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The business case for corporate social responsibility: A company-level measurement approach for CSR

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KEYWORDS

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Summary Although theoretical and empirical research often points to a positive relation between CSR and company competitiveness, approaches to measure the company-specific business impacts of CSR are missing in the current literature. However, such an approach could strengthen the overall CSR involvement and support rational decision-making in this area. This paper thus focuses on the question how to measure the business impact of CSR activities from a company perspective. Using a theoretical approach a multi-step measurement model is developed that allows managers to evaluate their company-specific business case for CSR. A case example illustrates the use of the model in practice.

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Introduction

From a business perspective, researchers often argue that Corporate Social Responsibility (CSR) can improve the competitiveness of a company (see e.g., [Burke & Logsdon 1996](#)). In the long-term this implies a positive relationship between the CSR involvement of a company and its financial success suggesting that there is a business case for Corporate Social Responsibility. Although various researchers analyzed the relationship between CSR and financial performance (see e.g., [Margolis & Walsh 2003](#) for an overview), the research produced mixed results and does not seem to support the further development of CSR in business practice. [Knox and Maklan \(2004\)](#) argued in this context that the development of CSR could well be inhibited by “the lack of a systematic

framework linking investment in these responsibilities to social or business outcomes” ([Knox & Maklan 2004](#), 514). A framework or approach that would allow companies to assess their business case for CSR on a company- and project-specific level could facilitate the further implementation of CSR and support rational decision-making in this area (see also [Epstein & Roy 2001](#), 601f.). This paper therefore explores the question, *how to measure the company-specific value of CSR activities*.

Although the concept of CSR is widely discussed in theory and practice, there is no general agreement about its definition. CSR is seen here according to the definition of the European Commission as “a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” ([COM 2001](#), 4) by integrating “social and environmental concerns in their business operations and in their interaction with their stakeholders” ([COM 2001](#), 6). Often described as “business’s contribution to sustainable

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development” (OECD 2001, 13), CSR management is very similar to *corporate sustainability management*, which aims to integrate the economic, environmental, and social aspects of business management (see Schaltegger & Burritt 2005, 189ff). True corporate sustainability requires an integration of all three sustainability dimensions into business management, which can even lead to business model transformations to secure sustainable operations in the long-term. CSR can also include short-term activities with an isolated focus on environmental or social aspects. Economic success is seen as a possible outcome of CSR management but not as a critical component (see e.g., Hansen & Schrader 2005, 376). CSR is therefore interpreted in this paper as a sub area of corporate sustainability. Due to the overlaps between CSR and corporate sustainability, the theory development in this paper is based on CSR as well as sustainability research. For the purpose of a consistent terminology this paper uses the term CSR also when referring to CSR aspects mentioned in sustainability research.

The paper is structured as follows. It starts with a review of the current literature on the link between CSR and financial performance and then focuses on the business benefits of CSR. As CSR in the above definition can be interpreted as an extra investment into human capital, the environment, and stakeholder relations (see COM 2001, 6), the next section analyzes the applicability of business methods used in investment and stakeholder evaluations to CSR measurement. It will be shown that these methods are not sufficient for a comprehensive company-level CSR measurement. A systematic model to evaluate the company- and project-specific business impact of CSR is therefore developed and applied to a real-life example to illustrate how the model can be used in business practice.

The relation between CSR and financial performance

The relation between CSR and financial performance has been investigated in theoretical and empirical studies by researchers on CSR (see e.g., Margolis & Walsh 2003) as well as sustainability (see e.g., Schaltegger & Synnestevedt 2002).

Empirical research on CSR and financial performance can be divided into qualitative and quantitative research. *Qualitative research* in this area mainly uses case studies or best practice examples to investigate the influence of CSR on competitiveness. For example, Argenti (2004) presented an in-depth case study of Starbuck’s collaboration with several NGOs deriving lessons for successful business-NGO partnerships. Rondinelli and London (2002) presented several examples from business practice to support their analysis of benefits from cross-sectoral environmental collaborations. Although most of these studies do not explicitly focus on the business case for CSR, they often provide valuable insights about CSR benefits.

Three main methods are used in *quantitative empirical research* in this area (see Salzmann et al. 2005, 28ff.; Wagner et al. 2001, 96):

- portfolio studies comparing e.g., portfolios of environmentally and socially proactive and reactive companies,

- event studies investigating e.g., market responses after CSR-related events, and
- multiple regression studies.

In their discussion of portfolio, event, and multiple regression studies investigating the relation between CSR and financial performance Salzmann et al. (2005, 28–30) found inconclusive results. Similarly, Wagner et al. (2001) found mixed results in their meta-study of quantitative empirical research analyzing the relationship between environmental and economic performance. Margolis and Walsh (2003) conducted a meta-investigation of 127 multiple regression studies that analyzed the relationship between “Corporate Social Performance” and “Corporate Financial Performance” between 1972 and 2002. Although they also found mixed results, the authors concluded that a positive relationship predominated. However, they criticized the inconsistent use of variables and methodologies used in the research.

Concerning *theoretical research* in this area, sustainability researchers often argue that the relationship between economic performance and ecological/social performance follows an inverse U-shaped curve (see e.g., Schaltegger & Synnestevedt 2002, 341ff.; Steger 2006, 417ff.). That relationship could explain the mixed results found in empirical studies as CSR could have positive as well as negative effects on financial performance depending on the individual position of a company on the curve (see Salzmann et al. 2005, 28). In their empirical study of the EU manufacturing industry, Wagner and Schaltegger (2004) tested the hypothesis of an inverse U-shaped relationship between environmental and economic performance. They found that for companies pursuing an environmental strategy oriented towards shareholder value the relationship was stronger than for firms without such a strategy. From these results, the impact of CSR on economic performance seems to be dependent on the individual company strategy.

Although the current research analyzing the link between CSR and financial performance seems to provide some support for the existence of a business case for CSR, the studies do not help managers in evaluating their CSR involvement on a company- or even project-specific level. This paper tries to fill this research gap by analyzing how to measure the value of CSR activities to a company. As a basis for the development of a company-specific measurement model the next section presents the business benefits companies can expect from CSR involvement.

Business benefits from CSR

Business benefits that derive from CSR activities have been analyzed in theoretical as well as empirical research. Table 1 shows an exemplary overview of CSR benefits discussed in current CSR and sustainability research.

