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Corporate Social Responsibility in Management Control Systems - Case Financial Services Industry in Finland

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ABSTRACT
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CORPORATE SOCIAL RESPONSIBILITY IN MANAGEMENT CONTROL SYSTEMS – CASE FINANCIAL SERVICES INDUSTRY IN FINLAND

Research objectives

The study has two objectives. The first objective is to find out how corporate social responsibility (CSR) is defined in the financial services industry. The second objective is study whether CSR is built into management control systems (MCS) in the financial services industry in Finland, and if so how.

Sources

The theoretical part was constructed of a wide range of research articles, reports and academic textbooks of corporate social responsibility and management control systems. Source material in the empirical part was the corporate social responsibility reports of the case companies and theme interviews conducted with the companies' representatives.

Research method

The study was conducted in five case companies operating in financial services industry by semi-structured theme interviews. The interviewed case company representatives were chosen because they have the best knowledge of their company's corporate social responsibility and managing it. Altogether seven people were interviewed.

Results

Financial services companies use terms corporate social responsibility, corporate responsibility and responsibility as synonyms. Not every case company could tell what CSR means especially for them. Generally, CSR is seen to be integrated as a part of the business in the industry.

A forerunner was found in building CSR into MCS. Many of the companies in the industry are only just beginning to find structure in managing CSR. Companies do see the business case of CSR. Economic and social responsibilities are seen as part of the "normal" control systems as the environmental aspect is lagging behind.

Keywords

Corporate social responsibility, management control systems

HELSINGIN KAUPPAKORKEAKOULU TIIVISTELMÄ
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YHTEISKUNTAVASTUULLISUUS OHJAUSJÄRJESTELMISSÄ FINANSSITOIMIALALLA SUOMESSA

Tutkimuksen tavoitteet

Tutkimuksella oli kaksi tavoitetta: Tutkia, miten yhteiskuntavastuu määritellään ja onko yhteiskuntavastuu rakennettu osaksi ohjausjärjestelmiä finanssitoimialalla Suomessa.

Lähteet

Teoriaosuuden lähdemateriaalina toimivat pääasiassa tieteelliset artikkelit, tutkimusraportit ja akateemiset oppikirjat yhteiskuntavastuullisuudesta ja ohjausjärjestelmistä. Empiriaosuuden lähdemateriaalina toimivat case-yritysten yhteiskuntavastuun raportit ja vastaava materiaali sekä yritysten edustajien kanssa käydyt teemahaastattelut.

Tutkimusmenetelmä

Tutkimus toteutettiin viidessä finanssitoimialalla toimivassa case yrityksessä teemahaastatteluin. Haastateltavina olivat yritysten edustajat, joilla on paras tietämys yrityksen yhteiskuntavastuusta ja sen johtamisesta. Tutkimukseen haastateltiin yhteensä seitsemää henkilöä.

Tutkimustulokset

Finanssitoimialan yritykset käyttävät termejä yhteiskuntavastuu, yritysvastuu ja vastuu synonyymin kaltaisesti. Kaikki case-yritykset eivät pystyneet selvästi kertomaan, miten juuri he määrittelevät yhteiskuntavastuun toiminnassaan. Yleisesti sen nähdään kuitenkin olevan rakentunut osaksi liiketoimintaa.

Tutkimuksessa löydettiin selkeä edelläkävijä yhteiskuntavastuun integroimisessa ohjausjärjestelmiin. Suurin osa yrityksistä toimialalla on vasta aloittanut prosessin. Taloudellisen ja sosiaalisen vastuun nähdään olevan osa normaaleja ohjausmekanismeja, mutta ympäristövastuuseen ei vielä ole kiinnitetty niin suurta huomiota.

Avainsanat
Yhteiskuntavastuu, ohjausjärjestelmät

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1 INTRODUCTION

1.1 Background and motivation

Corporate social responsibility (CSR) has become more and more important in the past few years. Some stakeholder groups persist that companies take corporate social responsibility matters seriously. In order to be successful, companies need to take into account not only shareholders, but other stakeholders groups as well. These include customers, employees, potential future employees, non-governmental organizations (NGOs) and the entire value chain of its products or services. However, for many companies CSR seems to be only routine reporting and advertisement slogans. Forward-looking CSR commitments to reach explicit performance targets are still very rare in companies (Porter and Kramer, 2006, 81). However, CSR can be a source of opportunity, innovation and competitive advantage for companies. Changes in the operating environment have increased the importance of CSR aspects. For example, climate change is a topic that has recently become relevant in many discussions. Climate change will also impact the service sector in the future since stakeholders demand actions. The trend is towards sustainable business where value creation is focused not only on financial terms but also ecological and social terms (Cramer, 2002).

Many companies nowadays publish extensive corporate social responsibility reports and mention CSR to be strategically important. Corporate social responsibility reporting and references to strategy indicates that CSR matters are taken into consideration also internally and that they have become a part of the management control systems. Is this really the case? Have CSR matters been taken into the management control systems as well? To be able to manage CSR successfully, implement chosen strategy, and follow-up the fulfillment of targets require an existence of management control systems.

The latest financial crisis which burst out massively in the autumn of 2008, and the effects we are still experiencing, raised the social responsibility of financial services companies into the daylight more than before. After the crisis the customers, as well as other stakeholder groups, are demanding more responsible ways of doing business from the financial services companies. The regulatory requirements are also expected to tighten. Adapting to the new situation is easiest for the companies that have been dedicated to forward-looking CSR commitments already before the crisis. Many of the Finnish financial services companies publish corporate social responsibility reports, mention responsibility as one of their values and state to be committed to stakeholders' interests. Have CSR issues raised discussions also internally and have they been integrated into management control systems in one way or another in the financial services firms? The concept of social investment is also increasing its popularity when more and more investors screen their investments social and environmental aspects before making investment decisions. Social investments and investors represent both a challenge and huge opportunity for financial services companies.

Traditionally the financial services industry in Finland has not been considered strongly committed to CSR when compared with e.g. producing industry and retailing. This image might be due to the environmental roots of corporate social responsibility reporting. Nevertheless the CSR requirements addressed for banks and insurance companies by various stakeholders have been increasing due to the financial crisis. There is a growing interest on social investments and the general awareness and interest of the CSR is increasing.

Even though the CSR has raised much discussion and also research have been published about the subject, a mutual understanding of the concept's content still seems to be missing. Quite a lot has been written about CSR reporting and the theory behind it (See for example Adams 2002, O'Dwyer 2002, Adams and McNicholas 2007). Thus far very little has been written about the integration of CSR and management control systems, their designs and effects on the operational level. Berry et al. (2009) mention a lack of literature on control and sustainability when reviewing recent management control literature. Morsing and Oswald (2009) offer us a case study on sustainable management and MCS but a major shortcoming of that case is that it only describes the MCS of a well-known CSR forerunner which does not tell anything about the reality in the majority of the companies. Durden (2008) is one of the few considering a responsible MCS. In Finland, Järvenpää and Länsiluoto (2008) have touched upon the issue, but they are concentrating only on the environmental aspect of CSR and in addition, they only concentrate on one tool in MCS, the balanced scorecard. Overemphasizing the environmental aspect in research in general may be due to the fact that the studies are mainly focused on industrial and manufacturing companies where environmental impacts are significant and where remarkable cost saving can be reached through environmental management. However, CSR is nowadays increasingly a challenge for service companies as well and they need to respond to the call of their stakeholders, internal and external, who demand better CSR.

1.2 The objectives of the study

The objectives of the study are to find out:

- **How is CSR defined in financial services industry?**
- **Is CSR build into the management control systems (MCS) in financial services industry in Finland, and if so how?**

  The models found in theory part are being used as a background hypothesis of this objective.

1.3 The structure of the study

The theory part of the study will be a literature overview of corporate social responsibility and management control systems. CSR is covered by bearing in mind the special characteristics of the studied industry, financial services, and the operating environment, Nordic countries. Overemphasizing of the environmental aspects is avoided and it is remembered that in the Nordic countries the society is well organized and many aspects considered as CSR elsewhere are a regulatory requirement. The management control systems will be included in the theory part to understand the systems and why implementing new aspects into the systems can be challenging.

In the empirical part Finnish financial services companies will be studied. Firstly, the case companies a represented from the CSR viewpoint to introduce the state of CSR in the studied companies, according to the public material (websites, annual reports, CSR reports). Based on the literature overview a semi-structured interview base will be prepared and the interviews will be taken to study the objectives of the study in the field.

The study is conducted among financial services operators in Finland. Under FK (Federation of Finnish Financial Services, *Finanssialan keskusliitto*) operates a corporate responsibility (CR) working group (*yritysvastuutyöryhmä*). The working group was founded in august 2007 to think over the common corporate responsibility issues in the industry. The executive committee of FK has defined as one of the aims to follow CSR issues and the working group fulfills this aim. In this working group, Ilmarinen, OP-Pohjola group, TELA

(*Työeläkevakuutajat*), Lähivakuutus, Tapiola group, Sampo group, Sampo bank and Nordea, as well as FK and EK (Confederation of Finnish Industries, *Elinkeinoelämän keskusliitto*) are represented. This working group is seen as representative benchmarking forum for CSR in financial services industry in Finland. The study will be conducted as an interview study. The participants will be motivated to take part by offering them benchmark information.

1.4 Key concepts of the study

Key concepts of the study are defined as follows:

Corporate social responsibility (CSR):

In this thesis, only the level of actions which surpass the regulatory requirements and are based on voluntariness are considered as CSR. The study covers all the three dimensions of CSR – environmental, social and economic responsibility. CSR is used as a synonym for corporate responsibility (CR), sustainability and sustainable development.

Management control systems (MCS):

In this thesis, management control systems are defined as the processes, systems and tools by which the management guides the organization's and its employees' behavior to fulfill the set strategy and targets.

Both CSR and MCS are concepts of which variety of definitions exist depending on the researcher. The definitions used in this study derive from corporate social responsibility definitions discussed on pages 8-9 and management control systems definition discussed on pages 22-23. The definitions used in this study are thought to best fit this study and its objectives.

2 CORPORATE SOCIAL RESPONSIBILITY

2.1 Defining CSR

The concept of corporate social responsibility is not unambiguously defined. In addition, the terms sustainable development, corporate responsibility, sustainability, and corporate citizenship are used in a disorganized manner, mostly as synonyms of CSR both in research and in companies. The United Nations defined sustainable development in 1987 being *development which meets the needs of the present without compromising the ability of future generations to meet their own needs* (Niskala and Pretes, 1995, 463).

The Dow Jones Sustainability index has created a commonly accepted definition of CSR: *a business approach that creates a long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments* (Crawford and Scaletta, 2005, 20).

The European Commission defines corporate social responsibility as *companies acting voluntarily and beyond the law to achieve social and environmental objectives during the course of their daily business activities* (European Commission).

EK defines corporate responsibility being actions to support the company's business spontaneously. Corporate responsibility is depending on the company's values and objectives and the company needs to take into account its shareholders' expectations and requirements. In addition to economic matters, a responsible company takes into account the environmental and social issues and ethical aspects. The emphasis of responsibility changes over time and depends on the company's industry and operational environment.

The term *triple bottom line* is widely used when discussing of CSR. Triple bottom line refers to the three dimensions of CSR which are environmental, social, and economic responsibility. Some like to use the form corporate responsibility (CR) instead of CSR when wanting to emphasize the involvement of all the aspects, not only social.

Thus, in this thesis only the level of actions which surpass the regulatory requirements and are based on voluntariness are considered as CSR. The study covers all the three dimensions of

CSR – environmental, social, and economic responsibility. CSR is used as a synonym for corporate responsibility (CR), sustainability, and sustainable development.

2.2 Evolving CSR

The sustainable development and corporate social responsibility have bound strongly to business life over the past few decades. Corporate social responsibility started evolving from environmental aspect to cover the whole triple bottom line. Niskala and Pretes (1995) studied the environmental reporting in Finland already in the 90s. They find out from 1987 to 1992 an increase of 80 % in environmental disclosure, and in 1992 48 % of the studied companies disclosed at least some environmental information (Niskala and Pretes, 1995, 459). The publication of environmental information began in industries having significant environmental impacts but this practice has gradually spread to industries where the environmental impacts are less visible and they are more vulnerable to social pressure (van den Brink and van der Woerd, 2004, 190).

Many standards and policies have directed the environmental and social performance of organizations starting from the 90s. In the following the most well-known and wide-spread standards are introduced. The process has started evolving from the environmental aspect. The European Community's Eco-Management and Audit Scheme (EMAS) and the International Standard ISO-14001 are the most well-known standards for environmental management. **ISO-14001** was established in 1996 and it provides a set of process standards. **EMAS** on the other hand was established in 1993, and revised in 2001, as a voluntary initiative to improve environmental performance. Under EMAS organizations must be able to demonstrate that they have indentified and understood the current environmental legislation and their operations are capable of meeting those requirements. EMAS differs from ISO-14001 by emphasizing performance measurement of environmental impacts as ISO-14001 emphasizes the process perspective.

SA8000 (Social Accountability) certification standard launched in 1997 and revised in 2001, on its part focuses on workplace values. It is based on the conventions of ILO (International Labour Organization), the universal declaration of human rights and the UN (United Nations) Convention on the rights of the child. **UN Global Compact**, launched in 2001, is an initiative to encourage and promote good corporate practices in many areas of CSR. The Global

Compact is organized under 10 principles which cover human rights, labor, the environment, and anti-corruption. The values of Global Compact are based on many UN declarations. It needs to be noticed that the UN does not monitor compliance with the principles in the organizations bind to them. It however asks the organizations report their progress in support of the ten principles. (Epstein, 2008, 73-77.)

One needs to notice that company's binding for the presented standards and policies in the operating environment of Nordic countries does not necessarily tell anything concrete of the company's CSR commitments. For example, the principles of Global Compact include human rights abuses, forced labor and child labor which are self-evident and legislative aspects in the Nordic countries. The importance of the international standards increases significantly when assessing global companies operating in emerging markets and having subcontractors in less developed countries.

CSR ratings, published by rating agencies and companies, are one way of distinguishing the level of companies' CSR from one another. The ratings' marketplace is however very confusing and difficult to interpret. Variety of criteria is applied when rating CSR issues, and interpretation of different criteria gets even harder when trying to find information about the indices – many of them being chargeable. Nonetheless few big international rating agencies dominate the market. The most well-known sustainability indices are the UK **FTSE4Good index** and the US **Dow Jones Sustainability Index**. Most agencies follow a comparable process to develop a CSR assessment and rating. First the agency compiles available external information about the company in question, then detailed questionnaire is sent, and finally the agency interviews key informant internally and externally. (Márquez and Fombrun, 2005, 305.) However a major limitation of the rating to be used to analyze the state of CSR in the companies is that they are mostly based on external information and are not necessarily completely independent. To assess the actual state of CSR in a company one has to move beyond analyzing ratings and external reporting into analyzing the integration of CSR into management control systems.

2.3 Corporate social responsibility reporting

In this chapter, motivations for corporate social responsibility reporting and its most well-known reporting framework Global Reporting Initiative (GRI) are shortly described to understand its scale and project what kind of requirements it sets up for internal CSR processes, and management control systems as well, to enable the external reporting. The two most widely used and debated CSR reporting theories are the legitimacy theory, which discusses the expectations in general, and the stakeholder theory which concentrates to particular groups within the society chosen by the reporting organization (Deegan and Blomquist, 2006, 349-350). The CSR reporting is presented before CSR actions because it seems that many times companies have started with CSR reporting and the development of operational processes and MCS have followed.

2.3.1 Motivations of CSR reporting

Adams (2002, 244-245) found out that the main motivation into CSR and ethical reporting in companies is to enhance corporate image and credibility with stakeholders. However, the main reason for starting CSR reporting was public pressure. O'Dwyer (2002) conducted a study in Ireland and most senior executives being interviewed argued that the major motivation for CSR reporting was to enhance corporate legitimacy. These finding implicate that the CSR reporting in many cases is not reporting of results originating from realization of CSR strategy. Adams (2002) however reminds that not only company characteristics and general contextual factors (like country of origin or media pressure) influence the CSR reporting, but also internal factors are important. The internal factors include factors considering the process and attitudes. The process includes management, company and governance structure, extend and nature of stakeholder involvement, and accountant/controller involvement. On the other hand attitudes include general attitude towards CSR reporting, corporate culture, and perceived costs versus benefits of the reporting. (Adams, 2002, 246.)

An obstacle for CSR reporting can be a lack of experience and knowledge on the part of managers (Adams and McNicholas, 2007). Adams and McNicholas (2007, 396-397) found out in their case study various obstacles for CSR reporting. These are a lack of knowledge of the best practices of CSR reporting, a lack of understanding how the CSR goals and reporting practices can be integrated into strategic planning process, a lack of experience in engaging stakeholders into the reporting process, identifying of KPI's (Key Performance Indicators), and a difficulty of choosing a reporting framework. It seems that many have overcome the last-mentioned obstacle by choosing the GRI framework which is introduced in the next chapter.

2.3.2 Global Reporting Initiative

Global Reporting Initiative (GRI) is an international initiative to create a common CSR reporting framework (Niskala et al. 2009). GRI was founded in 1997 and since that the GRI reporting framework has constantly been developed together with various stakeholder consultations. GRI's mission is to fulfill the need for globally shared framework of concepts, consistent language, and metrics for CSR reporting. GRI aims to enable the comparison of sustainability performance between different organizations and over time. However, the variation in the reporting period, boundary, scope and length of the report are massive. The comparison is tried to help to require the reporting organization to explain the boundary setting and changes in that over time (GRI RG, 2006).

According to GRI the CSR report should provide a balanced picture of the sustainability performance of the reporting organization including both positive and negative contributions. GRI states that the CSR report should disclose the sustainability in the context of organization's commitments, strategy, and management approach. (GRI RG, 2006.) GRI has been criticized of its attempts to build a framework fitting organizations of any size, constituency, and location because the field of social and environmental impacts is wide and vary greatly from industry to industry (Guthrie et al. 2008). GRI's answer is that the framework contains general and sector-specific contents. For financial services industry the financial services sector supplement (FSSS) has been developed together with companies in the industry. The supplement offers sector specific guidance for disclosing management approach and performance indicators. The FSSS supplement provides some indicators, which are especially designed for the industry. (GRI, RG & FSSS, 2006.)

