Balanced Scorecard and Corporate Social Responsibility

*Tying in Strategy for Long-term Results*

May 11, 2009

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Workshop Goals

Our Goals

- Share research, cases, and experience in BSC and CSR
- “Co-Create” the workshop as we go along to answer your questions and meet your needs
- Learn from you and your experiences with CSR and BSC

Your Goals

- Learn about the Balanced Scorecard and Corporate Social Responsibility
  - ____________________________
  - ____________________________
  - ____________________________
Agenda

- What is Corporate Social Responsibility?
- A Balanced Scorecard Primer
- Linking Sustainability to your strategy
- Example of a CSR strategy embedded in a BSC
What is CSR?

- CSR is the deliberate inclusion of public interest into corporate decision-making, and the honoring of a triple bottom line: People, Planet, Profit.

- Corporate social responsibility (CSR) is the process by which businesses negotiate their role in society.

Maximize firm’s profits to the exclusion of all else

- Fight social responsibility initiatives
- Do what it takes to make a profit; skirt the law; fly below social radar

Do more than required; e.g. engage in philanthropic giving

- Comply; do what is legally required
- Articulate social value objectives

Integrate social objectives and business goals

- Lead the industry and other businesses with best practices
- Balance profits and social objectives

Source: adapted from Introduction to Globalization & Business, Parker, 2005
Why do corporations implement CSR?

- Great recruiting and retention mechanism for employees
- Helps remove waste in manufacturing process
- Customers have an improved view of your brand and reputation
- Good for long term financial results
10 reasons for continuing CSR in a recession

1. It can be cheap
2. Reputation and transparency are still key
3. Communities are feeling vulnerable
4. Customers are worried
5. Regulators are up in arms
6. Green advertising has gone mainstream
7. Newspapers are even hungrier for copy that sells
8. There is opportunity to gain trust
9. Think about the short term future
10. Trim the fat

Source: www.ethicalcorporation.com
How important is your reputation?

With Web 2.0 you no longer control your reputation, the conversation is typically outside of your company.

**Energy Conservation and the Environment**

- Energy Conservation Home
- Buy Green Power
- Information on Federal Tax Credits
- Energy Efficiency
- Save Money With Energy Calculators

**Bank of America**

Bank of America lays off sick people

You have just got to love these jerks. They like to lay people spawned entity.
They are just a bunch of scammers that offshore jobs to third has lost all belief in this entity, just look at the stock price. Not even the

**Dominion**

It all starts here.
Types of Corporate Social Responsibility

- **Business Ethics**
  - Company code of conduct

- **Environmental Stewardship**
  - Reducing pollution or a carbon footprint.

- **Community Investment**
  - Ensuring the local community where you operate is seeing the benefits of the organization.

- **Fair Trade**
  - Ensuring suppliers are treated fairly.

- **Charitable Efforts**
  - Giving money directly to charities

- **Volunteering**
  - Encouraging employees to give company time to social programs.
Do you have to be strong in all of these areas?

- Business Ethics
- Environmental Stewardship
- Community Investment
- Fair Trade
- Charitable Efforts
- Volunteering

$45B revenue
1,000 stores
120K employees

2008 Revenue Mix
Example

Business Ethics

- We aspire to have our employees make daily business decisions that take into account economic value to our shareholders, the ethical responsibility of the enterprise and their impact on people, communities and the environment.

Our aspirations for corporate citizenship aren’t for reporting alone — we expect the business to live by them. And that means we need to consider outside perspectives to help steer our decisions.
Example

Environmental Stewardship

Through our e-waste recycling program, Best Buy collected 43,672 tons of electronic waste in fiscal 2008.

Best Buy’s Tami Kozikowski (left) and Thad Carlson (right) accept the ENERGY STAR Excellence in Appliance Retailing award from Richard Karney (center) of the U.S. Department of Energy.
We also teamed up twice in fiscal 2008 with Microsoft for community campaigns that encourage families to make appropriate media and digital entertainment choices. A new component of this year’s campaign with Microsoft was the introduction of a PACT — a contract intended to foster family dialogue about gaming and entertainment.