Five main areas of CSR business benefits can be identified from this research:

1. *Positive effects on company image and reputation:* Image represents “the mental picture of the company held by its audiences” (Gray & Balmer 1998, 696), which is influenced by communication messages. Reputation builds upon personal experiences and characteristics

Table 1 Examples of CSR business benefits from current research

Type of research	Author(s)	CSR Business benefits
Theoretical research	Schaltegger & Burritt (2005)	Risk management; cost reduction; differentiation; positive influence on shareholder value; improved reputation & brand value; maintaining the license to operate
Theoretical research	Schaltegger & Figge (2000)	Efficiency gains; differentiation; tax advantages; financing advantages; risk reduction
Theoretical research with case examples	Heal (2005)	Risk management; efficiency gains; improved relations to regulators; improved brand value; improved employee productivity; reduced capital costs
Theoretical research with case examples	Nielinger (2003)	Market & product development; increased recruitment potential; risk management; image improvement
Theoretical research with case examples	Porter & van der Linde (1998)	Increased competitiveness through process and product benefits e.g., more efficient resource use, waste reduction
Case study research	Kong et al. (2002)	Market development; cost reduction; market share protection; long-term survival
Case study research	Rondinelli & London (2002)	Efficiency gains & cost reduction; improved competitiveness; resource preservation; image improvements; product development
Meta study of empirical research	Hansen (2004)	Reputation improvement with positive influence on customer acquisition & retention, employee attraction/motivation/retention, access to capital, license to operate; risk management; positive influence on stock price, return & revenues; cost decrease
Quantitative empirical research	Bertelsmann Stiftung (2005)	Employee motivation; improved reputation; meeting shareholder expectations; customer development
Quantitative (& qualitative) empirical research	Epstein & Roy (2001)	Avoidance of negative press, consumer boycotts & negative market influences; employee motivation; improved image & reputation; positive relations to regulators & stakeholders; efficiency gains & cost reductions; better capital access; increased market share
Quantitative empirical research	Turban & Greening (1997)	Increased company attractiveness for potential employees

and includes a value judgment by a company's stakeholders. Whereas image can change quickly, reputation evolves over time and is influenced by consistent performance and communication over several years. Both, image and reputation can influence company competitiveness (see Gray & Balmer 1998). Schwaiger (2004) found in his empirical research that CSR could influence reputation. The Harris-Fombrun Reputation Quotient equally includes CSR as one dimension influencing company reputation (see e.g., Fombrun & Wiedmann 2001, 48ff.).

2. *Positive effects on employee motivation, retention, and recruitment:* On the one hand, effects in this area can result from an improved reputation. On the other hand, CSR can also directly influence employees as they might be more motivated working in a better working environment (see COM 2001, 7) or draw motivation from the participation in CSR activities such as volunteering programs. Similarly, CSR activities can directly or indirectly affect the attractiveness of a company for potential employees.
3. *Cost savings:* Cost savings have been extensively discussed in sustainability research. For example, Epstein and Roy (2001, 598f.) argued that efficiency gains could result from a substitution of materials during the implementation of a sustainability strategy, improved contacts to certain stakeholders such as regulators resulting in time savings, or improved access to capital

due to a higher sensitivity of investors to sustainability issues.

4. *Revenue increases from higher sales and market share:* Often, researchers argue that CSR can lead to revenue increases. These can be achieved indirectly through an improved brand image or directly e.g., by CSR-driven product or market development.
 5. *CSR-related risk reduction or management:* CSR can also be used as a means to reduce or manage CSR-related risks such as the avoidance of negative press or customer/NGO boycotts.
- These five clusters of CSR business benefits are similar to the systematization of value drivers of sustainability. Schaltegger and Wagner (2006, 8f.) theoretically identified five main effects from tackling environmental and social issues: direct financial effects (e.g., fines, charitable contributions); market effects (e.g., customer retention); effects on business and production processes (e.g., lower production costs); effects on learning and organizational development (e.g., employee motivation, innovation); non-market effects (e.g., less stakeholder resistance towards production facilities). Using a case study methodology, Thorpe and Prakash-Mani (2003, 20) discussed six business success factors of sustainability, which are reflected in the above effects: revenue growth and market access; cost savings and productivity; access to capital; risk management and license to operate; human capital; brand value and reputation. Based

upon a cross-industry quantitative empirical investigation Steger (2006, 426–433) identified similar value drivers including cost decreases; revenue increases; brand value and reputation; maintaining the license to operate; and employee attraction and satisfaction.

Systematizing the benefits from current research, business benefits from CSR can be classified into monetary and non-monetary benefits. *Monetary benefits* in the understanding of this paper include direct financial effects as well as benefits that do not directly lead to cash flows but can nevertheless be measured in monetary terms. One example is an increase in brand value due to CSR. If analyzed from a financial perspective, brand value reflects the financial value of a brand to a company (see e.g., Gerpott & Thomas 2004; Naderer 2005). A direct financial effect is realized when the brand is sold. However, if the brand is retained an increase in brand value still represents a monetary benefit as it indicates an improvement of the market value of the brand measurable in monetary terms, which can be realized once the brand is sold. Brand value can also be analyzed from a behavioral perspective, which focuses on understanding customer behavior by evaluating customer preferences, attitudes, or loyalty (see e.g., Gerpott & Thomas 2004). From this perspective, customer attraction and retention are often measured non-monetarily representing non-monetary benefits. In this paper, *non-monetary benefits* refer to benefits that are not directly measured in monetary terms but nevertheless influence company competitiveness and the financial success of a company. Companies can assess non-monetary benefits using *quantitative indicators* e.g., changes in repurchase rates or *qualitative indicators* e.g., evaluating customer attitudes. Non-monetary benefits can thus further be systematized with regard to the nature of indicators to measure the respective benefits, which can be quantitative or qualitative.

From this discussion, a CSR impact model can be derived that reflects the main clusters of CSR business benefits from current research systematizing the benefits according to their nature and the nature of possible indicators as shown in Figure 1.

As the discussion showed CSR can result in monetary as well non-monetary business benefits that can influence a

company's competitiveness and its economic success. *Monetary benefits* include revenue increases, cost decreases, risk reduction, and increases in brand value if measured from a financial perspective.

Non-monetary benefits that can mainly be measured *qualitatively* include an improved access to capital and securing a company's "license to operate" or its right to exist. The "license to operate" is based on societal acceptance (see Schrader et al. 2005, 20) and can mainly be secured by maintaining good stakeholder relations (see similarly Thorpe & Prakash-Mani 2003, 20f.). While equally important to monetary impacts, improved stakeholder relations are often not measurable in quantitative terms. Non-monetary qualitative benefits can also lead to monetary benefits in the future so that interrelations between the individual fields in the model exist. For example, the improved possibilities for capital access represent a qualitative impact if referring to improved relations to investors without actual capital provisions. If eventually leading to new capital this benefit can lead to cost decreases (e.g., financing costs) reflected as a monetary benefit in the model.

Non-monetary benefits that can also be measured using *quantitative* indicators include further effects on customer attraction and retention, reputation, and employee recruitment, motivation and retention. Although these benefits can also be assessed qualitatively, quantitative indicators can be measured such as repurchase rates, reputation indices, or fluctuation rates so that these benefits are classified here as non-monetary benefits with possible quantitative indicators. Again, these non-monetary impacts can lead to monetary benefits. For example, increased employee motivation can increase productivity and eventually result in cost savings. The same is true for effects on employee recruitment or retention, which can lead to reduced personnel marketing costs. These further effects are included as monetary cost savings in the model. However, as such effects are often difficult to measure in monetary terms and occur with a time lag, these effects are also included as non-monetary benefits in the model to ensure adequate monitoring.