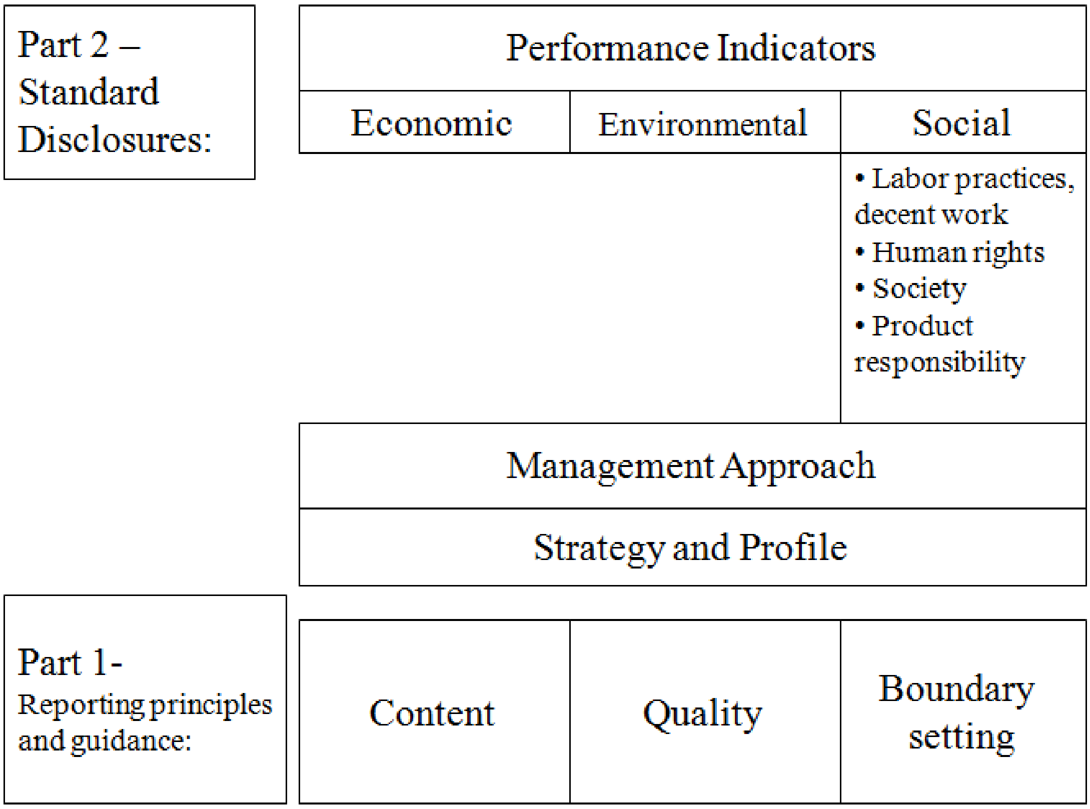

Figure 1: GRI reporting framework

Figure 1 illustrates the GRI reporting framework. Each element is considered to be equal in weight and importance. Firstly, the reporting organization should tell about the reporting principles, like offering guidance for the report's reader to interpret the report. Then the strategy and profile of the reporting organization should be offered. Management approach should describe how the different CSR themes are taken into account in the management of the reporting entity. Performance indicators are classified according to the triple bottom line. A more detailed description of the GRI performance indicators is provided in appendices number 1.

GRI emphasizes that the reporting organization can determine the report content - the whole framework must not be fully covered for the first time reporting. However, the scope should be described and GRI encourages disclosing the plans for expanding the reporting in the future. Necessarily not all the organizational entities are needed to include in the reporting. Although, at least the entities generating significant sustainability impacts should be covered. (GRI RG, 2006.) GRI application levels –system provides reader information about the extent to which GRI framework is applied. Furthermore, the system provides a path to incrementally expand the framework application. The application levels are from C (the lowest level) to A+

(the highest level). Detailed criteria for each level are provided. The plus is given in each application lever if the report is externally assured. (GRI AL, 2006.)

GRI reminds that CSR reporting is a living process and the reporting should fit into a broader picture of setting organizational strategy, implementing action plans, and assessing outcomes. (GRI RG, 2006, 7.) Both external and internal factors should be considered when deciding, which factors to disclose. Internal factors include key organizational values, policies, strategies, operational management systems, goals & targets, interest of stakeholders, risks, critical factors for organizational success, and core competences of the organization. Stakeholders should be indentified and disclosed how the organization has responded to their expectations and interests. (GRI RG, 2006, 10-12.)

The GRI Sustainability Guidelines are composed of both qualitative and quantitative indicators. Core indicators are same for all industries and they should be reported unless deemed not material for the organization. Management approach should be provided for each reporting category in order to set context for performance information. Moreover organization-wide goals for each indicator category should be reported. (GRI RG, 2006.)

Gray (2006) sees that an equal three part approach to accountability, like GRI framework, looks forward into the future where annual reports would comprise of three equally emphasized sections relating to the economic, social, and environmental activities of the organizations' and the economic part will not be anymore the overemphasized aspects of organizations' external annual reporting.

2.4 CSR in Financial Services Industry

In this section the CSR is represented in the context of financial services industry to find out which are the CSR issues dominating in this certain industry. Financial services industry is in general characteristicted by majority of assets being monetary and the time period of transactions varying from very short to very long. On the other extreme the ultimate performance of a mortgage loan or life insurance can be uncertain for decades, and on the other extreme are for example currency and listed securities trading, which are short-term. In financial services firms many business decisions are based on accepting risks in return for rewards. (Anthony and Govindarajan, 2004, 692-693.) These special characteristics mark also the CSR of financial service companies. The industry faces different challenges compared to industries where environmental and social aspects are more material through manufacturing, logistics and different stages of the value chain.

SAM (Sustainability Asset Management AG) assesses companies according to their CSR performance. The sector specific criteria are built after analyzing the sector's sustainability trends and challenges. The criteria are then being used to assess the company's ability to manage the identified trends and challenges. SAM categorizes insurance and banking as separate sectors. In economic dimension brand management and customer relationships management are mentioned for both banks and insurance companies. In banking also anti-crime measures and stakeholder engagement are considered important factors. Business risk and opportunities, the presence of environmental policy or management system, and the footprint on the operational environment are assessed in the environmental dimension. In insurance risk detection and in banking climate change governance are also mentioned. Within social dimension common assessment criteria are occupational health & safety, standards for suppliers and social value added. Furthermore, in banking existence of code of ethics in investment and financing and insurance business stakeholder engagement are mentioned. (SAM, 2009.) Blowfield and Murray (2008) see resource conservation and efficiency, impact of climate change on business lines, money laundering, due diligence in lending, environmental footprint of facilities, impact of project financing, accessibility of services to the poor and other underserved markets, and socially responsible investment, lending and marketing as priority issues of CSR management in financial services industry.

Voluntary standards for the financial services industry have been developed to guide the industry's action towards a more responsible course of action. The two most well-known voluntary standards are UN's PRI (principles for responsible investment) and Equator principles. The UN's PRI was launched in April 2006. The principles are a voluntary standard for incorporating environmental, social and governance aspects in socially responsible investment process. (PRI.) The Equator principles are a benchmark for the financial industry to manage social and environmental issues in project financing and they were launched in 2003 by the World Bank group's International Finance Corporation (IFC).

2.5 Business benefits of CSR

Perceived benefits of CSR reporting, and accordingly of CSR actions, from company perspective are minimized risks, reduced criticisms, possibility to influence or delay legislation, attracting and retaining the most talented people, admittance into ethical investment funds, better internal systems and control leading to better decision making and cost savings, and communicating the values and targets (Adams 2002, 235-236). Even though Adams mentions these benefits from CSR reporting it can be seen that the benefits actually derive from the CSR actions, not only reporting. Reporting without actual CSR results is very risky and ethically wrong. Gray (2006, 806) remarks that responsible behavior and CSR reporting telling of that is indicative of a better-managed organization and that the management is signaling that the risks associated with social and environmental issues are properly managed.

Weber (2008, 248-249) lists business benefits deriving from CSR activities. These benefits are positive effects on company image, reputation, employee motivation, retention and recruitment, cost savings, revenue increase from higher sales and market share, and CSR-related risk reduction or management. Cost savings tend to be the easiest way to begin CSR activities. Cost savings can arise from material substitution, lower energy consumption, reduced material storage and handling costs or reduced waste disposal (Epstein and Roy, 2001, 598). Loikkanen et al. (2007) surveyed Finnish companies and when asking about the relation between CSR and competitiveness two out of three companies mentioned that CSR have improved the company’s competitiveness. A major shortcoming of the study of Loikkanen et al. however, is that it relies on companies’ own beliefs.

A company handling CSR aspects well can have better access to capital since some investors may pay attention to social and environmental performance and give preference to companies handling these aspects well (Epstein and Roy, 2001, 598). The financial services companies have a significant role in offering financing. They can have an effect on the companies applying finance by requiring better CSR behavior.

Business case refers to a call for an investment in a project or initiative that promises to yield a sufficient return to justify the spending. In the case of CSR this means that the organization will be better off financially by attending not only its core business but CSR as well. Four general types of the business case for CSR are cost and risk reduction, profit maximization and competitive advantage over industry rivals, reputation and legitimacy, and synergetic value creation meaning finding win-win situations between the company and its stakeholders. The role of the company varies between the business case types. In the two before mentioned cases the company is an economic actor, in reputation and legitimacy the company takes a role as political actor and in synergetic value creation role is more as a social actor. (Kurucz et al. 2008.) Resources spend to CSR actions are rationalized by the fact that CSR forms a business case.

Al-Tuwaijri et al. (2004) have found a positive correlation between environmental reporting, environmental performance and economic performance. According to Al-Tuwaijri et al. (2004, 466 - 467) these finding contributes the view that societal concerns for the environment affect corporate strategy and this way ultimately firm value. Managers could change their attitudes towards environmental aspects, and CSR as a whole, seeing them as possibilities instead of obligations. Good long-term oriented managers accept the organization's social responsibility and adopt pro-active strategies when controlling environmental performance. Since the non-financial measures of environmental performance have been found to be leading indicators of future financial performance, these measures are also suitable candidates incorporating into e.g. balance scorecard (Al-Tuwaijri et al., 2004, 469). Even though the study of Al-Tuwaijri et al. (2004) concentrates only on the environmental aspect of CSR, it indicates that CSR as a whole is worth considering in the strategy work. A main stimulus for setting up an environmental management system has been the effect taking care of environmental factors can have on the profitability and overall economic position of the company (Bartolomeo, 2000, 35).

Semenova et al. (2009) have found evidence of the effect of environmental and social performance on the market value in Nordic region, among listed SIX 300 companies on OMX Stockholm during the period 2005-2008. The strength of their study is that they divide the social dimension into three sub-dimension being employee, community and supplier relations. The findings suggest that environmental dimension and community and supplier sub-dimensions of the social aspect have a positive relation with market value of equity. The employee dimension (including policies of health and safety, diversity, working hours and wages, child/forcer labor) was found to have negative relation with the value of the company. This is most likely because labor unions have a strong position in Sweden, like in Finland,

and satisfying their demands is seen more as costs than investments on employees creating additional value (Semenova et al. 2009, 11).

Halme and Laurila (2009) remind that it needs to be understood that companies can implement CSR in different ways and the type of corporate responsibility can affect the link between CSR and financial performance. They want to emphasize that in addition to financial outcomes also societal outcomes need to be assessed to get the whole picture. To recognize the different CSR types Halme and Laurila (2009, 329) represent an action oriented typology where CSR types are divided into three categories: (1) Philanthropy where the main emphasis is on charity and sponsorship actions, (2) CR Integration where the emphasis is on conducting existing business operations more responsible manner, and (3) CR Innovation where new business models are developed for solving social and environmental problems. In philanthropy the CSR activities take place of outside of the company's core business and no direct business benefits follow from them. In times of economic downturn philanthropic activities are normally at risk. On the other extreme CR Innovation takes a social and environmental problem as a source of business and seeks to develop new products or services to solve the problem. For example micro-credits are given as an example of CR Innovation (Halme and Laurila 2009, 332). Halme and Laurila (2009, 331) see that CR Integration involves actions such as setting up CSR management systems or public CSR reporting. However, hardly any company somehow dedicated to CSR relies purely on one type of CR actions but usually the dominant action-type can be identified.

2.6 Challenges of CSR action

A major challenge of CSR action is that the field is constantly changing and unestablished. Albeit the trend is towards action taking into consideration all three aspects, environmental, social and economical, even the field of the environmental aspect is not stable. Carbon cost accounting (Lohmann, 2009) and whether to use environmental audits, internal and/or external, (Darnall et al., 2009) are issues debated both among academics and in the field. Stakeholders demand taking variable matters into account and it is hard to distinguish which aspects to prioritize and how vast CSR action to implement.

Moving an organization towards sustainability involves at a minimum a systematic reduction of ecological footprint, systematic attempts to take care of any possible social disadvantage in organizations' sphere of influence as well as decreasing the disparity of economical distribution. As one can understand this is not costless and will in almost every likelihood lead to organization's unpopularity with most conventional financial participants (Gray, 2006, 808-809). Gray (2006) questions whether CSR action really leads to value creation – he continues that the answer is yes but the concept of value need to be understood in wider terms than in monetary terms. Gray (2006) also mentions value of life, value of society and value of quality. Even though Gray's opinion is quite radical it needs to be borne in mind that these other values are appreciated by customers and this way may lead to monetary value creation.

2.7 CSR as a part of strategy

Van den Brink and van der Woerd (2004, 188) remind that when trying to cope with various CSR challenges, organizations develop new business strategies which reflect the variety of different business contexts and situations. They think that each context provides a specific meaning to CSR. Different strategies along with different operation environments increase the likelihood of CSR being differently defined among organizations. No business can solve all of society's problems or bear the cost of doing so. That is neither possible nor expedient. Instead, each company must select the issues that intersect with its particular business and present an opportunity to create shared value and thus competitive advantage for the company. (Porter and Kramer 2006, 84.) Porter and Kramer (2006) advise that companies should prioritize social issues. They find it a way of shifting from responsive CSR to strategic CSR.

Prioritizing social issues

<u>Step 1 - Generic social issues (Responsive CSR):</u>

Social issues that are not significantly affected by a company's operations or materially affect its long-term competitiveness

<u>Step 2 - Value chain social impacts (Mitigate harm for value chain activities):</u>

Social issues that are significantly affected by a company's activities in the ordinary course of business

Porter and Kramer (2006) see this step as a checklist approach to CSR where standardized sets of social and environmental risks are used. GRI which is used as a base for Corporate Social Responsibility reporting in many companies, represent one of these checklists. Porter and Kramer (2006) remind that these lists (like GRI) make for an excellent starting point for CSR implementation but companies need to adopt a more proactive and tailored internal processes to be truly socially responsible.

Step 3 - Social dimensions of competitive context (Strategic CSR):

Social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates. (Adopting from Porter and Kramer 2006, 85-87.)

To be able to do the shift companies should create a corporate social agenda, which looks beyond stakeholder expectations and opportunities to achieve social and economic benefit simultaneously (Porter and Kramer 2006, 86). The social agenda will of course be driven by the company's mission, vision and values. The social agenda will be shape up very differently depending on the companies industry and area of operation. Same company may need to rank its social issues differently if it operates in many industries and/or in many locations that have different characteristics. (Porter and Kramer 2006, 85). The objective of truly strategic CSR is that CSR is hard to distinguish from day-to-day business.

Before CSR strategy can be successfully implemented certain preconditions must be met: CSR must be an integral part of corporate strategy, leadership must be committed to CSR and build additional organizational capacity, CSR strategies should be supported with management control, performance measurement and reward systems, CSR strategies should be supported with mission, culture and people, managers must integrate CSR into all strategic and operational decisions, and managing CSR performance should be viewed not only as risk avoidance but also as opportunity for innovation and competitive advantage (Epstein, 2008, 32).

Figge et al. (2002, 279-280) remind that it is possible to distinguish between three stages of strategic relevance of the CSR aspects, as well as other business aspects. They can represent strategic core issues, performance drivers or only hygienic factors. Hygienic factor are issues that have to be managed adequately in able to guarantee successful business operations but these factor do not lead to strategic or competitive advantage. It is important to distinguish hygienic CSR factors from strategic ones and not to include them into management control systems because they do not bring any particular value added for the business. It is however important to notice that although excluded from the management control systems some measures from the hygienic CSR factors may need to be included into the external reporting because of stakeholders demands.

Loikkanen et al. (2007) have found that in Finnish companies' important internal factors leading to the development of CSR issues are company's values, developing company image and the challenges of the changing operating environment. Hopwood (2009) questions whether changes in strategy also change action. He states that when speaking of environmental, and CSR, reporting far too much attention has been put on changing strategy and far too little on changing action.

2.8 Conclusions of the section

CSR is a quite complex field where even the unanimous definition of the concept is missing and many standards are making the field more confusing. Thus, it is very important that every organization defines what CSR means to it and in its operations. The business benefits of CSR action are addressed by many researches and in many industries CSR reporting already is a hygienic factor. GRI framework has offered guidance for the reporting process and also facilitates the comparison of reporting entities. Taking CSR as a part of strategy and acting according to that strategy demands overcoming many challenges, and a real will, from the organization and its management. After making the decision of having CSR as a strategic factor it needs to be incorporated into management control systems, which will be discussed in the following section.

3 MANAGEMENT CONTROL SYSTEMS

3.1 Defining MCS

Like CSR, management control systems (MCS) does not have a universal absolute definition. Different researchers have created their own definitions and shaped the definitions already used. Anthony (1965) defined management control already in the 60s as being *the process by which managers ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives."*

Simons (1995, 5) defines MCS as *the formal, information-based routines and procedures managers use to maintain or alter patters in organizational activities.* By managers Simons (1995) means top management which offers the lower organizational levels information about strategic domain, indented strategy and plans, and via MCS gets information about progress in achieving those indented strategies as well as emerging threats and opportunities.

Malmi and Brown (2008, 290) have defined MCS as *those systems, rules, practices, values and other activities management put in place in order to direct employee behavior.* They continue that these should be complete systems, not only simple rules. It is also mentioned to be important that the use of MCS is monitored.

Management control systems are said to consist of three components (1) specifying and communicating objectives, (2) monitoring performance through measurement, and (3) motivating employees to accomplish objectives by linking the reward system to objective achievement (Lindsay et al. 1996, see Norris and O'Dwyer 2004, 177). Anthony and Govindarajan (2004) define management control systems to be based on the following elements: strategic planning, budgeting, resource allocation, performance measurement, evaluation and reward, responsibility center allocation, and transfer pricing.

An important component of MCS is an incentive system, which encourages the organization's managers and employees to accomplish the set targets. Incentives are the catalyst to encourage the desired behavior to execute strategy. A critical part of implementing any incentive system is to select proper measures by which to evaluate the employees. Non-financial metrics are often used to measure success in the management of intangible assets.

(Cravens and Oliver, 2006, 298.) CSR represents an intangible asset. Thus far, accounting based financial measures have been predominant because they are relatively objective, reliable and verifiable (Tuomela, 2005, 299).

There are three main features of management control systems (1) Management control is a give-and-take activity where one group of people (management) tries to impose controls on self-controlling sub-groups which leads to dysfunctional reaction and the outcome of the control can be completely different than predicted, (2) management control systems are socially constructed structures, and (3) many contextual factors affect the consequences of control activities. (Berry et al. 2009, 15.) These features needs to be remembered when studying, interpreting and analyzing management control systems. It is worth noticing that implementation of a measurement system is costly (Tuomela, 2005, 294) and require lots of resources.

In this thesis strategic controls and management control are not separated when speaking of MCS because they are seen to interlink greatly especially when speaking of CSR in MCS. Since the adaption of CSR into MCS and constructing of responsible control systems is a relatively new field of research the taken definition of MCS is quite wide. In this thesis management control systems are defined as the processes, systems and tools by which the management guides the organization's and its employees' behavior to fulfill the set strategy and targets.

