

## Exploration of Association Between Corporate Social Responsibility and Balance Scorecard



### Management

**KEYWORDS :** Corporate social responsibility, Balance Scorecard.

**Dr Ritika Jain**

Associate Professor, Sal Institute of Management

**Prof. Chinmay Gandhi**

Assistant Professor, Sal Institute of Management

### ABSTRACT

*Performance measurement systems play a key role in evaluating the strategic performance of an organization, but many managers agree that their evaluation systems do not adequately fulfil this function. Hence, in recent years a shift towards the Balanced Scorecard has emerged as a managerial approach to evaluate the strategic performance of an organization. Balanced Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures and provides the framework for strategic management. The concept of the Balanced Scorecard is discussed very often concerning its potential to use it as management tool for Corporate Social Responsibility. Although the existing approaches emphasise primarily the financial dimension, the tool can integrate other social and environmental aspects also. BSC can be used to align CSR to create competitive advantage by connecting strategy to performance leading to greater accountability of goals. By developing linkage between CSR and BSC, CSR can become a potent tool for the company to realize enhanced reputation, increased operational efficiency, improved customer and workforce loyalty. This paper explores the relation between CSR and BSC and suggests how linkage can be developed between two in banking industry.*

### 1. Introduction

Over the decades, CSR has been the major subject of debate. With years and years on, it has been assumed that besides making profits, business enterprises also have responsibilities and this logic is criticised by many. Friedman (1962) held that management has one responsibility and that is to maximize the profits of its owners or shareholders and social issues are not the concern of business people and that these problems should be resolved by the unfettered workings of the free market system or government. Davis (1973) supports by saying that managers are oriented towards finance and operations and do not have the necessary expertise, to make socially oriented decisions. As per Hayek (1969), CSR dilutes businesses' primary purpose. On other side, many companies see CSR as an opportunity to strengthen the business by creatively addressing key issues but the big challenge is execution. When it comes to CSR, there are no quick answers on what to do or how to do it because company's interactions and interdependencies with society are complex. However, it is clear that approaching CSR as a feel-good or quick-fix exercise runs the risk of missing huge opportunities for both the business and society. It requires greater focus and long-term commitment.

### 2. Corporate Social Responsibility

CSR is still a popular term though it is overlapped with terms like ethics, sustainability, corporate citizenship, social responsibility. A CSR policy is beneficial not only for a corporation's bottom line but also for its employees, stakeholders, consumers, environment and society at large. The trend towards making the concern for social and ethical issues more pragmatic resulted in the term Corporate Social Performance emerging as an inclusive and global concept to embrace CSR, responsiveness and the entire spectrum of socially beneficial activities of businesses (Carroll, 1991). Kurucz (2008), have identified four categories of benefits that firms may attain from engaging in CSR activities i.e. cost and risk reduction; gaining competitive advantage; developing reputation and legitimacy; and seeking win-win outcomes through synergistic value creation. In spite of benefits of CSR, companies have failed many times and incurred huge costs. The obvious reason is lack of integration of CSR with corporate strategy. In practice, many problems occur when companies try to introduce and realise CSR. The challenges that company generally face are how to get CSR on the strategy table, how to stretch strategic ambition for CSR and how to reinforce core values, internally and externally.

Over the last decade, there has been an apparent shift towards adoption of more responsible business practices as a result of regulatory citations, consumer complaints and special interest group pressures. Despite the increase in interest in CSR, numbers 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 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 (VanMarrewijk, 2003). There is evidence that the management of companies believe that CSR can be connected with the achievement of improved financial results (Aravossiset, 2006). To realise CSR and integrate it into day-to-day business is a challenge. The current scenario reveals that maximum organizations focus on financial figures and the social responsibility delegated to HR systems. To overcome this challenge, BSC can be used to integrate CSR with company's vision and strategy.

### 3. Balance Scorecard (BSC)

BSC is a strategic planning and management system that is used extensively in business and industry, government and non profit organizations to align business activities to the vision and strategy of organization, improve communications, and monitor organization performance. It was originated by Dr Robert Kaplan and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance and establish equilibrium in short and long goals, internal and external processes, qualitative and quantitative variables, leading indicators and lagging indicators. In information and globally competitive environment, addressing to various tangible and intangible issues is necessity. To deal with some important issues Kaplan and Norton developed the BSC to include intangible aspects as customer satisfaction, processes quality and organisational development, alongside more "traditional" financial indicators. It deals with four perspectives:

**3.1 Financial perspective:** It indicates whether business is improving bottom line and measure items such as profitability and shareholder value.

**3.2 Customer perspective:** It identifies customer and market segments where business would compete and focuses on cus-

tomers related issues like time, quality, performance, service, cost.

**3.3 Internal business perspective:** It asks what business processes the organization should excel at to satisfy stakeholders. This perspective measures the internal business processes, core competencies and technologies that would satisfy customer needs.

**3.4 Innovation and learning perspective:** This perspective identifies the organization's infrastructure needed to support the other perspectives' objectives and measures a company's ability to innovate, improve, and learn the ability to launch new products.

#### 4. Linkage of CSR and BSC

In most organizations, BSC is only a "virtually" existing tool for environmental and social departments and managers, but has no impact yet on the existing core management systems. It may bear the risk of becoming just another "stand-alone" management system. It's high time to integrate these concepts with changes from top to down. To integrate, it's necessary to work on some questions like what is the main aim of CSR of company, how to integrate CSR in BSC, how to translate CSR in financial figures and link with corporate strategies. It is necessary to bridge the gap between CSR and BSC. The obstacles hindering the linkages may be more focus on financial figures, lack of implementation of social issues organization wide, conversion of social issues into financial terms.

