Aalto University
School of Business

Corporate Social Responsibility in Compensation Systems: Empirical Insights

Accounting

Master's thesis

Martti Lehtinen

2013

Department of Accounting
Aalto University
School of Business

AALTO UNIVERSITY SCHOOL OF BUSINESS
Master's Thesis, Management Accounting
Martti Lehtinen

ABSTRACT
4.6.2013

CORPORATE SOCIAL RESPONSIBILITY IN COMPENSATION SYSTEMS: EMPIRICAL INSIGHTS

Research objectives

This report had three main objectives: (1) Explaining the rationale behind corporate social responsibility measurements from a HR point of view, (2) discussing the feasibility of linking CSR target setting to compensation systems and (3) investigating how CSR currently manifests itself through the monetary- and non-monetary elements of the compensation system.

Sources

The theoretical part derives insights from prior management and management accounting studies on corporate social responsibility, the compensation system, and the sustainability balanced scorecard framework, examining them through the lens of institutional theory. The empirical part relies chiefly on theme interviews with seven HR managers and one CEO in eight Finnish companies. Corporate sustainability reports were used as secondary sources of information.

Research methodology

A qualitative field study consisting of eight participant companies. The method used was semi-structured theme interviews with seven HR managers and one CEO. Because the subject matter is emergent, the methodology provides breadth through focusing on several case companies, but depth through focusing on HR managers specifically.

Results

CSR has been identified as a strategic activity, but inadequately defined on an internal level. The development of social indicators is in its initial steps and lagging behind environmental indicators. Managers expressed optimism towards linking CSR indicators to compensation, but emphasized that such targets need to be actionable.

The study provided evidence of linking incentive compensation to CSR in three of the eight participant companies. In two cases, general CSR target setting was used as basis for monetary compensation, and in one case the incentive system was tied to a specific CSR-related indicator.

Keywords

Corporate social responsibility, compensation system, sustainability balanced scorecard, institutional theory

AALTO-YLIOPISTON KAUPPAKORKEAKOULU — TIIVISTELMÄ
Laskentatoimen Pro Gradu –tutkielma — 4.6.2013
Martti Lehtinen

YHTEISKUNTAVASTUU PALKITSEMISJÄRJESTELMISSÄ – EMPIIRISIÄ HAVAINTOJA

Tutkimuksen tavoitteet

Tällä tutkimuksella oli kolme päätavoitetta: (1) selittää taustasyyt sosiaalisen vastuun mittaamiseen HR:n näkökulmasta, (2) käsitellä mahdollisuutta sitoa CSR-tavoitteet yrityksen palkitsemijärjestelmän osaksi, ja (3) tutkia miten sosiaalinen vastuu ilmenee palkitsemisjärjestelmän rahamääräisten ja ei-rahamääräisten elementtien kautta.

Lähteet

Tutkimuksen kirjallisuuskatsaus perustuu aimpiin johtamisen ja johdon laskentatoimen tutkimuksiin yhteiskuntavastuuseen, palkitsemisjärjestelmiin ja sustainability balanced scorecardiin liittyen, sekä tarkastelee näitä institutionaaliseen teoriaan pohjautuvan viitekehyksen lävitse. Empiirisen osuuden lähteinä on käytetty pääasiassa teemahaastatteluita seitsemän HR- johtajan ja yhden toimitusjohtajan kanssa. Julkista tietoa kuten yhteiskuntavastuuraportteja on käytetty täydentämään haastatteluja.

Tutkimusmenetelmä

Tutkimusmenetelmänä on kvalitatiivinen kenttätutkimus kahdeksasta suomalaisesta yrityksestä. Tutkimusmetodina oli haastattelututkimus. Koska teoria aiheesta on vielä melko kehittymätöntä, tarjoaa menetelmä tarvittavan määrän laajuutta useamman yrityksen valinnan pohjalta, jotta tutkimus voitiin suorittaa. Toisaalta se keskittyy syvällisemmin tallentamaan pääasiassa vain HR-johtajien näkemyksiä aihepiiriin liittyen.

Tutkimustulokset

Yhteiskuntavastuu nähdään strategisena aktiviteettinä yrityksessä, mutta on ymmärretty huonosti sisäisenä terminä. Tämän vuoksi sosiaalisten mittareiden kehittäminen on vielä alkutekijöissään verrattuna esimerkiksi ympäristömittareihin. Haastateltavat kuitenkin osoittivat optimismia sosiaalisen vastuun liittämiseen palkitsemiseen, mutta korostivat että palkitsemiseen pitäisi linkittää vain tavoitteita joihin työntekijät pystyvät itse vaikuttamaan.

Tutkimuksessa löydettiin todisteita sosiaalisen vastuun liittämisestä rahamääräiseen palkitsemiseen. Kahdessa tapauksessa palkitseminen tapahtui sosiaalisen vastuu saavuttamiseen yleisellä tasolla, ja vastaavasti yhdessä tapauksessa kannustinjärjestelmä oli sidottu suoraan yksittäiseen sosiaalisen vastuun indikaattoriin.

Avainsanat

Yhteiskuntavastuu, palkitsemisjärjestelmät, sustainability balanced scorecard, institutionaalinen teoria

1. Introduction

1.1. Background and motivation

Issues pertaining to Corporate Social Responsibility (henceforth abbreviated as *CSR*) have been the subject of several management accounting research papers in the wake of proliferation of the sustainability agenda. There exists an institutionalized perception that companies are required to operate in ways that are considered as being “sustainable”.

CSR by definition includes all the voluntary and extra activities that companies or organizations undertake (operational activities or reporting), *after* legal and regulatory requirements are met. However, the increased attention that these issues are gathering makes CSR a *de facto* requirement for any company – regardless of size or industry – in retaining social legitimacy for its existence among diverse stakeholder groups. This new focus on mainstreaming CSR implies that much of the CSR debate has in fact changed from being about whether to do CSR, to how (Smith, 2003).

Prior research of the linkages between CSR and profitability are abundant (see for example *Waddock and Graves, 1997; Roman et al. 1999; Aupperle et al. 1985*). However, research on CSR specifically as part of compensation systems, and what benefits and challenges this approach would garner, remains limited. In light of contemporary research and through interviews with HR executives, **this field study provides insights into how management views the feasibility of integrating corporate social responsibility indicators and target setting to the compensation system.** Of particular interest was to provide evidence on whether employees are already compensated for improvements on these areas, how CSR manifests itself in the compensation system, and how extensively CSR is currently included in management systems such as the Sustainability Balanced Scorecard.

In order to achieve these objectives, a cross-section of eight Finnish companies from different fields of industry were selected, providing empirical windows and insights to the topic. The research method could best be described as a **field study conducted through a series of site visits or mini-cases, which should facilitate the search of broader patterns from the**

empirical results. While some of the larger case companies in the study (for a list of participant companies, see sub-chapter 6.3) have more established CSR structures and operations, the smaller companies in the study are likely approaching sizes that should warrant a more strategic approach to the management of CSR. This enables the study of CSR in business contexts where it is an emergent managerial concern.

Prior research has identified (see Epstein and Roy, 2001) that to drive a CSR strategy through an organization, performance evaluation must be aligned with other management systems. Incentives should be established to encourage excellence in this area, and if sustainability performance is considered truly important, evaluations and rewards should highlight that component (Epstein and Roy, 2001, 594).

Indeed, there is evidence to support that while CSR does not have much positive impact on short-term financial performance, it does offer a remarkable long-term fiscal advantage (Lin et. al 2008). Because many of the effects of corporate social responsibility are intangible in nature, they are hard to quantify and trace (Epstein and Roy, 2001, 587), making it likely difficult to define the right indicators or drivers behind CSR performance. Moreover, one could argue that some of the effects, while being hard to identify, have an impact on rather long time scales (Epstein and Roy, 2001, 587), which is something that the most important stakeholder group – the shareholders – are not necessarily interested in. It is therefore important to investigate whether corporate executives themselves truly believe in such a mission statement.

The goal of shareholder maximization is likely to be in conflict with the goals of other stakeholders, some of who might advocate a strong adherence to CSR. As a result, companies need to take steps to *remain legitimate* in the eyes of the general public, by showing interest in CSR-related activities and reporting. Establishing a link between the compensation system and CSR objectives could potentially bridge the gap between conflicting objectives between shareholders and some of the other stakeholders. Finding evidence of these linkages between compensation and CSR objectives would be an important starting point when we come to talk about the link between corporate responsibility and financial performance.

The objective to reveal concrete linkages between CSR and compensation is arguably rather ambitious. Recent studies on the integration of Management Control Systems (MCS) and CSR (see *Kivivirta, 2010 and Järvinen, 2012*) hinted at the possibility that Finnish companies are open to this kind of approach. However, even if the measured CSR indicators are not currently linked to compensation, the measurement of these indicators will help with the expanding disclosure requirements regarding CSR reporting. The concepts and definitions surrounding Corporate Responsibility remain extremely ambiguous (see for example *Adams 2006* and *Crittenden et al. 2011*). Therefore the measuring of CSR performance is important if the company is to better organize its reporting procedures regarding sustainability in a world filled with different (and sometimes confusing) sustainability reporting standards, frameworks and terms.

An important function of corporate social responsibility is the upholding of an *image of organizational legitimacy*. If there is no clear direction for the management on how to practically pursue CSR – like the inclusion of these metrics into compensation systems – the company cannot build a credible business case around CSR. If the actions surrounding CSR are not credible, it poses a serious threat to the social legitimacy of the organization's existence. This research therefore undertakes the standpoint in which the best way for corporate responsibility to gain widespread support among the top management and the whole organization is to construct a credible *business case* around corporate responsibility.

One prerequisite for this business case is that the investments into CSR (i.e. linking CSR to compensation) have to be justified. While talk about CSR is always cheap, in order to appeal top management in particular, the business case for CSR needs to be constructed and articulated in a way that establishes a link between corporate responsibility and bottom-line impact. This study provides insights on what HR managers think that some of the responsibility KPIs of positive bottom-line effects could be and how such indicators should be formulated.

The fact that sustainability issues have grown very important in the eyes of consumers supports the argument toward the business case for CSR. It is arguable that consumers are ready to pay more for sustainable products and services. However, this kind of image is hard to build as well as very easy to lose when violations in these issues are exposed. Implementing CSR thinking into compensation can increase external credibility of the different stakeholders towards a company and its operations. This is extremely important, because even investors are paying more attention on CSR. In fact, there has been a tremendous growth in the area of socially responsible investments in the past 10-20 years (see *Barnea et. al 2005*).

As corporate social responsibility is an activity where maintaining *external* appearances and credibility is important, it is therefore plausible to suspect that many of the CSR-indicators are not necessarily used extensively at an operational level, but rather in order to legitimatize and maintain appearance of responsible conduct. Significant amount of resources are nonetheless consumed in gathering and screening of this information for sustainability reporting, which in turn is mainly targeted towards external stakeholders. As a result, management might view these measurements as both costly and disconnected from internal, day-to-day activities. This thesis introduces an approach on how these indicators could be put to a more practical use, while creating an easily communicable business case for CSR in the process. In essence, the approach presented herein would help expand their use beyond maintaining an appearance of legitimacy.

This thesis was conducted as a part of a larger HR project by a major Finnish financial and insurance services company. The project aims at improving various qualitative and non-financial aspects in employee total compensation.

1.2. Objectives of the study

As the definitions surrounding corporate responsibility are considered to be loose and ambiguous[1], the starting point is to identify how the case companies themselves define CSR. Relying on preconditions provided by institutional and legitimacy theories, the starting point in the study is to provide understanding, and *to explain why* the case companies are engaging in corporate social responsibility to begin with. This provides a more comprehensive, context-specific understanding of the research objectives put forth:

1. Providing an explanation for what purposes CSR KPI's[2] are being measured in the case companies, and what seems to be their comparative importance. In order to achieve this goal,

[1] See Chapter 2.
[2] Defined in the next section.

this study will first evaluate the extent of corporate social responsibility measurements conducted in the companies. Equally important is to provide an explanation as to the motivations behind such measurements and discussion on CSR indicators that are not perceived to add value, or those that are in fact considered to be counterproductive if linked to compensation. Of particular interest is the use of these measurements as part of management systems such as the *Sustainability Balanced Scorecard*, which would better facilitate their integration into employee compensation.

2. Discussing how top management views the feasibility of linking corporate social responsibility target setting into compensation systems. While most of the prior studies have been focusing on the interplay between CSR and management control systems on a more general level and advocated further research into this domain (see for example *Durden, 2008; Weber, 2008; Henri and Journeault, 2010; Kivivirta, 2010*), the integration of CSR with employee compensation *specifically* remains limited.

3. Explaining ways in which CSR currently manifests itself through the monetary- and non-monetary domains of the compensation system, including insights on whether or not HR managers perceive CSR as presenting future challenges in the further development of these systems. The financial crisis of 2008 has precipitated a demand towards more regulation, transparency and information disclosure in financial accounting. Despite focusing on rather different aspects of reporting, CSR disclosure practices are also reformed in the wake of catastrophies and scandals. For example, the public's discontent towards executive compensation and compensation transparency (especially in state-owned companies) have been visible topics in the Finnish media in the recent years. HR departments that excel in this field might be able to benefit their company from the successful identification of any potential future developments.

1.3. Key concepts of the study

Institutional and legitimacy theories

This thesis employs these theories to help explain the emergence and imperative for CSR. Institutional theory attends to the *processes by which structures, rules, norms and routines become established as guidelines for social behavior* (Scott, 2004). Legitimacy theory is defined as *a generalized perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions* (Suchman, 1995, 574).

Corporate Social Responsibility (CSR)

CSR is defined as reporting or actions taken by companies *voluntarily*, i.e. after legal and regulatory obligations regarding social/environmental/economic activity or reporting are met[3].

CSR indicator

Corporate Social Responsibility indicators measure a company's responsibility performance on social issues such as employee safety, well-being, absenteeism, skills, work-related accidents, workforce diversity, gender equality, transparency in compensation, employer image and values, leadership and internal communication[4].

Compensation System

Compensation refers to all forms of monetary and non-monetary benefits employees receive as part of an employment contract (Hole and Misal, 2012, 110). Monetary compensation consists for example base salary and bonuses, while non-monetary compensation includes elements such as employee satisfaction, responsibility, opportunities for recognition, working environment, work sharing, working hours and working environment (Prasetya and Kato, 2011).

The Sustainability Balanced Scorecard (SBSC)

The Sustainability Balanced Scorecard (SBSC) is an extension of the original BSC that takes into account the Corporate Responsibility perspective in strategy communication and performance measurements (Epstein and Wisner, 2001; Figge et al. 2002a; Figge et al. 2002b; Dias-Sardinha and Reijnders, 2005*)*. It is essentially a tool that focuses on measuring social and environmental performance by employing the aforementioned CSR indicators.

[3] This is a widely accepted definition, and for example the European Union's official definition of CSR, found at http://ec.europa.eu/social/main.jsp?catId=331&langId=en

[4] The measures for socially responsible employer as defined by the Confederate of Finnish Industries (EK) is available at http://www.ek.fi/vastuullinen_yritystoiminta/sosiaalinen_vastuullisuus/index.php. For more examples, see subchapter 4.2.

1.4. Structure of the study

The main theoretical foundations for corporate social responsibility in this thesis, as presented in subchapter 2.2, rest on the **legitimacy and institutional theories**. Serving as the starting point of inquiry, they are used to **provide an explanation for the emergence of corporate social responsibility**. Literature review on CSR as a management agenda as presented in subchapter 2.1. and the compensation system in Chapter 3, provide an understanding of how these fields have evolved to date, and presents some of the most widely employed tools, frameworks and concepts considered relevant for this study.

Chapter 4 combines CSR and compensation by presenting the Sustainability Balanced Scorecard framework, which has been identified in prior studies as both an effective tool to embedd CSR objectives into wider strategic control systems (Figge et al. 2002a, 282-283) and to support the compensation system (Ittner et al. 1997a, Snapka and Copikova 2011). Chapter 4 therefore combines prior studies on BSC and CSR as well as BSC and compensation, as research focusing on sustainability balanced scorecards and compensation *specifically* is lacking. A literature summary follows in Chapter 5, reiterating what the literature part of the study enables the reader to look for in the empirical part.

Description of the **research method used**, and an overview of the eight **case companies** is presented in **Chapter 6.** The **empirical part of the research** follows in **Chapter 7**. For anonymity reasons, throughout the empirical part the companies are designated as letters, from A to H, even though a list of the participant companies is provided in subchapter 6.3.

Chapter 8 discusses the empirical findings in the light of the theory part of the study that was presented in Chapters 2-4, and answers the research questions put forth in subchapter 1.2. The study concludes in **Chapter 9 summarizing the main findings** and provides suggestions as to what trajectories potential new inquiries into this area could follow.

2. Corporate Social Responsibility

Recent decades have seen the development and rapid growth of corporate social responsibility policies, procedures, tools and approaches that go beyond regulatory compliance (Lozano and Huisingh, 2011, 100). One compilation study and literature review conducted in 2004 identified more than 300 global corporate standards, each with their own history and criteria (Ligteringen and Zadek 2004). To an outside observer, it might be difficult to establish a holistic or coherent view of this field. Corporate Social Responsibility is an extremely ambiguous issue, and several definitions of the concept are available. Furthermore, many of the CSR terms[5] are often used interchangeably with one another. Because there are a number of different terms under the acronym of "CSR" it is broadly used as an "umbrella term" for all responsibility measures (financial, environmental or social responsibility) taken by a company. This study focuses specifically on **social** responsibility.

2.1. CSR in management discourse

According to Lockett et al. (2006, 116) social sciences in general, and management in particular, differ from natural sciences in terms of the relationships between the researchers and the subject matter, and in their institutional structures. He argues that this is especially true in the case of CSR, where the delineation of paradigms is even less clear compared to other social sciences, and thus identified CSR as a **field of study within management** rather than a *discipline* (Lockett, 2006).

Over the course of its development, the concept of CSR has been addressed by many disciplines, often even those outside of management. Brooks (2005) identified that the concept shares roots not only with strategic management, but with stakeholder and cultural management discourses (Brooks, 2005, 405-406). Despite being approached from these different research angles, Crane et al. (2008) comment that the validity of the CSR concept itself has been challenged frequently:

[5] Corporate Responsibility (CR), Corporate Social Responsibility (CSR), Sustainability, Sustainable Development (SD), Sustainability/environmental accounting, Responsibility/Sustainability reporting, Corporate Citizenship, etc.

> *"Corporate Social Responsibility has experienced a journey that is almost unique in the pantheon of ideas in the management literature. CSR has been quite frequently discredited, written off, marginalized or simply overlooked in favor of new or supposedly better ways of conceptualizing the business and society interface"*
>
> \- Crane et al. 2008, 3-5.

