

Research Executive Summaries Series

The mismatch of internal and external social
performance reports: four case studies

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Overview of project

This research project explores internal information in relation to social performance for four organisations that publish relatively detailed social performance information either in their annual reports or in a separate report. One objective is to link such published social information with the social performance information provided for managers.

The four case studies (see Norris and Innes, 2005, for the full details) in this research project were selected on the basis of their extensive external social reporting but, even in such organisations, managers received very little social performance information. Social performance had slightly different meanings for different interviewees but the following common aspects emerged:

1. Community involvement including:
 - a) employees participating in community projects
 - b) educational liaison including employees giving talks in schools, courses for school projects and teacher placements
 - c) community support including sponsorship
 - d) development of disadvantaged communities in developing countries into mainstream suppliers.
2. Environment including:
 - a) environmental sustainability
 - b) reduction in energy usage
 - c) recycling materials
 - d) environmental management courses for customers.
3. Employees including:
 - a) 'treating employees right'
 - b) feedback on managers from their subordinates
 - c) employee morale index.
4. Suppliers including:
 - a) ethical trading policy (including paying suppliers on time)
 - b) developing long-term relationships with suppliers
 - c) how suppliers treat their own employees and suppliers
 - d) suppliers' environmental impact.

In three of the four cases, interviewees generally ignored or did not know about their own organisation's externally reported social performance measures. One reason for this was that a small unit (divorced from the operational managers and management accountants in the organisation) reported these social performance measures. However, all four organisations had their explicit values such as effect on society, concern for

the individual, concern for the environment, ethical behaviour, trust and integrity. The four case studies include many examples where the social values of the organisation had influenced managerial decision-making.

The major finding of this research project was that the internally reported social performance measures were much less developed than the externally reported social performance measures. Only in one case were the internally reported social performance measures linked to those published in the externally reported social report. Generally a mismatch existed between the internal reporting of social performance and the external reporting of social performance.

The internally reported social performance measures included the following:

1. In relation to community involvement:
 - a) number of staff secondments
 - b) charitable amount raised by staff
 - c) number of employee hours per week on community projects.
2. In relation to employees:
 - a) employee morale index
 - b) employees' perceptions of job security
 - c) employees' perceptions of their job giving feeling of personal accomplishment.
3. In relation to the environment:
 - a) level of emissions
 - b) water used
 - c) volume of waste produced and amount recycled.
4. In relation to suppliers:
 - a) employees have proper written contracts
 - b) factories have proper licences from the government
 - c) impact on the environment.

The findings of this research project suggest ten recommendations to consider if you wish to implement internal social performance reporting. It is important to remember that, although the internally reported social performance measures are important, so also are the organisation's culture and social values that affect social performance – often through informal employee group control and employee self-control. The interviewees considered that the increased organisational costs caused in the short-run by improved social performance would be more than offset by the long-run benefits for the organisation.

External social reporting is important but so is internal management information on social performance. In the final analysis it is the strategic and operating decisions of managers and other employees that determine the social performance of an organisation.

1. Objectives

The three main objectives of this research project are to discover:

1. The meaning of social performance for accountants and managers.
2. The extent to which externally reported social performance measures influence managerial decisions.
3. In relation to social performance measures:
 - a) The degree to which internally and externally reported social performance measures are consistent.
 - b) The information needs of managers with respect to the social performance measures.
 - c) The links between externally reported social performance measures and the internal performance evaluation system.

2. Findings

The four case studies are large organisations with a reputation for external social reporting. Case A is in the retail sector and Cases B, C and D are in the financial services sector. In each case study between 10 and 19 interviews were conducted, with at least two accountants and at least eight managers being interviewed in each organisation. A structured set of detailed coding procedures was used to analyse the data collected and, as a result, the findings are grounded in the data – particularly the interviewees' comments. A draft case report was given to each organisation for any comments or suggested changes.

2.1 Meaning of social performance

Even within the same case study, interviewees emphasised different aspects of social performance. However, in all four case studies interviewees emphasised the environmental aspect of social performance, including:

- a) Environmental sustainability. (Case A)
- b) Recycling and reduction in energy consumption. (Case B)
- c) Reduced paper usage, reduction in energy consumption and encouragement of homeworking. (Case C)
- d) Reduction in energy consumption, encouragement of use of public transport and car sharing, reduced paper usage and recycling. (Case D).