Although research on the relation between CSR and financial performance and on CSR benefits suggests that there are strong arguments for a business case for CSR, no approach exists that allows companies to evaluate specific

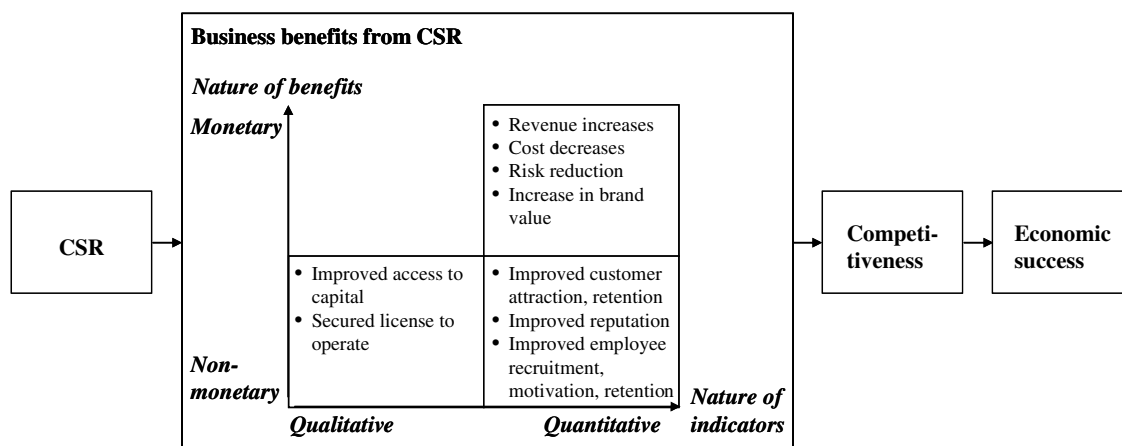


Figure 1 CSR Impact Model.

CSR activities or projects. It was argued before that CSR can be seen as an investment into human capital, the environment, and stakeholder relationships (see COM 2001, 6). It thus seems natural to evaluate CSR activities using methods of investment appraisal or stakeholder evaluation. The next section will analyze such methods to assess their applicability to CSR issues.

Investment and stakeholder evaluation

To evaluate future investments or decide between alternative investment opportunities companies frequently use methods of investment appraisal such as the *Net Present Value (NPV)*. The NPV evaluates all cash flows of an investment, summing up all current and future cash flows and discounting them with a discount rate to determine their current value. The discount rate represents the opportunity cost of capital and accounts for the risk involved. As a basic rule, investments are undertaken if the NPV is positive in which case the benefits exceed investment costs (see e.g., Brealey et al. 2006, 15–20). As it was argued in the CSR impact model that CSR includes monetary as well as non-monetary benefits, it is difficult to apply the NPV to CSR as this would neglect important non-monetary benefits. Often, CSR aims to improve stakeholder relations securing future profit opportunities. This option value of CSR, the interrelation with other investments, and CSR-specific risks are not considered in a pure NPV calculation.

One might argue then that the option approach to investment might provide a better estimate of CSR benefits. This approach sees investment opportunities as “rights but not obligations to take some action in the future” (Dixit & Pyndick 2004, 61). The quantitative calculation of real options such as the option to delay an investment often follows a binomial method, evaluating possible up- and downside developments of the option. This calculation is very complex and difficult to apply to CSR issues as non-quantifiable effects cannot be evaluated. Brealey et al. (2006, 614f.) criticized that competitor actions were not reflected in real options. However, these are often vital in CSR decisions. A combination of the NPV and options approach would tackle many of the individual shortcomings of both approaches (see e.g., Brealey et al. 2006, 597–615) but would still not include qualitative variables that are important in most CSR decisions.

Another approach to measure the value of CSR could build upon methods evaluating stakeholder relations. Such concepts often focus on one stakeholder group such as the *Shareholder Value concept* used to determine the value of a company from the shareholder perspective (see e.g., Rappaport 1998) or the *Customer Value* concept assessing the value of a customer to the company or vice versa (see e.g., Rudolf-Sipötz 2001). With their single focus on one stakeholder group, these concepts are not sufficient for a CSR evaluation as CSR is often used as a means to tackle the expectations of several stakeholder groups.

With the development of the *Stakeholder Value Added* Figge and Schaltegger (2000) provided a concept that allows to evaluate all stakeholder relations of a company. Regarding the value of stakeholder relationships from the company

perspective, the authors proposed an indirect evaluation method including four steps (see Figge & Schaltegger 2000, 27–29):

1. The total stakeholder benefits are determined from the profit and loss account by subtracting the cost of equity from profit before cost of equity.
2. The “Return on Stakeholder” (RoSt) is calculated: $\text{RoSt} = \text{Benefit cash value} / \text{Stakeholder costs cash value}$.
3. The value spread between the RoSt and the average RoSt in the market is determined by subtracting the average RoSt from the company-specific RoSt.
4. The value spread is multiplied with the stakeholder costs to determine the Stakeholder Value Added.

While the Stakeholder Value Added evaluates stakeholder relations from an actors-perspective, the evaluation of CSR activities focuses on specific CSR-issues, which are often difficult to assign to individual actors. CSR activities are also very specific in nature so that they are difficult to benchmark as proposed by the Stakeholder Value Added. Thus, the Stakeholder Value Added is not applicable to a CSR evaluation either. The next section will therefore focus on the development of a comprehensive model to measure the company-specific value of CSR activities.

CSR impact assessment

Following the CSR impact model developed above (see Figure 1), a comprehensive CSR assessment should include the evaluation of monetary as well as non-monetary business benefits. With regard to monetary benefits, the first three monetary benefits identified in the CSR impact model (revenues, costs, risk) correspond to the components of discounted cash flow methods such as the NPV. It is thus suggested to apply a discounted cash flow method to these benefits to calculate a “*CSR Value Added*” representing the monetary value of CSR activities to a company. The fourth monetary benefit, brand value, is not included in the calculation of the CSR Value Added but rather represents a *key performance indicator (KPI)* for the future sales of a brand’s products. Equally, the non-monetary benefits identified in the CSR impact model that can be measured with quantitative indicators also represent KPIs for future monetary impacts. As monetary CSR benefits often occur after a time lag, a comprehensive CSR impact assessment should not only focus on the calculation of the CSR Value Added but also on the development and measurement of these KPIs. The CSR impact model also identified benefits that can only be evaluated *qualitatively*. As they can equally influence company competitiveness, a qualitative assessment of stakeholder relationships should also be included to assess further effects on a company’s capital access and license to operate.