In studying CSR discourses within management from 1992-2002, Lockett et al. (2006) identified four focus areas within CSR research: *environmental, business ethics, social* and *stakeholder*. The first three discourses have resulted in a number of journals dedicated to each of the respective focus areas. Stakeholder management, in turn, emerged as a focus for scholars for the purposes of delineating an appropriate approach to, and normative reference for, CSR (Lockett et al. 2006, 118). This has been so pronounced that Freeman (1984), the key author in stakeholder management, has been prompted to distinguish his original formulation from CSR (Phillips et al. 2003, cited *Lockett et al. 2006, 118).* CSR has therefore become an increasingly salient feature of business and environment to which managers are expected to respond to, acquiring status within management education and research (Pfeffer and Fong, 2004; Starkey et al., 2004 cited. *Lockett et al. 2006, 115*). In academia, this salience is visible in the long-standing status of CSR within business education, reflected by the endowed chairs in US and European universities, business school courses focusing on CSR, and the proliferation of numerous journals focusing on issues relating to CSR (Lockett et al. 2006, 119).

Despite being an established concept both in academia and in practice, there remains confusion as to whether specific discourses within management accounting and CSR (business ethics, for example) should be addressed with an integrated approach or separately (Bampton and Cowton, 2002, 52-53). For example, Brooks (2005) seems to be in favor of an integrated approach, commenting that CSR could benefit from being examined as a holistic concept, and that a more overt connection between CSR and strategy[6] could help to deflect potential criticism that it is an activity most readily associated with public relations and with little real substance behind it. CSR continuing as a fragmented field risks being robbed of its critical potency. If it is accepted that the

[6] Brooks (2005) was studying converging discourses between CSR and strategic management.

CSR discourse, like any other when viewed through a Foucauldian[7] lens, is the locus of attempts to assert truth claims and either create or perpetuate a power hegemony, then the more fragmented the academic field, the more likely it is that powerful interests will be able to steer or even appropriate the discourse for their ends (Brooks, 2005, 408-409).

2.2. Emergence of CSR

Organizations need to adapt to certain institutionalized expectations originating from their operating environment. This thesis is based on the premise that legitimacy and institutional theories provide the most accurate explanation as to why businesses need to undertake corporate social responsibility. Aside from legitimacy and institutional theories, other theories have been proposed to explain the emergence of CSR, namely the *stakeholder* and *social contracts theories* (Moir, 2001, 16). However, as legitimacy theory, for instance, is concerned with the justification for the very existence of companies to begin with, it likely provides a deeper understanding for the emergence of CSR. This stance is supported by Bansai (1995), who studied the reasons why companies undertake CSR. Her findings were that the motivations of corporations for ”going-green” were indeed to retain their organizational legitimacy. It therefore seems logical that companies need to take steps to remain *legitimate* in the eyes of their most important stakeholders and the general public. It is also quite evident that on an operational level, CSR plays a central role in this legitimation.

2.2.1. Institutional Theory

Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures (see *Meyer and Rowan, 1977; DiMaggio and Powell, 1991*). Institutional Theory *attends to the deeper and more resilient aspects of social structure.* In particular, it considers the processes by which structures, including schemas, rules, norms and routines become established as authoritative guidelines for social behavior (Scott, 2004, 2). DiMaggio and Powell (1991)

[7] Brooks is referring to Michel Foucault (1926-1984), a social theorist who among other topics adressed the nature and functioning of power and social control.

explain that institutionalism purportedly represents a distinctive approach to the study of social, economic, and political phenomena; yet it is often easier to gain agreement about what it is *not* than about what it *is* (DiMaggio and Powell, 1991, 1).

While the institutional perspective is far from homogenous, a common point of departure for most scholars is that organizations are under pressure to adapt to and be consistent with their institutional environment. Organizations attempt to acquire legitimacy and recognition by adopting structures and practices viewed as appropriate in their environment (Björkman et al. 2007, 432). These observations are in line with earlier findings, such as those of Meyer and Rowan (1977), who argued that:

> "o*rganizations that incorporate societally legitimated rationalized elements in their formal structures (...) maximize their legitimacy and increase their resources and survival capabilities.*"
>
> - Meyer and Rowan 1977, 352.

These rationalized elements could be consequently understood as structures, procedures and activities surrounding corporate social responsibility. CSR could hence be understood to have emerged quite simply only as a response to these preconditions, and therefore the exact 'labeling' of this concept is of marginal interest. An important further consequence with regards to this "response", is that the incorporation of these elements themselves does not in any way guarantee *efficiency*. These 'rituals'[8], as Meyer and Rowan called them, only maintain appearances and validates an organization (Meyer and Rowan, 1977). Analogously, even though CSR reporting could be considered essential for the demonstration (i.e. *maintaining appearance*) of appropriate behavior, it is not a guarantee for responsible conduct (Vauhkonen, 2007).

So what are the mechanisms of this institutional change that is affecting organizations? DiMaggio and Powell (1983) labeled this change as *isomorphism,* which is the similarity in processes or structure of one organization to those of another through imitation or independent development. They contended it (DiMaggio and Powell, 1983, 150) as an useful tool for understanding the politics and ceremony that pervade modern organizational life, and identified

[8] The incorporation of CSR departments by companies, the publication of sustainability reports, etc.

three types of isomorphism through which institutional change occurs, while also identifying the source of the change in each of them:

1. *Coercive isomorphism* that stems from political influence and the problem of legitimacy
2. *Mimetic isomorphism* resulting from standard responses to uncertainty
3. *Normative isomorphism* that is associated with professionalization

In coercive isomorphism, a powerful constituency such as the government imposes certain patterns of behavior on the organization. Mimetic isomorphism materializes when organizations facing situations of uncertainty adopt the pattern exhibited by successful organizations in their environment. In normative isomorphism, professional organizations act as the disseminators of appropriate organizational patterns, which are then adopted by organizations that are under the influence of the professional organizations (Björkman et al. 2007, 432).

In more recent studies, Scott (2004) formulated what he called a “pillars framework”, largely from the same institutional processes found in DiMaggio and Powell’s (1983) classification above which identified change as “isomorphism”. Scott suggested that there exist three 'pillars' of institutional processes: regulatory (corresponding to DiMaggio and Powell's coercive), normative as well as cognitive (cf. mimetic) processes. He asserted that ”institutionalisation” is the process through which activities are repeated and given common meaning over time (Björkman et al. 2007, 432). Scott’s framework is presented in Table 1:

	Regulative	**Normative**	**Cultural-cognitive**
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness, shared understanding
Basis of order	Regulative rules	Binding expectations	Constitutive schema
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logics of action
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Table 1 – Scott’s Three Pillars of Institutions (adapted from *Koulikoff-Souviron and Harrison, 2008, 414*).

Corporate social responsibility, and the research questions of this study, largely revolve around the normative elements such as social obligation seen in Table 1. As pointed out earlier in this study, CSR focuses on all the *extra* efforts after regulative requirements have been met. This study asserts that examples such as Scott's framework help us to better understand the underlying reasons why companies undertake activities related to corporate social responsibility. In practice however despite its recent growth, the application of institutional theory to understand CSR-related phenomena is a rather recent development (Brammer et al. 2012, 4).

2.2.2. Legitimacy Theory

Legitimacy theory is defined by Suchman (1995) as:

> "…*a generalized perception or assumption that the actions of any entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions*."
> - Suchman, 1995, 574.

It is important to distinguish that because these norms, values and beliefs are socially constructed, not only are they the aggregate consensus of pooled opinions of actors, they are constantly changing. Dowling and Pfeffer (1975) further posit that in order for corporations to exist, they will need to act in congruence with these values and norms.

Suchman's and Dowling and Pfeffer's descriptions of legitimacy suggest that companies need to be able to demonstrate that they have a place in the society and that their actions are contributing to the common well-being of the society they operate in. The idea of legitimacy is therefore that the entity, through its top management, seeks congruency between organizational actions and the values of its general and relevant publics or stakeholders. If an actual or potential disparity exists between organizational and social values, then organizational legitimacy will be jeopardized giving rise to a 'legitimacy gap' (Haniffa and Cooke, 2005). In essence, seeking organizational legitimacy is deemed important in demonstrating social worthiness, ensuring continued inflows of capital, labor and customers, as well as demonstrating that the firm is in tune with societal concerns and values to help close any perceived legitimacy gaps (Haniffa and Cooke, 2005).

This study focuses on the simplest form of legitimacy theory called the organizational view of legitimacy. According to Suchman, (1995) it is *an operational resource that organizations extract – often competitively – from their cultural environments and that they employ in pursuit of their goals*. Mathews (1993) provides a good definition of legitimacy at this level:

> *Organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system in which they are a part of. In so far as these two value systems are congruent we can speak of organizational legitimacy. When an actual or potential disparity exists between the two value systems there will exist a threat to organizational legitimacy*.
> – Mathews, 1993

Haniffa and Cooke's (2005) more recent definition of organizational legitimacy is largely in line with Mathew's earlier (1993) definition. Both researchers contend that when an actual or perceived legitimacy gap or discrepancy exists between the society and the company, it will create tensions and problems. An example of this kind of legitimacy gap – and one which is closely linked to this thesis' subject – would be the payment of millions of euros worth of stock options to an executive while the company is conducting massive layoffs of its personnel in the name of 'efficiency'. In this case, the *norms of acceptable behavior* are likely to be in conflict, creating a threat to organizational legitimacy.

2.2.2.1. Implications for companies

So how can companies deal with these legitimacy concerns, and should they include such aspects in their strategy formulation? Lindblom (1994) notes that legitimacy is not necessarily a benign process for organizations to obtain legitimacy from society. He argues that an organization may employ four broad legitimation *strategies* when faced with different legitimation threats:

1. Seek to educate stakeholders about the organisation's intentions to improve that performance.
2. Seek to change the organization's perceptions of the event (without changing the organization's actual performance).
3. Distract (i.e. manipulate) attention away from the issue of concern.

4. Seek to change external expectations about its performance.

Furthermore, three modes of *action* are available to companies to enhance legitimacy as proposed by Dowling and Pfeffer (1975):

1. Adapt outputs, goals and methods of operation to conform to prevailing definitions of legitimacy.
2. Attempt through communication to alter the definition of social legitimacy to conform to present practices, output and values.
3. Attempt through communication to become identified with symbols, values or institutions which have a strong base for social legitimacy.

Gray et al. (1995) linked the strategies suggested by Lindblom (1994) with the actions proposed by Dowling and Pfeffer (1975) above, in a framework of legitimacy theory presented in Figure 1.

Legitimacy theory

Strategy	Educate society of changes in organisation's actions	Alter society's perceptions of the organisation	Alter society's expectations of the organisation	Divert society's attention away from issues of concern
	↓	↓	↓	↓
Action	Adapt outputs, goals and methods of operations to conform to prevailing definitions of legitimacy	Through communication, alter definitions of social legitimacy so as to conform to present practices, outputs and values	Through communication, alter definitions of social legitimacy so as to conform to present practices, outputs and values	Through communication, try to become identified with symbols, values or institutions which have strong base of social legitimacy

Figure 1 – Organizational-level framework for Legitimacy theory (Gray et al. 1995).

Because communication is central in the mobilization of these strategies and actions, it is therefore arguable that CSR reporting is the primary method a given company has at its disposal to alter the definitions of social legitimacy or the publics' perception in general of the company in question. This should hold true regardless of whether or not the company is actually acting responsibly. For example, some of these strategies and actions could be potentially utilized for green washing.

Management's views on the role of legitimacy at an organizational level have been addressed in prior research for example by O'Dwyer (2002) and O'Donovan (2000). O'Dwyer (2002) conducted interviews with senior managers in 27 Irish public limited companies to examine managerial perceptions of motives for corporate cocial disclosure. Most of the senior executives interviewed argued that the prime motive for sustainability reporting was indeed to enhance corporate legitimacy, although noting that some managers felt that sustainability reporting might be counter-productive to achieving corporate legitimacy due to widespread skepticism to corporate announcements at the time of his study.

It is extremely hard, if not possible, to directly measure legitimacy. Although it has concrete consequences, legitimacy itself is an abstract concept, given reality by multiple actors in the social environment. Even though we cannot directly measure legitimacy, we can increase our understanding on the factors that are affecting the abstract creation of legitimacy. In Table 2, Hybels (1995) has identified four critical stakeholders that all control a number of resources important for companies:

STAKEHOLDER	RESOURCES CONTROLLED
(1) The state	Contracts, grants, legislation, regulation, tax (last three of these could be either 'negative' or 'positive')
(2) The public	Patronage (as customer), support (as community interest), labor
(3) Financial community	Investment
(4) The media	Few 'direct resources'; however, can substantially influence the decisions of stakeholders (2) & (3) (if not (1))

Table 2 – Organizational resources controlled by stakeholders (adapted from Hybels, 1995).

One could criticize Hybel's grouping for the fact that it seems to overemphasize external stakeholders by grouping important internal stakeholders like employees simply under "labor". In industries that consider employees as an extremely important resource that needs to be retained (law firms, medical institutions, consultancy firms etc.) the perceived legitimacy of the employer affecting employees might be more important than this figure would suggest.

2.2.2.2. Criticism

There remains deep skepticism among many researchers on whether legitimacy theory offers any real insight into the voluntary disclosures of corporations. Academics such as Tilling (2004) contend that legitimacy theory as a concept is often used fairly loosely. In his view, it is not a problem of the theory itself, and the observation could be equally applied to a range of theories in a range of disciplines. Failure to adequately specify the theory has also been identified by Suchman (1995), who observed that many researchers employ the term legitimacy, but few define it. Hybels (1995) further comments that:

> *"As the tradesmen of social sciences have groped to build elaborate theoretical structures with which to shelter their careers and disciplines, legitimation has been a blind man's hammer*".
>
> \- Hybels 1995.

The precondition of this thesis, that legitimacy theory serves to best explain the existence of CSR disclosures is not completely unproblematic either. O'Donovan (2000) focused explicitly on this subject, but criticized the (then) current state in the development of the theory:

> *"Despite the growing awareness and acceptance of legitimacy theory as an explanation for corporate environmental disclosures (...) at this stage of its development, the theory has been developed at a macro-level, rather than a micro-level. Research into legitimacy theory as an explanation for environmental disclosures has not, to date, been concerned with what specific types of environmental annual report disclosures may be made in response to present or potential legitimacy threats. Nor has the research investigated the extent to which different purposes of legitimacy (gain, maintain or repair) affect the choice of legitimation tactics and disclosures."*

– O’Donovan 2000, 44.

As corporate social responsibility is a field which changes quickly, it is likely that any established micro-level connections between legitimacy theory and CSR that O’Donovan is referring to above, would need to be constantly updated.

2.3. Concepts

Terminology in the field of sustainable development is becoming increasingly important because the number of terms continues to increase along with the rapid increase in awareness of the importance of sustainability (Glavic and Lukman, 2007). In some cases, there is a consensus among the academic community on the definition, while in other cases the community is still arguing over what should be the exact definition of a given CSR term.

2.3.1. Sustainability

One of the most widely used definitions for Sustainability is provided by the UN Commission on Environment and Development (commonly referred to as the “Brundtland Commission”), which defined the Sustainable development (SD) as follows:

> *“Sustainable development (SD) meets the needs of the present without compromising the ability of future generations to meet their own needs.”*
>
> - World Commission on Environment and Development, 1987.

According to Adams (2006), the widespread acceptance of the idea of sustainable development is in the looseness of how it is defined. It can be used to cover very divergent ideas. Environmentalists, governments, economic and political planners and business people use ‘sustainability’ or ‘sustainable development’ to express sometimes very diverse visions of how economy and environment should be managed. The concept of sustainable development is holistic, attractive, elastic but imprecise. The idea of sustainable development may bring people together but it does not necessarily help them to agree on goals. In implying everything is sustainable development arguably ends up meaning nothing (Adams, 2006, 3).

2.3.2. Sustainability accounting

It is perhaps this imprecise definition of sustainable development that has resulted in difficulties among scholars on interpreting what *Sustainability accounting*, in turn, should consist of (Glavic and Lukman, 2007). Sustainability accounting has become a generic term, which is sometimes used interchangeably with other related terms[9] (Schaltegger and Burritt, 2010). Lamberton (2005) points out that Sustainability accounting is a more evolved concept than environmental accounting for example, because it consists of more variables and takes into account all the three pillars of responsibility (i.e. economic, social and environmental aspects). However, a critical view to it's current development phase is provided by Frame and Cavanagh (2009, 195) in their metaphorical assessment about the present state of sustainability accounting:

> *"Accounting for sustainability is approaching its (metaphoric) teenage years – keen to assert independence, yet still reliant on the security of its background disciplines and not quite mature enough to make its own judgments."*
>
> - Frame and Cavanagh, 2009, 195.

In short, CSR is utilized to meet the challenges presented by sustainable development. The role of CSR however is a controversial matter which neither solves (nor to attempts to solve) all the issues concerning sustainable development. Although both CSR and accounting for SD hold elements in common (social and environmental impacts of corporate activity), they are spheres with their own identity (Bebbington, 2001). CSR is restricted to accounting for events, and moreover, sustainable development requires to rethink how society organizes and conducts itself (Bebbington, 2001, 144). Thus, CSR is focused on a closed entity whereas SD attempts to range over the whole society without targeting a specific organization. Therefore CSR has a more reduced scope – acting inside the organization – and does not involve value judgements, whereas SD involves value judgments concerning the world as it is and as it should be.

2.3.3. Corporate citizenship

Corporate citizenship describes a company's role or responsibilities towards society (Matten et al. 2003), and has the connotation that a company is a 'citizen' among other citizens in a society.

[9] Examples include Sustainability Management Accounting, Sustainability Financial Accounting, Environmental/Social Accounting/Reporting, Corporate Social Reporting, Non-financial reporting.

Like some of the other terms mentioned in this study, it is often used interchangeably with CSR by practitioners and in academia. Waddock's (2003) definition of corporate citizenship captures the variety of descriptions utilized by companies from a relationship standpoint:

> *"Corporate citizenship really means developing mutually beneficial, interactive and trusting relationships between the company and its many stakeholders — employees, customers, communities, suppliers, governments, investors and even non-governmental organizations (NGOs) and activists through the implementation of the company's strategies and operating practices."*
> – Waddock, 2003.

Crittenden et al. (2011) point out that even though the academic arena might still be struggling to come up with a unified definition of the term, companies themselves have been very receptive toward both the concept and terminology of corporate citizenship. Matten and Crane (2005) went as far as suggesting that corporate citizenship has *emerged as the prominent term with respect to the social role of business*. They distinguished between three views on corporate citizenship:

Limited view – corporate citizenship is used to denote corporate philanthropy in the local community, such as being a 'good citizen' in donating money to NGOs.