3.2 Management control systems frameworks

3.2.1 Four levers of control

Simons (1995) has developed the levers of control framework where management control systems are divided into four groups, all of which reflect slightly different relationships to the strategy. Therefore the four different parts of MCS are used in different perspective by the management. The four levers of control –framework is used in this thesis because it is felt that it helps to perceive the role the role of CSR inclusive management control systems in the companies.

The four levers of control framework is represented in figure 2. First, beliefs systems are used to inspire and direct the search for new opportunities in the organizations. Beliefs systems define the purpose and direction of the organization through the organizations values. Boundary systems set limits for opportunity-seeking by describing the acceptable domain of activity. The limits are based by defined business risks that need to be avoided. Diagnostic control systems can be seen as the most well-known and most visible part of control systems for the organizational participants being used for motivating, monitoring and rewarding achievement of specific targets set to implement the strategy. Corrective actions can be taken based on the outcomes of diagnostic control systems. Designing diagnostic control systems requires a careful analysis and understanding of critical performance variables of the organization. Interactive control systems for their part stimulate organizational learning and the emergence of new ideas and strategies. Continuous re-estimation of future states and considerations of how to best react to the future are made through interactive control systems. (Simons 1995.)

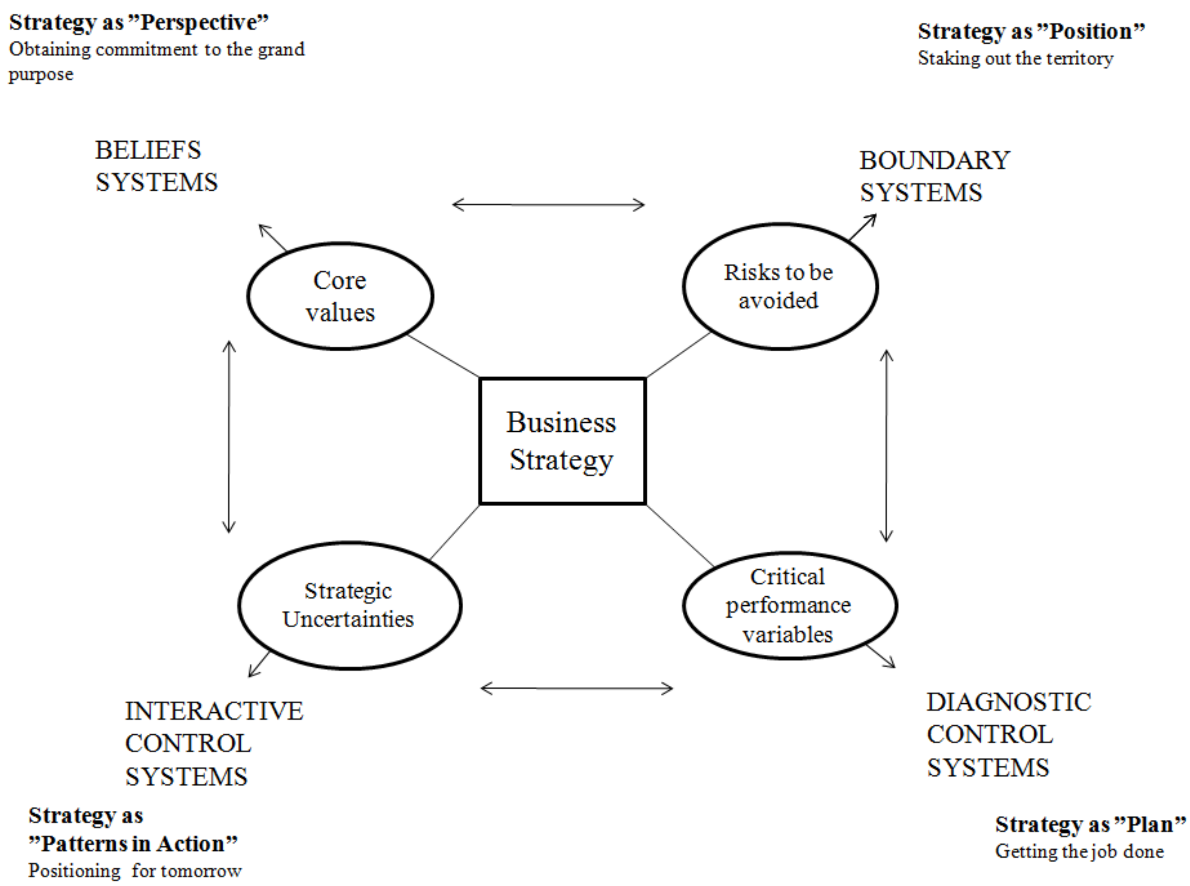

Figure 2: Four levers of control (Simons, 1995, 159)

Financial and non-financial measures have a different role from the perspective of different strategic control levers. As diagnostic controls non-financial measures portray the ability to control that the performance in critical success factors is acceptable, the financial measures describe the achievement of financial goals. Non-financial interactive control measures pinpoint problems with specific uncertainties and beliefs systems help to strengthen values. Boundary systems role is to address risk. There financial measures concentrate on the financial risks while non-financial measures highlight the non-financial risks and emphasize strategic boundaries. (Tuomela, 2005, 300.)

Formal control systems consist of written procedures and policies directing behavior to achieve organization's goals, while informal control systems do not control behavior through explicit measures. Fundamental parts of formal control systems are organizational goals, budgets, reward criteria, performance appraisal standards and codes of ethics. Informal control consists of shared values, beliefs and traditions of organizations members (Norris and O'Dwyer, 2004, 177) in other words organizational culture. Norris and O'Dwyer (2004) remind that it is often difficult to separate the effect of the formal and informal control systems on behavior and the most effective control occurs when formal and informal systems are not conflicting with each other.

CSR can be build into all four parts of levers of control. In belief systems CSR can be incorporated into value proposition, mission or value statements. Moreover, in boundary systems CSR can be a part of codes of business conduct and strategic planning systems. Diagnostic control systems have an important role to ensure that the strategy is being followed – CSR can be invisible in standard setting, measuring outputs and linking incentives to achieving targets. Interactive control systems can mean for example collecting data of future changes and trends in the industry and debating these issues and their possible features creating strategic uncertainties – CSR can definitely be one of those strategic uncertainties through changing competitor behavior and/or customers' requirements.

Various researchers have studied different features of Simon's framework. Diagnostic use of MCS creates negative energy through evaluating critical performance variables while interactive use represent positive force during opportunity seeking and learning in the organization (Henri, 2006, 533). Henri's (2006) study reveals that a balanced use of these two forces creates a dynamic tension that is positively linked to performance especially under high environmental uncertainty and organizational culture reflecting flexibility values. It must be noticed that Henri (2006) focused studying only the performance measurement part of MCS. Widener (2007) finds out that different systems of levers of control framework influence each other greatly. Strategic uncertainties and strategic risks define the importance of control systems: interactive systems influence the diagnostic and boundary systems while beliefs systems influences each of the three other systems. Thus, MCS comprises of multiple control systems that work together. This idea is also present in the MCS as a package framework which is presented in the following.

3.2.2 MCS as a package

Malmi and Brown (2008) use the term package when referring to the entirety of different MCS. Different separate systems, like budgeting or strategy scorecard, can be categorized as a MCS and the entity is called a package because according to them in most organizations there are more than one MCS and they are not intentionally designed and coordinated together, but introduced at different times by different actors, when they cannot be called a MCS. Management control systems package consist of five groups: planning, cybernetic controls, reward and compensation, administrative controls and cultural controls. The framework is presented in figure 3.

<table>
<tr><th colspan="7">Cultural Controls</th></tr>
<tr><td colspan="2">Clans</td><td colspan="3">Values</td><td colspan="2">Symbols</td></tr>
<tr><th colspan="2">Planning</th><th colspan="4">Cybernetic Controls</th><th rowspan="2">Reward and Compensation</th></tr>
<tr><td>Long range planning</td><td>Action planning</td><td>Budgets</td><td>Financial Measurement Systems</td><td>Non Financial Measurement Systems</td><td>Hybrid Measurement Systems</td></tr>
<tr><th colspan="7">Administrative Controls</th></tr>
<tr><td colspan="2">Governance Structure</td><td colspan="3">Organisation Structure</td><td colspan="2">Policies and Procedures</td></tr>
</table>

Figure 3: Management control systems package (Malmi and Brown, 2008, 291)

Planning sets the goals for the organization and its different functions as well as provides standards to be achieved for the set goals. Planning has two approaches, short-term action planning and long range planning which can also be called strategic planning. Cybernetic controls include budgets, financial measurement systems, non-financial measurement systems and hybrid measurement systems, which connect financial and non-financial measurement, like balanced scorecard. Reward and compensation are often linked to cybernetic controls offering motivation and increasing organization's performance. Administrative controls describe how tasks should be performed and how they should not be performed by governance structure, organization structure and policies and procedures. Cultural controls mean values, symbols and clans. Values try to create commitment to the organizations purpose as symbols are visible expressions by which a particular type of culture is trying to be developed. Clans are so called subcultures or individual groups that can be found within organizations. (Malmi and Brown 2008, 291-295.)

The package framework helps classifying of the building and development of CSR into management control systems. About the empirical results will be analyzed in which package's components CSR is present and how. The hypothesis is that CSR is integrated as a part of the existing components of MCS.

3.3 CSR in management control systems

CSR is needed to incorporate into management control systems to be able to monitor whether the business is operating in accordance with organization's CSR and stakeholder goals. The existence of CSR focused MCS reinforces that a company is attempting to operate in a responsible manner rather than only doing image enhancement. Norris and O'Dwyer (2004) formulate that in order for corporate social responsiveness to exist it needs to be supported by management control systems which promote or institutionalizes decision making in comprehensive manner. Durden (2008, 676-677) states that it would be inconsistent and problematic for a company on the other hand to produce external CSR information and to claim to operate in responsible manner, but on the other hand not to include CSR matters into its MCS and so doing not to recognize the importance of CSR. It is needed to pay attention to measuring and improving also non-financial performance, like CSR performance, if those aspects drive to meet the long-term financial objectives (Jung et al. 2001, 552).

Norris and O'Dwyer (2004) have studied the operation of management control in a socially responsive organization and found that the informal controls, such as social and self-control, had a dominant influence on the staff behavior. The staff's personal values had a perceived congruence with organizational culture which was facilitated through careful staff selection. The dominant influence of informal control was seeing present although the formal and informal systems were not always operating in harmony. The interviewed in Norris and O'Dwyer's case found out a lack of formal reward systems followed by social outcomes. This was named to further increase the tension between formal and informal systems. A mixed message was sent when informal systems promoted concern for social issues being leading value but the formal performance evaluation system advocated financial considerations.

Durden (2008) has found in a case study in food manufacturing industry, that even if CSR aspects are strongly reflected externally, their presence in management control systems is much less evident. KPIs in Durden's case company did not include CSR measures and the management has not even considered that aspect. The MCS in use had a strong preference for financial measures. It was discovered that there was uncertainty concerning how CSR should be measured, reported and monitored within MCS in the case company. One reason for the non-presence of CSR in MCS was the lack of CSR goals. Lack of goals is a critical absence and it can be said that a measurement and control is impossible and unnecessary to conduct without goals. Goal setting can be said to be a starting point in developing a CSR management control systems. Other aspects hindering the measurement of CSR in Durden's case were the absence of template to guide the measurement, and the company's management giving varying meanings to CSR. (Durden 2008, 686.) Sardinha and Reijnders (2005, 89) noticed in their study that the implementation of CSR oriented management control systems and tools seem to be a separate process from the use of targets and the measurement of achievements. The use of latter seems to be lagging behind.

The lack of systematic definition of CSR can be named a major obstacle for integrating CSR into organization's operations. It is important to identify a common definition for the company in question in the company management for CSR and set CSR goals in line with the definition. Durden's (2008) case reveals that a company can communicate a completely different CSR image than is the internal reality in the company. This implication could be made also according to the external CSR information – the CSR report in this case was largely descriptive and anecdotal and did not reflect a systematic reporting framework (Durden 2008, 685.)

Durden (2008) offers a framework to highlight the connection between the CSR and MCS and steps to develop a CSR oriented management control system. The framework is presented in figure 4.

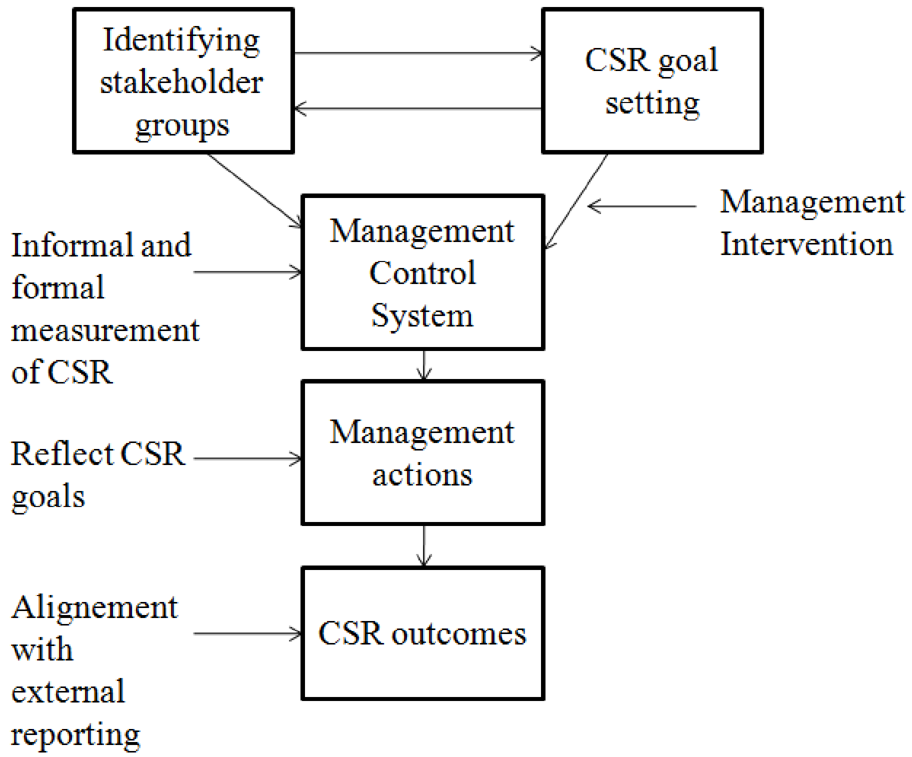

Figure 4: MCS and social responsibility framework (Adapted from Durden, 2008, 687)

Next, see figure 5, the Durden's framework is modified. First, a CSR definition phase is added as a starting point towards building CSR into management control systems. The different phases are also named steps. This is done because the framework works as a continuum where different steps follow one another and a step cannot be skipped when heading to a system working in day-to-day work and helping to reach set goals. In step three the management control system is shaped and it represent the processes, systems and tools by which the management guides the organization's and its employees' behavior to fulfill the set strategy and targets. To facilitate management actions management should get proper reporting of the step three. After attaining CSR outcomes these outcomes can be reported to the stakeholders via CSR reporting. The steps will be used to analyze the empirical results of the study. The stage of alignment of CSR into management control systems in the case companies will be analyzed according to Durden's framework.

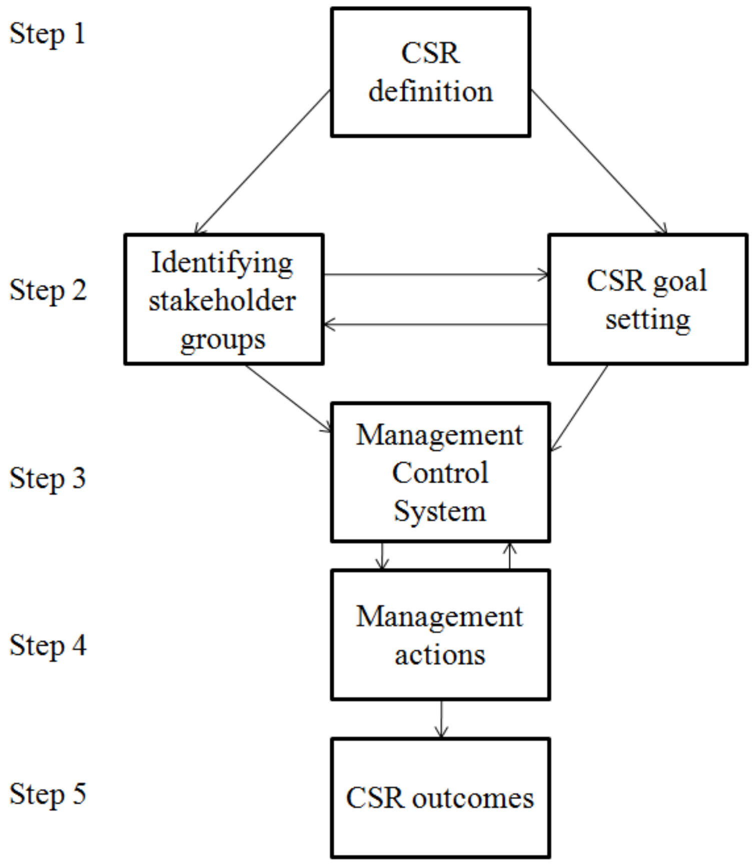

Figure 5: Building CSR into management control systems

In Finland EK has defined systematic steps to incorporate CSR into organization's operations. These steps are quite similar to Durden's model.

- Agreeing on the corporate responsibility values
- Establishing CSR policy and principles
- Dialogue with stakeholders
- Establishing operational guidelines
- Integrating CSR as a part of management control systems
- Measuring CSR
- CSR reporting (EK 2).

It is important to notice that in both models the CSR reporting is the last step. However, the practice in companies seems to be that because corporate social responsibility issues seems to be "fashionable" and important for company image, the companies can be reporting “outcomes” even though it seem obvious that the preceding steps have been, at least partly, neglected. The result is CSR reports missing goal setting and by reading them the reader is unable to say what actions the company really is taking in order to better its CSR behavior.

3.4 Measuring CSR

Companies need appropriate systems to control their CSR behavior and achievements to be able to assess whether they are responding to stakeholder concerns (Perrini and Tencati, 2006) and meeting their own internal CSR targets and goals. When answering to stakeholders' information needs, measuring progress of CSR initiatives is one of the core elements. Stakeholder view posits that the capacity of a company to generate sustainable wealth and value in the long run is determined by its relationships' with critical stakeholders (Post et al. 2002, 9). Thus, a company must analyze which stakeholder groups are crucial for its long-term survival and which relations create competitive advantage. The identification and measurement of CSR strategies is however particularly difficult, because CSR usually represents a long time horizon, high level of uncertainty and impacts that can be hard to quantify (Epstein and Roy, 2001, 587).

A key to successful strategic management is the availability of CSR analyzing and accounting tools capable of monitoring and tracking, the overall corporate performance both from a qualitative and quantitative viewpoint, the state of CSR and also the value of different stakeholder relationships (Perrini and Tencati 2006, 305). Länsiluoto and Järvenpää (2008) have found that an external force for CSR management in environmental aspect can be to obtain an environmental certificate and an image upgrade the certificate offers. Internal forces could be simply that the organization considers that environmental management can be beneficial for the company. At the same time stakeholder approval is a key external force both for environmental and social disclosure and internal forces can lead the organization to understand the strategic value of CSR management. To offer the information first for the management and then to important stakeholders CSR needs to be taken into consideration in the management control systems.