It was argued before that non-monetary CSR impacts can be as important as monetary impacts. The monetary CSR Value Added should therefore not serve as the final basis for decision-making but all three assessment components (CSR Value Added, KPIs, and qualitative impacts) should be evaluated individually. To arrive at a final conclusion about the company-specific value of CSR activities, the *strategic*

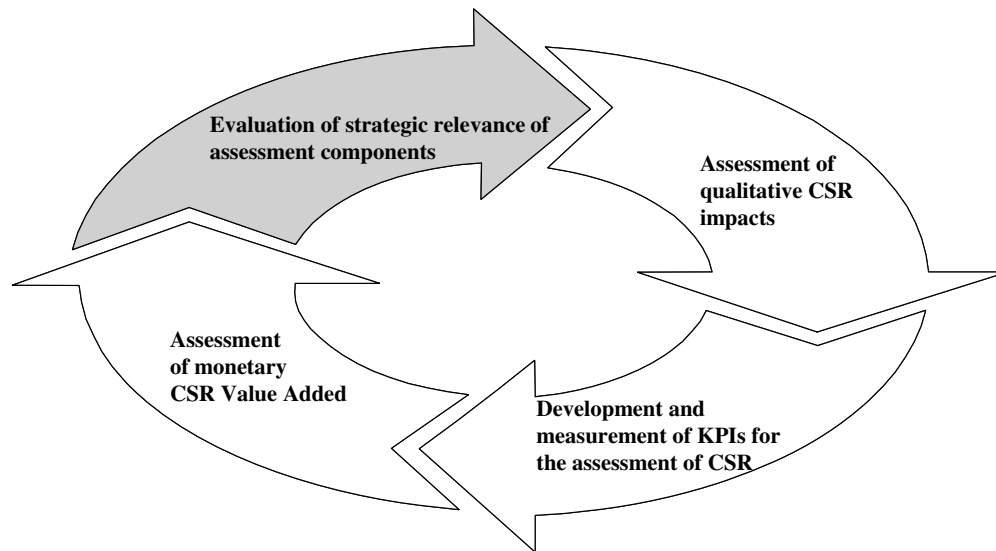


Figure 2 CSR Impact Assessment Cycle.

relevance of each of the assessment components should further be evaluated.

As shown in Figure 2 this CSR impact assessment can be seen as an assessment cycle illustrating the time sequence to perform the individual assessment steps. Ideally, the *strategic relevance of the assessment components* should be evaluated at the beginning of the process. However, it can also represent the end. As it was argued before that quantitative benefits from CSR often occur with a time lag, companies should start with the *assessment of qualitative impacts* as they are usually measurable first and can serve as “leading indicators” or performance drivers of future outcomes (see e.g., Kaplan & Norton 2006, 373) for changes in KPIs. For example, an improvement of employee relations indicated qualitatively by positive feedback from employees might result in improved employee motivation and retention measurable by e.g., fluctuation rates (KPI). As quantitative KPIs are only measurable after a certain time, companies should *develop and measure relevant KPIs* as a next step of the assessment. As argued before increases in employee motivation can eventually result in productivity gains and cost decreases so that these KPIs can also serve as leading indicators for the components of the *CSR Value Added*. As monetary impacts usually occur after a further time lag, the CSR Value Added should be calculated last.

The assessment cycle also illustrates that, ideally, the assessment represents a continuous process – used for the ex ante selection of CSR projects, the ongoing evaluation and monitoring of selected long-term CSR activities, and a final impact assessment after the end of each project. To provide a deeper understanding of the individual components of the assessment cycle each component is further described below.

Assessment of qualitative CSR impacts

As argued before, CSR can help companies to secure their license to operate and improve their capital access by improving stakeholder relations. For example, CSR activities can secure the goodwill and support of governments, e.g., through the joint development of CSR standards. This can

strengthen a company’s influence on industry-specific regulations or be crucial to support entry into new markets, e.g., by helping to overcome non-tariff trade barriers that can include social regulations concerning health, safety, or environmental standards (see e.g., Carbaugh 2000, 183f. and chapter 6).

The qualitative CSR impact assessment should include the evaluation of the relationships to all relevant stakeholders and report specific indications for their improvements. Possible indicators include the establishment of personal relationships to key decision-makers or positive feedback from important stakeholders. Changes in stakeholder relations can be monitored using e.g., stakeholder dialogues or surveys. An example of a comprehensive stakeholder survey including qualitative and quantitative evaluations of stakeholder relations and performance is presented by Murphy et al. (2005).

The qualitative assessment can contribute two-fold to the overall CSR impact assessment. First, it helps to identify important benefits that would be neglected in a purely quantitative assessment. For example, the establishment of personal relationships to key decision-makers in undeveloped markets might facilitate market entry leading to additional revenues at a later stage. However, as companies can hardly evaluate how fast they could have entered the market without these personal contacts and the impact of this time component on revenues this important benefit would be neglected in a purely quantitative assessment. Second, as argued above qualitative indicators can be leading indicators for changes in quantitative KPIs. The qualitative assessment can therefore help managers to define the relevant KPIs and indicators that should be measured next.

KPI development and measurement

As a next step, companies should develop and measure relevant KPIs that indicate an improvement of company competitiveness due to CSR. In the CSR impact model, five benefits were identified that can be seen as key performance indicators:

- monetary brand value,
- customer attraction and retention,
- reputation,
- employer attractiveness,
- employee motivation and retention.

Except for reputation referring to several stakeholders these KPIs focus on customers and employees. This emphasis corresponds to the importance of these stakeholders in business practice. For example, in a survey among 500 top managers in Germany respondents ranked the responsibility against customers, employees, and shareholders as highest (see Bertelsmann Stiftung 2005, 7). Concerning shareholders, an evaluation of the impact of CSR on profit follows in the CSR Value Added assessment.

Companies should determine quantitative indicators to measure these KPIs depending on their specific CSR strategies and activities. Possible quantitative indicators are shown in Figure 3.

From a financial perspective, brand value is usually measured focusing on costs, prices, or the capital value of a brand (see e.g., Naderer 2005). Indicators for a quantitative evaluation of impacts on customer attraction and retention can include CSR-induced changes in repurchase rates or market share. Reputation effects can be derived from company rankings or indices such as Fortune’s AMAC and GMAC, the Harris-Fombrun Reputation Quotient, or the World’s/ Europe’s Most Respected Companies Ranking by the Financial Times (see Schwaiger 2004, 51–57 for an overview). Quantitative indicators of employer attractiveness can include a regular monitoring of the number of applications per vacancy or a company’s hiring rate. Concerning the motivation of current employees, quantitative indicators can include fluctuation rates or average days of illness or absenteeism.

Although these KPIs should be assessed individually, they are interrelated. For example, high customer retention can positively influence brand value and high employee motivation can influence the attractiveness of a company for future employees.

In many cases it will be challenging to separate the effects of CSR from other influencing effects such as marketing campaigns. Tuppen (2002) described how BT Group developed a statistical model to measure the influence of CSR on customer satisfaction. Based upon a broad statistical evaluation BT calculated correlation factors for each driver

of customer satisfaction. One of the most important drivers was reputation. Assuming that CSR was one important component of reputation, the company included CSR questions in their reputation survey to calculate the impact of CSR on reputation. From these correlations, BT concluded that its customer satisfaction rating would drop by 10% if the company stopped all CSR activities (see Tuppen 2002, 65). As this example shows, companies can determine the effect of CSR on the above KPIs by e.g., including CSR-specific questions in regular customer, employee and reputation surveys. However, in some cases an isolation of the CSR effects will still be difficult.