The opportunities worldwide for @15 are endless. Fact is, there are young teens everywhere, growing into themselves and into their communities. And to sustain our business in a connected world we’re going to need them.
Example

Fair Trade

Supply chain

We invest significant time and resources to not only audit factories that make our products, but to work with them to improve environmental, workplace and labor standards.

Our social and environmental responsibility (SER) team in Shenzhen, China invests significant time and resources to not only audit the factories where Exclusive Brands products are assembled, but to work with them to improve environmental processes, workplace conditions and labor practices.
Example

Charitable Efforts

DONATIONS + OTHER COMMUNITY INVESTMENTS

$30+ Million in cash donations in 2008
Example

Volunteering

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of employee volunteers</th>
<th>Number of volunteer hours</th>
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<tr>
<td>FY 06</td>
<td>6,200</td>
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<td>FY 07</td>
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<td>FY 08</td>
<td>20,423</td>
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Best Buy - Results

(U.S. dollars in millions)

We have profitably delivered 13-percent average revenue growth over the past 3 years*.

We have delivered 19-percent average earnings per diluted share growth over the past 3 years*.

We believe that our focus on customers, knowledgeable employees and differentiated shopping experience drove continued market share gains.

*calendar year data

Source: Company internal estimates and NPD point-of-sale data
Does it work?

**Pros**
- Ability to attract and retain skilled staff
- Attracts socially conscious consumers
- Reputation Benefits
- Long-term financial results

**Cons**
- Pre-empts the role of government
- Superficial window-dressing
- Distracts from business fundamentals

“A cynical exercise in public relations.”
- Matthew Bishop, The Economist
Table Discussion

- How do you manage CSR in your organization?
- Which of these CSR issues does your organization do well?
- What could you do better?
Agenda

- What is Corporate Social Responsibility?
- A Balanced Scorecard Primer
- Linking Sustainability to your strategy
- Example of a CSR strategy embedded in a BSC
Does strategy work?

9 of 10 organizations fail to execute strategy

The Vision Barrier
Only 37% said they have a clear understanding of what their organization is trying to achieve.

The People Barrier
Only one in five was enthusiastic about their team's and organization's goal.

The Alignment Barrier
Only one in five said they have a clear "line of sight" between their tasks and their organization's goals.

The Resource Barrier
Only 15% felt that their organization fully enables them to execute key goals.

Sources: Stephen R. Covey, The 8th Habit: From Effectiveness to Greatness ©2006, Fortune Magazine
Does strategy work? Often, sadly, the answer is no.

The People Barrier
Only two of the 11 would care.

The Vision Barrier
Only four of the 11 players on the field would know which goal is theirs.

The Alignment Barrier
Only 20% of players would know what position they play and know exactly what they are supposed to do.

The Resource Barrier
Nine players would, in some way, be competing against their own team members.

The soccer team would lose 9 out of 10 games!

Source: Stephen R. Covey, *The 8th Habit: From Effectiveness to Greatness* ©2006
Can these odds be improved? Yes!

**US Postal Service**
- Delivered early on a 5-year commitment to reduce costs by $5B
- Volume grew to 212 billion mail pieces delivered
- Revenues grew to $70B

**EDA**
- Private sector investment leverage ratio raised from 9:1 pre-BSC to 41:1 today
- Surpassed its target number of new investment partners in 2003 and 2004

**KeyCorp Financial**
- Return on equity rose to 15.43% in 2006
- Income from continuing operations improved by over $400 million

**Mellon Europe**
- Annual revenues grew 21% from 2002 to 2003 and 30% in 2004
- In 2003, Mellon Europe exceeded target contribution to parent company revenues

Can these odds be improved? Yes!