Equivalent view – corporate citizenship is used to refer to corporate social responsibility (in short, containing the three main aspects of CSR; economic, social and environmental responsibilities).

Extended view – corporate citizenship is seen in terms of its distinctly political connotations, such as corporate claims to citizenship entitlements, firms' participation in global governance, or corporate involvement in the administration of individuals' social, civil and political rights.

Corporate citizenship is more commonly used in the United States than in Europe or elsewhere. In Figure 2, Crittenden et al. (2011) have collected examples of citizenship commitments from US-based companies in 2009:

Company	Corporate Citizenship Commitment
American Electric Power www.aep.com	We are citizens of each community we serve and take an active part in its affairs. . . We prosper only as the community prospers; so we help it thrive in every way we can.
Boeing www.boeing.com	. . .refers to the work Boeing does in our diverse communities to improve our world.
Dow www.dow.com	. . .we believe in the power of the Human Element to change the world. We place a high value on listening to our communities and strive not just to be a good neighbor, but a global corporate citizen.
IBM www.ibm.com	Innovation — joining invention and insight to produce important, new value — is at the heart of what we are as a company. And, today, IBM is leading a revolution in corporate citizenship by contributing innovative solutions and strategies that will help transform and empower global communities.
McAfee www.mcafee.com	. . .we believe we have a fundamental responsibility to be engaged members of our communities. We consider our business' impact on the environment, participate in the civic and public policy process, and give to those in need.
McKesson www.mckesson.com	Our ICARE Shared Principles are brought to life every day through our efforts to improve the health of the healthcare system, support those in need, take steps to protect the environment, maintain a diverse workforce, and treat our employees fairly. Through these actions our employees demonstrate our deep commitment to each other, our customers, our shareholders, and our communities every day.
Microsoft Corp. www.microsoft.com	Microsoft is committed to serving the public good through innovative technologies and partnerships that contribute to economic growth and social opportunity, and by delivering on our business responsibilities of growth and value to customers, shareholders, and employees.
Nestle Waters NA www.nestle-watersns.com	. . .in order to create value for our shareholders and our company, we need to create value for our customers, employees, communities where we do business, and other stakeholders.

Figure 2 – Examples of Corporate citizenship commitments from US companies in 2009 (Crittenden et al. 2011).

The Anglo-American emphasis on "community" and philanthropic activities are visible in these commitments. To critical observer however, they might seem as too generalized declarations of responsible conduct or "window dressing".

2.3.4. The Global Reporting Initiative

Introduced by the United Nations Environment Program (UNEP) in 1997, The Global Reporting Initiative (GRI) is the most widely used framework for voluntary reporting of environmental and social performance by businesses worldwide (Moneva et. al 2006; Szejnwald-Brown et. al 2009). GRI's goal was to emphasize that an organization of any size, operating in any industry could start reporting along the same guidelines based on a common framework (Nieuwenhuys, 2006).

A GRI report consists of several indicators on organizations' economic, social and environmental performance, and the participation of a diverse collection of stakeholders is central to the further development of the framework. GRI offers specific "sector supplements" for different industries to follow in their reporting, and the indicators themselves are further separated to *core indicators* and *additional indicators* which supplement the core indicators. The current version of the guidelines is the G3-framework (introduced in 2006) and the development of the next version of the framework, dubbed "G4" is currently in development.

It should be emphasized that *GRI does not define what responsible behavior means, but rather how companies should report about this behavior*. It was created to harmonize the numerous reporting systems used at the time (Szejnwald-Brown et. al 2009). In the field of financial accounting, there has been an ongoing movement towards integrating different financial reporting frameworks (like the US GAAP and IAS/IFRS reporting standards), even though GRI focuses on rather different aspects in reporting (Neef, 2007).

The working group of GRI's G4 guidelines[10] has indicated that compensation transparency is one of the key development areas on the upcoming guidelines. This means that companies would be required to disclose more information, for example, on the difference between CEO compensation and median compensation of all employees. Therefore, companies already reporting along the GRI guidelines or planning on doing so in the future would need to take this into consideration by increasing the overall transparency level of their compensation systems.

This thesis focuses on the *Labor Practices and Decent Work* (LA 1-15) –indicators of the GRI, presented in Appendix A. These indicators constitute only a part of the entire GRI-report, and they provide information on the Social Responsibility performance of a company.

[10] https://www.globalreporting.org/reporting/latest-guidelines/g4-developments/Pages/default.aspx

3. The Compensation system

Compensation systems, also known as *reward systems*, *remuneration*[11] *systems* and *pay systems* "refer to the scheme by which rewards are distributed to an employee" (Barr, 1998). These terms are often used interchangeably, and this study will use the term *compensation system* henceforth to refer to "all forms of monetary and non-monetary benefits employees receive as part of an employment contract" (Hole and Misal, 2012, 110).

The focus of this study is largely on employee compensation, as opposed to the more commonly researched topic of executive compensation within management accounting. Several taxonomies are available on how different elements of the compensation system could be classified (see for example *Chen et al. 1999; Medcof and Rumpel, 2007*). For the sake of clarity, this study groups the contents of compensation systems by separating where compensation is *tied* to (i.e. fixed or variable pay) as well as the *nature* of compensation method itself (i.e. monetary or non-monetary). A framework called the *Total Rewards* will also be presented as an example of a framework that attempts to include all these elements into a single framework.

Fixed pay is the principal compensation, such as *wages* and *salaries*. Wages are payments that are directly calculated based on the number of working hours, while salary is consistent payments over time that are not based on working time (Prasetya and Kato, 2011, 383).

Variable pay is any form of direct pay that is not included in base pay and one that varies according to individual or group performance (Prasetya and Kato, 2011). Variable compensation includes incentives, profit-sharing, gainsharing, recognition programs and employee stock ownership plans (Agarwal and Singh, 1998, 229). These plans can be constructed to foster individual-, group-, or organizational level performance and further differentiated by the timeframe (short- or long-term) associated with measuring and rewarding the performance (Greene, 2013, 311).

Monetary (financial) compensation, also called *direct financial compensation*, consists of fixed salary, wages, payments in the form of incentives, including bonuses, profit sharing, overtime pay and sales commissions.

[11] 'The act of *remuneration,* derived from "remuneration" in Latin, meaning 'payment' or 'reward'.

Non-monetary (non-financial) compensation, sometimes also called *intangible or indirect financial compensation,* consists of softer elements surrounding the employment contract, including employee satisfaction, responsibility, opportunities for recognition, working environment, work sharing, working hours and working environment (Prasetya and Kato, 2011).

3.1. Evolution

Traditional reward systems were based on concepts and principles derived from classical scientific management (Agarwal and Singh, 1998, 226). These traditional systems were largely constructed around fixed salary, determined by (1) the specific job, (2) the need to maintain pay equity and (3) competitive salary levels with regards to market rates (Flannery et al. 1996). While traditional pay systems may have been, and are perhaps still appropriate for bureaucratic-type hierarchical organizations, they are becoming increasingly inadequate in motivating employees in today's organizational setting. In essence, these traditional reward programs and practices have been eclipsed by their new organizational structures, strategies and work processes (Agarwal and Singh, 1998, 227). The changing business environment of companies has resulted in the imperative for companies to expand and improve upon existing compensation and reward systems (Agarwal and Singh, 1998) in order to include other important compensation methods in addition to fixed salary. This study identifies this development as being marked by:

1. **Increase in the use of variable pay -schemes in the form of various incentives** (i.e. the *pay-for-performance* –approach). This view is supported by Greene (2013, 308) who argued that a fixed cost workforce in a variable revenue world will negatively affect the prospects for organizational success. Hence, modern companies have increasingly included elements of variable pay in their compensation systems. However, even though the majority of organizations use variable compensation programs for executives and direct sales personnel, they are used far less often for the rest of the workforce (Greene, 2013, 308).

2. **Expanding the use of non-monetary benefits as part of total compensation** and attempts by researchers and practitioners to identify these aspects as part of total compensation[12]. Custers (2013) offers an explanation for this development:

> "*As wages have stagnated after the last economic recession[13], the focus by companies is in providing greater total compensation through these non-monetary benefits, such as flexible work schedules, training and additional vacation days*"
> - Custers, 2013, 332

3.2. The Total Rewards framework

Total Rewards framework is defined by the Total Rewards Association[14] as all of the tools available to the employer that may be used to attract, motivate and retain employees, including everything the employee perceives to be of value resulting from the employment relationship[15]. The concept calls for five elements in the work experience to be combined to form an organization's rewards strategy integrated with the broader human resource strategy (Giancola, 2009, 29-30). The five elements are:

- Compensation
- Benefits
- Work-life balance
- Performance and recognition
- Development and career opportunities

[12] See Total Rewards and Chapter 8 *Discussion.*
[13] Custers is referring here to the financial crisis of 2008.
[14] According to Giancola (2009, 30), the American Compensation Association changed its name and identity to WorldatWork, began championing the concept, and adopted the tagline *The Total Rewards Association*. This association "documents and reacts to its members' latest thinking and practices on a total rewards and offer related training courses".
[15] http://www.worldatwork.org/waw/aboutus/html/aboutus-whatis.html

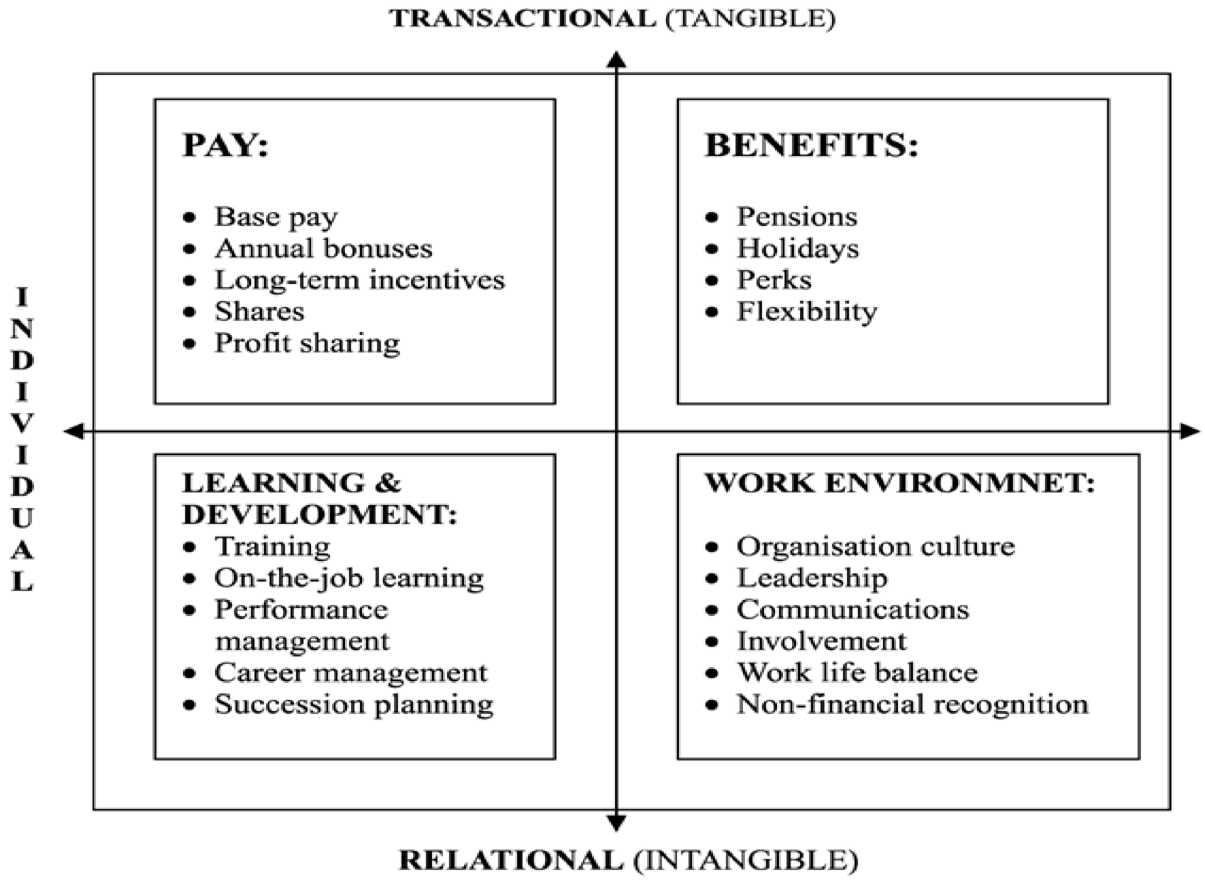

Figure 3 – A model of Total Rewards (Brown, 2000, 32).

Proponents of the concept claim that frequently existing reward practices are too narrowly focused on compensation and benefit programs to effectively deal with new business conditions and to engage a diverse workforce (Giancola, 2009, 30). The framework is therefore marketed as providing a more comprehensive overview of the total compensation offered by the organization, and in improving communication towards employees about the compensation system. However, the framework could be criticized as being a "product" in itself that attempts to solve managerial problems without little to no regard to context. For example, Giancola (2009) criticized the Total Rewards concept, arguing that the concept has many characteristics that constitute a "management fad":

> *"Fad concepts are easy to understand, communicate, and are framed with labels, buzzwords, lists and acronyms (...) The Total Rewards model was simplified in 2006 by reducing the number of rewards to consider (...) Fads often tell managers what to do and provide action steps to solve problems. In practice, the adoption of the concept has been*

reportedly problematic, with disagreement over its usefulness, vague total reward strategies and ineffective communications (…) Fads claim to be applicable to almost all organizations and industries"

- Giancola, 2009, 30-31.

Giancola further posits that the framework is "in tune with the times" and attempts have been made to legitimatize the concept by management "gurus" (Giancola, 2009) likely in an attempt to boost sales of books and consultancy services about the concept.

3.3. Compensation/CSR interface

Several objectives and indicators for which HR-function is responsible for (such as employee retention, turnover, motivation, satisfaction, commitment and hiring), are used in CSR reporting such as the Global Reporting Initiative. These aforementioned indicators have all been identified in prior research (see *Custers, 2013, 333*) as being prime targets to be influenced with non-monetary compensation methods. Therefore, objectives that could be broadly identified and declared by the company as *CSR objectives,* such as *taking care of employees*, can be in turn affected by individual measures such as non-financial compensation.

As a result, HR and CSR objectives of a company could be considered to being largely in congruence with one another. Even if the company would not have explicitly identified such interconnections, they are in effect rather directly influencing CSR performance through the compensation system. Furthermore, the social responsibility indicators used in the GRI report are derived from information obtained from HR systems.

4. The Sustainability Balanced Scorecard

4.1. Background

Designed originally as a performance measurement system by Kaplan and Norton in 1992, *The Balanced Scorecard* (BSC) is a strategic management system that links performance measurement system to strategy using a multidimensional set of financial and nonfinancial performance metrics (Epstein & Wisner, 2001, 2). The system consists of *lagging* indicators (information about past performance) as well as *leading* indicators (drivers for discrete future outcomes). A key assumption of the BSC systems' approach is that non-financial measures can be leading indicators of future financial results (Ittner et. al 1997a, 33). These lagging and leading indicators are represented across four strategic 'perspectives' in the scorecard (Kaplan and Norton, 1996):

- Financial perspective
- Customer perspective
- Internal process perspective
- Learning and growth perspective

In developing the Balanced Scorecard, Kaplan and Norton demonstrated that the firm-specific formulation of a BSC may involve a *renaming or adding of an perspective* (Kaplan and Norton 1996). The Sustainability Balanced Scorecard (SBSC) is an extension of the traditional BSC that includes CSR metrics and indicators, allowing the mobilization of the organization's sustainability strategy through the BSC.

Schaltegger and Burrit (2000) have argued that most current approaches to environmental and social management have been insufficient. Prior research has advocated (see *Epstein and Wisner, 2001; Figge et al. 2002a; Figge et al. 2002b; Dias-Sardinha and Reijnders, 2005*) the SBSC concept as an effective tool to communicate the CSR strategy to employees and as a prime candidate to embedd responsibility objectives into wider strategic control systems (Figge et al. 2002a, 282-283).

Aside from performance measurement and strategic management, the system is also considered as being an effective tool in *communicating* the company's strategy throughout the organization (Kaplan and Norton 2001, 102). The benefit of the model lies in establishing a framework in which the culture and direction of an organization can be translated into strategies that are actionable, specific and measurable (Rohm, 2004, 7).

4.2. Formulation

The choice of where on the balanced scorecard to include social and environmental indicators is dependent upon the challenges facing the organization (Epstein and Wisner, 2001, 7). According to Butler et al. (2011, 4) there are three options available for the incorporation of sustainability into the BSC:

1. Adding a fifth perspective to the BSC
2. Developing a separate sustainability balanced scorecard (SBSC), and
3. Integrating the (CSR) measures throughout the four perspectives

Adding a fifth perspective is suitable for companies who have high-profile or high-impact social and environmental issues, because it highlights the importance of these issues to employees (Epstein and Wisner, 2001, 7-8). A balanced scorecard dealing only with environmental and social issues is useful to highlight priorities and to ensure that important areas are not neglected, while the third choice of integrating sustainability measures throughout the four original perspectives of the balanced scorecard can be considered as a thematic approach (Dias-Sardinha and Reijnders, 2005, 77).

A recurring feature in the research papers dealing with SBSC seems to be that the formulation of the scorecard and the selection of indicators can be very flexible, much like in the traditional balanced scorecard. Furthermore there is no clear consensus on which of the three options available to formulate a SBSC seems to be the most effective. Researchers seem to agree however, on the fact that SBSC needs to represent strategic core aspects of the company for the successful execution of the chosen CSR strategy (see *Figge et al. 2002a; Epstein and Wisner,* *2001*). As a result, it might be safe to assume that the formulation, indicators and goals selected for the SBSC is going to vary considerably among companies. Furthermore, while conflicts between the three performance categories of sustainability (economic, environmental, social) may occur, from a pragmatic business viewpoint corporate sustainability management should first identify and realize opportunities for simultaneous improvements in all three of these dimensions, in order to achieve strong corporate contributions to sustainability (Figge et al. 2002a, 272).

Prior research has identified several indicators that provide the link between social responsibility performance and company performance. For example, Figge et al. (2002a) provide an example of lagging indicators in their case research in which indicators such as "employee retention", "employee productivity" and "employee satisfaction" are linked under the learning and growth perspective of the SBSC. More indicators can be derived from their further studies (Figge et al. 2002b) where they grouped social exposure of a case company's internal stakeholders with indicators such as "job security", "working conditions" and "payment".