Measuring CSR based on conventional economic concepts is very difficult and always incomplete, but necessary for communicating CSR information for decision making - some argue that measuring CSR is the only way to get something done (Korhonen 2003, 26). After laying CSR targets, measuring the improvement in one way or another is the only way to find out whether the targets have been met. Korhonen (2006), however, is very critical towards measuring CSR. One of his arguments is that firm-specific measuring is not adequate when measuring CSR actions because network of firms has a notable effect on the whole CSR effect. Although this is true, the firm specific target setting, measuring the achievements of the targets is a starting point for network wide target setting and measurement. Firms considered truly CSR also consider the whole value chain of their actions. Korhonen (2006, 31) states that the firm-specific thinking can sometimes lead to problem shifting, or problem displacement, rather than problem solving. In that case the problem is not the measuring but basic CSR principles, and the problem is fundamental.

According to EK the development of CSR starts with the current situation assessment. The company needs to go through its different stakeholders and their expectations. The company needs to consider which aspects of CSR are functioning and which need further development. This way the company gets an idea of which CSR aspects are already under control and which need focus in the future. The next step is to define targets and set goals for CSR. After goal setting it is time to write CSR principles and policies. EK defines that an important part of corporate responsibility, after goal setting, is to follow that the principles are followed and the targets are being met. To be able to follow its CSR operations a company needs to define measures. It is important to remember that the contents of CSR evolves all the time to reflect the current topics related to the issue. The challenge for the companies is continuous improvement. EK continues that the actions taken and realization of goals needs to be reported systematically. The reporting can either be a review for the management or an extensive corporate social responsibility report following GRI guidelines. (EK 2.) The scope of reporting depends on the company's needs and its stakeholder's demands.

3.5 Environmental management accounting

In this section the environmental management accounting (EMA) is shortly described since it represents a system incorporating one aspect of CSR into a MCS. However, it is not gone deeper into EMA because it represents only one aspect of CSR – the environmental. The environmental responsibility does not play a pivotal role in financial services industry which is the case industry of this study.

Environmental management accounting refers to the management of environmental performance through MCS that focus on both physical information on the flow of energy, water, materials, and wastes, as well as monetary information on the related costs, earnings and savings. EMA helps companies to realize potential environmental related benefits, cost savings and to manage environmental responsibility. (Schaltegger and Burrit, 2000.) Henri and Journeault (2010) name as eco-control an application of financial and strategic control methods to environmental management. Thus eco-control is a specific application of MCS to embed environmental strategy into a company.

Schaltegger and Burrit (2006) have broadened the interpretation of environmental management accounting using the term corporate sustainability accounting. They see that the corporate sustainability accounting can be interpreted in four different ways. At worst, the term is only used as buzzword without any deeper meaning or actions. Secondly, the term can be used as broad umbrella term bringing together all existing accounting methods dealing with environmental and social issues at any respect. Thirdly, it can be a single, most likely monetary, measurement tool. The most developed version of corporate sustainability accounting is a pragmatic, goal driven, stakeholder engagement process which attempts to build up a company specific measuring and managing tool for CSR issues and links between its three dimensions. Schaltegger and Burrit (2006, 294) see that the last-mentioned managing tool can be either build through top-down approach or stakeholder approach. While stakeholder approach can be linked best with CSR reporting, social acceptance and reputation management, top-down approach makes it easier to engage CSR with competitive strategy of the company.

Bartolomeo et al. (2000) have studied the state of environmental management accounting in companies. They found that 53 % of the studied companies have integrated environmental goals into their business goals and a majority of the companies already had (56 %) an environmental management system or were introducing one (24 %). However, it was found out that a majority of the environmental management accounting systems are only a few isolated projects rather than a systematic and comprehensive implementation (Bartolomeo et al., 2000, 48). It needs to be noticed that the study is already from the year 2000 after which environmental awareness has increased. On the other hand at the same time CSR has raised more debate while pure environmental systems are becoming rarer.

Environmental management accounting offers the business with opportunities which are (Bartolomeo et al., 2000, 48):

- Managing environmental and life-cycle costs
- Introducing waste minimization schemes
- Integrating environment into decision with long-term implications on capital expenditure and product development
- Involving accountants/controllers in a strategic approach to environmental management accounting and performance evaluation
- Encouraging cross-organizational increase of knowledge and ideas through training and environmental processes between environmental management and management accounting functions
- Linking data held by different business functions

3.6 Frameworks for categorizing and measuring CSR

In the following sections few frameworks to categorize and measure CSR found in literature are represented to get an idea what kinds of tools have been proposed. The chosen frameworks were considered good to evaluate CSR actions and performance, both quantitative and qualitative. Many models found in the literature focus only on the environmental aspects but the three frameworks presented in the following have been able to overcome this shortage. It must be remembered that any framework does not offer an all-inclusive answer for CSR work because CSR is very industry and company specific. The frameworks however help to start and formulate the work.

3.6.1 CSR impact assessment model

Weber (2008) has created a CSR impact assessment model which helps to systematically identify and measure all relevant CSR business impacts on a company-specific level. The model includes four steps:

An assessment of qualitative CSR impacts

Many of the CSR impacts cannot be measured in quantitative terms (E.g. evaluation of the relationships to all relevant stakeholders) when qualitative assessment is vital.

The development and measurement of KPIs (Key Performance indicators)

Weber (2008, 253) has identified five aspects that can be seen as KPIs: monetary brand value, customer attraction and retention, reputation, employee attractiveness and employee motivation and retention. The KPIs of course vary from organization to organization.

An assessment of the monetary CSR Value Added

Monetary CSR benefits occur if revenues increase or costs decrease due to the CSR involvement. Drivers of CSR benefits might be for example sales increase, CSR grants and subsidies, internal cost savings, or reduction of taxes and/or duties. On the other hand, donations, investments, fees, personnel costs and material costs represent CSR related costs. Furthermore, risk related aspects can be realized as costs or saving that can be measured in monetary terms.

The evaluation of the strategic relevance of each assessment component

According to Weber, when assessing the relevance of each aspect it can be rated low or high according to its contribution both to short-term and long-term CSR goals.

The model can be thought as a continuous cycle in which where the step *evaluation of the strategic relevance of each assessment components* can either begin or end the cycle. Weber (2008, 259) mentions two shortcomings of the model: the assessment can be very complex and requires a lot of time and effort from the management, and for most of the benefits it is difficult to identify the CSR-related effects. For example distinguishing between CSR related costs and other costs asks a lot from a cost accounting system (Kramer 2008, 254). It also needs to be mentioned that the Weber's assessment model presupposes that a company already has a significant CSR program; the model is created to assess already existing CSR actions. The model enables the management to evaluate the organization specific business case of CSR.

3.6.2 Drivers of sustainability and financial performance

Epstein and Roy (2001) represent a framework where CSR actions are linked to CSR performance, stakeholders' reactions and this way to long-term financial performance (EVA, ROI, ROCE). The framework is represented as a sustainability linkage map where everything ultimately leads to better long-term financial performance. CSR actions include formulating CSR strategy, developing concrete plans and programs to implement these strategies and designing appropriate structures and systems. Concrete plans and programs can be minor changes in existing routines or radical new ways of doing business (Epstein and Roy, 2001, 592).

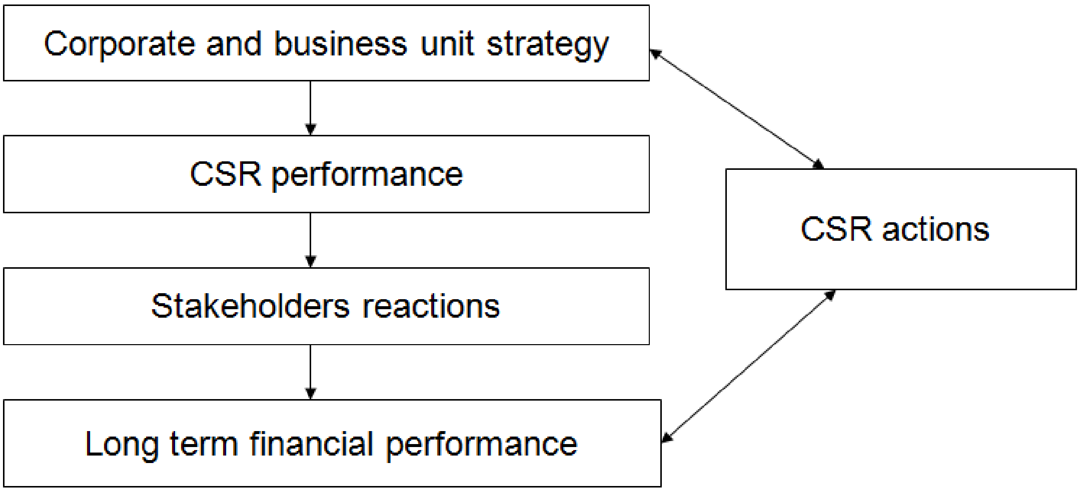

Figure 6: Drivers of sustainability and financial performance (Adapted from Epstein and Roy, 2001, 588)

Epstein and Roy (2001, 594) state that to drive CSR strategy through company's various management systems (product costing, capital budgeting, performance evaluation etc.) must be designed and aligned with CSR and that each element of CSR actions must be translated into metrics and measurable goals. These are very challenging tasks to implement. Benchmarking systems to monitor competitors' actions as well as continues improvement thorough internal feedback process is an important part of the system. Implementing process of the framework include five phases which are setting priorities, identifying the causal relationships, developing appropriate measures, collecting and analyzing data and finally reviewing the framework (Epstein and Roy, 2001, 600). Epstein and Roy's framework with linkages between perspectives reminds a well-known balanced scorecard framework which will be presented in the next section.

3.6.3 Balanced Scorecard

The Balanced Scorecard (BSC) was introduced by Kaplan and Norton in 1992 originally as a performance measurement system (Kaplan and Norton, 2001, 99) which includes both financial and non-financial measures. The original four perspectives of BSC are financial, customer, internal business processes, and learning & growth. BSC aims to communicate company's vision and strategy. BSC emphasizes the link of measurement and strategy. Different perspectives are linked to each other using cause and effect linking. Nowadays, the intangible assets are the major source of competitive advantage and measuring them only with financial indicators is inadequate. BSC is a framework for describing value-creation strategies that link both tangible and intangible assets. (Kaplan and Norton, 2001, 88-89). Also CSR represents an intangible asset.

Balanced scorecard is in many occasions been mentioned to be an effective management tool also for CSR concept (See Epstein and Wisner 2001, Figge et al. 2002, Crawford and Scaletta 2005, Länsiluoto and Järvenpää 2008, Wagner 2007, van der Woerd and van den Brink 2004). Kaplan and Norton (2001, 93) also mention matters referring to CSR. They state that becoming a good corporate citizen by establishing effective relationship with external stakeholders is one of the critical organizational activities, which should be captured into the internal business process perspective of BSC. Dias-Sardinha and Reijnders (2005) have used BSC framework for evaluating CSR performance of companies. They frame that internal and external driving forces affect strategic objectives set in the companies and BSC framework focusing solely on CSR issues is a useful tool to analyze the driving forces, highlight the priorities and ensure that important CSR aspects are not neglected. Dias-Sardinha and Reijnders (2005, 89) found that companies' leadership culture and objectives set by the management were the main internal drivers for better CSR performance.

One of the key benefits for an organization using balanced scorecard framework is improved strategic alignment. BSC can be an effective format for reporting CSR issues as it illustrates the cause and effect relationships between CSR actions and being a successful business which means enhancement not only in financial perspective but also in other three perspectives of BSC. BSC can be used to address CSR opportunities and challenges. The BSC can help organizations manage strategically the alignment of cause and effect relationships of external market forces and impacts with internal CSR drivers, values, and behavior. (Crawford and

Scaletta 2005, 27.) For management it is important to understand the causal relationships between sustainability and financial performances, herein the balance scorecard can be a helpful tool to link CSR objectives with appropriate corporate actions and performance outcomes (Epstein and Wisner 2001, 1).

CSR aspects can be incorporated into balanced scorecard in many different ways. The means a specific company implements, depends on the company characteristics and role of CSR in the business. A company can include CSR and sustainability factors in the existing four perspectives of BSC by choosing few appropriate measures in each dimension. Many companies have included CSR into internal business process and growth dimension only. It is also possible to expand the BSC framework with fifth perspective – CSR and sustainability. (Epstein and Wisner 2001, Järvenpää and Länsiluoto 2008.) Figge et al. (2002) name the fifth perspective as a non-market perspective. The reason for this is that fundamentally social and environmental aspects originate from non-market systems and still often represent externalities (Figge et. al, 2002, 274). CSR as a fifth perspective of BSC is possible especially if the company has identified CSR as a key corporate value with strategic importance. CSR perspective should include social and environmental performance indicators that link with the other four BSC perspectives. Epstein and Wisner (2001, 8) have found that the reasons to establish a separate CSR perspective can be e.g. that CSR is seen as a core of the strategy to create competitive advantage, or CSR perspective of BSC is a tool to focus organization's attention to CSR as a core corporate value. According to Epstein and Wisner (2001) the fifth perspective communicates a strong management commitment to the CSR issues.

Third way to implement CSR into balanced scorecard is to build a separate CSR scorecard or environmental scorecard (Järvenpää and Länsiluoto, 2008, Figge et al. 2002). van der Woerd and van den Brink (2004) distinguish between different CSR types, compliance-driven, profit-driven, community-driven (a process of stakeholder engagement) and synergy-driven (actions creating value in a win-together approach with stakeholders). When the company strives to execute either community-driven or synergy-driven CSR the traditional BSC framework does not serve well. Therefore van der Woerd and van den Brink (2004) have created a responsive business scorecard (RBS). The five perspectives of the RBS are employees & learning, internal processes, customers & suppliers, financiers & owners, and society & planet. The three last-mentioned perspectives are considered equally important and the two first-mentioned perspectives drive those perspectives, like in traditional BSC. The aim is that RBS leads to an integration of environmental and social management into general management control systems. However, a risk is that every perspective of RBS gets an own specialist or manager when the integration and synergy benefits are minor. (van der Woerd and van den Brink, 2004, 179-180.)

3.7 Management of change

Implementing a CSR strategy can be a factor that raises change resistance in organizations, and therefore management of change need to be considered. People may feel CSR related factors inessential and do not understand the business case in it.

Management control systems design can assist organizations to learn and thus navigate through periods when environmental change affects the operation environment. MCS can detect lack of fit with the environment and help to perceive that existing targets and processes no longer match to overcome the external challenges. (Kloot 1997.) Nowadays CSR related issues and changing attitudes towards them represent a major environmental change in many industries and in the society as a whole.

Albelda et al. (2007) have studied catalyst for change in environmental management systems. This catalyst can be widened to relate the whole CSR. Catalysts for change produce intangible assets with lead to further development of CSR management system. The four catalysts are training and awareness, building continuous CSR improvement, integrating stakeholders' interest and organizational learning. Training and awareness building allow organizations to provide their employees with the appropriate initial and advanced training that makes their active participation into CSR issues possible, while continuous CSR improvement allows organizations to specify new goals and define means to achieve them. Both of these catalyst work as pre-requirements to implement CSR into organization's routines and internal processes, as well as enable the process of improvement which needs to be controlled. Albelda et al. (2007, 415-416) have found that there are critical aspects that operate as stimulus to foster environmental, as well as CSR, aspects.

- Knowledge and expertise of managers, as well as key employees, in CSR issues
- Commitment of managers
- Cross-functional coordination and communication

- Awareness of employees
- Integrating CSR issues in the strategic planning process
- Use of management accounting practices

Wagner (2007) has studied the integration of environmental management with other managerial functions of the firm. Wagner (2007, 612) states that environmental management, as well as CSR management, is not in many cases integrated to other core managerial functions of the firm which may lead to a lack of consistency in corporate functions. The disintegration may lead to both limited economic efficiency and low ecological effectiveness. Wagner (2007) found out from the four drivers – market-related, image-related, efficiency-related and risk-related – of economic performance especially market-related and image-related drivers may lead to integration of environmental management with other managerial control systems.

Adams and McNicholas (2007, 397) studied CSR reporting and found forces of change for the process being the role of the owner of the company, the role of CEO and management and the role of the reporting and best practices in the industry. Although these factors were found to act as forces of change for CSR reporting the same factors can be widened to to relate with the whole CSR management control systems of which externally visible part CSR reporting is. Mackey et al. (2008) argue that a company having senior managers personally committed to responsibility issues increases the probability that the company's they lead will engage in CSR activities. This is because management has a central role as drivers of change.

Organizational learning is an important component when change process and adapting to new circumstances are required. Four elements of organizational learning are knowledge acquisition, information distribution, information interpretation and organizational memory (Kloot, 1997, 56-57). All of these four features play a pivotal role when trying to change the organization and its management control systems to take into account the CSR aspects. Staff training enhances the organization's ability to learn and supports participation and empowerment (Kloot, 1997) as well as reduces resistance of change.

3.8 Conclusions of the section

MCS are defined a bit differently by different authors and researchers. It is understood that also the companies can understand the concept of MCS differently and thus, the definition chosen for this study is quite wide. Moreover, many different MCS frameworks exist. For this thesis two frameworks were chosen: four levers of control by Simons and MCS as a package by Malmi and Brown. The first mentioned was chosen because it was felt that using it the role of CSR in MCS can be analyzed. The last mentioned on the other hand was chosen because it introduces well the different components of MCS package and using the package thinking can be analyzed in which components of the MCS package CSR is integrated or is it at all. The empirical findings will be reflected against these frameworks. Durden (2008) offers a model to assess the phase of development of building CSR into MCS.

It was noticed that in the earlier literature the problematic of measuring and categorizing CSR issues the environmental aspect was overemphasized. For this thesis was chosen frameworks which were considered to include the problematic of the whole field of CSR, not only environmental aspect. A shortcoming of all of the frameworks represented in the section 3.6 is that none of them gives a company a concrete path of implementing the frameworks. This is because industries, companies and company strategies differ from each other and CSR challenges faced are varied.

The theory part was a base for formulating the theme interview structure used for collecting data for the empirical part. The empirical findings will be reflected against the theoretical findings in the section 6 – discussions.

4 RESEARCH METHODOLOGY AND CASE COMPANIES

4.1 Research methodology

Case studies are particularly suitable in areas where theory is not well developed (Ryan et al. 2002, 149). As can be seen from the theory part, the study of corporate social responsibility and its implementation into management control systems has not yet found a common framework and not very many studies have been done. The case study was chosen to conduct via semi-structured theme interviews. This method was considered best for the research's purpose. The study is a descriptive case study which, instead of a single case offers, an overall picture of the state of corporate social responsibility in management control systems in financial services companies operating in Finland. A number of companies can be selected as cases when trying to describe different accounting practices or the similarity of practices in different companies (Ryan et al. 2002, 143). The descriptive case study method was chosen to best support the objectives of the study. In management accounting research, descriptive case studies describe accounting systems, techniques and procedures currently used in practice (Scapens, 1990, 265).