The evaluation of KPIs can contribute to the overall CSR impact assessment by identifying important additional business benefits that would be neglected in a purely monetary assessment. At the same time, the measurement of KPIs can help managers to identify the relevant indicators for the monetary assessment. For example, changes in fluctuation rates due to CSR can direct managers’ attention towards thoroughly assessing personnel administration costs to identify cost savings to be included in the CSR Value Added assessment. However, if changes in fluctuation rates do not directly lead to cost savings, this KPI nevertheless represents an important benefit for the overall evaluation of the CSR business impact.

Assessment of monetary CSR Value Added

After the qualitative assessment and the measurement of KPIs, the monetary CSR Value Added should be calculated using a discounted cash flow logic:

$$\text{Monetary CSR Value Added} = \sum_{n=1}^{n=\infty} (B_n^{CSR} - C_n^{CSR}) * \frac{1}{(1+i)^n}$$

With n = period, B^{CSR} = CSR benefits,

C^{CSR} = CSR costs, i = discount rate.

Monetary CSR benefits. Monetary CSR benefits can occur if revenues increase or costs decrease due to the CSR involvement of a company (see Figure 4).

CSR-induced revenue increases can come from additional sales due to increases in sales quantities, prices or margins (see e.g., Schaltegger 1998, 279). These can be stimulated by cause-related marketing campaigns, CSR-specific product line changes (see e.g., Brockhaus 1996, 159–184 for

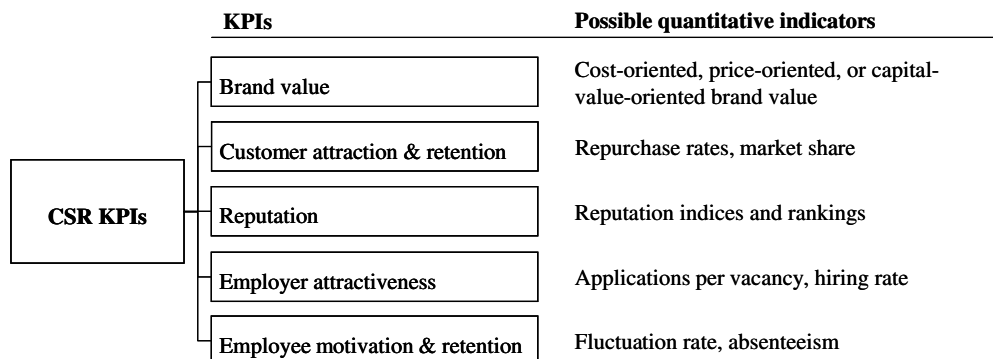


Figure 3 CSR KPIs.

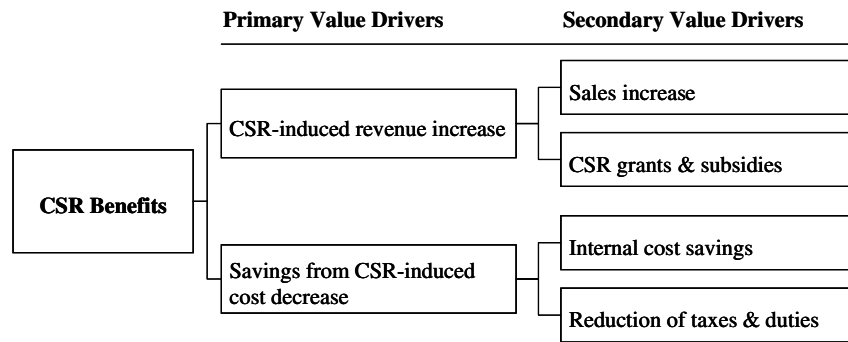


Figure 4 Drivers of CSR Benefits.

an example), or improved possibilities of winning public tenders e.g., due to the use of environmentally-friendly technologies (see Günther 1994, 123–134). CSR-induced revenue increases can also refer to CSR grants and subsidies, e.g., the subsidies of the German Environmental Ministry for renewable energy projects (see BMU 2006).

Savings from CSR-induced cost decreases can result from internal cost savings due to efficiency improvements or triggered by CSR-specific collaborations with e.g., NGOs that provide knowledge or contacts to critical stakeholders such as public authorities reducing the costs for product or market development (see Epstein & Roy 2001, 598f.). Cost savings can also come from tax concessions or reductions of certain duties granted by governments to promote CSR activities, e.g., tax concessions for environmentally-friendly technologies (see e.g., Schaltegger 1998, 279).

When evaluating CSR benefits, managers need to carefully consider the time period in scope. As CSR benefits often occur after a time lag, evaluations should focus on longer time periods. As argued above, for some CSR benefits it is difficult to isolate the impact of CSR from other influencing factors. In this context, the evaluation of complementary figures as well as CSR KPIs can be helpful. For example, statistical evaluations of customer satisfaction as described in the BT example could be extended to estimate the impact of CSR on sales.

CSR costs. Regarding CSR costs, one distinction can be made between one-time and continuous CSR costs (see Figure 5).

One-time CSR costs include one-time donations such as the donations granted to support the Tsunami victims in 2004. One-time CSR costs also include investment costs e.g., for the installation of smoke filters that are beyond legal requirements, and other one-time costs caused by the CSR activities in scope.

Continuous CSR costs include donations intended to continuously support a certain cause and fees such as license fees to use certain labels or patents, which are paid on a continuous basis (see e.g., Günther 1994, 124). They also include recurring personnel and material costs such as the costs for managers coordinating CSR projects or material costs for the production of promotion materials for e.g., cause-related marketing campaigns.

It is often difficult to assess CSR costs using conventional cost accounting systems as these do not distinguish between CSR and non-CSR costs. Conventional cost accounting assigns overhead costs to products based on volume indicators such as production volume (see e.g., Schaltegger & Müller 1997, 54–57) which can lead to a cost distortion overpricing standardized products and subsidizing complex products (see Horváth & Mayer 1989, 215f.). Activity based costing can help to get a more realistic cost assignment and to identify CSR costs as it assigns overhead costs on the basis of the activities causing the costs (see Schaltegger & Müller 1997, 57ff.).