**Fulton County Schools**
- SAT up 23 pts over nation with 89% testing vs. 48%
- 82% parent Sat. vs. 68% nationally
- Teacher vacancies and admin expenses down
- 5 pt annual improvement in state tests for 3 years

**Hillside Family of Agencies**
- Reduced engagement wait time 56%
- Shrunk administrative overhead 25% in 2 years
- Exceeded revenue growth targets for 8 quarters in a row

**Duke Children’s Hospital**
- Parent Sat. up from 4.3 to 4.7
- Cost per case down 33%
- Length of stay down 31%
- Nursing absentee down 42%
- Net Margin up $15 Million

**Nemours**
- Revenue up 6%
- Patient Sat. up 10%
- 15% increase in immunization rate with a 30% decrease in documentation time
- All results within 1 year

Many organizations have seen success by implementing the Balanced Scorecard

Source: The Balanced Scorecard Hall of Fame for Strategy Execution
How did they do it? They implemented a strategy management system.

Plan
Where are we going?

Measure
Are we there yet?

Respond
What are we doing along the way?
Have you ever needed a map?
The Balanced Scorecard framework provides a map for your organization’s strategy.

**Financial Perspective**
"If we succeed, how will we look to our donors or shareholders?"

**Customer Perspective**
"To achieve our vision, how must we look to our customers?"

**Internal Perspective**
"To satisfy our customers, at which business processes must we excel?"

**Learning and Growth Perspective**
"To achieve our vision, how must our organization learn and improve?"
Nonprofit organizations have modified this framework.

- **Mission**: What is our plan to achieve our mission and vision?
- **Customer Perspective**: "To achieve our mission, how must we look to our customers?"
- **Financial Perspective**: "If we succeed, how will we look to our donors or taxpayers?"
- **Internal Perspective**: "To satisfy our customers and financial donors, which business processes must we excel at?"
- **Learning and Growth Perspective**: "To achieve our mission, how must our organization learn and improve?"
Teach for America needed a map.

Background
- Founded 1990
- Placed highly qualified college grads in underserved high schools
- Started with 500 teachers

Challenges
- Mid ‘90s outgrew startup phase
- Lack of preparation
- Poor lesson planning
- Lack of support

More Challenges
- 2001 recession job market sent applications from 5,000-14,000
- No Child Left Behind complicated Corp Qualifications
- 10 year alumni summit focused on growth and impact
First, they had to clearly define who they were.

TEACH FOR AMERICA

Improve the prospects of low-income youth of today and tomorrow by training and placing highly qualified college graduates in at-risk, low-income urban and rural schools.
Teach for America's Strategy Map

Social Impact
- Improve Prospects of Low-Income Youth
  - Engaged Corp Members
  - Motivated Alumni

Constituent

Internal Operations
- Grow Corps Member Base
- Enhance Corps Member Effectiveness
- Catalyze Alumni Movement

Financial
- Grow and Diversify Revenue Base
  - Good Financial Management

Organizational Capacity
- Diverse Team
- Effective Managers
- Technical Capacity
- National Board
- Expansion Plan

Teach for America's Strategy Map
What should be on your map?

- Do you have a clear mission with articulated goals?
- Have you described who your target “customers” are and how you are going to serve them?
- Have you stated your financial or fiduciary duties?
- Does everyone agree with what activities need to be accomplished to be successful?
- Ultimately, is everyone in your organization reading from the same map?
Measurement motivates.

Plan
Where are we going?

Measure
Are we there yet?