There are three common weaknesses in the case studies (Scapens, 1990, 276-277). Firstly, there is the difficulty of drawing boundaries around the case subject. This difficulty is characteristic for CSR research because of the lack of common definition of the concept. In this study, the difficulty is tried to overcome by proper concept definition and concentrating only on the CSR in management control systems. Furthermore, the case companies are asked to define their way to understand CSR and then the MCS discussion is limited to that definition. Secondly, the social reality must be interpreted by the researcher and thus the objectivity suffers in case studies. This difficulty is recognized and the researcher aims to best possible objectivity. Third difficulty deals with the confidentiality. A case study may lack of relevant information because the case companies are not eager to reveal confidential information. This difficulty is tried to overcome by offering the case companies anonymity when reporting the findings of the interviews. The results will be discussed in overall level to find out the state of the industry.

4.2 Execution of the study

In the end of this section the case companies a presented from the CSR viewpoint to introduce the state of CSR in the studied companies according to the public material. The introduction in this part is made according to the corporate social responsibility report 2008 if one is available. If CSR report has not been published the analysis is made based on CSR parts in annual reports and/or web sites. The aim of the first part is to familiarize with the state of CSR in studied companies and to have the data triangulation to better the reliability and validity of the study. Based on the literature overview a semi-structured interview base will be prepared and the interviews will be taken to study the objectives of the study in the field.

The data collection is made by semi-structured theme interviews. The interviewees were motivated also to raise issues not mentioned in the outline if they considered them important. The interview outline used can be seen as appendices number 2. The interviewees were provided the outline beforehand via email. The interviews were conducted in Finnish, tape-recorded and transcribed for analysis purpose. Transcriptions were carefully checked against the tape recordings and corrections were made where necessary.

The participating companies were first approached via FK's (Federation of Finnish Financial Services; Finanssialan keskusliitto) CR working group (*yritysvastuutyöryhmä*). The CR working group was founded to get participants who are specialized in CSR issues in the companies. The researcher provided the working group's secretary, FK's communication manager Kristiina Siikala, a presentation of the study, which she presented in the working group's meeting at November 23th 2009. FK was motivating the companies to participate in to the study after which the participants where approached personally via email and phone. The working group's purpose is to gather regularly to discuss current topics in CSR and follow the development of the area as well as provide the members information about the subject. FK aims through the working group to promote the voluntary development of CSR and also to coordinate the opinion of the financial services industry to various international and domestic CSR-related initiatives, regulation and standard setting projects. (FK, 2010.) All the FK's member organizations have information about the structure of FK's organs and working groups. The member organizations can name their representatives in the organs and working groups in which work they actively want to participate.

In the companies the contacts from the FK's CR working group where asked, who in their companies would have the best knowledge of CSR in MCS. The interview selection was made this way because the CSR function does not have a settled location in the organization chart. Some companies have separate CSR functions and in some companies CSR is under corporate communications or human resources management.

From the contacted seven companies five participated in the study. One did not have time and resources to take part and one was not reached after several attempts via email and phone. Interviews were conducted between December 29th 2009 and February 12th 2010. Altogether seven interviews were made. The list of the interviews is provided in the references. The interviews lasted approximately 50 minutes each, varying from 35 to 90 minutes. Majority of the interviewed work in a leading position.

4.3 Case companies

In this section the case companies are presented individually and with the name because the analysis is based on external material which is easily connectable with the company name. However, as the objective of the thesis in to study the overall stage of CSR in MCS in the industry and because the interviewed were offered an anonymity, in the following chapter, empirical results, the interview results are presented and analyzed in an overall level.

When studying the public material implications to the following aspects where tried to find out:

- How does the company define CSR?
- Stakeholders
- Scope of CSR reporting
- Presence of triple bottom line
- Is CSR mentioned to be strategically important? CSR in values?
- Are internal processes, management control systems or measuring mentioned when speaking of CSR?
- Management commitment
- Presence of CSR goal setting

Summary of the state of CSR in the case companies is provided in table 1.

	Nordea	Ilmarinen	OP-Pohjola Group	Lähivakuutus	Tapiola Group
CSR definition	Integral part of business	Integral part of daily operations	Not mentioned (co-operative heritage emphasized)	Not mentioned	Making responsibility an everyday issue
Stakeholders	Shareholders, customers, personnel and investors, analysts, government, business partners, NGOs, academics and CSR relevant organizations	Personnel, customers, cooperation partners, analysts, the media, advisory boards (neuvottelukunnat)	Owner-members, personnel. Municipalities and provinces, organizations	Customers, authorities and organizations	Owner-customers, employees, agents, representatives, franchisees, business partners, competitors, government, the media, local communities, education and research institutions
Scope of CSR reporting	Nordic region	Not mentioned	Varies in different measures	No reporting, only web pages	Whole group, some indicators only partial
Triple bottom line	Partially	Yes, economic responsibility strongly emphasized	Yes	-	Yes
CSR goal setting	CSR targets mentioned generally	-	Fulfilling stakeholder wishes an implication of goal setting	-	Yes
CSR in strategy	Separate CSR strategy	-	-	-	CSR a foundation of group strategy
CSR in values	CSR work founded strongly on values	Yes	Yes	CSR said to be guided according the values, one of values is to be a good corporate citizen	Yes
CSR in MCS	Measurement mentioned	Implications mentioned (evaluation of environmental impacts of real estate, ownership policy)	Not mentioned	Self assessment tool mentioned	CSR a key element of management's performance related pay, CSR in operational planning, monitoring and development of operations, BSC

Table 1: Summary of the state of CSR in the case companies

4.3.1 Nordea

Nordea published its first CSR report in 2008. The report covers CSR initiatives and activities in the Nordic region (Denmark, Finland, Norway and Sweden). Other countries (Poland, Lithuania, Estonia, Latvia and Russia) are excluded, but it is mentioned that they will be included in the coming CSR reports. The report is produced according to GRI guidelines and the Financial Services Sector Supplement (FSSS). The report does not include all the indicators in GRI. Nordea's report has been reviewed by external auditors. Although the CSR report is Nordea's first, the company has published annual environmental report since 2002 and report related to the company's commitment to UN Global Compact since 2006.

CEO Christian Clausen states that Nordea strives to make CSR an integral part of business. Nordea wants to be a responsible member of the society and provide financial services to its customers on competitive terms. In 2008, Nordea renewed CSR strategy and priorities and launched several initiatives for further development. The main decision is said to be to make CSR a more tangible part of everyday work and introduce a more systematic measurement. Two focus areas of the CSR strategy are mentioned to be (1) Activities to promote increased awareness, acceptance and improved performance behavior among Nordea's employees and (2) Operational and qualifying activities that make Nordea to fulfill its CSR targets and commitments. More specific targets or monitoring systems are not mentioned. It is not mentioned whether CSR aspects included in the overall strategy.

Nordea says that the CSR report context has been guided by the aim to communicate most material CSR impacts to stakeholders. The most important external stakeholders are said to be shareholders and customers, and internal stakeholders are the personnel. Nordea's CSR work seems to be founded strongly on its values in which also two important stakeholder groups are included – customers and employees (*Great customer experiences, It's all about people* and *One Nordea team)*. Customer and employee satisfaction are measured annually.

Triple bottom line is present in Nordea's CSR report. In the report, a lot of emphasis is put on presenting Nordea's commitments, both internal and external. The emphasis on the section is on presenting the different codes and principlesm while more concrete actions, target setting and performance measurement, are missing.

4.3.2 Ilmarinen Mutual Pension Insurance Company

Ilmarinen is a mutual pension insurance company owned by its policy holders, the persons insured and the owners of the guarantee capital. Ilmarinen publishes corporate responsibility information as a part of its annual report and on its web sites. In Ilmarinen GRI guidelines are used as a framework in the development of CSR reporting. The scope of the CSR reporting is not mentioned.

Ilmarinen reflects that responsibility is an integral part of its daily activities as a statutory pension insurance provider. In addition, the company's services include supporting well-being at work, occupational rehabilitation, financing and office services and reporting services related to insuring and pensions. The services are considered being part of social responsibility. The corporate responsibility is said to be steered according to values, good insurance practice guidelines, ownership policy, guidelines for responsible investment, and risk management policy. One of Ilmarinen's values is responsibility for earning-related pensions which requires exemplary business ethics from the activities. Ilmarinen mentions to be a result-oriented and responsible investor. The responsibility is not more precisely defined. However, especially in the 2008 annual report the responsibility can be understood to consist of long-term thinking and ability to see beyond the economic fluctuations.

Ilmarinen report according to the triple bottom line but the economic responsibility is strongly emphasized. Ilmarinen wants to be a responsible owner. Ilmarinen's ownership policy defines nonfinancial issues, which Ilmarinen requires its investment targets apply. These principles include, e.g. ILO's regulations concerning working life and the UN's Global Compact. If the company is not able to follow these principles, Ilmarinen must either start an engagement process or sell the securities it owns. Customer and personnel satisfaction are said to be monitored regularly through different surveys.

The environmental responsibility at Ilmarinen is primarily related to the evaluation of environmental impacts of real estate investments owned by the company. Ilmarinen is a major real estate investor in Finland and it strives to guide the handling of environmental and energy matters at the properties it owns. Ilmarinen also promotes life-cycle solutions in construction. As targets are mentioned to reduce energy consumption and be a fore-runner in energy issues. In 2008 the focus area was energy efficiency - Ilmarinen ordered energy efficiency certificates and inspections.

4.3.3 OP-Pohjola Group

Op-Pohjola Group published its first CSR report in 2003. OP-Pohjola group aims to comply with Global Reporting Initiative (GRI) but for the time being, the GRI guidelines are followed only when applicable. The report has not been confirmed. The report is said to cover the entire Group, including OP-Pohjola Group Central Cooperative (OPK) and Pohjola Bank Plc. and the member cooperative banks. It is mentioned that the member cooperative banks do not publish separate CSR reports. The coverage of the report varies in different measures.

Responsibility is one of the Group's values. Value responsibility is defined to be operating as an example of ethically responsible company which builds long-lasting customer relationships based on mutual trust. OP-Pohjola Group's ideological foundation and a starting point of strategic objectives is said to be based on the cooperative heritage (*osuustoiminnallisuus*) and Group's business is based on a local approach. The Group's corporate responsibility actions are primarily directed and coordinated as part of the Central Cooperative's management and business.

Stakeholder groups are identified and they include owner-members, personnel, municipalities and provinces (*kunnat ja maakunnat*) and organizations. Wishes that the stakeholders have directed for the group are specified as well as actions to fulfill these wishes. These wishes and actions can be seen as a signal of some sort of CSR goal setting in the group. In addition to these stakeholder groups there are said to be more stakeholder groups, but those are not mentioned.

Triple bottom line is present in the reporting. Economic responsibility is said to be mainly guided by the principles of the Group's risk management. It is also mentioned that various issues related to economic responsibility have been discussed in the Group's strategies and sets of guidelines. One target is to have the most extensive network of banking and insurance services in Finland. Customer satisfaction is measured using several surveys. Procurement is guided by certain principles. OP-Pohjola Group promotes development in the areas in which it operates by means of donations and other financial support. The Group makes a yearly nation-wide charity donation.

The Central Cooperative (OPK) has ratified its own environmental program. Furthermore, some member banks and their branch offices have a confirmed environmental program guiding their work. However, no separate principles directing environmental impacts of operations and business premises have been prepared. The analysis of environmental performance is limited by the fact the company's operations are much decentralized. The sample in the environmental measures is inconsistent.

Op-Pohjola Group says to be aware of the fact that in the finance industry considerable environmental responsibility issues are associated with indirect responsibility for the environmental impacts of customers' operations and the opportunities to influence their operations in connection with financing, investment and insurance decisions. Environmental risks and impact of customer activities are said to be assessed as part of the general risk assessment of customers' business operations and projects. Nevertheless, it is mentioned that there are no separate assessment methods or tools for these.

Principles of responsible HR management forms guidelines for the supervisors in OP-Pohjola and these principles are a key part of the Groups's HR management. Personnel competence is developed with long-term focus based on strategic principles. Job satisfaction is measured and followed persistently. OP-Pohjola Group does not have any specific methods for assessing the social responsibility of its corporate customers' operations. The corporate social responsibility of customer companies is assessed as part of normal business analysis.

4.3.4 Lähivakuutus

Lähivakuutus does not publish a CSR report but is has a brief CSR section on the web sites. The information Lähivakuutus provides is in very general level and does not give any precise measures or examples of CSR actions. Nevertheless, the Lähivakuutus Group says to carry responsibility for society's economical, social and environmental welfare for its part. Due to the nature of insurance business the economical and social responsibility are emphasized in the normal course of the business. Lähivakuutus does not define how it understands responsibility but the responsibility of actions is mentioned to be guided by values, operations model, and stakeholders expectations. One of the values is *We are a good corporate citizen*. Lähivakuutus is a mutual insurance company which is owned by its customers. Accordingly customers are an important stakeholder group. Lähivakuutus says to act in cooperation with authorities and organizations to prevent damages, injuries and insurance fraud.

Lähivakuutus Group publishes that it has written CSR principles in the end of 2003. However, these principles cannot be found on the Internet or in the annual report. When implementing the principles the Group introduced self-assessment tool to improve CSR locally. It is mentioned that in the future CSR aspect will be taken into account more clearly in the strategic planning, annual planning, and training of personnel.

4.3.5 Tapiola Group

Tapiola provides insurance, banking and asset management services. Tapiola is a mutual company owned by its customers, policy-holders. Tapiola's mission is to provide its customers benefits and sustainable solutions for success and well-being. Tapiola published its sixth CSR report in 2008. The 2008 report was named *Making Responsibility an Everyday Issue* (*Vastuu tavaksi*). The report is compliance with GRI guidelines and Financial Services Sector Supplement (FSSS). Some GRI indicators are not reported because they are not material and essential in the industry or in the operating environment. Two GRI indicators are not reported. These indicators are data measurement techniques and the basis of calculations and key topics and concerns rose through stakeholder engagement and how the organization has responded to them. The 2008 report was not externally assured because the development process is said not to be yet completed. However, the feedback received from the assurance providers in previous years is mentioned to be taken into consideration when developing the reporting. The report is said to apply for the entire group however some information is presented specially for each business unit. Some reported figures do not correspond with 2007 figures due to the changes in accounting principles.

Tapiola wishes to be a forerunner as a responsible provider of Finnish financial services. Especially Tapiola feels a need to be responsible for its owner-customers. Tapiola has 1,2 million owner-customers.

Responsibility is said to be the foundation of Tapiola's strategy and a key element also in the management's performance related pay indicators and the criteria of the personnel fund profit-sharing scheme. Continuous responsibility work is aimed to continue in Tapiola in

2009 with organization-wide responsibility training and discussion aimed to incorporate responsibility into every employee's daily work.

Tapiola says to produce the CSR report for its owner-customers, employees, other stakeholders, and all those interested in the company and its operations. Stakeholders' expectations as well as results are reported. Tapiola chooses it partners from companies whose values do not contradict with Tapiola's. In addition, Tapiola's purchasing policy requires that the goods and services acquires are of appropriate quality and promote sustainable development.

Tapiola uses a statement "sustainable solutions" (*kestävät ratkaisut*) which conveys that all of the Group's operations must comply with long-term sustainability and transparency. As a strategic stand-out factor (*erottautumistekijä*) Tapiola has chosen "responsibility to customers".

Tapiola states that responsibility is taken into consideration in operational planning, monitoring, and development of the operations. For this purpose the customer segments, companies and business units set objectives for the four perspectives (the customer, personnel and service process approaches and the financial and market position) of balanced scorecard. Each of these objectives is said to have two goals (*päämääräalue*) with respective target levels.

When selecting investment objects Tapiola avoids those whose approach is in conflict with Tapiola's values. However, it is mentioned that the assessment methods used do not involve active methods to exclude certain industries. Tapiola Bank avoids granting credits to projects which strain the environment.

Tapiolas environmental activities cover three main areas which are advisory and risk management services related to customers' environmental risks, real estate operations, and office work in Tapiola. The environmental supervision and monitoring are mentioned to be covered within the Group's normal planning, management and monitoring systems. Tapiola Group has an environmental policy, which was last updated in 2005. The policy states that Tapiola participates in the promotion of sustainable development for a safe, healthy and clean environment. Each of Tapiola's employees is expected to take environmental issues into consideration in their daily work and participate in continuous improvement of the operation in accordance with the environmental objectives.

Tapiola's CSR report provides the reader with an overlook of future challenges which implicates that the company pays attention to the changes in operational environment. Tapiola pays special attention to factors that it considers important for insurance and financial services. These factors are climate change, population ageing, rise in international terrorism, and information security concerns.

5 EMPIRICAL RESULTS

5.1 Defining CSR in the case companies

Defining CSR is on a different level in different companies. Some have thought what CSR means for particularly them, some have not done the consideration. Some have only decided what term they use.

> *"Corporate responsibility (*yritysvastuu*) is our term. Corporate responsibility is a more descriptive term than corporate social responsibility (*yhteiskuntavastuu*) about this. Corporate social responsibility takes my thoughts to the social pillar alone. But the same thing, three pillars (triple bottom line)"*

Even though the terms corporate social responsibility, corporate responsibility and responsibility are all used, the meaning of these three terms seems similar. When a company was able to give an actual definition for CSR, or the matter had been discussed even though a company had not thought over their definition it was emphasized, that CSR in financial services industry is considered as part of the business and concrete acts in daily business life. None of the interviewees mentioned philanthropy like sponsorship.

> *"We have it in a very funny way of defining. CSR is that we have it everywhere, it is the way we do business. It must be in our DNA (laughs), and it must be a natural part of how we operate. We take into account how we operate. We're a good corporate citizen in every situation. It's not something separate. It's not on top of anything, it's part of something. And in fact, it is a pretty big difference because it brings the challenge, then it's implemented into the business and implemented into group functions and they are responsible for the CSR's implementation, not CSR director. I coordinate, I inspire, I set targets in cooperation with the activities. The implementation and the responsibility that they have carried out is in the functions."*

One company have moved one step further than the others by dividing the term CSR and its meaning to business and business operations into two. In this case experience over CSR was gathered over many years and the definition has evolved.

*"We are talking about this with two terms. We talk of corporate social responsibility (*yhteiskuntavastuu*), which starts with effectiveness analysis (*vaikuttavuusvanalyysi*) - because we are a big financial company (*finanssitavaratalo*) and we inevitably have big societal attachments and entry angles. We talk about corporate social responsibility, when we talk about our impact on society and the interaction with the society and we have x million Finns as our clients and hence we have a big impact ... Then we also talk with second term; responsible business (*vastuullinen yritystoiminta*) and we use this term when we talk about the concrete actions we make, just the individual acts. ... It is our corporate responsibility map of what we do. We are like trying to separate them a bit."*

All companies name CSR as a part of the business. Many mention that CSR is in the company values and is strategically significant. However, it needs to be borne in mind that a weakness of the interview study is that the interviewees partly express their own personal opinions.

"And if you next ask if we consider this (CSR) to be strategically important the answer is yes. And I have a strong impression that the group's senior management is committed and the general director itself is committed to this issue."

"I feel it (CSR) covers widely all the operations."

Three companies mentioned that the traditional academic definitions of CSR are often difficult to understand by the employees. Because of this the term was tried to be simplified, made easier to understand and fit the organization in question. One company has interpreted CSR for the organization through responsibility promises.