CSR risk. CSR risks especially refer to CSR-related stakeholder behaviors that can lead to negative economic conse-

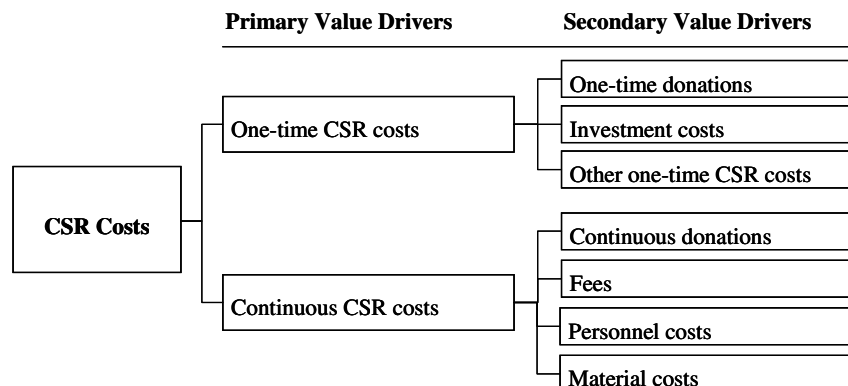


Figure 5 Drivers of CSR Costs.

quences for a company. Examples are stakeholder boycotts as illustrated by the case of Nestlé. In the 1970s and 80s, Nestlé was criticized by NGOs, governments and the media for aggressively selling baby milk powder in developing countries. As a result of the wrong usage of the powder (e.g., due to the illiteracy of mothers not able to read the instructions) and due to the low water quality in these countries, the death rate among babies increased significantly. The conflict resulted in a consumer boycott against Nestlé products in the USA. As a result, Nestlé suffered financial losses, image and reputation damages, and a drop in employee morale (see Janisch 1992, 43f.).

Active involvement in CSR can reduce such CSR risks but it can also expose a company to additional risks. Hartmann et al. (2002) argued that NGOs collaborating with businesses bear the risk of losing their credibility. Similar effects could apply to company partners. Strong CSR involvement can also increase the risk of boycotts as a company might become a more attractive target for NGOs (see e.g., Argenti 2004 describing how Starbucks became a preferred target for an NGO boycott partly because of its strong CSR involvement). Therefore, CSR can help to reduce CSR risks leading to CSR risk-related benefits but also expose a company to additional risks causing CSR risk-related costs (see Figure 6).

CSR Risk-related benefits refer to the avoidance of revenue decreases (e.g., due to consumer boycotts) or additional costs (e.g., to reestablish image). Conversely, *CSR risk-related costs* can include a revenue decrease or an increase in certain costs in comparison to the expected revenues and costs without CSR.

In decision theory, risk is determined by multiplying the impact of a possible economic damage with its probability (see e.g., Meffert & Kirchgeorg 1998, 239). CSR risk-related costs can thus be calculated by multiplying the expected economic impact from CSR-related risks with its probability. As CSR risk-related benefits refer to the avoidance of such negative economic impacts, they can be calculated by multiplying estimated avoided CSR risk-related costs by -1 .

With this calculation, CSR risk is considered as an additional benefit or cost driver in the NPV calculation. However, systematic or unsystematic CSR risks can also be reflected in the cost of capital and influence the discount factor of the calculation. *Systematic risks* refer to risks that threaten all companies in the market. *Unsystematic risks* refer to risks that are special to a certain company. While unsystematic risks can be reduced by diversification, systematic risks cannot be avoided (see Brealey et al. 2006,

162). An example for a systematic CSR risk could be the risk of boycotts by environmental NGOs in industries with high pollution rates. Companies should carefully evaluate if CSR risks are sufficiently reflected in the discount factor or need to be evaluated separately as a benefit or cost driver as explained above.

The ex ante evaluation of the economic impact and probability of CSR risks is often difficult. It can help managers to evaluate past experiences with CSR stakeholder reactions in the industry. However, for most risks an evaluation might be impossible especially if they involve unforeseen stakeholder behaviors (see similarly Meffert & Kirchgeorg 1998, 240f.). Therefore, CSR risks should also be evaluated in the qualitative CSR impact assessment.

Evaluation of strategic relevance of assessment components

As argued above, the assessments of qualitative impacts and KPIs can provide important information on business benefits not included in the monetary assessment. The CSR Value Added should thus not serve as the final basis for a conclusion about the value of a specific CSR activity to a company. Instead, companies should prioritize the CSR benefits measured in the individual assessments according to their contribution to the CSR strategy of the company e.g., by prioritizing the benefits by their contribution to the long-term and short-term CSR goals. This leads to the matrix shown in Figure 7.

High-priority benefits ranked “high” in terms of their contribution to the long-term as well as short-term CSR goals of a company reflect the main value of CSR and should guide the decision on current and future CSR activities. Low-priority benefits ranked “low” in both dimensions of the matrix should have the least priority for the decision on CSR activities. Benefits ranked “high” in one dimension and “low” in another represent medium-priority benefits and should further be prioritized according to the overall strategy of the company.

Example: Assessing the business impact of the Philips Pupils Fund of Caritas

To illustrate how the CSR impact assessment can be applied in business practice and how it helps to evaluate monetary and non-monetary CSR benefits in a single evaluation, the “Philips Pupils Fund of Caritas” in Austria will be presented

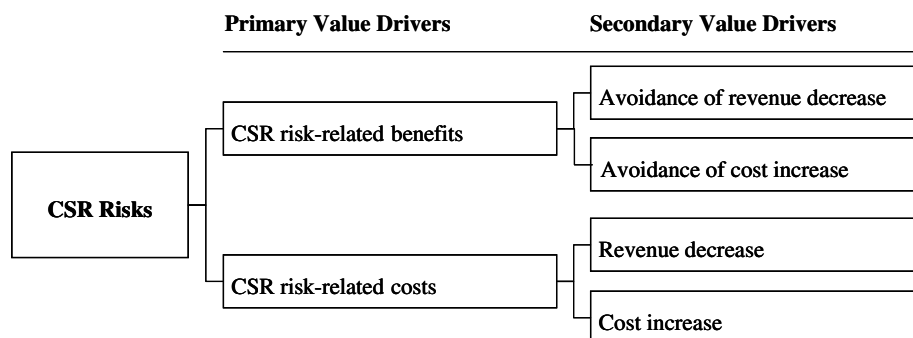


Figure 6 Drivers of CSR Risks.

Contribution to short-term CSR goals	High	<i>Medium-priority benefits</i>	<i>High-priority benefits</i>
	Low	<i>Low-priority benefits</i>	<i>Medium-priority benefits</i>
		Low	High
Contribution to long-term CSR goals			

Figure 7 CSR Benefit Contribution Matrix.

as a real-life example. For the illustrative purpose of this section, a single case study design was used. Case study research is an appropriate methodology to study “how”-questions in real-life contexts (see Yin 2003, 3–9). The Philips example was chosen for three reasons:

- the project especially tackled intangible CSR benefits, which helps to illustrate the value of the CSR impact model compared to purely monetary evaluations,
- the company is headquartered in Europe, further enriching the CSR literature with a European example as a variety of American case studies exist,
- information about the project benefits were publicly available and Philips was very cooperative to provide further information.

The evaluation of the business impact of the Philips Pupils Fund of Caritas was based upon document analysis and a telephone interview with the project responsible for Philips Austria. Analyzed documents included information from Philips websites (see www.philips.at and www.philips.com/global) and additional documents provided by the company.

Company background

Royal Philips Electronics is one of the biggest electronics companies in the world with headquarters in the Netherlands. It is a global leader in the areas of healthcare, lifestyle and technology with four operational divisions: medical systems, domestic appliances and personal care, consumer electronics, lighting. Philips is listed on the Amsterdam and New York stock exchange. In 2006, the company generated sales of about 27 billion EUR and employed about 121,700 people of which 1000 worked for Philips Austria.