Respond
What are we doing along the way?
You can't manage what you can't measure.
Teach for America's Measures

- **Constituent**
  - **Measure:** Corps members making significant gains with their students
    - **Target:** 90%
  - **Engaged Corp Members**
  - **Impact Tomorrow's Low-Income Youth**
  - **Measure:** Corps Member Reporting Satisfied or Above
    - **Target:** 75%
  - **Engaged Alumni**

- **Financial**
  - **Measure:** Total Revenue
    - **Target:** $ XXX,XXX
  - **Corps Base**
  - **% of Alumni Attending Events**
    - **Target:** 50%
  - **Good Financial Management**

- **Organizational Capacity**
  - **Diverse Team**
  - **Managerial Capacity**
  - **National Board**
  - **Expansion Plan**
  - **Measure:** % of staff diversity
    - **Target:** 40%
  - **Catalyze Alumni Movement**
  - **Grow and Diversify Revenue Base**
  - **Teach for America's Measures**
    - **Measure:** Corps members making significant gains with their students
      - **Target:** 90%
    - **Measure:** Corps Member Reporting Satisfied or Above
      - **Target:** 75%
    - **Measure:** % of Alumni Attending Events
      - **Target:** 50%
    - **Measure:** Total Revenue
      - **Target:** $ XXX,XXX
    - **Measure:** % of staff diversity
      - **Target:** 40%
## Teach for America's Scorecard

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Objectives</th>
<th>Measures</th>
<th>Targets</th>
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</thead>
<tbody>
<tr>
<td><strong>Social Impact</strong></td>
<td>• Improve prospects of low income youth</td>
<td>• CM Effectiveness Measure</td>
<td>• 90%</td>
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<td>• Impact tomorrow’s low-income youth</td>
<td>• Results of Studies</td>
<td>• % better than no TFA</td>
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<td>• Alumni Career Choice index</td>
<td>• 50% in Ed.</td>
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<td><strong>Constituent</strong></td>
<td>• Engaged corps members</td>
<td>• Percent Satisfaction</td>
<td>• 75%</td>
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<td>• Motivated alumni</td>
<td>• Engagement Index</td>
<td>• 66%</td>
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<td><strong>Internal Operations</strong></td>
<td>• Grow corps member base</td>
<td>• Number of Applicants</td>
<td>• 20% growth</td>
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<td>• Enhance corps member effectiveness</td>
<td>• First Review Accuracy Percentage</td>
<td>• 90%</td>
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<tr>
<td></td>
<td>• Catalyze alumni movement</td>
<td>• % of alumni attending events</td>
<td>• 50%</td>
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<tr>
<td><strong>Financial</strong></td>
<td>• Grow and diversify revenue base</td>
<td>• Total Revenue</td>
<td>• $XXX,XXX</td>
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<td>• Good financial management</td>
<td>• # HNW Individuals contributing</td>
<td>• 100</td>
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<td>• Cost per CM</td>
<td>• 20% less</td>
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<td><strong>Organizational Capacity</strong></td>
<td>• Diverse Team</td>
<td>• % of staff Diversity</td>
<td>• 40%</td>
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<td>• Effective Managers</td>
<td>• % of key goals met</td>
<td>• 90%</td>
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<td>• Technical Capability</td>
<td>• Staff Satisfaction with Technology</td>
<td>• 80%</td>
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<td>• National Board</td>
<td>• $ raised through board members</td>
<td>• $XXX,XXX</td>
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<td>• Expansion Plan</td>
<td>• # new sites</td>
<td>• 4</td>
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What makes a good measure?

- **Specific** – Clearly, and precisely state what will be measured
- **Measureable** – every measure should numeric and can be graphed
- **Actionable** – Results can be easily interpreted and you know what actions to take to affect the measure
- **Repeatable** – consistently gather information over time
- **Timely** – you can measure it at an appropriate frequency
You must then align your projects to your strategy

Plan
Where are we going?

Measure
Are we there yet?