"It (CSR) should get a bit easier for people. Therefore, our new entry angle is that we have started to approach this through such [name of the company's] responsibility promises. We have promises to customers, employees, environment, society. And in the promises we have defined the contents, and it is the content of our CSR and responsible business."

One has rejected the definition offered by GRI and expanded the concept. Acting like this does not mean that the actual decision making and projects related to CSR changes, but it is about facilitating the communication to the organization and other stakeholders. In this case it needs to be noted that the work has only just started.

> *"Of course we have thought about it (the definition) a lot, and the matter has been discussed internally but we have an unambiguous definition still in progress. We are working on a new responsibility program, and surely we have to define CSR a bit. The basic starting point is that, well, we talked earlier about CSR and back then we took definitions directly from general frameworks such as the GRI. Roughly a year ago we have internally expanded the concept, and because of that the term responsibility is generally being used and its purpose actually is to make it a bit ordinary and expand the view point and at the same time like in a certain way to break boundaries. ... When you expand and start to talk about responsibility more generally and in a way allow smaller and more ordinary actions, it helps a lot and we get the first achievements."*

Financial, social and environmental aspects are generally considered equally important, but the implementation of environmental aspects is lagging behind in many companies. Many of the interviewed mentioned, that all the aspects are equal based on that you cannot get financial success if the other two aspects are neglected. The financial services industry has a very strong tradition in financial responsibility, and it is considered to be very well taken care of. In the financial aspect the industry was even considered to create stability into the society. As mentioned above, the concept of CSR is not always easy to understand in the companies. By appealing to the easier understanding of the financial aspect in the financial services industry and the industry in general, one company sees strongly that the financial aspect is emphasized.

> *"It's somehow thought that financial responsibility for the financial sector is such that one cannot help to be emphasized somehow. A greater part of it probably relates to the fact that because there are many things about responsibility that people find difficult to absorb, especially for workers and business units, then it's noticed that more thing that are more easily digested can be found about financial responsibility in this industry. Then, it is difficult to say how much affects the financial crisis and recession, or the debate we had of recession. Only financial responsibility was brought to public debate about the*

financial sector a lot; what is our responsibility for the funding, solvency and these kinds of issues."

Especially in the insurance companies and companies which have started as insurance companies CSR is perceived as a natural build-in part of the business. Possibly because of this some have trouble telling how they define CSR.

> *"We actually haven't created a lot of our own meaning. We have had the principles defined for quite a long time. This was perhaps in the early 2000s. We have thought of financial aspect, human aspect and environmental aspect of CSR and we think activities around them. When people talk about CSR, they think about the meaning and importance in these three cases. We haven't created a definition. But then of course, what it means in practice for us especially, then it's surely what is our own."*

5.2 Corporate social responsibility in Management control systems

The interview study revealed that all the studied companies have some references of corporate social responsibility in their management control systems. However, the systems have thus far in many cases been developed without thinking of building CSR into management control systems and the presence of CSR in the MCS was more noticeable when speaking of financial and social aspects of CSR. One company out of the five case companies seems to be a forerunner in building the systems. Two companies have started building the structure into the MCS within the last year and one is moving towards that, now having a CSR in a new strategy. One company has not made such a decision but the development work otherwise seemed to be an ongoing process. Generally speaking, the process of building CSR into MCS has just started in the companies and not much about the actual systems can be said yet.

One company has attempted to find structure to CSR five years ago when a mapping of the current situation was made. However, it was never operationalized and the company in question is now trying again. The interviewed emphasized that there needs to be a business case and CSR needs to be taken into the strategy. If these are missing, CSR actions and building CSR into a management control system cannot happen. Now all of the case companies see CSR as strategically important and it is taken as part of company strategy. One of the companies has decided to have corporate responsibility issues as a part of the strategy of marketing and communications. The company in question feels that CSR suits well in that content. However, assessing from the outside this choice may reflect that CSR is only seen as marketing and communication tool when, the internal processes may not be considered as important as they should be.

> *"Well, my perception back then when I came to this company, just over a year ago was, that there are many good things but the structure is missing. Real estates and energy efficiency, something is happening wonderful, HR related stuff is this way, but target orientation and targets, monitoring areas to develop: that package is missing. My first step was that I have got these things now into [the name of the company]'s strategy, in the success factors there's now this good reputation and corporate responsibility. It's like anchored in the place where it should be. Into the marketing and communications strategy side became the wording of this sort that during this strategic period is made first a gap-analysis, and it is already happening. From there we will get the areas of development and from there follow a development plan and also an operations model as a conclusion. So maybe we could stop the interview here because you're asking what we have (laughs). It's at this stage. We've decided to start doing this."*

The awareness of responsibility issues has grown mainly during the past few years in the case companies. The importance of CSR has been recognized and has been taken into values as well. One company emphasized that responsibility and being close to people have always been part of the group's values. It was revealed in the interviews that out of the five case companies in four it was too early to study the building process and the actual structure of the management control systems.

> *"It (corporate responsibility) is in our values as well… But we still have a lot of building to do. This target setting, monitoring, measuring it's open. That I can honestly say. In another words it's too early to say anything about that (management control systems)."*

However, all of the companies have thought of these issues and have started the process. An Interesting finding was that the timing has been quite similar in the companies, excluding an evident forerunner based on the interview round.

Different phases of evolution in developing the CSR related management control systems was revealed in the interviews. One company clearly expressed how it has taken the GRI framework as a tool to develop the internal operations as well. The company has gathered a project group of specialist, both internal and external, which makes analysis of essentialness using the GRI indicators and framework as a starting point. The GRI targets are taken as a starting point based on which the project group thinks what that could mean in the context of the company in question has now made this for the environmental aspect. It is interesting to notice that this company has not made the decision to report externally according to the GRI framework but still uses as an internal tool to develop concrete targets and definitions for the CSR work. At the same time, one company has experienced that the triple bottom line of CSR, financial, social and environmental aspect, is quite difficult to understand in the business units.

> *"From practice I can tell that if you give an instruction to a unit like that put a target for financial responsibility in your systems. So you have to explain pretty many times what that actually means, what it could mean in your operations. That was very difficult and that is why we ended up in these kinds of concrete things. For example if our goal is to be the most clearly communicating financial services company in Finland, it is quite easy to say what that could mean for each unit."*

This company also mentions that the external GRI reporting has taught them a lot and has helped in developing the CSR work. This company does not use GRI framework as an internal tool anymore but reports according it externally. An evolution in building up CSR into MCS can be noticed: Phase 1: GRI as an internal tool, even though external reporting is not according to GRI. Phase 2: internal work developed to fit the organization in question well and GRI as an external reporting framework.

5.3 Target setting and measuring

Like management control systems in general also target setting is an issue that is still building up in the case companies. One company reflects strongly that the CSR related target setting is coming. One company, the forerunner, has CSR targets clearly both in long range planning and action planning. Long range planning monitors the development over the three year long strategic period as action planning focuses on the daily business life in the business units.

Other companies seem to have only long range planning which is not yet clearly shaped and has not come down to action planning. However, work is done for that to happen.
One company admits directly that its senior management sets general targets for CSR but they have not found a way to lead the everyday work along with those targets. It is emphasized that the target setting by senior management is *ambitious and determined*. Nevertheless, can be questioned is the target setting in upper level even too ambitious and determined if the connection with every-day activities has not been found.

> *"Within CSR thinking and theories this world is terribly fragmented and goes into awfully small things, which however, would need definition of the policy, guidance and decisions. And then again there is the intermediate form of how to derive the clear and well-placed general level targets set by senior management into individual management tools. That world is not the easiest and we don't necessarily have very good answers for how that should be taken care of."*

One organization has tried to build target setting by first setting general targets in the upper management, and then giving CSR specialist the task splitting those targets into lower-level targets. The company revealed that this task is still ongoing. It could be questioned if the task is appropriate for CSR specialists at all. How well do they know the different business functions where the targets should be set? Don't the business unit leaders have will or knowledge to do the CSR related target setting by themselves? It needs to be remembered that CSR issues are quite new and this is why the target setting process is started as described.

CSR targets are not yet widely present in compensation systems. Persons working directly with CSR related issues have those kinds of targets in their compensation system in all of the companies but otherwise the presence is scarce.

> *"That we had given that CSR is so important in the entire group, that everyone had CSR related objectives. Such a situation we do not have."*
> *"So if we think of regular follow-up, not to mention compensation systems, CSR issues have so far been put to the follow-up and target setting of people working directly with CSR. But not for others."*

One company tells that from a viewpoint of an individual employee the follow-up and target setting of CSR issues are handled few steps higher up in the organization. However CSR in that organization is said to become more concrete and moving closer to the employees all the time.

Only one company has CSR related measures directly in the compensation systems of the management and is building it up also in the compensation systems of other employees. However, the interviewed reminded that many things that can be categorized as CSR are present in the compensation systems if these things are important for the business also beyond CSR. Such things are financial targets and targets related to social side, namely HR.

> *"In the social side it's easy to say that they already have (been set as targets). E.g. managers' interpersonal skills are now going through to the scorecards of every single superior. Its drivers are in somewhere else than corporate responsibility and my opinion is that the driver needs not to come from corporate responsibility, but it is a corporate responsibility point of view by which you are examining this. They are the glasses that you wear. It is not a separate action."*

CSR related targets come to the question when there is an ongoing project and the target is completing that project. One of the interviewed considered that their company is not yet ready for the case where business unit leaders set goals related to CSR. On the other hand, one interviewed emphasized that the action is founded on that the different functions set their own targets which are based on the definitions done in upper levels. It was considered that CSR is such a thing that it needs to be seen in every activity if it is chosen to be a company value and strategy.

> *"It's (CSR) such that it needs to be visible in everything. Everyone needs to understand that it concerns them as well. This is not such a thing that someone else should do all this. But you sit down at your desk and think what you can do in your work to have this rolling somehow."*

The old saying *you get what you measure* was mentioned by the interviewed also in this study. CSR being visible in values and strategy means that every single employee in an organization should understand one's role and act accordingly. It was understood that it cannot be attained if such a behavior is not also compensated, or worse the compensated pay is in conflict with the CSR goals.

In the financial and social aspect all of the companies mention to have a strong tradition in target setting and measuring. Especially in the financial side the follow-up systems are said to be well established. At the same time three companies mention directly that the environmental aspect is the least developed and lagging behind. The interviewed emphasized that it took time to understand that also the financial services sector has environmental impacts and actually the industry is a major environmental agent through investing and financing.

> *"People, our own personnel, have quite poor environmental awareness of their own operations."*
>
> *"When we talk about goal setting there, are a variety of financial indicators and in the financial perspective. We have set maintaining services and jobs in all regions as a target in our strategy, even though we (in Finland) have currently these structural changes. In that way the CSR is present there (in MCS). Then on the human resources side we have very clear objectives for what skills should be developed, employee satisfaction and responsible leadership. Then the environmental side requires most development, what concretizing environmental responsibility means in targets. In fact, we don't yet have defined target levels, rather named things that should first be fixed up to have that (environmental responsibility) on a more concrete level. But, mostly these issues (CSR) are within the normal target setting processes."*

The attitudes towards the lack of monetary targets in CSR being a challenge were varied among the interviewed. As one saw the tradition of monetary measures in financial services company been so strong that measuring CSR has been easiest to start by finding situations where CSR action generates monetary savings.

> *"A banking group is so terribly accustomed in setting monetary goals that it has been easiest to set these goals where there is a win-win situation, i.e. doing something that is really a responsible, really CSR, but at the same time it has an economic benefit to a particular entity. It is the easiest way to start. In this way, one starts to see the light, comes to understand why."*

Realization of the targets does not necessarily need to be followed numerically. A qualitative indicator is seen enough by one of the organizations.

> *"Numerical measurement does not cover the whole spectrum of CSR, and it doesn't have to. Of course, there are many things where numerical indicators are easily available and then they are used. But thinking of quantitative indicator to follow the realization isn't the first thing we do when we want to set a target for some responsibility issue."*

The use of qualitative targets seems to be partly a matter of organization culture, how accustomed the organization is to follow its operations qualitatively. At the same time organization culture is influenced by the organization structure, whether the organization is centralized or decentralized. An example of qualitative follow-up is that something is labeled to be done *e.g. well or extensively.* A shortcoming of these kinds of expressions is that they are somewhat subjective.

Some aspects of CSR are easier to measure than others. For example, in the social aspect employment satisfaction indices are well established and the employment satisfaction is said to be easy to measure and follow based on those surveys. At the same time some goals are not easy to convert into a numerical measure and might be a sum of many factors influencing the goal. Developing these kinds of measures revealed to be an ongoing process to some extent in all of the case companies. The challenge of measuring CSR seems to be that the measures need to be highly organization specific to reflect the strategy and thereby the measures cannot be copied from someone else but developed by the company itself from the very beginning. It was mentioned that inventing these kinds of measures is not easy.

One company mentions that at the moment different policies are a management control tool in use. The company however wants to move towards using more measuring when leading CSR related issues. The measuring is said to be lagging behind because of a lack of time. Because time is a scarce resource the company has wanted to prioritize actions of doing good rather than being able to measure and this way report. Measuring of CSR is considered however very important in that company and the company wants to develop its CSR related MCS in the future.

> *"It (measuring) is of course important so that we know in what kinds of issues we have those actions and where we need to develop."*

5.4 Frameworks in use and ways of action

Three out of the five companies mention that they use balanced scorecards or their own adaption of it. One of three tells not to have CSR directly included in the BSC as the other two have. One company mentions especially that the four aspects of BSC suit well also CSR thinking and it can be easily included in those aspects and is an excellent tool of managing and following CSR work as well. However, none of the companies mention having an especial CSR balanced scorecard, but the CSR is part of the general scorecards. This tells about a real connection of CSR and other business functions.

> *"Balanced scorecard is our control system. Every business unit makes scorecard, indicators for themselves for the four aspects of the scorecard. For them targets are set and then the targets are put for different projects and that's how they have targets and those targets are measured."*

One company has included CSR related questions in employment satisfaction and customer satisfaction surveys. This company says to have had employment satisfaction surveys about responsibility already for years. The survey is an instrument to get response of what the company is doing, how important that is considered and what more could be done. The company tells that they get very positive feedback from the employees to the responsibility work. CSR is something that the employees respect and it is a way of building a strong culture of CSR. In addition, one company will include CSR questions in these surveys from next year on. This company says that it has not been ready for these kinds of questions yet because the CSR work in the company has not been as intensive before as it is now.

Responsibility issues can be seen present in many policies, methods, terms of reference, plans and training guiding governance, investment activities, risk management as well as other activities in the financial services industry. CSR is seen closely engaged to compliance and corporate governance issues. Minimizing reputation risk and CSR as a tool of risk management in general, is considered one issue stimulating activities categorized as CSR. Even though CSR is considered as a risk management tool in many companies, it was reminded that mainly in CSR companies and stakeholders have same interests.

> *"It's our company's good as well that this community successes and it's safe and there happens few damages. It's good for the insurance industry as well if*

there would be fewer damages, we could reduce prices, people would pay less for their insurance policies – in that case there's a win-win situation."

Stakeholder cooperation and hearing of stakeholders are considered a very important process in CSR work. One company mentions that the stakeholder work is going to a more organized direction as one mentions to have well developed mechanisms to hear the stakeholder opinions.

> *"Yes, we have it (stakeholder work) quite well divided and analyzed. Listening of stakeholder groups is always very important. It's not always easy to do – how do you hear the customers – but we have quite advanced systems to do it, that people, owner-customers, can say what they want."*

Stakeholder cooperation is seen as dialogue where a big challenge is that some stakeholder groups have grown information needs and they demand more tailored information. This group is however so big that the companies cannot have face to face dialogue with all of them. One company is now trying to solve this challenge by doing stakeholder mapping and analysis.

It seems that a well-done definition of the CSR and formulating the definition to fit well the organization in question is a prerequisite for the CSR actions and also monitoring those actions. A company that has moved a step forward in the defining work and defined CSR in the form of responsibility promises is the most advanced also in building a monitoring system.

> *"You can see the scale of these promises and under these are projects. Every one of these (responsibility promises) has projects and the planning of our activities is based on that all business units make action plans ... The projects execute these promises and targets are set for them and that then forms a common target for example for this promise ... It's a very complicated process and it drifts also to our compensation related pays. It is integrated as well as possible into the systems and to other systems."*

The management uses the amount of concrete action plans as one signal of CSR work going forward. However, in this particular case the meaning of organization culture was emphasized, the interviewee trusts that what is put on an action plan also gets done.

All of the case companies mentioned that increasing knowledge of CSR in the organizations is an aim and organizations are working with that aim. It is considered to be one of the challenges that people's knowledge of CSR is of a very different level. When speaking of CSR the problem is hard to tackle because everyone seems to have a wrong opinion of CSR and they do not experience that there is something that they do not know. This leads to people thinking that they are working according to the company's targets but when judging by CSR specialists there is a huge gap. People are trained in the case companies to overcome the problem.

> *"How to get the employees themselves to understand more detailed aspects of CSR? Traditionally I could say that teaching and training has been the easiest way of doing that. So that they would learn the CSR perspective, different points of view and how they should be considered in decision making. People don't have anything against learning that field, vice versa; quite many are interested in it. The challenge is perhaps that it's quite a slow way if you first start to train the background theory for the employees."*

It is however worth considering if all people in the organizations need to have an all-inclusive knowledge of CSR, or is the problem more in setting the targets in a way that people can really understand their content and the connection of their own actions to fulfill those targets. Training of business unit leaders in charge of setting targets would come to question. One company seemed to have understood this because it has altered its approach of defining CSR to a more understandable direction. That was done because they had experienced it frustrating to always first teach people even to make them understand what the triple bottom line of CSR is and what it could mean in their work. By training has been tried to get the business units to set their own targets and be able to lead the work according to general CSR targets. The same is done in another company by defining CSR to fit well the organization in question and to make the definition more understandable. Awareness of CSR has been tried to be increased by different campaigns in a company. At the same time the campaigns are used to map employees' opinions and gather new ideas.

When discussing CSR and giving feedback through discussions were considered one means of control. One company even has a person whose responsibility is to screen the organization by discussing these issues and that way inform the management group. CSR was considered such an issue that its nature requires leading by discussions and the employees need help which is easiest given through discussions. In managing CSR interaction is emphasized.

One company mentioned that mapping people's attitudes towards CSR has spread to recruiting process as well. Also one other company mentions that CSR issues probably play a bigger role in recruiting processes in the future. Aspects of that is visible already know, since background checking of the candidates is very common. At the same time people cannot choose any more do they follow the CSR values or not because it has been taken as a part of company strategy. One interviewed mentioned that part of the managing and controlling is to assure that employees operate among the chosen strategy and if they do not, to have the discussion is the company in question is a right place for the certain employee whose set of values is totally different or if someone is speaking against the chosen values in some occasions. In that company a discussion like this have never needed to have but the situation have been thought of.

5.5 Responsible investment and engagement process

Responsible investment (RI) is a special way to do CSR in the financial services industry. RI is mostly considered as a risk management tool. The companies engaged to responsible investment pay attention to, how the return on investments is searched. It is considered that the attitudes towards responsible investing are slowly changing and stakeholders pay more attention not only on the return but on how the return is earned. Three of the case companies mention to do responsible investment and two mention that RI is a significant process for them and they want to advance the process in the future. Through responsible investment financial services companies have major indirect effect on CSR of the companies they invest in.