Another approach in identifying company-specific KPI's for increasing both CSR and financial performance was put forth by Weber (2008). He argued that companies should determine quantitative indicators to measure KPI's depending on their specific CSR strategies and activities, giving examples of quantitative indicators shown in Figure 4:

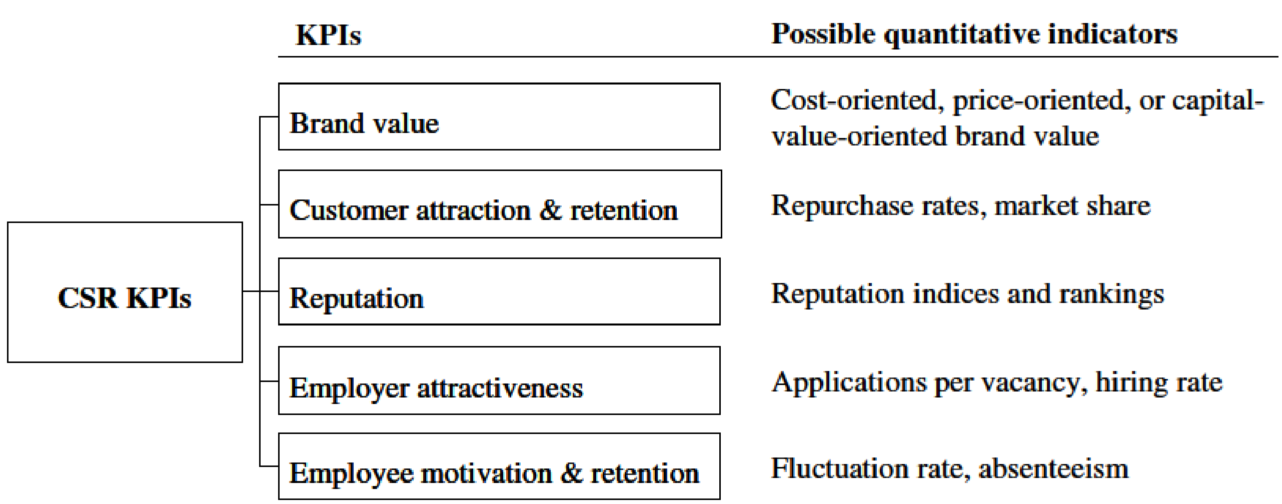

Figure 4 – CSR Key Performance Indicators (Weber, 2008, 253).

A more detailed example and classification of CSR indicators that could be readily included into the sustainability balanced scorecard was provided by Epstein and Wisner (2001) illustrated in Table 3.

FINANCIAL PERSPECTIVE	CUSTOMER PERSPECTIVE
- philanthropic $ contributed	- customer perceptions
- $ workers compensation costs	- # of cause-related events supported (e.g. AIDS)
- # employee lawsuits	- $ community support (parks, safety, recreation, etc.)
- $ employee benefits	- # community meetings
- legal actions / costs	- customer satisfaction
- training budgets	- social report requests
- reduction in hiring costs	- # product recalls
- revenue from socially positioned products	- customer group demographics
- increased sales from improved reputation	
INTERNAL PROCESS PERSPECTIVE	**LEARNING AND GROWTH PERSPECTIVE**
- # employee accidents	- workforce diversity (age, gender, race)
- # lost workdays	- management diversity
- # days work stoppages	- # internal promotions
- hours overtime work	- employee volunteer hours
- average work week hours	- average length of employment
- $ warranty claims	- # involuntary discharges
- $ minority business purchases	- employee education $
- # plant tours/visitors	- # family leave days
- # non-employee accidents	- $ employee benefits
- certifications	- salary gaps between genders/races
- # suppliers certified	- employee satisfaction
- # supplier violations	- $ "quality of life" programs
- environmental quality of facilities	- % of employees owning company stock
- observance of international labor standards	- # applicants/job openings
- # safety improvement projects	- # employees with disabilities
	- # employee grievances
	- workforce equity

Table 3 – Balanced Scorecard measures for social issues (adapted from Epstein and Wisner, 2001)

Perhaps unique to the formulation and selection process of these KPI's is that they are not necessarily selected through a process involving only internal actors and decision makers (i.e. managers). In practice, a wide range of stakeholders, external groups as well as staff, are involved in their development. Some companies are relying on other companies' sustainability reports or GRI guidelines as being influential in determining their KPI's (Adams and Frost, 2008, 294). While initial target setting and linking of these indicators to corporate values and objectives might be relatively easy, the ability to influence improvements on these KPI's is likely to be more problematic.

4.3. Compensation and the Balanced Scorecard

The Balanced Scorecard has been advocated in the past (see *Snapka and Copikova 2011; Ittner et al. 1997a*) as the most transparent system in employees remuneration and suitable for supporting the compensation system. A survey conducted in 1996 of scorecard implementations found that 70 percent of the respondents use the balanced scorecard or some variant for compensation purposes, and 17 percent are actively considering its use for this purpose (Towers Perrin, 1996 cited *Ittner et al. 1997a, 5*). Further research (Ittner et al. 1997b) has found that 36 percent of U.S. firms use both financial and non-financial measures in their CEO's annual bonus contracts, with the weights placed on these measures as a function of the firms' strategic objectives.

For employees, personal scorecards can be an useful tool in the incentive and reward program by linking rewards to the attainment of an agreed upon performance target. It focuses employee attention on the activities and measures most critical to achieving organisational strategy and provides extrinsic motivation by rewarding employees when they succeed in reaching targets (Murby and Gould, 2005, 10). Linking incentives and reward systems to performance is considered as one of the vital elements in aligning employees with strategy by Kaplan and Norton (1996).

Although the balanced scorecard literature acknowledges that linkages to reward systems are ultimately required for the scorecard to create cultural change (like the improved social responsibility performance of a company), the specific form of these linkages remains an open issue (Ittner et al. 1997a). Tying incentive compensation to scorecard measures is attractive, but it has its risks. Are the right measures selected on the scorecard? Are the data for the selected measures reliable? Could there be unintended or unexpected consequences in how the targets for the measures are achieved? (Kaplan and Norton, 1996, 218-219).

Clearly, incentive compensation motivates better performance. Kaplan and Norton however notion that in order to successfully tie the Balanced Scorecard to compensation, the organization using it should first gain more experience from its use when it is first being implemented (Kaplan and Norton, 1996, 283). The organization should use the BSC for a minimum of one year, with clear links between the BSC and strategy established before incentives should be tied to the scorecard KPI's. Only then can the organization be confident that all individuals understand the information that is represented in the scorecard, further understand how to use this information in decision making and process changes, and the data is less likely to be manipulated when all are familiar with the data and the data has historical record (Garrison, Noreen, & Brewer, 2008).

The next important question in this integration is that the use of too many performance measures may cause managers to spread their efforts over too many objectives, distracting users from pursuing a focused strategy (Epstein and Wisner, 2001, 5) and thus reducing the effectiveness of the incentive plan (Ittner et al. 1997a, 6). Also, there is the question of whether bonuses in multi-criteria compensation systems should be computed using explicit, objective formulae that prescribe the weights to be attached to each measure, or should they be based on subjective performance measures or evaluations where the weight attached to each measure is determined by the person responsible for the evaluation, because both approaches have their own benefits and weaknesses (Ittner et al. 1997a, 6). One case study (Ittner et al. 1997a) concluded that subjective measures, while designed to reduce the complexity, actually increased the complexity of the bonus determination process, and that determining defining precisely what "balance" is and the mechanisms through which "balance" promotes performance, remains difficult (Ittner et al. 1997a, 35-38).

CSR-oriented KPI's that were discussed in the previous section, such as employee turnover, employee skills or employee satisfaction are all common measures all organizations seek to improve, and therefore tie the compensation systems directly to performance improvements in these areas (Snapka and Copikova, 2011, 42-43). The mere involvement of employees in the development of BSC increases existing motivation, and by exceeding these set target levels can translate into performance rewards (Snapka and Copikova, 2011, 43).

4.4. Challenges

The research focus of this thesis is on the social responsibility indicators of the SBSC. The formulation of these indicators is challenging, mainly due to the great variety and diversity of social issues and for the lack of a common foundation in natural sciences as found for environmental aspects. Indeed it is very difficult to achieve a comprehensive classification of social issues (Clarkson, 1995, 93-94).

Prior case studies have identified that the development of social indicators is still lagging behind environmental indicators in practice (Adams and Frost, 2008. 294, 300), and that social aims seem less ambitious than environmental ones and more developed at a site level (Dias-Sardinha and Reijnders, 2005, 88). One of the challenges is likely in determining the weights and appropriate “balance” among the indicators (Ittner at al. 1997a), which depend heavily on the mission, culture and the goals of a company (Epstein and Wisner, 2001, 6-7), and there has also been difficulties (see *Adams and Frost, 2008*) in ensuring that these CSR KPI targets are aligned with corporate values and objectives.

5. Literature summary

The preceding literature review provided the theoretical “goggles” through which the empirical results are to be examined and interpreted. The concepts covered in the literature review narrows the field of view in order to look for specific phenomena and occurrences from the results. This allows the interpretation of the empirical results from a certain entry angle.

Chapters 2 and 3 provide an adequate amount of background information about the developments of both CSR and compensation systems to accommodate the empirical findings. The **Sustainability Balanced Scorecard** framework as presented in Chapter 4 then ***combines* these two – CSR and compensation –** and proposes examples and knowledge from prior research as to the specifics of such an integration. Total Rewards framework and SBSC were also selected because they were expected to be relatively familiar concepts for managers.

Throughout the theory Chapters 2-4, the objective was to discuss tools that are widely understood, so that they would be easier for management to recognize, and therefore allow more explicit discussions to take place. They were also considered to best support the empirical part of the study, and allow for a more context-specific evaluation and discussion of the results.

The starting point in understanding the imperative for corporate social responsibility was chosen to be **institutional and legitimacy theories** which **provide an explanation** as to why companies undertake **corporate social responsibility** measures. The study *could* have employed other theories such as *stakeholder* or *agency* theories to explain the CSR phenomena. However, institutional and legitimacy theories were deemed more appropriate, as they address to much deeper, almost philosophical questions and as such, are not as easily outdated.

Given the nature of the subject matter and the research method used, a critical disposition towards the results is required. When discussing issues pertaining to CSR, the researcher has to constantly filter out irrelevant information in order to, for example, identify the underlying motives for legitimation. The *interview situation itself* is a platform where a manager tries to frame a positive picture of his or hers company. Understanding of institutional and legitimacy theories will hopefully accommodate a certain sensitivity to read between the lines in order to make certain rationales and processes surrounding CSR more visible.

6. Research methodology and case companies

6.1. Research methodology

The research methodology of this thesis could best be described as an interpretive field study of eight site visits or mini-cases, which attempts to explain the occurrence of a specific phenomenon within an organizational contexts, in essence seeking to establish broader patterns and insights from the data, rather than asserting generalizable and positivistic truths about the world. Ahrens and Dent (1998) believed that rich field studies of accounting in action capture the ambiguities, tensions and contradictions in a contextual setting (Ahrens and Dent, 1998). Vaivio (2008, 74) specified that qualitative research design in management accounting face the dilemma of depth versus breadth. In essence, this study attempts to bring forth a certain breadth by drawing data from *several* organizations on the topic of CSR and compensation system integration. Selecting more than one company to study was deemed necessary as it was difficult to judge whether or not a single entity would have provided enough data for a meaningful analysis to take place. On the other hand, the managers who participated in the interviewees HR managers with different titles (bar for one CEO), which provides deeper insights a single point of view, but alas has the main drawback of containing only the opinions of a group of people representing a specific discipline.

In addition to Vaivio (2008), Ahrens and Dent (1998) also contrasted two methodological positions that focus on issues of depth versus breadth, the approach to theorizing through a holistic story, and the extent to which theoretical constructs emerge in the field through patterns. These field studies can be viewed as a sort of cross-sectional case studies, ones in which the researcher measures independent, dependent, and possibly confounding variables in as unobtrusive way as possible across a number of organizations (Kaplan, 1986). Indeed the main limitation of this approach is that any associations can help us to discover certain uniformities in the phenomena, but the findings may be confounded with the circumstances under which they were obtained (Kaplan, 1986, 437).

Case studies in general have two important strengths however. Firstly, case studies are most suitable in areas where theory is not well developed (Ryan et al. 2002, 149). Secondly, they allow the researcher to alter the focus of research as new information becomes available (Eisenhardt, 1989). Because corporate social responsibility lacks many of the qualities that constitute a coherent and well-defined discipline, these flexibilities provided by the case study method were considered useful.

This study is exploring the use of management accounting technologies in a very specific context, one in which they are harnessed to attend to the needs arising from the organization's institutional environment. Because of the sensitive nature of the subject matter, it is easy to indulge oneself into making normative value-judgments on how companies should operate. However, the only *a priori* assumption that is being made is that these technologies are utilized – to a certain extent – in order to achieve social legitimacy for economic activity. The research 'bearing' that is therefore called for, is *a case study informed by social theory,* one in which accounting practices have to be located in their economic, social and organizational contexts (Scapens, 1990, 268).

6.2. Execution of the study

This study was conducted as part of a larger research project at a Finnish financial services company that aims at improving non-financial and qualitative aspects of compensation systems. A preliminary report and presentation of the findings were subsequently presented for the subscriber of the study. Despite these arrangements, complete freedom in determining the focus area and the most interesting research angles was guaranteed throughout the study.

Research data was collected from semi-structured interviews conducted with seven HR-executives and one CEO in eight Finnish companies. In addition, publicly available material on compensation as well as CSR-reports were studied in order to evaluate whether or not the answers given in the interviews were in line with these additional sources of information, and in order to gain better insight into the case companies' CSR agenda in general before the interviews. The interviewees were given a generalized list of possible topics to be covered in the interviews for preparation before the interviews.

6.3. Case companies

The following eight companies participated in the study:

Company	Industry	Employees	Revenue (M€)	GRI
Alko	Alcoholic beverages	2,753	1,172	Yes
Alma Media	Media	1,816	316	Yes
JYSK Nordic	Furniture retail	6,852	1,253	No
Jyväskylän Energia	Energy	378	185	No
Neste Oil	Oil & Biofuels	4,825	15,420	Yes
Normet	Mining equipment	>900	170	No
PRT Forest	Forestry products	833	147	No
Saarioinen	Food products	2,028	335	No

Table 4 - Case companies (Fiscal Year 2011 figures used)

Instead of focusing on a specific industry or company, the study provides a small cross-section of Finnish companies. The social responsibility impact of a company is largely determined by the number of employees it has, as these are the individual's whose lives and well-being the company can rather directly influence. On the other hand, the social responsibility impact can be largely dependent on the specific industry; for example, the sale of alcohol in the case of Alko naturally increases this impact, because the company's decisions can have a large impact on the lives of their customers and the society. Evidently, the challenges faced by individual companies regarding social responsibility are rather different, likely influencing the legitimation strategies employed and the discourse in which management engages outside constituencies, such as a researcher.

Three of the largest companies in terms of revenue (Alko, Neste Oil, Jysk Nordic) have likely adopted more elaborate structures, procedures and reporting practices. Larger companies have more *accountability*. This is reflected on the amount of corporate responsibility information disclosed (such as in the GRI reports) and put visible on the company's web pages. On the other hand, the five smaller companies in terms of revenue (Alma Media, Jyväskylän Energia, Normet, PRT Forest and Saarioinen) could be considered to be approaching sizes in which CSR issues need to be addressed through gradually increasing formal structures, procedures and reporting[16]. Evidence of this can be found on the companies' respective web pages. All five companies have included a section about social and environmental impacts, but notably less compared to the three largest companies (Alko, Jysk Nordic, Neste Oil).

Three out of eight case companies were reporting along the GRI-guidelines. These companies were given more attention regarding the extent of their information disclosure, and in comparing the CSR-indicators measured in the company against the indicators reported in the corresponding GRI-reports.

[16] For example, at the time of the study, Alma Media had just began reporting along the GRI guidelines.

7. Empirical results

7.1. Defining CSR in the case companies

Literature review on CSR has given us the precondition that CSR is a very broad concept that can be defined and understood in a number of different ways. Conversely, when asked about how different companies define CSR the answers varied greatly among interviewees. It was noteworthy however that every manager that was interviewed was very willing to talk about these issues when inquiring for a chance to make an interview in the first place, and in the actual interview were able to give a surprisingly comprehensive answers about the importance of CSR in HR work. It therefore seems that managers in the case companies are aware of the importance of communicating the CSR agenda, and are also willing to stand up to the task.

When asked specifically how CSR as a concept is defined in the company, managers usually began by listing all the CSR –related standards and projects the company had adopted, as well as going through corporate values, mission statements and codes of conduct. Adherences to global standards or declarations (such as the UN Global Compact or ILO declarations) were often referenced as examples of adherence and commitment to CSR. The answers were reflective of the managers' tendencies to make references towards *external sources of legitimacy*. As discussed in the literature review, organizations are often inclined to become associated with institutions or 'symbols', which are perceived to have a strong base for legitimacy. The initial stances that were taken can therefore be interpreted as defensive and conservative rather than original. In some cases, interviewees referenced abiding the local laws and regulatory requirements as part of the company's adherence to CSR even though CSR is commonly defined to only include activities that are voluntary.

CSR was widely implemented as a core operational activity on a strategic level, and often also identified as a 'strategic activity'. This was perhaps to be expected, as all of the companies are large enough to have a significant local or global environmental and social impact. Imperative for a more strategic approach to CSR was reportedly precipitated by the increased attention that CSR issues had been receiving. Companies that were experiencing a rapid growth phase in their development were particularly concerned about how CSR should be defined both on a strategic as well as operational level in the future:

> *"Company values[17] are included in strategy, and we extract (from these) what they mean for each subsidiary company (...) in the last two years (during reconstruction of ownership) we experienced a value crisis and this is why I am now so focused on this issue. The implementation of these values to subsidiary companies is currently underway."*
>
> \- Company G

Several managers discussed challenges relating to CSR, openly admitting that it has not been particularly well understood or defined in their company. Four out of eight companies mentioned that although CSR is defined on a corporate level, it is not particularly well understood internally, especially in terms of how it relates to day-to-day operational activities:

> *"…even though CSR has been identified in strategy formulation as a value-adding activity and a driver for competitive advantage, we have been thinking about what it means in practice and how it works (in terms of achieving these goals), and what aspects would need to change from what it is now."*
>
> \- Company H

> *"Yes, I wondered about how it (CSR) is visible in our company… how the term is interpreted internally made me wonder. We are conducting annual CSR-reporting. But otherwise, as an internal concept, the term is not very clear."*
>
> \- Company D

As pointed out earlier, larger companies have more elaborate structures, and several of the case companies are approaching sizes where a more structured approach towards CSR seems imperative. Company B was a prime example, as it had just recently appointed a dedicated CSR manager. What was reportedly missing in many of the companies, including Company B, was a clear connection between broad strategic visions and actual operational activities regarding CSR:

[17] Corporate responsibility is one of these values in Company G.