Respond
What are we doing along the way?
# Teach for America's Program Map

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<th>Initiatives</th>
<th>Standardized Curriculum</th>
<th>Alumni Survey</th>
<th>Southeastern Expansion Plan</th>
<th>Librarian Training Program</th>
<th>Accounting System</th>
<th>Fundraising Campaign</th>
<th>Standardized Testing Advocacy</th>
<th>School Lunch Program</th>
<th>Knowledge Management</th>
<th>Board Offsite Retreat</th>
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• Impact tomorrow’s low-income youth
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• Motivated alumni
• Grow corps member base
• Enhance corps member effectiveness
• Catalyze alumni movement
• Grow and diversify revenue base
• Good financial management
• Diverse Team
• Effective Managers
• Technical Capability
• National Board
• Expansion Plan
# Teach for America's Program Map

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<th>Initiatives</th>
<th>Standardized Curriculum</th>
<th>Alumni Survey</th>
<th>Southeastern Expansion Plan</th>
<th>Librarian Training Program</th>
<th>Accounting System</th>
<th>Fundraising Campaign</th>
<th>Standardized Testing Advocacy</th>
<th>School Lunch Program</th>
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- X indicates a specific initiative is a part of the objective.
Doing more with less.

- Aligning your projects to your strategy allows you to focus on what’s critical for success.
- Don’t try to map everything to the map – some things (like paying the bills!) must happen regardless of their strategic importance.
- Inventory everything that’s going on in your organization. Chances are, there’s a lot of non-strategic programs underway.
- Be disciplined in your evaluation of your programs. Rank them based on fit, budget, and impact.
However beautiful the strategy, you should occasionally look at the results

Plan
Where are we going?

Measure
Are we there yet?

Respond
What are we doing along the way?

Source: Winston Churchill
Teach for America Results

12,000 Alumni

- 94% in jobs that support the Teach For America mission
- 67% in Education (most in public schools)
- 247 principals
- 200+ in policy or advocacy roles (6 elected officials)
Table Discussion

- Are you using the Balanced Scorecard in your organization?
- Are you driving value out of this strategy management framework? Why or why not?
Agenda

- What is Corporate Social Responsibility?
- A Balanced Scorecard Primer
- Linking Sustainability to your strategy
- Example of a CSR strategy embedded in a BSC
Does it matter what type of organization you are?

- Direct involvement in Social and Environment issues
- Indirect involvement in Social and Environment issues
- No involvement in Social and Environment issues?
Corporate Social Responsibility operates at different levels in different organizations

The heart of your business

Key Differentiator

Worthwhile pursuit
Where does CSR fit into your strategy?

**Financial Perspective**
"If we succeed, how will we look to our donors or shareholders?"

**Customer Perspective**
"To achieve our vision, how must we look to our customers?"

**Internal Perspective**
"To satisfy our customers, at which business processes must we excel?"

**Learning and Growth Perspective**
"To achieve our vision, how must our organization learn and improve?"

- Improving financial results?
- Building a brand and reputation?
- Designing out waste and packaging?
- Recruiting and Retention?
Since 1992, we have focused on specific environmental issues - through our Design for Environment (DfE) program. DfE is an engineering perspective in which the environmentally related characteristics of a product, process or facility are optimized. Together, HP's product stewards and product designers identify, prioritize and recommend environmental improvements through a company-wide DfE program.

The DfE program has three priorities:

- **Energy efficiency** - reduce the energy needed to manufacture and use our products
- **Materials innovation** - reduce the amount of materials used in our products and develop materials that have less environmental impact and more value at end-of-life
- **Design for recyclability** - design equipment that is easier to upgrade and/or recycle

These main priorities are achieved by: Placing environmental stewards on every design team to identify design changes that may reduce environmental impact throughout the product's life cycle.

- Eliminating the use of polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame-retardants where applicable.
- Reducing the number and types of materials used, and standardizing on the types of plastic resins used.
- Using molded-in colors and finishes instead of paint, coatings or plating whenever possible.
- Helping customers reduce energy consumption with HP's printing, imaging and computing products.
- Increasing the use of pre-and post-consumer recycled materials in product packaging.
- Minimizing customer waste burdens by using fewer product or packaging materials overall.
- Designing for disassembly and recyclability by implementing solutions such as the ISO 11469 plastics labeling standard, minimizing the number of fasteners and the number of tools necessary for disassembly.
FIGURE 1. CSR Value Curve.