> *"When we go and ask some firm that would you fix this environmental case, they mostly do. There is a process (engagement process) that is working and there is evidence of that."*

Like defining CSR in general, defining guiding principles for responsible investment is important. One company mentions that its responsible investing is guided by legislation and generally acceptable international norms. Resources to screen every investment through extensively do not exist.

> *"We need to understand that we don't have resources to familiarize ourselves with every single office or sub-contractor's office of our investments. But we believe that in the world of information technology these things come out."*

In one company the investments are screened both by an outside consulting firm and the company itself. Engagement process is a special process created to guide responsible investing. If a fault is detected in a company in investment portfolio, engagement process is started. In the engagement process the investor expresses its dissatisfaction and concern with the operations of the company to its management and the company is tried to halt its undesirable activity through active dialogue.

> *"The purpose is to discuss with the company about what has happened, why that has happened and what could be done so that that kinds of things won't happen again. We do understand that we are all humans and mistakes do happen."*

An interviewee mentioned that there are not any special criteria which are followed in the engagement process because every case is said to be different. The portfolio managers are said to have the best knowledge of their investment and the analyzing of responsibility issues is helped by RI adviser and the tools in use. An important thing in the engagement process is how the company as an object of the process takes the process and, if the discussions lead to change. Objective of the engagement process is truly to have an effect on the company and manage it to change the doubtful operation. Any special time limits for finishing up the process are not set because it is understood that fundamental changes can take time.

> *"Nowadays companies are better prepared and more willing that the investors will engage in these discussions and also getting through the discussions is faster. But the cases can be difficult and complex. If for example a production technology or a raw material should be changed because of some environmental or social factor it doesn't happen overnight."*

The objective of the engagement process initiated is not to transfer operational management to the investor. The investor never insists that it has better knowledge than the company itself to operational management. It needs to be remembered that company doing responsible investing really needs to know what it is talking about when involving in an engagement process. Investees would not take the process seriously anymore if it seems that the investors are not enlightened. Also demands set by certain stakeholders for the responsible investment awake concerns.

> *"What is problematic in this field is that stakeholders may begin to demand from investors things which naturally don't come from them. I'm talking about*

how the investors should commit to something that isn't anymore within the influence of the investor. ... However we must remember that our core business is investment and making return on the investments. Now it's about how the profit is sought."

5.6 Role of informal control

Where CSR in the management control systems has not yet been well developed the informal control was more common. However, now the control is shifting from informal to formal one.

> *"They have previously existed as ideas and best practices. This has been framed to be easier and better. Earlier, there was someone who knew something, now we all know these things."*

At the same time one company has decided to lead CSR more based on informal control mechanisms.

> *"We haven't given instructions. We have given ideas, hopes and tips. This (CSR) is knowingly led by positive and stimulation attitude."*

Even though one company has formal control systems as well it also mentions that CSR is strongly a part of the organization culture and thus informal control as well.

The organization structure has some effect on proportion of formal and informal control. In a decentralized organization structure, a recommending role is emphasized. Best practices were mentioned to be an effective tool to redirect behavior. If a good way of action is spotted in some part of the organization the word of the practice is tried to be spread. Best practices are tried to find outside the organization and also internationally. Redirecting the thinking of management of different business units are also tried to be done in an informal manner.

> *"We can direct near that kind of (CSR) thinking and have workshops. Then we have done quite a lot international benchmarking. We search actively for the best practices; if someone comes up with something clever what we haven't yet invented, we see if it could be a good idea for us as well."*

At the same time however one company mentions that benchmarking and finding best practices is hard because CSR is a quite new field and the few best practices have been gone through many times. It seems that some companies are looking for the best practices in a wider range than others.

CSR can be said to be present in the organization structure in all of the studied companies, nevertheless the presence is stronger in two companies where there are separate CSR compartments in the organization chart. All of the organizations mention to have a certain body that is responsible of making the highest decisions related to CSR. The CSR related decisions are mainly made in same forums as other general level business decisions. One company has a CSR stakeholder board and one a CR committee. Based on the organization structure CSR function is perceived to be in close relation with corporate communications and HR. One company has a CSR specialist working under corporate communication function and that person is in that organization the only person working directly with CSR issues.

In two of the companies the development of CSR and building structure around it has started by the impact of a person with a strong will to drive these issues.

> *"I had such a strong tradition and attitude on this issue that I brought it to this company and I said that this is what will be done. Really that is how these things are. Surely you will see this in other interviews as well. You have got to have one person with the ambition and the skills and vision in the organization. These things must be marketed inside the house. And voilá."*

The importance of strong persons driving the change was also mentioned by one interviewed who had an experience of several decades in the same company.

> *"I could say that when [the name of the company's] generation of leaders has changed, this culture (related to responsibility) has improved and shaped up. Personalization is clearly visible."*

5.7 Challenges

CSR and managing it is considered a challenging field where several factors from attitudes to execution in practice are considered demanding. As one interviewed mentioned, there are a huge amount of factors to consider in the managing of CSR and virtually all the organization's human resources are partners of cooperation. As the CSR department leads the theme of developing CSR it cannot tell to any other unit what they should do, but it can lead the thinking closer to CSR.

It is considered as a challenge that Finland is not a forerunner in CSR issues nor is financial services industry a forerunner in CSR in Finland.

> *"However, we want to develop and we request dialogue with NGOs. We want to know what is expected from us and what would be leading the way, what are acts of a forerunner. So maybe in a sense in this environment it's a challenge for this operation to define what kind of development is fast enough. This is a very upward trend and a very sensible thing to do. Perhaps the greater challenge is the fact that Finland is a little bit sticky to get into these kinds of things."*

In addition, another company mentioned that it feels that when it comes to CSR, NGOs do not require enough from the financial services industry and from the companies as a whole in the field of CSR.

Communicating about CSR is considered partly challenging. How could the awareness of the employees be increased? A desirable situation would be that the business unit leaders would speak of CSR naturally as a part of other business. One interviewed emphasized that the employees will not consider CSR as part of values and operations otherwise than getting the message from their own management as the following citation shows. The interviewed however mentioned that this will take time.

> *"The way through which we will finally get this (CSR) through will be when these things begin to come to the business unit leaders' speeches and into senior management seminars. Not that I would go there and give a speech about CSR separately and it's a separate issue. I especially want that it's an issue which business unit leaders speak as a part of their own message."*

Moreover, other stakeholders than employees have had hard time to understand the presence of CSR in the financial services industry. According to one interviewed, when speaking with customers, financing is considered a very cold industry where only monetary values are considered. She added that:

> *"As an industry we haven't been able to communicate very well what CSR means when speaking about financial services sector. We have done very poorly in that."*

One interviewee had quite similar thoughts as she mentioned that certain lack of transparency is afflicting the industry. As transparency she meant not only *opening the books* but being understandable in a way that also the customers with weaker financial knowledge can really understand the business, e.g. features of some complicated products. One interviewee however confessed that when speaking of bigger customers, if CSR and financial viewpoints are conflicting the financial still is the one weighting more. She nevertheless added that a financial institution can offer a lot for corporate customers who are going through their first bigger international projects. The financing company has expertise of what is required in international standards before a project financing can be granted.

Old customs and routines are partly being considered as slowing down the diffusion of CSR into MCS. One interviewee mentioned compensation systems as an example. If compensation systems include cost-effectiveness measures but not measures evaluating management skills or motivation skills, this leads of course to those aspects not considered in the compensation are not paid attention to. Still many people building up compensation systems consider that the last mentioned measures cannot be included in the systems because their measuring is somewhat subjective. The old saying *you get what you measure* emerges here. According to one interviewee CSR and good corporate governance need to be marketed internally all the time. In the past there have been routines and ways of action according to which companies cannot operate anymore. Change resistance is also a factor to be considered when implementing CSR.

> *"In a sense, compliance and CSR are quite difficult to understand. And they have been invisible here (the name of the company) for years. To clear their meaning, making them easily understandable and a natural part of operations is a common challenge. And of course part of the people think that all this is killing the joy and preventing development when you would like to do in some other way."*

On the other hand, change resistance can also be a significant factor improving operations.

> *"Criticism can also be a very good thing. When discussing matters for and against in the preparatory stage the actual core will be found as well."*

The challenge of managing CSR is considered increased by the fact that it is quite a new field and it is very value-laden. People whose set of values does not meet with the common CSR thinking have hard time approving CSR into a company's managing principles.

> *"It's always immediately asked, how can you say that this (CSR) is useful. I try to make a counter question: where it shows if we don't do anything? In general*

> *this is part of brand building and how should it be measured then. In a measuring sense this (CSR) is in a way under a tighter examination because this is a new thing. And especially those people whose personal values aren't in harmony with it. I've somehow analyzed it in this way: if you don't believe in, let's say, environmental values, one doesn't consider them important in one's personal set of values, one thinks they are green washing (*viherpiperrystä*). For that kind of people this is quite difficult."*

Tools and frameworks of CSR, like GRI, are also considered insufficient and adding the challenge of managing CSR. Even though the GRI's FSSS supplement is used, some companies find that Nordic countries and Finland is an operational environment which has certain characteristic where GRI does not fit perfectly. Moreover, some company forms, like cooperatives, are considered to have characteristics which would need special frameworks to think operations in the practice.

Challenges are not only internal, and the internal and external expectation can also be in conflict. One interviewee mentioned that the expectations of the employees have increased over the past few years and the employees give constantly ideas of how the CSR could be improved. However, stakeholders and especially customer groups have different expectations and some customer groups do not appreciate CSR actions and do not find its link with the core business.

> *"Every issue which we start to develop is a question of expenses and therefore it must be thought exactly what those things are. Of course many of those things save costs at the same time. But the choice is not easy. From the customer's point of view our operation costs should not increase a lot. Rather in the contrary, they would want to spend on improving services."*

As the above citation reminds, doing CSR requires resources - nevertheless some investments can safe costs. However, it is interesting to notice that one interviewee considers that investing in CSR and improving customer service are competing for the same resources. It could be seen that many CSR initiatives improve the service as well.

5.8 Reporting

Two out of five companies consider there is not the choice of not reporting CSR externally anymore. The reporting is considered a hygienic factor. At the same time, it is mentioned that why not report if CSR is done.

> *"We probably could not be without reporting. It's like a hygienic factor. We do not stand out with it (CSR reporting) hugely, but if we didn't report we would stand out negatively."*

All interviewees consider that the external report is a mirror which reflects how the company is behaving internally. Few companies mention that the external report at the moment is insufficient because the development of CSR is an ongoing process internally.

> *"Everything started when we had a new strategic decision that we want to make CSR in a completely different way than before and after that we started to report. The decision was made in the summer 2008 after which the first report was made. And it was a little bit insufficient because we have had very little time to do things. It (the report) was more about the strategic work and that we have been thinking over where we actually were doing CSR already even though we haven't defined it."*
>
> *"Even a blind can see that in our corporate responsibility (reporting) target setting and monitoring the execution of the targets is missing."*

One of the companies does not have external CSR report. That company feels that it wants to build the processes and reporting first internally and thereafter start to report also externally. The company has developing of reporting also on its planning but thus far, the company has felt that the numerical measuring is not at the stage that it could report solid enough. The numerical measuring and reporting is also considered important for decision making purposes.

> *"You should have something fixed. You cannot base decision on some individual cases; you should have a continuum of information. How something has developed over e.g. five years."*

The external CSR reporting is considered a good tool to develop CSR operations and its value as developing operations is appreciated.

> *"Partly it (external reporting) has been a development and learning tool and project. And we have all the time been taking it as an opportunity through which we can constantly learn this thing (CSR) and it does not need to serve directly any other function."*

Few companies mentioned directly that CSR report is not a marketing tool. The targets are reported as well as an honest realization of those targets. According to one company the report tries to increase transparency and it is an honest description of the operations.

As some companies have their CSR report available only in English and in electronic form, some have them in Finnish, Swedish and English and find that the report's target group wants to have it also in printed form. One company has a small summary of the CSR report. The summary is used in customer work to explain briefly what the company's CSR work is and what it includes. The stakeholders requested the summary. Interestingly, another company mentions that external stakeholders set no requirements on the CSR report and its contents. One company mentions clearly that internal CSR reporting has different processes and tools than the external report. At the same time one company mentions that the external CSR report works directly as an internal reporting tool as well.

> *"External publications are quite interesting tools because when preparing them the preparing organization can through the external publication communicate information to the management because it's known that the publication is always approved by the management. If something is written there management reads it, otherwise getting these things under management's eyes can be difficult. At the same time the management also thinks that this is an external report but still all the employees read it. So it's used by the management to communicate to the employees. The external report becomes also an internal tool which involves many internal interests as well."*

It could be questioned whether the management considers CSR as important as it communicates if it is considered that otherwise than in the preparatory phase of the CSR report CSR issues are hard to get on the executive board's agenda.

Majority of the companies have decided to have a separate CSR report. It is considered that the separate CSR report gets attention better than integrated annual report. Furthermore, one company mentions that the integration of CSR and other business functions is not at the level where CSR fits the common annual report well. In addition, the development of GRI reporting standard is not at the level where CSR will suit *as an elegant part of annual reporting.* An interviewee considers that albeit the GRI has developed a lot it still has not found the essentialness in the case of financial services companies.

> *”GRI should have courage to say more clearly which really are the core things for a financial institution. In my opinion it's not how we take CSR into consideration in our products. It's more in our operations, how we sell, how we do marketing, how we take care that the customer gets the correct information.”*

It is expected that in the future CSR reporting will be part of national standards or even legislation. The competitors' and international forerunners' reporting have been gone through and based on those reports it has been thought what will be the direction of own reporting as well as the reporting in general in the future.

6 DISCUSSION

In the following chapter the empirical findings are gathered up and discussed with the theoretical findings.

Corporate social responsibility is a rather new field in companies, and studying CSR in management control systems is in addition a rather untouched subject in research. The interview study revealed that many of the companies in financial services industry are only just trying to find structure in managing CSR. However, companies do see the business case of CSR: more satisfied employees and customers lead to better return and higher brand and company value. A more successful company ultimately leads to more well-being for the entire society it operates in. The foundation is that the daily business is run in a responsible manner. However, cost savings tend to be the easiest way to begin CSR activities, as Weber (2008) mentions. The same was found out in this study. One company reflects strongly that activities that can be categorized as CSR but save cost at the same time is the way to get general management to understand that CSR is useful.

The first objective of the study was to find out how CSR is defined in financial services industry. The terms corporate social responsibility, corporate responsibility and responsibility were all used but with a similar meaning. It needs to be noticed that all companies could not give a clear definition of CSR in their operations, but altogether CSR in the financial services industry is defined quite similarly across companies: to be part of the business, concrete acts in daily business life, not separate action, like for example philanthropic acts. According to Halme and Laurila's (2009) action oriented typology all of the companies can be classified into CR integration, where the emphasis is on conducting existing business operations in more responsible manner, or if the businesses are moving to that direction by having a strategic decision of that. The integration however is in different phases in different companies as some have developed the actions already for years and some are only just taking the first steps. All of the case companies use the segmentation of the term CSR into three aspects, financial, environmental and social, in accordance with the triple bottom line. However, one company has clearly moved forward and does not use the traditional segmentation in daily business life because the triple bottom line is said to be difficult to understand by the employees.

All of the case companies agreed that CSR is acts which surpass the regulatory requirements and are based on voluntariness. Regardless of that in a few interviews were referred to requirement of the law and actions were justified based on that.

> *"The Finnish parliament has defined by legislation these kinds of boundaries for the play field."*

It was noticed in the interviews that all the case companies are trying to move from responsive CSR to strategic CSR as Porter and Kramer (2006) recommend. All of the companies have done prioritizing and selected CSR issues that intersect with their business and the industry where they operate in. By using Porter and Kramer's (2006) classification presented in the section 2.7 none of the studied companies is focusing only on the generic social issues. However, the evaluation between the step two, value chain impacts, and step three, social dimension of competitive context, is however more difficult. All of the companies mentioned CSR having been considered strategically important and/or it is belongs in the company values. Nevertheless, judging by the actions taken, only one company can be classified in the third group. The company mentions CSR to be a strategic stand-out factor and emphasizes that CSR is so strongly build in the company culture that the method cannot be copied by other companies. The company also surveys regularly its employees' and customers' response to the CSR actions. Figge et al. (2002) categorize CSR into three groups as well. Those groups are strategic core issues, performance drivers and hygienic factors. The classification is quite similar compared to the Porter and Kramer's (2006) one. The empirical part revealed that two of the companies consider CSR reporting as a hygienic factor. Nevertheless, these two also mentioned to have a more strategic focus in the CSR actions. Hopwood (2009) questions whether changes in strategy also change action. The same can be questioned based on the finding of this study. Many have started to put more emphasis on CSR by making strategic decisions but actions were mostly minor. However, it needs to be remembered that the realization of the actions does take time and few companies have realized many initiatives. Furthermore, only time and further research will show how the role of CSR evolves in the financial services industry, and in general.

Durden (2008) discovered that a lack of common definition of CSR is hindering the development of CSR oriented MCS and measuring CSR in general. This study confirms this statement, judging by the fact that those who have a clear definition of CSR and the definition has even evolved over time are furthest in the integration of CSR into control and measurement systems. The evaluation of the progress of building up CSR into the MCS with Durden's framework is however difficult, because the steps seem to be executed only partly in majority of the cases, and the structure is still partly missing. Based on the interviews a forerunner in building up the system does exist but the other four are more difficult to evaluate. As mentioned, defining CSR seems to be in process. Moreover, the identifying stakeholder groups and CSR goal setting are tasks that are partly done in all of the companies, but their execution and analyzing seem to be in halfway. This study proves however that Durden's framework illustrates a good path to build structure in the management process of CSR. The forerunner has all the components executed, analyzed and working: defining CSR sets a foundation for the process with identifying stakeholder groups. Goal setting specifies the objectives of the progress of which progress can be followed through management control systems. Management control systems create information for management actions and finally CSR outcomes, meeting the targets, follow.

The second objective of the study was to find out if CSR is built into the management control systems in financial services industry in Finland, and if so how. For this question an unambiguous answer cannot be given. Some features of CSR are observable in the MCS of all of the case companies, but a systematic building process is still rare. Financial and social aspects of CSR are built in the systems without labeling them as CSR.

The empirical results state that CSR has infiltrated in all of the elements of MCS package by Malmi and Brown (2008) and in several components of it. By analyzing the presence of CSR in the MCS package, CSR is taken as a part of MCS in the financial services industry. References of CSR can be seen in the following components of management control systems package.

- Cultural controls

  The presence is clearly visible in *values* of several case companies. One company even mentions to recruit people with similar values. *Symbols* and *clans* did not come out as clearly as values in the interviews. However, symbol-based controls, like building and workspace design, can be interpreted to support environmental responsibility. Financial services companies consist of various micro-cultures, which are labeled as clans. The interviewed mentioned that the persons having a personal set of values not highly appreciating CSR are having the hardest time to adjust into the CSR culture. It can be questioned, whether CSR could be introduced differently into the different micro-cultures, e.g. investment bankers vs. bank clerks. Cultural controls provide the contextual frame for other controls and thus the change towards more responsible organization and MCS can be seen to start from the cultural controls. Because of this the presence in values seems more visible in than other controls. The change is in most cases only just beginning. The strategic decisions to devote to CSR are fairly recent and the culture is changing to more appreciate CSR more and not considering it only "green washing" (*viherpiperrys)* as one of the interviewed mentioned.