"The responsibility agenda has been taken to HR, as we have just now recruited a person that is responsible for CSR (...) We've reviewed this issue (social responsibility) in the executive group, and are in the process of constructing it and planning on what measures we are going to use to address it."

- Company B

This development was in many cases at its initial steps, perhaps reflective of the fact that managers were largely unable to elaborate on the specifics of these plans. This need for a more comprehensive understanding of the interconnections between CSR strategy and operations was more common in companies which had grown large enough so that a more formal approach to the management and reporting of CSR was deemed necessary.

An example of a more coherent and established definition of CSR was provided by Company F, who defined CSR by dividing it into two distinct categories:

"I think CSR can be divided into two parts: first one is concerned with business (being conducted), and the second one is concerned with who this business is conducted with. The possibility to work in co-operation with actors that are trying to make our business more sustainable is a good thing (…) it also means that we need to be active on a local level (…) by providing employment opportunities (to the local community). I think therefore that people are important to us, and being important to people in return is considered to being socially responsible."

- Company F

The above statement suggests that Company F had established CSR as an internal concept. This was in contrast to many other instances where CSR, even though defined at a corporate level, was not well understood internally. As a result, these managers had difficulties describing how it pertains to operational activities.

It should be noted that in companies which were large enough to have a separate CSR department, CSR was seen perhaps as a more salient part of management as opposed to companies without a CSR department. For example, the HR manager at Company E mentioned that CSR is often viewed as an activity that people who work inside the CSR department are mainly concerned with:

“ (…) there are a number of elements (in HR), for which you think ‘should this be under the headline of CSR’ (...) or are they just (a part of) good personnel policy, personnel processes (…) it kind of makes me laugh when the annual report team charges at me every year, asking what to put into the sustainability report, we basically just tell them what we have been doing that year. After all, everything should aim at us being profitable and that people like to work for us”

- Company E

It can be concluded that most case companies had problems establishing CSR as an internal concept. In cases where CSR was identified as a value-adding activity on a corporate level, comprehensive plans on how to achieve this objective were often missing.

7.2. Overview of compensation systems

The purpose of this section is to provide a brief description of the compensation system in each company, and briefly explain how the organizational and business setting in each case has affected the development of these systems.

Company A

The compensation system in Company A consists of a base salary (including individual premiums based on e.g. experience) and the incentive system (amounting to 6-12% and 32% of base salary for employees and managers, respectively). These incentive levels could be considered as rather conservative. The system is supplemented by non-monetary and intangible compensation methods, including food and culture coupons and holiday cottages.

Company A is a largely state-owned company serving a special function in a society, that sets certain boundaries for its business activities. First of all, the primary business objective of this entity is not to maximize profits. Profitability is seen mainly from “the other side of the coin”, i.e. controlling costs to secure the survival of the organization. Secondly, strategic objectives which could be ‘traditionally’ considered as marginal such as corporate social responsibility, have a top priority in Company A. Thirdly, the state owner imposes certain boundaries to the development of compensation system. In practice, it seems to explain why the company is taking a rather conservative posture in setting compensation levels, especially with regards to the incentive system. Company A is to a large extent centrally managed, with little freedom for individual stores to influence issues related to compensation. As a result, the organization is rather bureaucratic and unable to change quickly.

Company B

The compensation system at Company B consists of a base salary[18], bonus system, benefits and "on the spot" special rewards. The board approves principles for annual bonuses, which are based roughly 60% on corporate-level targets and 40% on departmental, unit, or individual targets. Non-monetary compensation includes training, job rotation, health care, mobile phones, vacations, working conditions, discounts on company products and exercise coupons. These non-monetary elements were described as essential parts of total compensation in the company's line of business. Management is seems to be interested in specifically promoting these aspects of compensation through communication to existing or potential employees. However, even though the management's view of the compensation system is rather broad[19], it does not necessarily mean that employees or outside constituencies perceive the system as such. It is nonetheless an important starting point that management had identified these elements as part of the compensation system, as many of these qualitative aspects of work are connected to corporate social responsibility issues. As a result, the challenge in Company B – as it is in several other case companies in this study – seems to be in communicating these aspects of the system more effectively.

Company B differs from the other case companies in the study the employees' line of work is rather different and requires relatively special skills. Their line of work requires creativity and freedom, and is therefore best supported by a flat organizational structure. According to the HR manager, their employees are somewhat less interested in monetary compensation or getting promoted to a managerial position. It is likely attributable to these qualities that the company has

[18] Supplemented with individual premiums based on skills, experience and motivation.
[19] And therefore largely in line with contemporary theoretical frameworks of compensation (see Chapter 3).

focused on building a multidimensional compensation system that emphasizes monetary and intangible aspects of compensation.

Company C

Compensation system in Company C consists of a base salary and annual bonuses. The bonuses amount to 1.5 or 2-4 times the base salary for employees and managers respectively. Company C could be described as relatively labor-intensive company, where the employees are working in the customer interface and hence can rather directly affect sales. As a result, the incentive system seems to have been constructed to emphasizes profit and sales orientation, as the relative amount of bonuses attainable through incentives is higher than in Companies A and B.

Another feature of the compensation system – which is likely traceable to this labor-intensiveness – is the extremely comprehensive focus on employee health and safety. Even though employee health and safety questions were naturally discussed in all the interviews, Company C promoted and provided the most convincing evidence of efforts to engage in dialogue with employees and health authorities regarding these issues. For example, the Company was clearly going “out of its way” to prevent early retirement of employees, and furthermore viewed these efforts to contribute to the profitability of the company in the process.

Company D

Company D’s operations can be characterized as being capital-intensive and stable. Given the industry, profitability of the company is largely determined by factors outside of individual employees’ direct control (such as commodity prices and regulation), which sets its own difficulties in the further development of the compensation system.

The compensation system in Company D is built around base salary and annual bonuses. These are further supplemented by benefits such as food/culture coupons, mobile phones and support for employee recreational clubs. Analogously with several other case companies, non-monetary compensation is not perceived as being part of the compensation system by most employees. The amount of money paid as through the bonus system is rather conservative (equal to base salary of one month). Moreover, the KPI’s used for determining this bonus are process-oriented, corporate level KPI’s (such as operating profit), which the employees feel little to no connection with in their daily activities. Company D’s present challenges seem to lie on one hand in making clearer links visible between compensation and strategy as well as increasing the amount of monetary incentives in order to make the compensation system more effective.

Company E

Company E’s compensation system could be described as being fragmented, which can be explained by the Company’s rapid growth in the past, which has resulted in the creation of a number of different ‘blocks’ inside the company that have different compensation systems in use. In fact, the system seems so fragmented across departments that it would not be a stretch to speak about distinct compensation sub-cultures within a single entity. The system has been inflated, and the board has set new compensation policies in place. As a result, the compensation system is currently undergoing a complete overhaul.

The compensation system generally consists of a base salary, short-term incentive system and a long term, stock-based incentive plan for executives. “On the spot” rewards, employee benefits and non-monetary compensation supplement the system. Non-monetary compensation consists of skills management, health, motivation, work environment, community and leadership.

Aside from more “traditional” objectives of compensation such as “increasing profitability”, Company E currently aims at strengthening the “value based conduct of the organization” through the compensation system. “Responsibility” is identified as one of these core values in Company E. When asked to elaborate on this objective, the HR manager argued that practical examples include improving employee safety and gender equality in compensation. The latter objective, she claims, is an area where the organization has outperformed the industry. Interestingly, it was also the only time that gender equality in compensation was brought up by the interviewees.

Company F

Company F is a process-oriented global manufacturing company. The compensation system has different characteristics in different countries. In Finland, the company has three distinct personnel groups. Individual performance affects compensation in all of the personnel groups, and all employees are included in at least some kind of incentive system. The focus in Company F has been on increasing team-based targets and incentives. Employees are part of a profit sharing system in which the maximum annual bonus amounts to one month base salary. Incentives are paid *if and only if* the corporate EBITDA-level is over 60 percent of target level.

For “key individuals of the company”, there is another bonus model that is based both on group- and company level targets (80% and 20% respectively), in which the maximum bonus attainable amounts to 15% of base salary. Employment contract needs to be active at the time of the bonus payment (in April each year) for an individual to be eligible for payment.

There was a certain inconsistency in the answers given regarding what constitutes an effective compensation system with the HR manager at Company F. On one hand, the company was exclusively focusing on a “hard” financial indicator (EBITDA) for determining bonus payments. On the other hand, the interviewee was of the opinion that monetary rewards and bonuses are ineffective in improving employee motivation, which she considered essential for individual and organizational performance. It is possible that the blue-collar workforce (or anyone else, for that matter) might feel little to no connection between their everyday work activities and corporate EBITDA level. However, this feeling of connection between targets and work activities was generally considered important. Hence, the interview answers and the policies enforced in the company were not in congruence with one another.

Company G

Company G is a manufacturing company that owns several smaller subsidiary companies. There is an ongoing effort to harmonize different compensation policies throughout these companies, and the compensation system of Company G could best be described as being in a transitional phase. The system has been largely constructed around base salary, with the exception of project-based compensation in certain departments. This system is the only one in the eight case companies that does not include an incentive- or a bonus system, but negotiations are ongoing on whether or not it should be implemented. Additional monetary compensation currently consists of personnel funds for employees, as well as individual pensions and group pensions for the management team.

Company H

In Company H, most employees are eligible to receive a profit-based annual bonus that is tied to the profit of the whole company. In addition, middle managers and members of the management team have personal bonuses, which are often tied to responsibility areas or specific projects. In sales departments these targets can be tied to sales volumes or respective goals. The compensation system is further supplemented by various employee benefits, but like in several other case companies, employees themselves often do not consider them as part of the compensation system.

The interview revealed that Company H is perhaps the most in need of a completely new and more complete compensation system. The HR manager mentioned that he is specifically concentrating on this development, and that the new system will be constructed along the principles of the Total Rewards –concept. He views the concept as being particularly valuable in communicating the objectives of management more effectively to lower organizational levels.

Assessment

In line with contemporary models of compensation presented in Chapter 3, managers perceived compensation as a holistic concept, which includes various intangible and non-monetary elements. Overall, managers were of the view that the focus in compensation seems to be gradually moving away from base salary to non-monetary and qualitative aspects of total compensation, which is another observation that seems to be in line with current theory.

The interviews also revealed that employees, on the other hand, do not perceive non-monetary elements as part of total compensation. Some managers commented that employees tend to view the compensation system as consisting only of the incentive system. Seven out of eight companies had adopted at least some kind of incentive system to supplement base salary.

7.3. Measuring of social responsibility indicators

When studying the integration of social responsibility and compensation, the first step is to identify which of these indicators the case companies are actually measuring. To this end, their comparative importance is also an important factor. Of particular interest was also to determine wheter or not some of these indicators are included in the Balanced Scorecard, and what different methods the companies are using to collect information in order to measure them.

During the interviews, certain patterns started to emerge quickly in terms of which of these indicators management viewed as being the most critical from a social responsibility standpoint. Below is a list of the most common indicators that the companies were measuring, and which subsequently were discussed at length in the interviews:

- Employer image
- Employee retention
- Employee satisfaction
- Absenteeism due to sickness
- Employee safety
- Work-related accidents
- Leadership performance of direct superiors

There was surprisingly low variation between companies as to the perceived importance of these indicators. Employer image, and it's affiliation with the (perceived) social responsibility performance of a company was considered by far to be the most important one. It was widely considered as an "aggregate indicator" for the overall social responsibility performance of a company, and thus having the potential to affect a number of other areas of performance:

> *"…we have talked a lot (internally) about employer image. It is undoubtedly linked to the other aspects regarding CSR. What can we do to improve upon it, and in which areas we are performing well. Taking care of employee satisfaction, the leadership*

culture etc. Company strategy and values are a guiding principle in this (...) and every superior is trained according to them."

- Company C

It should be stressed that since seven out of eight managers interviewed were HR executives, the indicators they were concerned included ones that were important for attracting new employees to the company. The discussion about CSR indicators could therefore be roughly classified into ones that have to do with existing employees, as well as indicators having an effect for the successful hiring of new ones. The latter objective seems to explain these concerns over employer image by the management. Employer image and socially responsible operations were considered as inseparable:

> *"Especially from a HR-perspective, positive stories spread quickly, and social media plays a key role in this. Employees talk outside (the company). It is a 'two-edged' sword: when talking about co-operation negotiations, employer image is partly ruined despite all efforts to do some good."*
>
> - Company B

The significance of employer image was hence considered to be linked to many other aspects of performance. Unlike some of the other CSR-indicators, it was something that several managers regarded as a present and future challenge that needs continuous improvement and monitoring. Three out of eight companies mentioned that they are concerned of the large layoffs that have been conducted recently, and how this affects their image as responsible and trusted employer. One manager commented on this:

> "*The top management of the company could not foresee the poisonous internal effect of this undertaking*[20]*. When it happened the first time, it was a complete shock to everyone...now when it happens… it's almost like the HR function is now like... 'Yeah ok, let us just start the process again' (sarcasm)."*
>
> - Company E

[20] The interviewee noted however that most of the initial layoffs were handled through various pension arrangements.

It would seem that these companies felt as if they had compromised their social responsibilities towards employees by firing them. Because losing a job can have a profound effect on people's lives, it seemed that as a result the company had largely neglected all ceremonial declarations of social responsibility. This was in turn viewed as being extremely harmful for the HR function in terms of attracting new talent. Social responsibility, following this line of reasoning, was considered as being an important *part* of employer image, and this explains why it was highlighted in several discussions. One manager gave an interesting example, by pointing to the findings of an internal research project that focused on the use of corporate web pages. The results had revealed that after submitting a job application, potential new employees were reportedly most likely to click themselves to the "sustainability" or "corporate social responsibility" section of the pages next.

In the light of these findings, it can be concluded that CSR plays an important role in upholding a positive image towards potential new employees. To a certain extent it seems as a tool utilized primarily for improving *external legitimacy*, because the concerns were primarily about the outside constituencies of the company. It may also provide an explanation to the difficulties in establishing CSR as an internal concept in some cases as discussed earlier. The subliminal adoption of this approach may, in turn, explain why there was certain inability and confusion as to how individual indicators could be better mobilized in improving internal CSR.

Because the concerns over employer image was primarily of external origin, companies did not seem to fully capitalize on information obtainable from within the company – i.e. employees – to achieve a higher level of reliability for the indicator. The information was collected primarily from outside constituencies of the company. Overall, employer image was considered a rather subjective and elastic indicator to measure. There was, however, certain optimism in achieving a satisfactory level of validity and reliability with the current methods:

> *"…the indicators in use are very qualitative and it's perhaps hard to make cause-and-effect relationships between these…but if you ask the public about their impressions of our company, (then) it's subjective, yes, but everyone knows who we are."*
> - Company A

Most of the case companies in the study could be considered as being large enough to be recognized by the public at large, making the problem of measuring employer image easier to approach. Managers' answers were somewhat mixed on the accuracy of CSR indicators in general. The subjectivity in measuring these indicators was considered problematic. However, the interviewees were perhaps more concerned about challenges regarding how to affect a specific indicators' *performance*:

> *"Surely there's an indicator for everything if we work enough (to establish them). It (non-financial and subjective nature of the measurements) can to some degree seen as an excuse to not come up with a valid indicator (...) for example indicators regarding employee wellbeing, there are things like employee satisfaction, indexes measuring this and that (...) in which target setting can be difficult. But the really difficult part is how to really make a specific number or indicator to move, and how much it has to move, that we can determine that something has materialized."*
>
> - Company E

The manager at Company E pointed out that even though sick days, disability pensions and employee satisfaction are being measured in her company, she is more concerned over the fact that it might be rather difficult to directly affect these results. In Company E, even though HR has attempted to include more CSR-indicators – like employee satisfaction – employee safety remains as the only one that is being measured throughout the whole organization. In Company E, HR has implemented various indexes that measure leadership, for example, but those affect only people working inside HR. Similar approaches were identified in other companies, where the HR departments had more elaborate measurements as opposed to other departments.

The most common tools for collecting information for these indicators was benchmarking and surveys, done either internally or by a third party, and conducted either annually or semi-annually. In a few cases, mystery shopping was also employed. In the case of surveys, a rather notable shortcoming was the lack of virtually any kind of input from employees regarding compensation. The management viewed the entire information collection process as problematic, especially in the case of surveys. Managers seemed rather indifferent about how employees themselves perceive the company's performance in these metrics, nor were they properly included in processes that have to do with performance improvements in these areas.

Three of the eight participant companies were reporting their social responsibility indicators along the GRI –guidelines. The scope of these *Labor and Decent Work* indicators are presented in Table 5, and a detailed description for each indicator can be found in Appendix A.

CORE INDICATOR		ADDITIONAL INDICATOR	
	Alko	**Alma Media**	**Neste Oil**
LA1	Yes	Yes	Yes
LA2	Partly	-	Partly
LA3	-	Yes	-
LA4	Yes	-	Yes
LA5	Yes	-	Yes
LA6	Yes	-	-
LA7	Yes	Partly	Yes
LA8	Yes	-	Yes
LA9	Partly	-	-
LA10	Yes	Yes	Partly
LA11	Partly	Yes	Yes
LA12	Yes	Yes	Yes
LA13	Partly	Yes	Yes
LA14	Yes	Yes	Partly
LA15	-	-	-
***Application Level*[21]**	**B**	**B**	**B+**

Table 5 – GRI's LA 1-15 indicators as reported by participant companies.

After discussions with HR managers and analyzing the content of these indicators, it would seem that companies were more likely to report on more positive aspects of performance than negative ones. For example, as the HR manager of Alma Media proudly stated that part-time employees

[21] Application Levels indicate the extent to which the guidelines have been applied in CSR reporting, and as such, aim to reflect the degree of transparency against the GRI guidelines. There are three application levels: A, B and C. Companies are required to assess their own level, but can seek *external assurance* for this level by declaring a plus "+" (www.globalreporting.org/reporting/reporting-framework-overview/application-level-information/Pages/default.aspx)

are entitled to same benefits as all the other employees, it was not surprising to find them to be the only company of the three reporting indicator LA3 which highlights this component.