- **Legal and compliance**: Adherence to law in the countries of production, operation and distribution.
- **Alignment of charitable activities with social issues that support business objectives**.
- **Strategic philanthropy**.
- **Values-based self regulation**: Incorporates the company’s value system and/or code of conduct to guide business behavior.
- **Efficiency**: Measurable cost savings through efficient or win-win scenarios.
- **Growth platforming**: Access to new markets, new partnerships or product/service innovations that generate revenue.

Source: IBM Institute for Business Value

Source: www.ibm.com/gbs/csrstudy
Table Discussion

- Where does CSR fit into your strategy?
- Have you embraced it throughout your organization or in one key area, like culture or values?
Agenda

- What is Corporate Social Responsibility?
- A Balanced Scorecard Primer
- Linking Sustainability to your strategy
- Example of a CSR strategy embedded in a BSC
Case Study: Amanco

Construction

Agricultural Solutions

Infrastructure

Synthetics
(filtering, drainage, etc)
Amanco Background

- Latin America’s largest producer of plastic pipes for water transport

Vision

To be recognized as a leading industrial group in Latin America, operating in a framework of ethics, eco-efficiency, and social responsibility, that generated economic value and improved its neighbor’s and its region’s quality of life.”

- Triple Bottom Line introduced in 2000
  - Create economic sustainability in the long run.
  - Generate value through a system of corporate social responsibility.
  - Generate value through environmental management.
Amanco's First Scorecard

**Financial Perspective**
- To increase revenues in a profitable and sustainable way
- To reduce operating costs
- To ensure strategy funding by minimizing costs and risks

**Customer Perspective**
- To be recognized as a strong brand in terms of quality, social and environmental responsibility
- To introduce new, high-impact products
- To profitably respond to key customers and channels

<table>
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<th>Economic Value</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
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<tr>
<td>EBITDA</td>
<td>60,879</td>
<td>74,743</td>
<td>87,585</td>
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<tr>
<td>RONA</td>
<td>20.5%</td>
<td>20%</td>
<td>26%</td>
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**Social Value**
- Workplace Index: 83, 84, 85
- Environmental Value
- Environmental efficiency savings: 585, 271, 269

**Process and Technology Perspective**
- To optimize local and corporate financial planning
- To improve fixed asset management and to reduce working capital
- To deploy brand positioning efforts targeting priority groups
- To ensure systematic FCP use
- To exploit segment and channel-oriented marketing and logistic processes and policies
- To optimize purchasing processes
- To optimize transformation processes
- Risk management

**Human Resources Perspective**
- To develop collaborators with necessary strategic competencies, ensuring succession plans
- To consolidate a culture that embraces Amanco values
- To build a culture on technological use to support management decision making
- To ensure strategy communication, alignment and orderly execution

**Social and Environmental Mgmt. Perspective**
- To guarantee international health and safety standards
- To manage social impacts
- To constantly improve environmental efficiency measurements

*Year 2 and Year 3 EBITDA and RONA Year 2 expressed according to New Group accounting standards, not full NCs*

Source: Amanco.
Problem with the first scorecard

- Salas (CEO) felt, however, that the initial sustainability scorecard just classified different programs and actions into five blocks.
- It did not clearly present the triple bottom line concept as an element for competitive advantage development and value creation.
- He wanted a clearer, more logical representation.
Challenges

- No definitive top-line measure
- Environment and Social separate (for importance)
- E&S separate from customer strategy was challenging
Current Strategy Map (2008)

Value Proposition: “Be the best choice in brand differentiation, in win-win relationships, and in product and service innovation”

- EVA at the top of the scorecard
- Social and Environmental strategy linked and driving force in the strategy
- Influencing competitors and educating the market
Table Discussion

- Is this realistic in your organization?
- How might you adapt CSR to your strategy?
Thank You

If you have more questions on Corporate Social Responsibility and the Balanced Scorecard, please contact us at:

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