- Planning

At the moment, CSR is clearly visible in *long range planning,* strategic planning, in all of the case companies. One company has more advanced *action planning* than the others but all companies are signaling to move towards more advanced action planning of CSR initiatives.

- Cybernetic controls

There is a strong tradition of *financial measurement systems* in controlling especially the financial aspect of CSR. Qualitative measures, *non-financial measurement systems,* are also mentioned to be used when controlling CSR. Three companies mention to use balanced scorecard which is an example of *hybrid measurement systems.* Two of the companies clearly mention to control CSR aspects through balanced scorecard and find it a suitable tool to do so. One interviewee touched the subject of using *budgets* to allocate resources to execute CSR initiatives and projects.

- Reward and compensation

All of the companies reward and compensate person working directly with CSR issues through achieving CSR goals. Only one company has more wide-range reward and compensating tied to CSR.

- Administrative controls

  CSR is distinguished through *organization structure* in several companies. Different kinds of *policies and procedures* were also mentioned in several interviews. CSR is seen to be in a close relationship with corporate governance where *governance structure* is put in place to monitor the behavior of the employees and guide the accountability structure. It could be questioned if governance structures are only being labeled CSR in its context or if CSR has really brought something new into them and different policies and procedures already implemented to manage corporate governance.

When speaking of CSR in the MCS, *training* can be seen as a significant element of the package. It has been tried to increase staff's awareness and knowledge of CSR by training and through that enable them to manage CSR related target setting. Training is seen as an easy way to start. Malmi and Brown (2008, 295) classify training as a component in cultural controls where it can be seen as way of managing organizational culture or in administrative controls where teaching individuals is done to make them follow the specified policies and procedures. The empirical evidence shows that when speaking of CSR, training has both of these functions as well as being a tool of awareness building. Because of the diverse function of training it should be seen as a separate element of the MCS package. As Kloot (1997) mentions, training enhances the organization's ability to learn. Albelda et al. (2007) see training and awareness building as a catalyst for change for implementing environmental management systems.

Presence of CSR is obvious in all of the different control systems of Simons' four levers of control framework. Business strategy is a starting point for different control systems. CSR is considered a strategically important factor in all of the case companies. However, the entry of CSR into the strategy has happened mostly within the last few years. *Beliefs systems* reflect the core values. CSR is in the values and value proposition directly in majority of the case companies. The focus in many companies is in the employee and customer satisfaction which are enhanced with CSR activities. The progress in these gets communicated through customer and employee satisfaction and development in the core competencies. Elements of CSR can be found in the *boundary systems* of all the case companies. CSR is seen strongly as a risk management tool of which CSR reporting reflects according to Adams (2002) and Gray

(2006). Codes of business conduct and different policies set the boundaries of action. In addition, investment selection, supplier selection and selection of cooperation partners in general, they are made according to certain boundaries set by CSR principles. Principles of responsible investment are an example of those principles setting boundaries for investment selection. In the interviews the customer selection was also discussed. The customer selection based on CSR criteria may come to question if a customer has daunting CSR behavior. In project financing the projects are judged also according to certain CSR principles and the customer are given advice to alter their CSR behavior.

Diagnostic control systems include the critical performance variables and they are used in a rather straightforward manner without much discussion (Tuomela, 2005). In MCS package thinking diagnostic control systems are called cybernetic controls. Many financial and social metrics are used as diagnostic metrics in the case companies. In addition, customer and employee satisfaction surveys are used to collect data which is used in diagnostic manner. Measuring of the environmental aspect of CSR was said to lag behind in the case companies. The process of building diagnostic control measures into the environmental aspect as well is ongoing in majority of the case companies.

Interactive control systems are used for positioning for tomorrow. The interviews revealed that CSR is managed using a very conversational method. This attests that it is tried to be found out the direction of goal setting and strategy through an active dialogue. Moreover, the results of the measurement seem to be discussed. The emphasizing the interactive control reflects that CSR is considered to involve many uncertainties and the position for tomorrow is somewhat unstable and still exploring its direction. This finding is not surprising when considering how new the field still is for the companies.

Norris and O'Dwyer (2004) found that informal controls such as social and self-controls have dominant influence in socially responsive decision making. This study revealed that the CSR is partly tried to manage based more on informal controls such as *giving ideas, hopes and tips.* At the same time there seems to be a shift from informal control to a more formal one. Earlier the business case of CSR has not been seen as strong as nowadays when the informal controls were considered more appropriate. However, the will to control CSR also formally seems to be on an increase. As Durden (2008) mentions, both formal measurement and informal control are key aspects in developing a MCS that incorporates CSR. Norris and O'Dwyer

(2004) have noticed situations where the informal controls and formal controls, namely compensation systems, where sending a mixed message of the importance of CSR. Indirectly the same indication reflects in this study. Financial measures still seem to have the most important role in the compensation systems. Mostly only people working directly with CSR had CSR related compensation measurers. Moreover, one company mentions that when speaking of important corporate customers the decision-making is guided by financial terms if there is a conflict between CSR and financial interests.

The process of building CSR into MCS has started mainly from an internal stimulus. In two of the case companies there has been a strong influence of one person on starting the process. The strong persons have given the stimulus after which CSR has even been taken into the company strategy. However, it could be questioned if there are some weaknesses if some persons have very strong role in the process. What if the person having strong influence on the company's CSR culture leaves the company? As Mackey et al. (2008) argue that a company having senior managers personally committed to responsibility issues increases the probability that the companies they lead will engage in CSR activities. However, the weakness of this study is that the interviewed were responsible of CSR issues. The results of management's commitment could have been different if general management would have been interviewed.

Hearing of stakeholders is of a different level in the sector. One company mentions to have gotten many good ideas and initiatives from the stakeholders and have also executed these. At the same time one company mentions that stakeholders do not require anything from the companies and their knowledge of CSR is poor. One company feels strongly that its stakeholders consider its operations very responsible. The attained image seems to have slowed down the development of CSR internally. One company mentions that it is starting to build structure in the stakeholder work. CSR is a quite new phenomenon and also the stakeholders seem to be waking to require socially responsible behavior from the companies. The growing awakening of stakeholders into CSR sets requirement for companies' CSR operations and continuous improvement is necessary to keep up with the pace.

The internal development process of CSR is mainly started by taking some external framework as a tool to categorize its own operations. GRI reporting framework has mainly worked as this tool. Interestingly, the GRI framework is used even if the external reporting has not been done according it. GRI based reporting has also worked as learning process to better internal operations. Porter and Kramer (2006) mention step two in their classification, value chain social impacts, to be a so-called checklist approach where standardized set of CSR valuation, like GRI framework, are used. One company can be clearly classified to be at this stage because it mentions to use GRI framework as an internal tool for development. According to Porter and Kramer (2006) to be truly CSR a more proactive and tailored internal processes are needed. Only one company has clearly moved to this stage as the others have strong will to do so. One company seem to be skipping the checklist approach entirely as it mentions that especially internal stakeholder could not care less about external categorizing framework like GRI. However, generally the external reporting was considered an important process developing CSR processes also internally. Interestingly, the purpose of the external reporting was originally learning about CSR and developing CSR activities in the process in two of the case companies.

The research has shown (Epstein and Wisner 2001, Figge et al. 2002, Crawford and Scaletta 2005, Länsiluoto and Järvenpää 2008, Wagner 2007, van der Woerd and van den Brink 2004, Kaplan and Norton, 2001) that balanced scorecard is considered an effective management tool also for CSR. This study confirms these findings as two of the companies mention to use balanced scorecards in managing CSR. At the same time balanced scorecard was the only concrete tool that was mentioned in the interviews. An interesting finding is that the companies using balanced scorecards told that they have CSR as a part of their general scorecards instead of having separate CSR, responsive, environmental or social scorecards which have been mentioned in the research. In addition, the CSR measures were included in the existing perspectives of balanced scorecards. This implicates that CSR is considered to drive other objectives, like ultimately building long-term corporate financial performance, as well. The integration of CSR into general scorecards gives evidence that CSR is really seen as a part of daily business operations, not being something separate. Nonetheless, this study is not able to give a more specific picture of the BSC structures in use in the case companies.

Adams and McNicholas (2007, 396-397) found various obstacles for CSR reporting. These include a lack of knowledge of the best practices of CSR reporting, a lack of understanding how the CSR goals and reporting practices can be integrated into strategic planning process, a lack of experience in engaging stakeholders into the reporting process, identifying of KPI's, and a difficulty of choosing a reporting framework. Albeit, Adams and McNicholas cover

CSR reporting same kinds of obstacles are hindering the building process of CSR into MCS; best practices are constantly tried to be found internally, externally and also internationally as Finland is not a forerunner in CSR. Measuring CSR is partly considered challenging as the measures can be qualitative and highly organization specific. CSR being very value-laden puts an extra challenge on managing the process. The GRI reporting framework, which is guiding the work in some companies also internally, is considered insufficient to reflect all the characteristics of the industry and various operating environments.

Banking and insurance are both categorized under the same umbrella term financial services industry. However, the two have some differences, especially when it comes to CSR. The insurance industry is seen traditionally responsible and dedicating to CSR is thus seemed natural. The insurance side also seemed to have considered responsibility issues more together and the insurance industry is considered to have a common view of CSR as one interviewee tells:

> *"We in the insurance industry have had very much co-operation among different actors. I consider it very useful that we have discussed what CSR is in our industry. We have quite many definitions which draw attention to the important things which are essential in this industry. In the banking side there isn't a tradition to think these things together. A least I've got a feeling that these kinds of things have been used more as a competitive advantage as the insurance side puts the emphasis on the common responsibility."*

Nowadays drawing the line between insurance and banking is not simple anymore as more and more companies offer both services, as does three of the five case companies. However, the attitude towards CSR seems to be slanted by the roots of the company in question. Not only has the industry set different requirements for CSR work, but in addition the company form and structure seem to set those requirements. The activities are formed a bit differently whether the company is listed, cooperative or mutual. Company form, whether centralized or decentralized, has an effect on the control structure and control systems in use.

Traditionally the CSR impact of financial services industry has been considered quite low because the industry does not have manufacturing processes of which environmental and social responsibility issues would be remarkable. Nevertheless, the industry's effect on bearing economic responsibility is major. In addition, the industry has major indirect effect through investments and offering funding. Responsible investment and engagement process are possibilities to have an effect on the faults in CSR of other companies. Epstein and Roy (2001) mentions that handling CSR well can give a company a better access to capital. In the financial services industry the benefit of having better access to capital is not emphasized. However, the industry is a major agent who can further this kind of a development in the future.

The descriptive case study method was chosen to best support the objectives of the study. Although the objectives of the study were met, the description of the systems in use is partly insufficient. Albeit the interviewees were asked to describe concrete features, tools and procedures of the systems, the results were slight. This could be because the interviewees did not want to reveal the structure of their systems. However, the description is less likely insufficient because the systems used in practice are not well developed yet and there actually was not anything to describe. The lack of concrete examples was observable already in the theoretical part.

Partly the companies seem to have very uncritical attitude towards their management process of CSR and the stakeholders' requirements seemed to be partly underestimated as well. Some of the interviewees seemed to think that they do not need MCS including CSR because the actions they take can be managed also without one. When asked how, the answer was silence. In addition, a perception seems to be that if the external picture of the company is good the underdevelopment of the internal processes will be forgiven. However, it is only a question of time when the stakeholders will realize that internal development process is lagging behind. The critique cannot be directed to all of the case companies. Some really have taken CSR seriously, see the business case of it, and do consider that it needs to be a part of MCS in order to manage the processes reliably and further develop the processes in the future.

7 CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH

The empirical study revealed that there is a forerunner in building up CSR into MCS in the financial services industry in Finland when analyzing with the frame chosen for this research. Otherwise it was mostly too early to study the structure of CSR in MCS. Three out of the five case companies emphasized that they have only recently decided to start the process or were taking the early steps. However, at the same time it was noticed that in all of the companies financial and social aspects of CSR are part of *normal* MCS and the environmental side is lagging behind. Traditionally the financial services industry has not been considered to have environmental impacts and only lately it has been understood that the industry can be a huge environmental agent through financing and investments.

There are many variables which affect the CSR activities and the control systems structure. It was revealed that despite the similarities, banking and insurance companies seem to have a slightly different attitude towards CSR. Many financial services companies nowadays offer both of these services but the thinking seems to be guided by the roots of the company. The insurance companies considered that CSR is strongly built-in in the industry's nature. Moreover, the group ownership structure seems to stimulate different viewpoint towards CSR. When it comes to control systems structure, the group structure has an impact on that. The results of the study cannot be generalized outside the studied industry.

It should be considered if there were something in the timing of the study, after financial crisis, that stimulated the CSR in the companies. An interesting finding is that three out of the five companies have just strengthened the role of CSR and considered it also strategically important. One proposition for further research is to repeat a similar study after a few years and study whether there has been any progress in the MCS building process, and progress in CSR actions in general.

Even though it was tried to get a proper description of different tools and methods in use in the MCS in the interviews, not many concrete results was gathered. This was mainly because there are not yet so many concrete tools in use. The interviewed mentioned that finding concreteness into CSR is challenging. BSC was mentioned by three of the case companies as a tool to manage CSR. Finding out the BSC structure and content used in the process is left for the further research.

The research method sets some limits to the results. The method used was an interview method. One weakness of interview study is that the interviewees can give an impression that does not fully correspond to the reality; the interviewed partly seemed to express their visions of future, not the reality at the moment. It is possible that the interviewees' answers have been affected because they knew of the research the results of which will be published. This limitation was tried to be overcome by using the results to come up with an overall situation in the industry, not handling the studied companies separately and hence offering the interviewees anonymity where the answer and studied company cannot be connected. Another limitation is that the analysis of the results is the interpretation of the researcher. However, the results are tried to be reflected versatile through the earlier research and literature of the field. Furthermore, it is worth mentioning that the interview study was possibly not the best method to find concrete results of the MCS structure. For further research a longer term case study including observation and building closer relationship with the studied company could be implemented to get a more comprehensive description of the CSR's presence in the MCS and their operations in practice. The use in practice could be analyzed better if people from different organization levels and units would be interviewed and observed.

Even though the concrete results of the interview study were minor, the study creates foundation for further research and offers an illustration of the current situation in the field. CSR should be considered as an element of forming MCS in the further research. Corporate social responsibility is a topic the importance of which is increasing, and as one interviewed said: *its importance at least isn't reducing.* CSR's presence in the MCS is a requirement for managing CSR work, reporting its results and for a company to be truly responsible. The study could be summed up in a citation from one of the interviews:

> *"This (CSR and managing it) is not rocket science. The question is more that these things have not yet been thought of."*

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APPENDICES

Appendix 1: GRI report contents (GRI, 2006)

Content	GRI code
Strategy and Analysis	1.1-1.2
Organizational profile	2.1-2.10
Report parameters	
Report profile	3.1-3.4
Report scope and boundary	3.5-3.11
GRI content index	3.12
Assurance	3.13
Governance, Commitment and Engagement	
Governance	4.1-4.10
Commitment to external initiatives	4.11-4.13
Stakeholder engagement	4.14-4.17
Management approach and Performance Indicators	5.
Economic indicators	
Economic performance	EC1-EC4
Market presence	EC5-EC7
Indirect economic impacts	EC8-EC9
Environmental indicators	
Materials	EN1-EN2
Energy	EN3-EN7
Water	EN8-EN10
Biodiversity	EN11-EN15
Emission, effluent and waste	EN 16-EN25
Products and services	EN26-EN27
Compliance	EN28
Transport	EN29
Overall	EN30
Social indiators	
Labor Practises and Decent work	
Employement	LA1-LA3
Labor/Management relations	LA4-LA5
Occupational health and safety	LA6-LA9
Training and education	LA10-LA12
Diversity and equal opportunities	LA13-LA14
Human rights	
Investment and procurement practise	HR1-HR3
Non-discrimination	HR4
Freedom of association and collective barganing	HR5
Child labor	HR6
Forced and compulsory labor	HR7
Security practises	HR8
Indigenous rights	HR9
Society	
Community	SO1
Corruption	SO2-SO4
Public Policy	SO5-SO6
Anti-competitive behavior	SO7
Compliance	SO8
Product responsibility	
Customer health and safety	PR1-PR2
Product and service labeling	PR3-PR5
Marketing communications	PR6-PR7
Customer privacy	PR8
Compliance	PR9

Appendix 2: Theme interview structure (in Finnish)

Teemahaastattelurunko

Haastateltavia rohkaistaan nostamaan esiin myös muita aiheita mainittujen lisäksi teemaan liittyen sen mukaan, mitä he haluavat nostaa esille.

Key concepts:

Corporate social responsibility (CSR):

In this thesis as CSR are considered only the level which surpasses the regulatory requirements and is based on voluntariness. The study covers all the three dimensions of CSR – environmental, social and economic responsibility. CSR is used as a synonym for corporate responsibility (CR), sustainability and sustainable development.

Management control systems (MCS):

In this thesis management control systems are defined as the processes, systems and tools by which the management guides the organization's and its employee's behavior to fulfill the set targets.

Aiheet:

1. Haastateltavan tausta
   - Asema organisaatiossa, päätösvalta yhteiskuntavastuusta ja johdon ohjausjärjestelmistä

2. Miten yhteiskuntavastuullisuus (CSR) määritellään yrityksessä?
   - Mitkä CSR-aspektit yritys on priorisoinut itselleen tärkeiksi?
   - Koetaanko nämä strategisesti merkittävinä?
   - Ylimmän johdon tuki

3. Sidosryhmät ja sidosryhmäajattelu

4. Tavoitteen asetanta? Onko yhteiskuntavastuullisuus aspekteille asetettu tavoitteita?
   - Lyhyt/pitkä tähtäin
   - Yritystason tavoitteet
   - Henkilökohtaiset tavoitteet / kannustinjärjestelmät

5. Yhteiskuntavastuullisuus ohjaus- ja johtamisjärjestelmissä (management control systems, MCS)
   - Ohjaukseen käytettävät työkalut ja menetelmät (Esim. operationaaliset toimintaohjeet, KPI (key performance indicator), balanced scorecard yms.)
   - Muodollinen vs. epämuodollinen kontrolli (formal vs. informal controls)

- Kompensaatiojärjestelmät
- Yhteiskuntavastuullisuuden mittaaminen

6. Miten yhteiskuntavastuullisuus on rakennettu osaksi ohjaus. ja johtamisjärjestelmää?
    - Tärkeys – Ovatko CSR-aspektit yhtä painavia muiden seikkojen (esim. taloudelliset tavoitteet) rinnalla?
    - Haasteet
    - Toimialan mukanaan tuomat erityispiirteet

7. Yhteiskuntavastuuraportointi
    - Raportoinnin tarkoitus (esim. imago, kun muutkin raportoivat, kilpailuetu jne.)
    - Raportoivat asiat myös sisäisissä prosesseissa?