7.4. Sustainability Balanced Scorecard

The results revealed that most of the case companies were using the BSC or a similar scorecard system for performance management. These systems were often customized to fit the specific organizational context, drawing on the strengths of the BSC as a flexible management tool. The "balanced" approach of the BSC was considered particularly useful for indicators pertaining to social responsibility. The communicational qualities inherent in the BSC framework were also praised.

In the context of corporate social responsibility, a few managers claimed to have integrated company values into the BSC framework. One such example was Company C. As mentioned earlier, the HR manager of Company C was the very elaborate in the interview about issues pertaining to employee health and well-being. The BSC subsequently included many CSR-indicators that reflect these areas, including absenteeism, employee retention and job orientation:

> "*BSC is very closely linked (to performance measurement, target setting and compensation). We select specific focus areas annually from the BSC. In HR, we are thinking about future challenges like training etc. These are updated monthly. In HR, we are tracking the number of sick days, employee retention and orientation...and also, internal communication and employee satisfaction independently.*"
>
> - Company C

Despite the problems of subjectivity and qualitative nature in measuring CSR indicators that was discussed earlier, there was optimism on finding these linkages and coming up with valid indicators to be included in the BSC. The results clearly show that in companies where CSR was regarded as strategically important, such objectives had been included in management systems such as the balanced scorecard. Indeed, there is evidence support the approach advocated in the theory part of this thesis on the CSR/BSC integration. However, the current structures are not by any means very elaborate. A clear forerunner in this type of integration was identified as Company A.

Company A was using a system that was well in accordance with the specificiations that constitute a Sustainability Balanced Scorecard, as it had adopted a separate perspective for corporate responsibility into the BSC. The company's internal balanced scorecard that was presented by the HR manager had four perspectives: customer, personnel, responsibility and processes/financial perspective. The 'traditional' *internal processes* and *financial* perspectives were therefore combined, while the *learning and growth* perspective was replaced with the *responsibility* perspective. As such, it doesn't fit into the strict taxonomy of Butler et al. (2011, 4), but is nonetheless a heavily CSR centric BSC and as such easily identifiable as a SBSC.

Traditionally, a BSC or a strategy map is presented with the "important" financial perspective and targets at the top and the "less important" learning and growth perspective (means to an end) at the bottom. An intriguing detail in the SBSC presentation of Company A was that the positioning of these perspectives was the exact opposite, with the "responsibility" perspective at the top. Corporate strategy, and thus all the other perspectives (including financial) in the SBSC seemed to have been therefore constructed to support the responsibility objectives in particular. This approach is largely explained by the very special nature of Company A's strategy and mission as discussed earlier.

The responsibility perspective consisted of five indicators which measure different levels of CSR performance[22]. The data used for target setting across the BSC was largely collected from surveys conducted by TNS Gallup and Taloustutkimus. A TRI*m[23] score was formulated for each of the perspectives. According to the interviewee, benchmarking and employee surveys were used as tools to collect information for the indicators, and to better facilitate their target setting. In addition to the TRI*m score for the "employee" category, leadership, number of sick days (%) and industry average for employer image were also being measured.

---

[22] For anonymity reasons, the exact labeling of these indicators cannot be published.
[23] TRI*m is an "information system through which organizations can measure, track and lead various stakeholder relations" by TNS Gallup (http://www.tnsglobal.com/what-we-do/stakeholder-management).

One of the challenges mentioned in the SBSC literature was that the development of social indicators as opposed to environmental ones is still lagging behind in practice. This study found support for this observation:

> "*At the moment we have CSR indicators in use mainly on the environmental department, in waste management, water and energy usage… but outside of this realm not so much.*"
>
> - Company H

For example, Company H had gone far in implementing scorecard target setting for CSR in their environmental department, but mentioned that the social side of this development was indeed lacking. When inquired further on the feasibility to include these same principles to social issues, he continues:

> "*It's definitely possible to find links between profitability and responsibility. As a matter of fact we are measuring work-related injuries. There's also a clear link to responsibility and compensation right there. But there are still many other things missing…It (CSR) should be made profitable. If we think about organic production for example, and assume it's responsible, how do we create a business case around it? Such indicators and target setting we are currently lacking*"
>
> - Company H

One explanation as to *why* the development of these indicators is lagging behind, is that since management had problems in establishing CSR as an internal concept as discussed earlier, they subsequently had difficulties to locate and identify these CSR indicators in their current management systems, even if they were in fact measured. In essence, management has not thought of them as something that contributes to social responsibility, as the above quote hints.

Like Company H, Company F also mentioned that CSR target setting would require clearer links to profitability, as they had mainly quantitative and financial target setting for compensation like EBITDA and gross margin. This was somewhat surprising, as Company F had established a relatively coherent corporate-level definition of CSR but on the other hand was lacking in the adoption of indicators measuring CSR.

7.5. Social responsibility and compensation

The field study found support for the argument that if the compensation system properly takes into account the social dimension, it has many intangible benefits to a company. In particular, non-monetary elements in the compensation system that are tied to many aspects of social responsibility were at the center stage in the discussions. There was a clear consensus – much in line with the contemporary research into compensation as discussed earlier – that the focus in compensation is moving away from traditional base salary. One of the imperatives for the development of compensation into this direction that was mentioned several times during the interviews, was that employees are increasingly interested in qualitative aspects of the employment contract and flexibility. HR managers interviewed had the view that even though variable compensation methods are being developed and employed in increasing numbers, they were not convinced that employees can be *truly* motivated to great lengths through this approach. These tendencies made the approach to examine the compensation system through the lense of corporate social responsibility an intriguing prospect.

One of the reasons why the non-monetary elements in the compensation system are gathering more interest is because the younger generation of workers that are now entering work life in increasing numbers are simply more demanding. They are not necessarily interested about how much money they make, but instead value qualitative elements surrounding the employment contract more than the previous generation. Companies E and B mentioned that the (still) anticipated lack of qualified workforce in Finland in the future can increase the competition for skilled employees to a whole new level.

Accompanied with the acknowledgement that these younger generations of employees are more demanding in both qualitative aspects of compensation and CSR, retaining a standing as a "responsible employer" becomes an important question for the HR department in the future. As discussed earlier, several companies mentioned that they are concerned of the massive layoffs that they've conducted recently, and how this has affected their company's image as an employer. From this perspective the compensation system, and more broadly the social responsibilities of a company, were seen as very effective tools in alleviating these negative perceptions. Managers felt that the social responsibility commitments and fair compensation would make their company appear as a more secure working environment to potential new employees. Employer image, clearly standing up from the rest of the CSR indicators, was considered as the most important indicator that *should* be tied to the incentive system somehow.

When interviewing HR managers on the integration of CSR with compensation, two distinct approaches or themes emerged in the discussions that should be separated before going forward. **On one hand, the discussions revolved around how CSR manifests itself in the framework of total compensation through the non-monetary elements in the system.** In essence, this means how employee satisfaction, motivation, retention and other qualitative aspects are taken into consideration as part of the system. **On the other hand, the interviews tackled the feasibility of how CSR objectives could be tied *directly* to monetary elements in the system, namely the incentive system.**

In companies where social responsibility was directly linked to monetary elements in the system, two kinds of approaches were identified. Either specific social responsibility indicators were directly linked to compensation like bonuses or incentive-based pay (e.g. Company D), or the general adherence to Corporate Responsibility was used in determining compensation levels (Companies A and G).

In Company A, the compensation system was directly linked to the sustainability balanced scorecard. The compensation system has been developed to focus on team-oriented compensation rather than personal targets. The corporate level targets are translated to different stores, and their scorecards have more direct measures that need to be taken in order to meet the higher-level targets. Therefore the KPI’s used for the incentive system differ between the individual stores and headquarters. Furthermore, incentive compensation is tied to all of the four perspectives in the SBSC, rather than any single perspective or specific indicators. In essence, compensation is tied comprehensively to a scorecard that consists predominantly CSR indicators (as discussed in the previous section).

Integrating corporate values to CSR indicators for different scorecard *levels* (stores, teams and individuals) has been somewhat problematic in Company A. Because the value creation of different ‘experts’ is challenging to measure, it is often hard to establish how the individuals can affect their own compensation through the indicators that have been selected. This was especially the case in headquarters, where the contribution of an individual to strategic CSR was more difficult to estimate compared to the stores, making the linking of these KPI's to everyday activities especially challenging.

These challenges are perhaps explained by the more rudimentary work that is being done at a store level, where the boundaries of socially responsible conduct are more limited, as compared to the headquarters. Therefore choosing a valid indicator and more accurate target setting is easier at a more practical level (in the stores) than for the more ambiguous nature of work done by various experts (at the HQ level).

Company G had integrated corporate social responsibility into their compensation in much the same overarcing way as Company A had. Company G had included corporate responsibility in their company values and explained their commitment to corporate responsibility through the successful compliance with these values throughout the organization. Adherence to company values was in turn used in determining individual or team-based incentives:

> *"Compensation is tied to three things…one of which is the successful adherence to company values...if there is any indication that company values have not been followed, the incentive-based pay is withheld in its entirety"*
>
> - Company G

The manager further explained that adherence to CSR therefore either enables or forfeits entitlement to incentive-based pay like bonuses. He mentioned that they have had some "problems" with ethical behavior in the past, and that is the reason he is now promoting the social responsibility facets of their business activities. Company G has several smaller subsidiary companies, and their business activities are likely challenging for meticulous monitoring from the Group level. This might explain why incentive based pay is tied to corporate values (CSR) *in general;* the CEO of the company may then withhold the payment of bonuses at his discretion if these values have been compromised. The inclusion of *specific* social responsibility indicators to the incentive system would currently only happen if there would be a clear need for an improvement on some specific issue, for example to reduce absenteeism.

By no means this kind of "on/off" system adopted by Company G should be considered as multidimensional, however, evaluating its effectiveness is a completely different question. The only thing that seems certain is that given the growth rate of this particular company, the adoption of more bureaucratic management accounting technologies becomes imperative at some point in the future. This means that if CSR is considered truly important for the company, the effective monitoring of a growing network of subsidiaries will likely overwhelm the CEO, creating the impetus for more elaborate and formal structures in the future. The prospect of the current system surviving such a transition seems unlikely.

The third case of integration between social responsibility and monetary compensation was at **Company D**, in which one of the most pressing concerns for HR was the prevention of work-related accidents. They had established an interconnection between safety initiatives and work-related accidents and "close call" situations, and therefore work continuously to reduce them. The compensation system was utilized in achieving these goals as well, by tying employees' incentive compensation to the reduction of work-related accidents.

The ultimate goal of these improvements, however, seemed to be the employee productivity increases that employee health and safety were perceived to – rather directly – affect. Improving employee health and safety, which leads to increased productivity, which ultimately leads to the improved profitability of the company was considered as the most meaningful link between CSR and profitability. In Company D's industry, factors that are largely outside of individual employees control[24] have the most profound effect on the company's profitability. Company D was also looking for other ways in which compensation could be tied to CSR objectives, but mentioned the employees should in that case still be able to influence their own compensation. This explains why the CSR-productivity-profitability connection was the most feasible approach that could be addressed with compensation, because it was identified as something that the employees can rather directly influence. In contrast, linking indicators such as absenteeism due to sickness to incentive compensation was not considered as a viable approach. Rather, she emphasized the development of CSR indicators that are *actionable*[25]*:*

> *"We haven't included that to compensation, that you would be compensated for being sick as rarely as possible. Not in that sort of straightforward way. It could easily even backfire on us; that people would start to think that 'now I lose my bonuses if I become*

[24] Commodity prices, regulation, price of electricity, environmental policy etc.
[25] As advocated by Rohm (2004, 7).

sick'. It's not that straightforward. Of course we are measuring that, but we haven't bound it into compensation. Of course they (CSR measurements) should be (linked to compensation) if they are sensible. This sensibility is normally determined by the fact that employees are able to influence those things. If we think about work-related accidents for example, we have notified that the more safety initiatives and close-call situations are reported (...) we are on the right track and we are able to prevent them. These are sensible ways, unlike absenteeism due to sickness, which is more difficult. But if they can be influenced, we should definitely adopt more indicators, and also tie them to compensation."

- Company D

There were similar attitudes in other companies[26]. Company F answered along the same lines:

"In fact, I would be really careful about linking absenteeism due to sickness into compensation. I see it partly as a challenge that if the company is in an unstable state or in experiencing growth, it is just as problematic as increased absenteeism, that people show up to work when they are in fact sick. I wouldn't start compensating on it. It is not a problem in our company. If it (absenteeism rate) would be for example 6-10%, I could say that 'yeah, let's compensate (to reduce) that'. But that's why I don't want to touch it."

- Company F

An intricately defensive posture can perhaps be discerned from the above quotations. One explanation for this reluctancy is perhaps that HR managers would consider the compensation for reduced absenteeism as a form of disciplinary action towards employees, and as such, in fact counterproductive approach to improving social responsibility. In contrast however, the CEO of Company G mentioned that if the absenteeism rate would be high in his company, he *could* link the reduction on that indicator to compensation in the respective department's or subsidiary's scorecard. Generally the percentage of absenteeism due to sickness was being measured, but was not seen as a major problem. Therefore the indication was given that linking that specific variable

[26] Side note: at the time of the study, there was an ongoing political debate in Finland over absenteeism due to sickness, and whether there should be new legal amendments in order to reduce them. In essence, this would have meant cutting pay for at least the first day an employee was absent (see e.g. http://areena.yle.fi/tv/1690611).

to compensation could currently only happen if there would be a specific need to improve performance on that specific indicator.

Other companies like Company B outright admitted that they have not properly taken the responsibility agenda into compensation, but were interested in doing so in the future. In addition, this company was probably the most humble in terms of promoting linkages between compensation and social responsibility:

> *"The responsibility agenda has been taken to HR. We have just now recruited a person that is responsible for CSR. We are in the beginning (of this kind of approach)…on the slide I showed you (of incentive compensation) I could easily imagine that corporate responsibility would be included in that in the future. We've reviewed this issue (social responsibility) in the executive group. We are in the process of constructing it and planning on what measures we are going to use to address it."*
>
> \- Company B

Like Company B, Company C failed to provide immediate examples of how corporate social responsibility manifests itself in the compensation system. However, when discussed further about the specifics of the current system, especially in terms of non-monetary compensation, links between responsibility and compensation were made more visible. The interviewee felt that it is a little difficult to link for instance employee well-being with productivity (and therefore profitability), as these are hard to measure:

> *"I would like to adapt (to compensation) issues like employee well-being and productivity. The work environment affects efficiency and productivity (...) in addition to employee well-being. We would like to see long careers and career development...this would also be the way to affect employer image."*
>
> \- Company C

Some of the larger companies like companies C and E could present more publicly available material about non-monetary compensation than some of the smaller companies. Company C had gone out of its way in finding different ways in taking care of employee health and well-being.

This was done through programs aiming to prevent early retirement of employees due to health reasons as well as working closely with occupational health services. Company C noted:

> "*It's not necessarily linked with compensation, but we've discussed a lot about employer image, which has definitely clear links to CSR. When it comes to employees, (we've thought about) what more could be done in terms of taking care of their well-being, the leadership culture of the organization etc. Company values are a guiding principle in this.*"
>
> - Company C

The answers indicated similar approaches in other companies. In company E, job orientation and rotation, occupational health, training and leadership skills of superiors were regarded highly in contributing to employee well-being and motivation. HR manager of Company E specifically mentioned that the management is currently seeking ways in which to improve the well-being of its personnel. Indeed, the publicly available material showed evidence of an attempt to focus on non-monetary compensation methods within the company. Salary is seen, by many of the interviewees, as something that should be simply agreed upon, so that the employee and employer could start focusing on finding more rewarding ways to keep the individual employees motivated.

Many companies indicated that there should be a clearly visible link between corporate responsibility and profitability for this kind of approach to gain more support. There has been a general shift in many of the case companies towards harder, financial indicators in compensation with the expense of qualitative indicators, such as those pertaining to corporate responsibility. This has often been due to a more challenging financial position of the companies.

7.6. CSR challenges to compensation

This section outlines what the field study identified as the most immediate challenges facing the further development of compensation systems in the case companies from a corporate social responsibility standpoint. It should be emphasized that all issues presented herein were referreed to several times, but are naturally subject to the interpretation of the researcher.

7.6.1. Compensation transparency and communication

Half of the case companies openly admitted that there is a lot of room for improvement in terms of communicating the system and raising employees' awareness about specific benefits that the companies are currently offering. The interviewed managers were not satisfied with the level of transparency in the current system. This statement was often made along with the acknowledgement that employees are not satisfied with a system that provides little comparability of compensation between individuals, or that there is a lack of information about executive compensation. The problems of communication and transparency seemed to be intertwined.

One company openly admitted that their personnel are not necessarily even aware of certain employee benefits like pension plans or holiday cottages that can be regarded as key aspects of the compensation system. Several managers mentioned the corporate intranet as currently the primary source of information about compensation. Along with direct superiors, employee handbooks and employee training days were mentioned as secondary sources of information about compensation.

