben & Jerry's in the United States publish audited social reports each year and have pioneered in these efforts. These innovative approaches are based on relatively sophisticated efforts to determine what is considered to be important for each of the stake-holders and to define specific objectives and action programmes for priority areas of performance improvement.

### **... by audits ?**

Social audits are tools that companies use to identify or define their social and environmental impacts, measure and evaluate the impacts, communicate internally and externally their performance, and make continual improvement in such areas as community and customer relations, employment practices, human rights issues, environmental responsibility and ethical behavior. Companies conduct social audits of their operations for a number of reasons: to be more strategic about their CSR programs; to quantify the nonfinancial aspects of their community involvement and other CSR-related activities; to identify potential liabilities; and in response to stakeholder requests for increased disclosure. To date, European companies have taken the lead in creating the most comprehensive social audits, though there are

leadership examples in many countries, including Peru, South Africa and the United States.

Companies have developed a wide range of strategies for social auditing, from self-reporting on specific initiatives to conducting comprehensive audits that measure the full range of social and environmental impacts among a company's entire operations and activities, verified by independent third parties. Companies also have a variety of strategies about communicating the results of their audits. Some use the information solely for internal use, while others choose to release them widely. Companies typically use audits to identify their strengths and weaknesses as a means of improving company operations and decision-making.

### **... effects additional benefits ?**

The process of conducting social audits can be extremely valuable for companies by providing a wealth of insight into their practices, as well as information about the way they are perceived by a variety of stakeholders. Specific benefits include:

**Improved Stakeholder Relationships (ISR):** According to a 1998 study of chief executive officers commissioned by the Foundation for the Malcolm Baldrige National Quality, a U.S.-based organization, 50 percent of CEOs surveyed believe that they and their peers need to improve the ability to work well with different stakeholders. Most social audits increase stakeholder understanding of company goals, objectives and operations. Companies that conduct audits can satisfy stakeholder demands for increased transparency and disclosure, thereby improving or enhancing their relationships with stakeholders, including customers, suppliers, communities, activist organizations, media organizations and regulators.

**Improved Standing Among Investors (SAI):** A growing number of investors, particularly those invested in "socially responsible" funds, are seeking to balance financial performance with social performance in their investment portfolios. In addition, many large institutional investors are increasingly concerned about social issues and are using their rights as shareholders to engage companies on social issues. In some cases, these investor-company dialogues have led to companies increasing their disclosure or changing their policies to align with the social concerns and agendas of institutional investors. For example, Royal Dutch/Shell's 1998 annual report on "Profits and Principles" was the result of a shareholder resolution by British religious groups requesting more regular reporting on corporate social responsibility issues.

**Reduced Internal Operating Costs (IOC):** Well-designed audits can identify the effectiveness and efficiency of programs related to CSR, often improving operating efficiencies and reducing costs. They can help prioritize CSR activities to provide the greatest possible impact. Other cost-saving benefits can include increased coordination among departments dealing with CSR issues, and the identification of cost-saving opportunities through waste reduction and other efficiency improvements.

**Better Internal Coordination (BIC):** Social audits give companies the opportunity to pull together information to better coordinate and seek efficiencies and collaborations across departments, facilities and business units. In the process, many companies find that they also are able to compile successful corporate social responsibility

programs from various parts of their organization and share the learnings throughout the company, leading to more effective and efficient policies and practices.

**Identification of Nonfinancial Impacts (INI) :** An audit can quantify and assess a company's nonfinancial impact, both positively and negatively, on communities, the environment and society at large. Some companies have found that quantifying their community involvement, for example, can result in more efficient and effective use of company resources to meet community needs. In the United Kingdom, a group of large companies called the London Benchmarking Group developed a template for monitoring and measuring community involvement activities, enabling them to report and assess their efforts and make continual improvement.

**Better Defined Priorities (BDP):** The dialogues with stakeholders that are part of many social audits can provide a company with valuable insight about what is going on in its communities and within society, how the company is perceived by community groups and other stakeholders, the future issues and concerns that could place demands on the company, and weaknesses and opportunities about which the company may not be aware. Such information can help companies better define their priorities and align their business activities with their principles or ethical codes by identifying where there are gaps between the two.

**Improved Compliance (IC):** Social audits can identify where company practices may be in violation of government regulations or the standards or expectations of key stakeholder groups. Many government agencies and stakeholders look favorably at companies that identify problems through self-audit, especially if they publicly disclose the problems, demonstrate that they are working to solve them, and develop management systems to reduce the likelihood of recurrence.

**Identification of Potential Liabilities (IPL):** Audits also can identify practices or situations that could pose liabilities to a company, providing it with the ability to resolve problems before they result in costly legal actions. Examples include environmental releases that could endanger public health, workplace discrimination or harassment that could result in lawsuits, marketing practices that do not price products or services equitably for all customers, or hiring practices that inadvertently give unfair advantage to certain populations.

### **3. THE BOKU APPROACH**

**The measurement instrument of the Vienna University of Agricultural Sciences** for the ecosocial company survey has based the questionnaire on three areas of study.

- Market and society
- Social affairs
- Environment

The precise criteria for the individual areas include the following items:

#### **Market and society:**

- Participation in the company survey
- Availability of an annual report/equivalent publication
- Willingness to label genetically modified products
- Quality assurance systems in production
- Use of ecological raw materials
- Processing of consumer issues
- Communication access for consumers
- Renunciation of problematic food additives
- Measurement of customer satisfaction
- Production sites in Austria/abroad
- Country of origin of raw materials
- Contact with consumer organisations
- Support for regional community activities

#### **Social affairs**

- Measures to promote employment
- Part-time employment
- Health promotion
- Participants in training and further education
- Additional benefits for employees
- Family-friendly offers
- Assessment of employee satisfaction
- Systematic measures to promote women
- Extended maternity leave
- Fulfilment of the employment quotas for disabled persons
- Contracts for disabled workshops
- Integration measures for ethnic minorities/foreign employees

## Environment:

- Reduction of environmental pollution (water consumption, waste water loads, air pollutant emissions, waste water emissions, raw material consumption, packaging, transport, office requirements, energy consumption, waste management concepts, ...)
- Commitment to environmental protection
- Responsibilities for environmental protection defined in the company

The Austrian evaluation model for the ecosocial company survey is based on the German evaluation model of the IMUG, with the following differences:

- Since we know from the experience made in 1996 that companies are not willing to complete very extensive questionnaires, the design of the Austrian questionnaire has been **reduced to a shorter form**, as a result of which more acceptance was achieved in the companies. In particular, we would like to point out that this test is also tuned to the possibilities and requirements of small and medium-sized enterprises.
- With regard to the **technical terms (Austrification)**, attention was paid to make sure that they are understood by Austrian enterprises, and that they have been tested for relevance.
- **Publications and awards** were provided by the companies themselves and also collected by us, and **integrated** in the evaluation.

The ecosocial company survey offers a wide range of information in particular to critical consumers who want information about the company itself, independent of the product.

At the same time, it offers every company the possibility to convey its corporate philosophy to the public, which can be regarded as an additional benefit both for the enterprise and for the customer.

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