Project background

In Austria, 113,000 children live in poverty. Often, their parents cannot afford to buy school supplies or spend money for school trips. In 2003, Philips and Caritas Austria (a Catholic relief, development and social service organization) founded the Philips Pupils Fund of Caritas. The fund, which is managed by Caritas, provides financial support to socially disadvantaged school children in Austria. Each year, Philips Austria donates 70,000 EUR to the fund. Additional donations come from Philips employees and business partners. Philips also offers “future vouchers” to the children supported by the fund offering to help

them in the future e.g., by finding an apprenticeship position upon graduation.

Result measurement at philips

To evaluate the success of the project Philips assessed the number of supported children, the number of involved employees, additionally raised donations, and performed a qualitative media analysis. In the first three years, the fund supported about 5000 children with an average financial support of 80 EUR per child. Within these three years, the fund received more than 485,000 EUR of which more than 50% were donated by Philips employees and partner organizations. Media coverage about the Philips Pupils Fund of Caritas was exclusively positive. Philips Austria also received several awards for the project e.g., the TRIGOS Award 2004 for CSR or the Golden Lafarge Award 2006 for exceptional sustainability actions.

Philips further reported the business impact of the project with regard to expenses and benefits. Expenses included the annual donation of 70,000 EUR and additional personnel expenses. Benefits included the presence of the topic in Philips media, employee motivation/engagement/identification, and image effects. As in most CSR business cases, it is difficult to evaluate the overall business impact of the project solely based upon this information as costs refer to monetary and benefits to non-monetary impacts. The next section will show how the application of the CSR impact assessment developed in this paper can help to evaluate such monetary and non-monetary data.

Application of the CSR impact assessment

To apply the CSR impact assessment to the Philips Pupils Fund of Caritas, the document analysis was complemented by a telephone interview with the Philips project responsible to further explore the business benefits along the CSR impact assessment cycle.

Assessment of qualitative CSR impacts. First, the business impact of the project was evaluated qualitatively. The relations to all target stakeholders of the project were analyzed to identify specific indications for the contribution of the project to improving stakeholder relations and therewith securing Philips’ license to operate and improving its access to capital. As Table 2 shows, the project helped Philips to improve the relations to direct transactional stakeholders such as employees, customers, and business partners indicated by e.g., increased fundraising activities and positive

Table 2 Philips Pupils Fund of Caritas – Qualitative CSR Impacts

CSR Impact Assessment Sheet

Project: *Philips Pupils Fund of Caritas*

1. Qualitative impact on stakeholder relations

Target stakeholders of the project	Indicators for relation improvements
School children and parents	Thank you letters
Caritas	Perennial partnership, joint press releases
Employees	Increased fundraising activities, positive CSR feedback
Customers (B-to-B)	Reports in customer mailings and during events
Other business partners	Increased donations from partners
Public/end consumers	Positive media coverage

Table 3 Philips Pupils Fund of Caritas – KPIs for the assessment of CSR

CSR Impact Assessment Sheet

Project: *Philips Pupils Fund of Caritas*

2. KPIs

Brand value	Customer attraction and retention	Reputation	Employer attractiveness	Employee motivation and retention
No further indicators measured	No further indicators measured	100% positive media coverage, excellent CSR presence in relation to competitors CSR and sustainability awards for the project	Positive reference to Pupils Fund in job applications	~90% increase in employee donations (comparing year 1 and year 3) Excellent scores in annual employee survey

feedback. It also helped to improve the relations to stakeholders in the broader environment such as Caritas supporters, supported children and their parents, and the general public indicated by e.g., thank you letters and positive media coverage.

KPI development and measurement. As a second step, the business benefits were further explored along the KPIs suggested above (see Figure 3). As presented in Table 3, no additional indicators had been measured to assess the impact of the project on brand value and customer attraction and retention. In terms of reputation, a short-term image improvement and long-term influence on company reputation was reported due to the positive media coverage, the various awards for the project and the resulting excellent CSR presence of Philips Austria compared to its competitors. Positive references to the Pupils Fund in job applications indicated a positive influence on Philips' employer attractiveness. In addition, positive impacts on employee motivation were derived from the increase in employee donations and the excellent CSR feedback in the annual employee survey. Although Philips was able to measure most of these indicators quantitatively (e.g., the number, reach and quality of positive media reports), the complete information could not be disclosed due to confidentiality reasons.

CSR Value Added assessment. As a third step, the business impact of the project was evaluated monetarily along the different drivers of CSR benefits, costs, and risks analyzed above (see Figures 4–6). As Table 4 shows, monetary data

on *CSR benefits* regarding sales increases or cost savings was not available. Although the donations are tax deductible, Philips did not report the exact value as it will be shown below that the monetary assessment was not regarded strategically relevant for project success. With regard to *CSR costs*, the project only tackled two cost drivers: continuous donations and personnel costs. Other costs did not occur so that the total annual costs of the project were evaluated at 75,600 EUR. *CSR risks* were estimated at 0 EUR as the project neither significantly avoided nor increased CSR risks.

Due to the missing information on CSR benefits, a CSR Value Added was not calculated. However, a negative CSR Value Added was assumed.

Evaluation of strategic relevance of assessment components. As a final step, the CSR benefit contribution matrix (see Figure 7) was used to evaluate the strategic relevance of the assessment components. The horizontal axis of the matrix relates to the contribution of the individual CSR impacts to the long-term CSR goals – in this case to support underprivileged children and teenagers to improve their quality of live. The vertical axis indicates the contribution to the achievement of short-term CSR goals. Philips did not define short-term goals for charitable activities. Project success was measured using indicators for societal impact e.g., number of supported children as well as business benefits especially image and reputation effects derived from media analysis. As the societal indicators are already reflected in the long-term goals, they were not considered

Table 4 Philips Pupils Fund of Caritas - Monetary CSR Value Added Assessment

CSR Impact Added Assessment
Project: *Philips Pupils Fund of Caritas*
3. Monetary CSR Value Added

	School year 2003/2004	2004/2005	2005/2006	Comments
<i>CSR Benefits</i>				
Sales increase	0€	0€	0€	Not assigned
CSR grants and subsidies	0€	0€	0€	
Internal savings	0€	0€	0€	Not assigned
Reduction of taxes and duties	N/A	N/A	N/A	Tax subsidy, value unknown
Total CSR Benefits	N/A	N/A	N/A	
<i>CSR Costs</i>				
One-time donations	0€	0€	0€	
Investment costs	0€	0€	0€	
Other one-time CSR costs	0€	0€	0€	
Continuous donations	70,000 €	70,000 €	70,000 €	
Fees	0€	0€	0€	
Personnel costs	5600 €	5600 €	5600 €	8% of donation ^a
Material costs	0€	0€	0€	Online materials only
Total CSR Costs	75,600 €	75,600 €	75,600 €	
<i>CSR Risks</i>				
Avoidance of revenue decrease	0€	0€	0€	
Avoidance of cost increase	0€	0€	0€	
Revenue decrease	0€	0€	0€	
Cost increase	0€	0€	0€	
Total CSR Risks	0€	0€	0€	

^a Based upon Caritas evaluation: Administrative personnel expenses = 8 to 10% of donation.