Company A's HR manager mentions that their compensation system as a whole has been communicated poorly to employees, and that this is one of their greatest development areas. Corporate intranet, for example, doesn't have clear links to pages containing information about compensation. Consolidated information about the different compensation methods and benefits are not listed in any one place. She mentions that there should be a dedicated person handling the communication of the system. There is also considerable amount of misinformation among employees about the specifics of the system. According to one HR manager, some employees believe the incentive system is the same thing as compensation system:

> *"...the complete picture of the compensation system is not communicated as well as it could have been (...) a lot of the discussion is about what bonuses mean."*
>
> \- Company A

Superiors currently have a large role in communicating specifics of compensation to employees. In Company A, the information often comes from corporate headquarters to area managers, who then communicate with store managers, who in turn ultimately communicate with superiors. The interviewee feels that they should use a centralized way to share information, like the corporate intranet. Company E admitted to having similar problems:

> "*…knowledge about the system in general is on a pretty low levels…even when it comes to base salary…especially young generation at this day and age may think if someone is on a pay class 55 and someone else is on pay class 56, and nobody knows why, people start quickly discussing it out loud why this is so 'taboo' and how 'we are never told anything'."*
>
> - Company E

The overall lack of internal communication about the compensation system is something that Company E has recognized and is already attempting to rectify. If the employees don't know why their salary is at a certain level, it ignites discussion as to why it needs to be kept in secrecy. Employee retention in this company is higher than in the past, making it increasingly difficult to train superiors to communicate the specifics of the compensation system more effectively. In the case of Company H, the quality of communication about the system was considered as being "non-existent":

> *"It (the compensation system) hasn't been currently really communicated at all (to employees)"*
>
> - Company H

The interviewee at Company H further pointed to an upcoming project that would use the Total Reward concept to remedy these problems. In much the same way as the fundamental idea behind the Total Rewards concept is to emphasize and make visible the non-monetary elements in the system, it was often the case that the HR managers wanted to highlight the non-monetary elements of their compensation systems as well. In several cases however, managers commented – almost in disappointment – that the employees themselves do not perceive these elements as part of the total compensation offered by the company. This was explained by the HR manager at Company H as follows:

> "*…it seems almost like people are saying 'we want more of some real benefits', like these that we already have, people want more and more…this project also aims at*

communicating how diverse our compensation system actually is, and that no, we're not the only company in Finland not offering movie tickets"

- Company H

Surprisingly in one particular case, the company did not even *want* to create more transparency. This was commented on explicitly:

"…we are almost apologizing for the fact that we have these… We don't openly publish these… direct compensation or compensation regarding certain personnel group like bonus policies, we really don't even want everyone to know…"

- Company G

Two developments which are somewhat intertwined could help to understand why communication and transparency has grown to such a widespread problem. First of all, many companies seemed to have grown through acquisitions of smaller companies resulting in variety among different parts of the organization on compensation schemes, practices and even culture. The result is a poor alignment of compensation between individuals working in *different departments but in equally demanding positions*. Secondly, certain individuals have been promoted too quickly, increasing the costs of the system to a level that it was not originally designed for. Increasing transparency – while important for adherence to CSR disclosure requirements – would in the current circumstances work to increase discontent towards the system as it would only make all the discrepancies of the system more visible. Therefore, proper alignment likely has to precede increased transparency, which in turn will be difficult to do as several managers advocated the current approach to compensation, in which individuals' performance varies and they want to retain the flexibility in determining the appropriate level of compensation in each case.

7.6.2. Direct superiors and target setting

The interviews revealed that the direct superior of an individual employee has a central role in the target setting for compensation. This arrangement can lead to situations where employees are not necessarily treated equally as there can be significant variance among managers regarding how these target levels are set. For example, if an employee and manager have excellent personal relations, managers might overlook individual target setting for compensation, or the successful achieving of these targets. This is especially true if subjectivity is required in determining the achievement of goals, which can be the case in CSR-related indicators. One manager elaborated on this problem as follows:

> *"..it's probably a reflection of team- and personal targets that (...) because of the last recession there hasn't been a lot of pay increases (...) so that direct superiors often overlook the accomplishment of target setting going 'ok, you've been working hard the last couple of years, we'll work something out for you'."*

She further commented that one year the company was paying out close to maximum annual bonuses for employees, even when the company's actual profit levels would not have supported it. On the contrary, the company's profitability was in fact low during that year. Hence, there seems to be a lot of independence for target setting and measuring on the lower management levels. This independence was perceived as being harmful to the company as a whole. Furthermore if the system is lacking in terms of compensation fairness, it presents a challenge from a social responsibility standpoint. Hence, the other part of the problem is that employees who do not get along well with their superiors, are likely not in an equal footing with their peers when superiors are (again, subjectively) determining whether or not individuals have reached their targets. Managers stressed the importance of training for all superiors in order to minimize these challenges, but were not necessarily convinced if that is the right approach. It would seem that a system which bypasses this "human element" would reign supreme. Nonetheless the interviews identified no easy solutions for this problem apart from calling for more training for direct superiors.

8. DISCUSSION

According to Smith (2003), the mainstreaming of CSR – evidenced in this study by the readiness of managers to discuss CSR issues – implies that much of the CSR debate has indeed changed from being about whether to do CSR, to how. As argumented by Brooks (2005), connections between CSR and strategy could help deflect criticism that it is an activity with little real substance behind it. The results revealed that **CSR has been identified as a strategic activity**. This is evidenced by the fact that CSR was in several cases included in company values, which are principles that guide the organization, to the extent they have served as the foundation for the compensation system. However, to arrive at the conclusion that inclusion of CSR into strategy, and using company values as guiding principles, ensures the social responsibility performance would be both premature and naïve. Aside from one company clearly identified as a forerunner, the results indicate that most companies in the study are largely unable to locate CSR as an internal, value-adding activity. In addition, HR managers in companies large enough to have a dedicated CSR department, mentioned that CSR issues are something that these individuals are mainly concerned about. This enhances the suspicion that the existence of such structures as part of the formal organization only maintain appearances and validates the organization (Meyer and Rowan, 1977). Alas, the propagation of the responsibility agenda throughout the organization seems to be missing.

The inability of HR management to identify processes that could contribute to better social responsibility performance acts as a major impediment to Epstein and Roy's (2001) suggestion of constructing performance evaluations and rewards to highlight CSR objectives. As a result, the approach suggested by this thesis of linking CSR objectives to the compensation system was in several cases perceived as being somewhat premature. On the other hand, the case companies regarded the idea itself as both interesting and something that will likely be adopted in a broader scale some time in the future.

Discussions with executives revealed that CSR forces companies to change their behavior. As identified in earlier studies (Björkman et al. 2007; Scott 2001; 2004; Dimaggio and Powell 1983) this change occurs as three distinct forms of "isomorphism" that organizations are exposed to and which creates the necessity for them to change. Understanding of this institutionalization, in which activities are repeated and given common meaning over time (Björkman et al. 2007, 432) is particularly important to understand activities undertaken under the label of "CSR". This is because corporate social responsibility could be understood as nothing but a response to normative, societally legitimated social obligations[27]. A notable observation made during the interviews was that none of the managers wanted to question the validity of CSR as something that companies should be concerned about, and thus seemed to quietly accept the legitimacy of these normative social obligations towards companies[28]. DiMaggio and Powell (subchapter 2.2.1.) identified three types of isomorphism through which organizational change occurs. The data gathered from the field is now reflected against each of them:

Evidence of **coercive isomorphism** was most clearly visible in how the government imposes certain restrictions for the development of compensation systems in state-owned companies, particularly focusing on executive compensation and the extent (or lack thereof) of extra pension plans for all employees. These policies were put into place to promote a moderate approach, through which these companies should achieve a certain level of 'compensation fairness' by closing the gap between executives and employees. There is a possibility that the general objective of bridging the gap in compensation between executives and employees will likely make it easier for these companies to conform to the increasing transparency requirements of future CSR policies. However, it should be noted that these restrictions were generally viewed by the management as harmful, since these companies would still need to compete for the same scarce resources (i.e. labor), but with these additional restrictions put in place.

In **mimetic isomorphism**, organizations facing uncertainty adopt the pattern exhibited by successful organizations (Björkman et al. 2007, 432). There were no such references made in the interviews to support this type of isomorphism taking place. Interestingly however, examples of certain *unsuccessful* companies in the discussions were repeatedly referenced to, as a demonstration of what kind of activity should be *avoided* at all costs[29]. Perhaps it is natural that

[27] The line of reasoning here follows the general acceptance of CSR as an extra-regulatory activity.
[28] A vocal, contradictory statement to this was given by Björn Wahlroos, the CEO of Sampo, who stated that ”companies have no social responsibilities” (www.tekniikkatalous.fi/tyo/yrityksella+ei+ole+yhteiskuntavastuuta/a56626)
[29] Among them was the case of Talvivaara Oyj, a mining company that was 'in the eye of the storm' regarding environmental catastrophies at the time of the study.

examples of this “reverse mimetic isomorphism” occur in the field of CSR in particular, where unsuccessful rather than successful behavior gains notably more attention.

In **normative isomorphism**, professional organizations act as the disseminators of appropriate organizational patterns, which are then adopted by organizations that are under the influence of professional organizations (Björkman et al. 2007, 432). ‘Professional’ organizations with a strong base for legitimacy such as the UN, GRI, ISO and ILO can likely serve as opinion leaders and as conduits for organizational change in companies and as such, were often referred to in the conversations about corporate social responsibility. The pace of the change that these organizations can generate however is likely relatively slow.

The results indicate that the legitimation strategies employed by different companies to meet these institutional expectations were relatively convergent. When asked to elaborate on how CSR is employed, managers often made references to external sources of legitimacy, such as symbols (CSR standards and labels) or institutions with a strong base for social legitimacy (such as the ILO or UN declarations and industry-wide CSR bodies). This is one of the modes of action available for companies to enhance legitimacy as identified by Dowling and Pfeffer (1975). Another, more intricate and less visible legitimation strategy was the attempt to portray certain sensitive activities by focusing on their positive aspects through communication. For example, the business of selling alcohol was legitimated by changing the perspective through communication into an endeavour of responsibility towards the public. Whether conscious or unconscious decision, this mode of action can perhaps be traced back to Dowling and Pfeffer’s third action choice “*attempt through communication to alter the definition of social legitimacy to conform to present practices, output and values”.*

A more general observation of *conformity to prevailing definitions of legitimacy* as posited by Dowling & Pfeffer (1975), could be understood to materialize through the changing focus of CSR over timescales. For example, while acid rains and depletion of the ozone layer were ‘fashionable’ topics in the field of CSR during the 1990’s, the discussion is now focusing on issues related to climate change. There exists a societally legitimated *assumption* that companies have to participate in containing it. As a result, the domain of responsibility given to corporations could be considered to be *expanding.*

Institutionalism is generally considered as processes in which structures and routines become established as *authorative guidelines for social behavior* (Scott, 2004). UN, ILO and perhaps also GRI have become established as authorities who can determine what is considered appropriate social behavior. As such, it might serve companies well not to openly question the authority of these organizations or policies they try to enforce. This was mostly the case in the interviews. However, some managers dared to regard the propagation of formal structures and disclosure requirements regarding both CSR and compensation as harmful. It is not out of place to predict that if the sustainability agenda is taken too far, it will likely alienate several companies who would otherwise be willing to comply with voluntary disclosure requirements such as the GRI. This is evidenced by one rather interesting comment. One of the case companies mentioned that their company is likely moving away from using the GRI framework, due to the expanding disclosure requirements set for CSR reporting.

When talking about social responsibility indicators on a practical level, Rohm (2004) advocated that KPI's formulated for the BSC need to be *actionable, specific and measureable*. A consensus emerged in the interviews that the feasibility of integrating compensation with CSR hinges primarily on the organization's ability to formulate KPI's that are *actionable*. There was notable optimism on coming up with measurable social responsibility indicators and readiness to further integrate them into the compensation system if the *actionable* requirement is fulfilled. Especially if these CSR indicators would be further linked to compensation, the ability for employees to actually affect these indicators in their everyday activities was considered to be of paramount importance. The problem of non-financial performance measurements as they pertain to social responsibility was therefore not perceived as so problematic than what was perhaps expected.

This study also found support for the findings of Dias-Sardinha and Reijnders (2005), that social responsibility targets are developed at a site level. It is further plausible that in order to formulate *actionable* CSR indicators to be included in incentive compensation in particular, these indicators cannot be developed from an ivory tower. The discussions with HR managers hint towards the argument that CSR target setting at a site level is, in fact, more effective.

Even though the integration of social responsibility to the compensation system was in its initial steps, the study did produce some evidence of this kind of approach already taking place. The clearly identified forerunner in this integration was Company A, which had adopted a performance evaluation system – directly linked with compensation – built into the sustainability balanced scorecard framework. In this organization CSR as a primary strategic objective was extensively mobilized and communicated throughout the SBSC framework (as advocated for example by *Epstein and Wisner, 2001; Figge et al. 2002a; Figge et al. 2002b; Dias-Sardinha and Reijnders, 2005).*

Among the CSR KPI's suggested by Weber (2008) employer attractiveness and reputation, combined in the discussions into *employer image,* was considered by far the most important indicator, and therefore one that should be also addressed with compensation somehow. While Adams and Frost (2008) had observed that the selection and formulation process of CSR KPI's is not a process involving of only internal actors, the results from the this field study hint that the opinions of employees, as an important *internal* resource, are included inadequately when it comes to collecting information for the development of these indicators. The channel through which employees are primarily able to contribute to this process are personnel surveys, but the information gathered through this method was not perceived as being particularly valuable by the management. If these surveys fail to contribute information to the formulation process, the surveys themselves can perhaps be considered as *rituals* (Meyer and Rowan, 1977) that *maintain appearances and validates* the organization's behavior. On the other hand, it is perhaps still important that they are conducted, as the lack of such a ritual would only serve to undermine the legitimacy of the organization as reflected by Mathews (1993) and Haniffa and Cooke (2005).

Even more worrying was the indication that the opinions of employees are not perceived to be particularly valuable in the further development of compensation systems either. All companies were reluctant to allow conducting an employee survey for the purposes of this study[30]. Likewise, when inquired about the details of companies' own regular employee surveys, the indication was that compensation is not particularly well included in them either. Explanations along the following lines were common:

> *"Like in all other companies, (the employees think) our rewards are completely inadequate and poor… it's a common fact that in those surveys, two complaints always come up; lack of communication and lack of compensation"*

[30] Completely valid reasons for this were given however, such as recent layoffs or that the management doesn't want to overload the employees with additional surveys.

HR should perhaps focus on what is actually causing this dissatisfaction among employees. It may very well be that the salary level or certain employee benefits are not inadequate *per se*, but the leadership culture, recent layoffs, or poor employer image are a contributing factor to these complaints. In short, a lot of progress could probably be made without large monetary contributions, but rather by increasing trust, transparency and communication.

When considering the compensation systems employed in the participant companies as a whole, the findings of this study are at odds with the observations of Greene (2013) who posited that variable pay systems are "far less often" used for other personnel groups than executives. Of the participant companies in this field study, seven out of eight had adopted an incentive or bonus system, even though the relative monetary compensation received through such arrangements was often lower for individuals working in lower organizational levels.

Contemporary theoretical compensation frameworks[31] seem to emphasize the recognition of non-monetary elements as part of the total compensation offered by the company. HR managers as practitioners had adopted this same line of thinking, as they too emphasized in their discourses the non-financial elements of the compensation system while expressing their disappointment over the fact that employees do not recognize these elements as part of the system. This same observation has also been made in previous studies, as explicated by Medcof and Rumpel (2007, 61):

> *"Often employees are aware of only their direct financial compensation, with perhaps a vague awareness of benefits. It is not unusual for employees to be unaware of the training and development opportunities available to them and, if they are aware, to not think of them as rewards."*
>
> - Medcof and Rumpel, 2007, 61.

While Custers (2013) argues this shift in focus having been precipitated by the financial crisis, a cynical observer might also argue this to be a 'tactic' employed by the research community and companies to effectively create "something out of nothing[32]"; after all, it is not completely out of place to question why employees should regard issues such as "work rotation" as part of

[31] The *Total Rewards* model being a prime example.
[32] In essence, creating the *appearance* that the company is being more 'generous' than it actually is.

compensation? As a result, the employees' acceptance of the perspective advocated by researchers and HR managers, that these elements are in fact important parts of the total compensation offered by companies – and should be understood as such – will likely happen slowly.

Interestingly, while the perceptions of total compensation could differ between employees and managers, both seems to be in agreement that non-monetary compensation and elements that focus on qualitative aspects in the employment contract are increasingly valuable. This is provides the foundation for promoting social responsibility bearings of the system, and can yet prove to be an effective tool for management to capitalize on the CSR agenda without large monetary contributions, by using CSR to promote the system. In essence, the shift towards non-monetary compensation will likely facilitate the integration of CSR with compensation, whether it occurs through emphasizing manifestations of CSR in the non-monetary domain or by tying CSR objectives directly to the incentive system.

As discussed in the theoretical part, the formulation of social indicators is challenging, mainly due to the great variety and diversity of social issues (Clarkson, 1995, 93-94). In this field study, it was in some cases challenging to explain how measurements can be seen through these social responsibility lenses, because in several cases HR management had not thought about these measurements as belonging to the domain of social responsibility. Results from the field indicate that it is not necessarily the formulation process *per se* that is challenging as Clarkson (1995) argued, but making the HR function realize its potential to influence the company's social responsibility performance through these indicators. In essence, these measurements are being conducted and have been in the past, but they have not been thought to have an impact on corporate social responsibility *specifically.* An intricate and perhaps a little alarming observation was that in a few cases, managers were rather surprised that the decisions they make and measures they select influence corporate responsibility – in these cases, it was generally considered as being an activity that the CSR department specifically has to worry about.

It is difficult to promote a HR business case for CSR if the concept is seen primarily as a damage control function that the CSR department should be worried about. Managers did not in all cases realize their potential to contribute. If CSR is to be seen as disconnected from the HR function, it will serve as a major impediment to mobilize CSR strategy through the SBSC framework if and when it is adopted. It will, therefore, be insufficient to formulate a SBSC that represents “srategic core aspects” (as advocated by *Figge et al. 2002a; Epstein and Wisner, 2001*) instead, some kind of fundamental change of perspective needs to be permiated throughout the organization, in order for HR management to realize their true potential to influence CSR through their own decisions.

9. CONCLUSIONS

The interviews as a whole suggest that issues on the interface of CSR and compensation are genuinely considered as important. Most managers reported that their company is in the process of formulating a more structured, corporate-level approach to CSR. This is partly explained by the development phase of these companies, as they are approaching sizes that should warrant a more coordinated approach toward the management of CSR. It had been identified as a strategic activity in the companies, but companies were unsure what it means for them internally. In addition, almost every company claimed to have either in the planning or implementation phase of some major development project regarding compensation in order to address some of the shortcomings presented in this study. One of the reasons given for these upcoming changes was indeed the intention to make social responsibility a more visible part of compensation in the future. Management was, however, largely unable to elaborate on the specifics of these plans, meaning that a critical view towards such claims is perhaps in order.

This study identified a clear forerunner in the integration of CSR objectives with compensation as Company A. This company had included several CSR performance indicators into the Sustainability Balanced Scorecard framework and linked this system to compensation. However, it should be emphasized that while the other seven case companies could perhaps learn from the example of Company A, we should be mindful of the distinctive business context in which this particular company is operating in. Of the seven other companies there was two other examples of integration of CSR with compensation. In two other cases, the incentive system was connected to either company values (i.e. adherence to CSR in Company G), or to some specific CSR-related indicator (i.e. accident rate in Company D).

Concerns related to social responsibility from the HR's point of view were relatively uniform across different companies. Aside concerns over more 'traditional' indicators such as accident rates, *employer image* was considered as the most important one that should also be connected to compensation somehow. At the time of the study, many Finnish companies – including ones that participated in this study – were laying off an unprecedented number of employees. Social responsibility was highlighted as one of the key elements in the ongoing race for skilled employees, especially in the future. Another challenge regarding both CSR *and* compensation that these companies seemed to be perhaps a little oblivious to was (the lack of) compensation transparency. It has the potential to grow into a much larger problem should there be a tightening of CSR disclosure requirements that have to do with compensation transparency. There is every reason to believe that the field of CSR is indeed heading into this direction.