#### 5. Research Framework

This paper presents the possibility of association between Corporate Social Responsibility and Balance Scorecard in banking industry and how they can be linked up. This study would also provide how Balance scorecard can be used to solve CSR issues. This study adopts the four BSC perspectives proposed by Kaplan and Norton (1996). Respondents of questionnaire survey were selected by convenience sampling. For better content validity and reliability, pilot-testing was done. After questionnaire was revised, it was filled by top and middle level managers in banking industry of Ahmedabad region and answers were measured on 5-point Likert Scale. The sample size constituted to 100. The 13-item questionnaire for corporate social responsibility and 25-item questionnaire for BSC was constructed. The survey reveals that 51% of respondents believe that companies do CSR activities to make profits and when asked the main driver of CSR activities in their banks then 49% said it is because of ethical considerations. 66% of respondents believed that their banks do CSR activities regularly. The hypothesis formed is:

**Null Hypothesis 1:** There is no relationship between CSR and Financial Perspective.

**Null Hypothesis 2:** There is no relationship between CSR & Customer Perspective.

**Null Hypothesis 3:** There is no relationship between CSR and

Internal Business process perspective.

**Null Hypothesis 4:** There is no relationship between CSR and Learning and Growth perspective.

#### 6. Data Analysis

**6.1 Normality test:** Shapiro-Wilks test is considered as sample size is 100. The data is normal as the statistic value for 38 statements is more than 0.05 and the skewness for all statements is less than one.

**6.2 Reliability test:** The reliability analysis was carried out on data containing 38 statements and Cronbach's alpha value is 0.91, so data is reliable.

#### 6.3 Correlation

The relationship between summated CSR and summated Financial perspective was investigated using Pearson Product Moment Correction coefficient ( $r=0.917$ ), ( $p=0.00$ ). Thus, we reject null hypothesis 1 and conclude that there is strong positive correlation between CSR and Financial Perspective. Similarly, we reject null hypothesis 2, 3 & 4 and conclude that there is medium positive correlation between CSR and Customer Perspective ( $r= 0.500$ ,  $p=0.00$ ), strong positive correlation between CSR and Internal Business Process Perspective ( $r = 0.938$ ,  $p=0.00$ ), medium positive correlation between CSR and Learning and Growth Perspective ( $r=0.457$ ,  $p=0.00$ ).

#### 7. Conclusion

Currently corporations in the global economy are strengthening their commitment to respecting human rights, social and environmental accountability, ethical control and promoting sustainable development through their services, processes, products and relationships. Corporate social responsibility in a global economy entails aligning a company's activities with the social, economic and environmental expectations of its 'stakeholders'. The use of the Balanced Scorecard for integrating CSR with corporate business systems is most appropriate way to reduce the gap. For this, well structured rules and policies are required at all levels. The survey reveals that CSR and all perspectives of Balance Scorecard are related. Balance scorecard should be implemented in line with all four perspectives with clear inclusion under each head including CSR as new element. The linkage would provide unique competitive advantage, reduced time frames, and improved decisions with clear lacunas. The scorecard should be implemented on monthly basis which would reveal the health of organization in terms of all objectives and critical success factors. At end of year, whole review would be done to give holistic approach. It should also show clear and separate linkage with corporate vision, mission and strategy and objectives. To develop this people from CSR team, Top team, Department head should come forward. With such initiatives, Balanced Scorecard approach, integrated with a compatible CSR repository, can support CSR orientation of organisations in the future, establishing it as a strategic process.

## REFERENCE

- Aravossis, Panayiotou & Tsousi, (2006). A proposed methodological framework for the evaluation of corporate social responsibility. In K. Aravossis, Brebbia, Kakaras, & Kungolos (Eds.), Environmental economics and investment assessment (pp. 87-95). Shouthampton, Boston: WIT Press.
- Carroll (1979) Three Dimensional Conceptual Model of Corporate Performance Academy of Management Review 4(4), 497-505.
- Davis (1973). The case for and against business assumption of social responsibilities. Academy of Management Journal, June, pp. 312-322.
- Friedman (1962). The social responsibility of business is to increase its profits. New York Times, September, 126.
- Hayek (1969). The corporation in a democratic society: in whose interest ought it and will it be run? In Ansoff, H.(ed.), Business Strategy. Harmondsworth: Penguin Books, p. 225.
- Kaplan and Norton (1992). "Measures That Drive Performance." Harvard Business Review. 71-79
- Kaplan, Robert, Norton, David (2001): The Strategy-Focused Organisation. Boston 2001.
- Kurucz, Colbert, and Wheeler. (2008). The business case for corporate social responsibility. In Crane, McWilliams, Matten, Moon and Siegel, The Oxford Handbook of Corporate Social Responsibility. Oxford: Oxford University Press, pp. 83-112.
- Van Marrewijk (2003). Concepts and definitions of CSR and corporate sustainability: Between agency and communion. Journal of Business Ethics, 44 (2/3), 95-105.
- Wu, An-ne (1999), "Translating Strategy into Action: Recommending the BSC Approach", Taipei: Facets Publishing Ltd, 1-3.