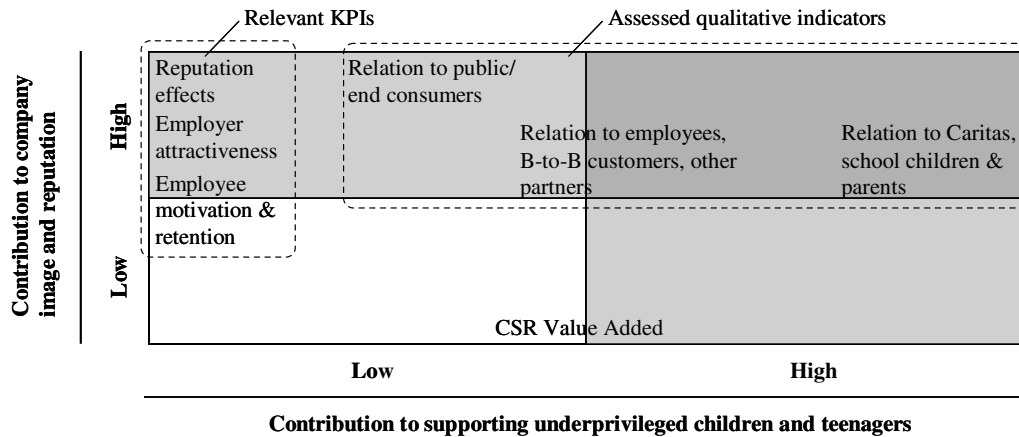


Figure 8 CSR Benefit Contribution Matrix for Philips Pupils Fund of Caritas.

on the vertical axis to avoid redundancies and to separate societal and business impacts in the evaluation. The vertical axis was thus defined as the contribution of the CSR impacts towards the improvement of company image and reputation as shown in Figure 8.

As Figure 8 shows, the non-monetary CSR impacts (relevant KPIs and qualitative indicators) of the Philips Pupils Fund of Caritas contribute significantly stronger to the

achievement of the project goals than the monetary CSR Value Added. The achievement of the long-term goal on the horizontal axis is especially supported by the good relationship to Caritas, which can be seen as a precondition for a successful cooperation to support underprivileged children, and indicated by the good relations to school children and their parents. The contribution of these relations to image and reputation was considered medium to high due to the

limited number of people reached. The latter is also true for the relation improvements to employees, B-to-B customers and other partners. Their contribution to the long-term goal was evaluated at a medium to high level as the relation improvements resulted in increased donations, which helped to support a greater number of children. The contribution of the relations with the general public / end consumers to image and reputation was considered to be high due to the broad audience reached by the positive media coverage. As press releases were also used to motivate the general public to donate to the fund some spill-over effects to the contribution to the long-term goal exist.

The assessed KPIs represent pure business benefits so that their contribution to the long-term goal was rated low. Clearly, effects on reputation and employer attractiveness highly contribute to company image and reputation. With regard to employee motivation, a medium contribution to image and reputation was reported as motivated employees usually talk positively about their company in the public.

The monetary CSR Value Added does not contribute to image or reputation. However, the contribution to the long-term goal was rated medium as the donation itself enables the fund to achieve its long-term goal.

The application of the CSR benefit contribution matrix allows a final conclusion about the impact of the project. The positioning of the assessment components within the matrix shows that the project successfully contributes to the achievement of Philips' charitable goals as positive indicators could be identified for high-priority and medium-priority benefits, which include qualitative and quantitative non-monetary benefits in this case. The monetary CSR Value Added only represents a low- to medium-priority benefit. The project should therefore be continued despite of its negative CSR Value Added as the non-monetary benefits have a higher strategic relevance for Philips.

This conclusion shows that each of the individual components of the CSR impact assessment cycle is important in the assessment. An exclusive focus on a monetary assessment would have led to a negative evaluation of the project, which would not reflect Philips' CSR strategy. Therefore, the individual assessment of each monetary and non-monetary component and the explicit evaluation of the strategic relevance of the individual components are crucial for a comprehensive CSR impact assessment. The matrix also allows defining next steps for the fund. For example, one next step could be to focus stronger on using the good relations to the public to raise more donations to further increase the support of underprivileged children.

Conclusion and implications for future research

Starting from current research this paper focused on the question how to measure the company-specific value of CSR activities. It has been shown that current CSR and sustainability research lacks a systematic and company-specific method to evaluate individual CSR activities. It has also been shown that business approaches of investment and stakeholder evaluation are not sufficient for an application to CSR. Thus, a CSR impact assessment cycle has been developed including four steps: an assessment of qualitative CSR impacts, the development and measurement of KPIs, an

assessment of the monetary CSR Value Added, and the evaluation of the strategic relevance of each of the assessment components. The application of the CSR impact assessment to the Philips example showed that this approach helps to systematically identify all relevant CSR business impacts on a company-specific level and that it can serve as a basis for rational decision-making concerning a company's CSR strategy and activities.

As there is no overall monetary value derived from this model, a conclusion about the value of one CSR activity or a decision between alternative CSR actions is only possible by evaluating the strategic relevance of the business benefits. The case example illustrated how the CSR benefit contribution matrix can help decision-makers to evaluate monetary and non-monetary CSR benefits to determine the success of a CSR project in an ex-post evaluation. However, the model can also be used for ex-ante evaluations e.g., to compare if one CSR activity contributes more to the achievement of the short- and long-term CSR goals of the company than another. As a next step, the model should be applied in in-depth empirical research going beyond the illustrative character of the case example in this paper and comparing different CSR activities.

There are two main shortcomings to this model. First, the assessment is very complex and requires a lot of time and effort from management. In practice it might be necessary to focus on the evaluation of the most relevant business benefits. The Philips example showed how the model can be applied in a simplified version focusing on strategically relevant benefits and without extensive quantitative evaluations. Although not using the model to its full potential in this simplified version, the assessment still rationalizes decision-making by providing a structured approach to evaluate the business impact of CSR activities. Second, for most benefits it is difficult to identify the CSR-related effects. This was also evident in the example. The CSR Value Added could not be calculated as monetary CSR benefits were not allocated to the project. The BT example showed how the statistical evaluation of CSR-specific responses from surveys can provide useful information in this respect. However, future research is needed to provide more insights into the concrete measurement and isolation of CSR indicators and to further apply the model to unfold its full potential.

Another area for future research is the integration of the CSR impact assessment into strategic management to support the full implementation of CSR strategies within companies. This would also contribute to a stronger focus of companies on several stakeholders. Results from marketing research show that in comparison to conventional customer-focused orientations, multi-stakeholder orientations can significantly improve financial performance (see [Murphy et al. 2005](#)). This would be a significant contribution to further strengthen the competitiveness of companies in the future.

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