When comparing the results as a whole to the findings of Kivivirta (2010) from three years ago, it seems that progress is being made in terms of integrating corporate responsibility to management systems, and that there seems to exist a consensus that the inclusion of social aspects to compensation is both important and likely to inevitably happen on a broader scale at some point in the future. However, talk is always cheap, which is perhaps reflective on the managements' inability to credibly elaborate on the specifics of their compensation system development plans.

The main limitations of this field study are that first because of the limited scope of the study, it would be premature to make any foregone generalizations from the results. Secondly, the interviews that were conducted included mostly HR executives, and only one interviewee from each of the case companies. Herein is the problem that information obtained through the interview method is always subject to the interpretation by the researcher. Further, individual claims are articulated in ways that try to uphold an image of legitimacy. Alas, the information obtained through the interview method cannot be taken at face value, but rather has to be constantly filtered and evaluated. These limitations could perhaps be overcome to some degree by employing additional research methods (Vaivio and Sirén, 2010) in future studies.

The interviews provided material that could have been assessed from a number of different research angles. Because corporate social responsibility is an emergent issue in management research and practice, companies have to keep reacting to it rather quickly. Therefore future studies in this field could benefit from studying these specific CSR processes from an organizational change perspective. In addition, it would seem that while current studies are too extensively focusing on the technical subtleties of CSR integration, this field would conceivably benefit from studies that provide insights into how successful CSR culture can transcend these technical systems. This study found a limited amount of evidence of connections between CSR and compensation, as many companies iterated time and again how the questions presented in this thesis are rather emergent. It seems very likely however, that as the CSR agenda is gaining momentum, that more evidence can be gathered with future inquiries into this domain.

Reflecting on Company A's example, which was the successful integration of CSR to its management systems and compensation, we arrive at what should be considered perhaps the most important contribution of this study. It seems that the reason behind this company's success has not been a question of technical or technological change – i.e. about specific CSR measurements of details of the SBSC system – it seems to have been the result of a *cultural* change. The development of technical tools will follow, if it is preceded by commitment to a CSR-centric mission statement. A critic might point out that this company's business context is very specific, which allows it to "waste resources" to this CSR-tinkering, and that such an approach would not be replicable in a "real" company. However, such claims should be backed up by research which conclusively shows that resources are, in fact, wasted when this kind of approach is adopted. This study found no evidence whatsoever to support claims that linking incentive compensation to CSR-objectives is somehow at odds with profitability. On the contrary, if the regularly emerging CSR scandals in the media are any indication, it would seem that companies can not afford to overlook or undermine such an approach.

REFERENCES

Adams, C.A., Frost, G. 2008. Integrating sustainability reporting into management practices, *Accounting Forum* 32, 288-302.

Adams, W.M. 2006. The Future of Sustainability: Re-thinking Environment and Development in the Twenty-first Century, *Report of the IUCN Renowned Thinkers Meeting*, 29–31 January 2006.

Agarwal, N; Singh, P. 1998. Organizational rewards for a changing workplace: an examination of theory and practice, *International Journal of Technology Management*, Volume 16, No 1/2/3.

Aupperle, K.E., Carroll, A.B., Hatfield, J.D. 1985. An empirical examination of the relationship between corporate social responsibility and profitability, *Academy of Management Journal*, Volume 28, No. 2, 446-463.

Bampton, R., Cowton, C.J. 2002. The teaching of ethics in management accounting: progress and prospects, *Business Ethics: An European Review*, Volume 11, No 1.

Bansai, P. 1995. Why do firms go green? The case of organisational legitimacy, *D. Phil. thesis,* Oxford University, United Kingdom.

Barnea, A., Heinkel, R., Kraus, A. 2005. Green investors and corporate investment, *Structural Change and Economic Dynamics* 16, 332–346.

Barr, S.H. 1998. *Reward systems*, in Peters, L., Greer, B. and Youngblood, S. (Eds), The Blackwell Encyclopedic Dictionary of Human Resource Management, Blackwell Business, Malden, MA, 294-295.

Baxter, P., Jack, S. 2008. Qualitative case study methodology: Study design and Implementation for novice researchers, *The Qualitative Report* Volume 13, No.4, December 2008, 544-559.

Bebbington, J. 2001. Sustainable development: A review of the international development, business and accounting literature, *Accounting Forum*, 25 (2), 128–157.

Björkman, I., Fey, C.F., Park, H.J. 2007. Institutional Theory and MNC Subsidiary HRM Practices: Evidence from a Three-Country Study, *Journal of International Business Studies*, Volume 38, No.3, 430-446.

Brammer, S., Jackson, G., Matten, D. 2012. Corporate Social Responsibility and institutional theory: new perspectives on private governance, *Socio-Economic Review*, Volume 10, 3-28.

Brooks, S. 2005. Corporate social responsibility and strategic management: the prospects for converging discourses, *Strategic Change*, Volume 14, 401-411.

Brown, D. 2000. *Motivating your people*. in Willsher, R. and Jolly, A. (Eds), The Growing Business Handbook: Strategies for Planning, Funding and Managing Business Growth, Kogan Page, London.

Butler, J., Henderson, S., Raiborn, C. 2011. Sustainability and the Balanced Scorecard: Integrating Green Measures into Business Reporting, *Management Accounting Quarterly*, Volume 12, No. 2, 1-10.

Chen, C., Ford, C., Farris, G. 1999. Do rewards benefit the organization? The effects of reward types and the perceptions of diverse R&D professionals, *Transactions on Engineering Management*, Volume 46 Issue 1, 47−55.

Clarkson M. 1995. A stakeholder framework for analyzing and evaluating corporate social performance, *The Academy of Management Review*, Volume 20, No.1, 92-117.

Crane, A., McWilliams, A., Matten, D., Moon, J., Siegel, D. 2008. *Oxford Handbook of Corporate Social Responsibility*. Oxford University Press, United Kingdom.

Crittenden, V., Crittenden W., Pinney, C., Pitt, L. 2011. Implementing global corporate citizenship: An integrated business framework, *Business Horizons* 54, 447-455.

Custers, M. 2013. Rethinking Existing HR Technologies for New Gains in Employee Engagement and Benefits, *Compensation & Benefits Review*, Volume 44, Issue 6, 332-335.

Dias-Sardinha, I., Reijnders, L. 2005. Evaluating Environmental and Social Performance of Large Portuguese Companies: A Balanced Scorecard Approach, *Business Strategy and the Environment*,14, 73-91.

Dimaggio, P.J., Powell, W.W. 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields, *American Sociological Review*, Volume 48, No. 2, 147-160.

Dimaggio, P.J., Powell, W.W. (editors) 1991. *The New Institutionalism in Organizational Analysis*. University of Chicago Press, Chicago, 1991, 1-20.

Dowling, J., Pfeffer, J. 1975. Organizational legitimacy: Social values and organizational behavior, *Pacific Sociological Review*, Volume 18, Issue 1, 122–126.

Dunphy, D., Griffiths, A., Benn, S. 2003. *The Drivers of Change: Organisational change for corporate sustainability*. Routledge, London.

Durden, C. 2008. Towards a socially responsible management control system, *Accounting, Auditing and Accountability Journal*, Volume 21 No. 5, 671-694.

Eisenhardt, K.M. 1989. Building theories from case study research, *Academy of Management Review*, Volume 14, No.4, 532-550.

Epstein, M.J., Roy, M-J. 2001. Sustainability in Action: Identifying and Measuring the Key Performance Drivers, *Long Range Planning* 34, 585-604.

Epstein, M.J., Wisner, P.S. 2001. Using a Balanced Scorecard to Implement Sustainability, *Environmental Quality Management*, Winter 2001, 1-10.

Figge, F., Hahn, T., Schaltegger, S., Wagner, M. 2002a. The sustainability Balanced Scorecard – linking sustainability management to business strategy, *Business Strategy and the Environment*, 11, 269-284.

Figge, F., Hahn, T., Schaltegger, S., Wagner, M. 2002b. The Sustainability Balanced Scorecard – Theory and Application of a Tool for Value-Based Sustainability Management, *Paper presented at the Greening of Industry Network Conference* 2002, Gothenburg.

Flannery, T., Hofrichter, D., Platten, P. 1996. *People, Performance and Pay*. New York: The Free Press.

Flyvbjerg, B. 2006. Five Misunderstandings About Case Study Research, *Qualitative Inquiry*, Volume 12, No.12, 219-245.

Frame, B., Brown, J., Bebbington, J. 2007. Accounting technologies and sustainability assessment models, *Ecological Economics*, Volume 61, Issue 2, 224-236.

Frame B., Cavanagh, J. 2009. Experiences of Sustainability Assessment: An awkward Adolescence, *Accounting Forum*, Volume 33, 195-208.

Garrison, R., Noreen, E., Brewer, P.C. 2008. *Managerial accounting*. 12th edition, McGraw-Hill Irwin. Boston, MA.

Giancola, F. 2009. Is Total Rewards a Passing Fad? *Compensation & Benefits Review*, 41, 29-35.

Glavic, P., Lukman, R. 2007. Review of sustainability terms and their definitions, *Journal of Cleaner Production* 15, 1875-1885.

Gray, R., Kouhy, R., Lavers, S. 1995. Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure, *Accounting, Auditing and Accountability Journal*, Volume 8, Issue 2, 47–77.

Greene, R. 2013. Variable Compensation: Good Fit to Turbulent Environments, *Compensation & Benefits Review*, Volume 44, Issue 6, 308-314.

Haniffa, R.M., Cooke, T.E. 2005. The Impact of Culture and Governance on Corporate Social Reporting, *Journal of Accounting and Public Policy*, 24, 391-430.

Henri, J-F., Journeault, M. 2010. Eco-Control The influence of management control systems on environmental and economic performance, *Accounting, Organizations and Society*, 35, 63-80.

Hole, A. and Misal, A. 2012. Effect of Competitive Compensation Strategies on Performance of Employees: Review of Literature, *Applied Research And Development Journal*, Volume 6, Issue 12, 107-117.

Hybels, R.C. 1995. On Legitimacy, Legitimation, and Organizations: A Critical Review and Integrative Theoretical Model, *Academy of Management Journal*, Special Issue: Best Papers Proceedings, 241 - 245.

Ittner, C.D., Larcker, D.F., Meyer M.W. 1997a. Performance, compensation and the Balanced Scorecard, *Citicorp Behavioral Sciences Research Council*, November 1, 1997.

Ittner, C.D., Larcker, D.F., Rajan, M.V. 1997b. The choice of performance measures in annual bonus contracts, *The Accounting Review*, 72, 231-255.

Järvinen, M. 2012. Ympäristövastuu johdon ohjausjärjestelmissä: Tutkimus neljästä ISO 14001 –standardia käyttävästä yrityksestä, *Master's Thesis*, Aalto University School of Economics, Helsinki 2012.

Kaplan, R. 1986. The Role for Empirical Research in Management Accounting, *Accounting, Organizations and Society*, Volume 11, No 4/5, 429-452.

Kaplan, R.S., Norton, D.P. 1996. *The balanced scorecard: translating strategy into action*. Harvard Business School Press, United States.

Kaplan, R.S., Norton, D.P. 2001 Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I, *Accounting Horizons*, Volume 15, No.1, 87-104.

Kivivirta, V. 2010. Corporate Responsibility in Management Control Systems – Case Financial Services Industry in Finland, *Master's Thesis*, Aalto University School of Economics, Helsinki 2010.

Koulikoff-Souviron, M., Harrison, A. 2008. Interdependent supply relationships as institutions: the role of HR practices, *International Journal of Operations & Production Management,* Volume 28, No. 5, 412-432.

Kuhn, T. S. 1962. *The Structure of Scientific Revolutions*. University of Chicago Press, Chicago, United States.

Lamberton, G. 2005. Sustainable Sufficiency – an Internally Consistent Version of Sustainability, *Sustainable Development* 13, 53-68.

Ligteringen, E., Zadek, S. 2004. The future of corporate responsibility standards, *Accountability Forum* 4, 6-17.

Lin, C-H., Yang, H-L., Liou, D-Y. 2009. The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan, *Technology in Society*, Volume 31, Issue 1, 56-63.

Lindblom, C.K. 1994. The implications of organizational legitimacy for corporate social performance and disclosure, *Critical perspectives on Accounting Conference*, New York, NY.

Lockett, A., Moon, J., Visser, W. 2006. Corporate Social Responsibility in Management Research: Focus, Nature, Salience and Sources of Influence, *Journal of Management Studies,* Volume 43, Issue 1, 115-136.

Lozano, R., Huisingh D. 2011. Inter-linking issues and dimensions in sustainability reporting, *Journal of Cleaner Production*, Volume 19, 99-107.

Mathews, M.R. 1993. *Socially Responsible Accounting*. Chapman & Hall, London.

Matten, D., Crane, A., Chapple, W. 2003. Behind the Mask: Revealing the True Face of Corporate Citizenship, *Journal of Business Ethics*, Volume 45 No. ½, 109-120.

Matten, D., Crane, A. 2005. Corporate citizenship: towards an extended theoretical conceptualization, *Academy of Management Review*, Volume 30, No. 1, 166-179.

Medcof, J., Rumpel, S. 2007. High technology workers and total rewards, *Journal of High Technology Management Research*, Volume 18, 59-72.

Meyer J.W., Rowan, B. 1977. Institutionalized Organizations: Formal Structure as Myth and Ceremony, *American Journal of Sociology*, Volume 83, No. 2, 340-363.

Moir, L. 2001. What do we mean by corporate social responsibility? *Corporate Governance*, Volume 1, Issue 2, 16-22.

Moneva, J.M., Archel, P., Correa, C. 2006. GRI and the camouflaging of corporate unsustainability, *Accounting Forum*, Volume 30, Issue 2, 121-137.

Murby, L., Gould, S. 2005. Effective Performance Management with the Balanced Scorecard, *INSEAD Technical Report*, The Chartered Institute of Management Accountants, UK.

Neef, D. 2004. *Supply Chain Imperative : How to Ensure Ethical Behavior in Your Global Suppliers*. AMACOM. New York, USA.

Nieuwenhuys, E. (Editor) 2006. *Neo-Liberal Globalism and Social Sustainable Globalisation*. Brill Academic Publishers, Leiden University, The Netherlands.

O'Donovan, G. 2000. Legitimacy Theory As An Explanation For Corporate Environmental Disclosures, *PhD. thesis*, School of Accounting and Finance, Victoria University of Technology, Melbourne, Australia.

O'Dwyer, B. 2002. Managerial perceptions of corporate social disclosure: an Irish story, *Accounting, Auditing & Accountability Journal*, Volume 15, Issue 3, 406-436.

Prasetya, A., Kato, M. 2011. The Effect of Financial and Non Financial Compensation to the Employee Performance, *The 2nd International Research Symposium in Service Management*, Jakarta, Indonesia, 26-30.

Rohm, H. 2004. A Balancing Act, *Perform*, Volume 2, Issue 2, 1-8.

Roman, R.M., Hayibor, S., Agle, B.R. 1999. The relationship between social and financial performance, *Business & Society*, Volume 38, Issue 1, 109-125.

Ryan, B., Scapens, R.W., Theobald, M. 2002. *Research Method & Methodology in Finance & Accounting*. 2nd Edition, Thomson, London, UK.

Scapens, R. 1990. Researching Management Accounting Practice: The Role of Case Study Methods, *British Accounting Review*, Volume 22, 259-281.

Schaltegger, S., Burritt R. 2000. *Contemporary Environmental Accounting: Issues, Concepts and Practice*. Greenleaf, Sheffield.

Scott, W.R. 2004. Institutional Theory: Contributing to a Theoretical Research Program, *Chapter prepared for Great Minds in Management: The Process of Theory Development*, Ken G. Smith and Michael A. Hitt, (editors). Oxford UK: Oxford University Press. 1-47.

Smith, N.C. 2003. Corporate social responsibility: whether or how? *California Management Review*, Volume 45, No. 4, 52-76.

Snapka P., Copikova, A. 2011. Balanced Scorecard and Compensation, *International Conference on Business and Economics Research*, Singapore, 2011.

Szejnwald-Brown, H., de Jong, M., Levy, D. 2009. Building institutions based on information disclosure: lessons from GRI's sustainability reporting, *Journal of Cleaner Production*, Volume 17, Issue 6, 571-580.

Suchman, M.C. 1995. Managing legitimacy: Strategic and institutional approaches, *Academy of Management Review*, Volume 20, Issue 3, 571–610.

Tilling, M.V. 2004. *Refinements to Legitimacy Theory in Social and Environmental Accounting*. Flinders University, South Australia.

Vaivio, J. 2008. Qualitative management accounting research: rationale, pitfalls and potential, *Qualitative Research in Accounting & Management*, Volume 5, No 1, 64-86.

Vaivio, J., Sirén, A. 2010. Insights into method triangulation and "paradigms" in interpretive management accounting research, *Management Accounting Research*, Volume 21, 130-141.

Vauhkonen, P. (Editor) 2007. *Liiketoiminnan vastuullisuus – minkä väristä se on?*" Johtamistaidon Opisto, Helsinki.

Waddock, S. 2003. Making corporate citizenship real, *Journal of Corporate Citizenship*, Volume 9, Issue 1, 3-4.

Waddock, S. and Graves, S. 1997. The corporate social performance-financial performance link, *Strategic Management Journal*, Volume 18, Issue 4, 303-319.

Weber, M. 2008. The business case for corporate social responsibility: A company-level measurement approach for CSR, *European Management Journal*, Volume 26, Issue 4, 247-261.

Yin, R.K. 2003. *Case study research: Design and methods*. 3rd edition, Thousand Oaks.

APPENDIX – Labor and Decent Work (LA) indicators of the GRI

GRI G3 Indicators - Labor Practices & Decent Work (LA)	
CORE INDICATOR	ADDITIONAL INDICATOR
LA1	Total workforce by employment type, employment contract, and region, broken down by gender.
LA2	Total number and rate of new employee hires and employee turnover by age group, gender and region.
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.
LA4	Percentage of employees covered by collective bargaining agreements.
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.
LA6	Percentage of total workforce represented in formal join management-worker health and safety committees that help monitor and advice on occupational health and safety programs.
LA7	Rates of injury, occupational diseases, lost days, absenteeism, and total number of work-related fatalities, by region and gender.
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members regarding serious diseases.
LA9	Health and safety topics covered in formal agreements with trade unions.
LA10	Average hours of training per year per employee, by gender, and by employee category.
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
LA12	Percentage of employees receiving regular performance and career development reviews, by gender.
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.
LA15	Return to work and retention rates after parental leave, by gender.