In all four case studies interviewees also stressed community involvement, including:

- a) The development of disadvantaged communities in developing countries into mainstream suppliers and all employees participating in community projects. (Case A)
- b) Local community involvement by employees, charitable donations in cash and kind and educational involvement including employees visiting schools, courses for school pupils and teacher placements. (Case B)
- c) Community support including sponsorship. (Case C)
- d) Community involvement by employees and charitable donations. (Case D).

Interviewees in all four case studies considered the treatment of employees as part of the organisation's social performance, including:

- a) Employee surveys and employee dialogue groups. (Case A)
- b) Staff morale, annual employee opinion survey and employee feedback on managers by their subordinates. (Case B)
- c) Group working and how each employee's job fits into the rest of their life. (Case C)
- d) Employee commitment, employee satisfaction and questionnaire survey of employees. (Case D).

In all four case studies interviewees mentioned suppliers when discussing the meaning of social performance, including:

- a) Ethical trading policy (including paying suppliers on time), social performance of suppliers (including audits of major suppliers by an independent third party) and supply chain integrity programme. (Case A)
- b) Paying suppliers on time and developing long-term relationships with suppliers. (Case B)
- c) Supply chain strategy including social performance of suppliers and paying suppliers on time. (Case C)
- d) Suppliers' environmental impact, how suppliers treat their own employees, how suppliers treat their own suppliers and paying suppliers promptly. (Case D).

2.2 Reasons for emphasis on social performance

In all four case studies interviewees considered that their particular organisation was concerned about its own social performance for the following reasons:

- a) Each organisation wished to be an ethical organisation respected for its social performance.
- b) Such an ethical and social image was considered good for business and, although there were increased costs for the organisation in the short-run, the interviewees believed that the long-term effect was positive on the bottom line of the organisation.

Each of the four organisations, to a greater or lesser extent, took advantage of its social image in its marketing. Most of the interviewees in all four organisations believed that the social image of the organisation was very important for several of the stakeholder groups, including their customers.

2.3 Externally reported social performance measures and decision making

In Cases A, B and C many of the interviewees had little knowledge of their organisation's externally reported social performance measures. One reason for this was that a separate, self-contained unit (divorced from the operational managers and management accountants in the organisation) reported these social performance measures that did not come from the internal management reporting system but were collected as a one-off exercise by this self-contained unit. As a result, very often there was no internal reporting, monitoring or management of such externally reported social performance measures.

Most interviewees considered the external social report of their organisation as a public relations exercise that did not impact on their decision-making. One major finding, therefore, is that the externally reported social performance measures had very little direct influence on managerial decision making in Cases A, B and C. Even in Case D where interviewees were more aware of the externally reported social performance measures, the basic finding was that D's social accountability programme had not yet permeated into daily decision making.

Although the externally reported social performance measures had little direct influence on managerial decision making, in all four cases interviewees considered that the social values and culture of each organisation did influence managerial decision making. All four organisations had their explicit values such as effect on society, concern for the individual, management by fact, valuing staff, ethical behaviour, trust and integrity. In Case A the Values Group played an important role with their monthly report to the Executive Committee and in Case D the Social Values Working Group with its 60 facilitators influenced aspects such as equal opportunities and community involvement.

Examples of social values influencing managerial decision-making included the following:

- a) design of products and packaging
- b) use of recycled materials and refillable containers
- c) reduction in use of energy

- d) ethical investment
- e) not dealing with companies whose ethics and values did not match that organisation's brand values of integrity and trust
- f) staff working on community projects.

2.4 Internally and externally reported social performance measures

In Cases A, B and C there were relatively few internally reported social performance measures and only in Case D were the internally reported social performance measures linked to those published in the social report. A summary of the internally reported social performance measures follows on a case-by-case basis.

Case A did report internally, a number of measures related to employees such as:

1. absenteeism
2. sickness rate
3. appraisal completion rate
4. employee satisfaction rate
5. percentage of employees involved in community projects.

Case A also reported internally, measures related to suppliers such as:

1. minimum age for employees
2. employees have proper written contracts
3. factories have proper licences from the government
4. impact on the environment.

However, Case A had no internally reported performance measures in relation to its community involvement or environmental impact.

Case B reported internally, a performance measurement scorecard covering:

1. customer satisfaction
2. people satisfaction including:
 - a) staff morale index
 - b) employees' perceptions of job security
 - c) index of job offering feeling of personal accomplishment
 - d) employees' perceptions of competitiveness of salary.
3. impact on society including:
 - a) press coverage
 - b) external recognition rewards
 - c) community investment measures such as number of staff secondments.

4. financial results

However, Case B had no internally reported performance measures in relation to its environmental impact or its suppliers.

Case C reported internally, a form of balanced scorecard that included performance measures on employees such as:

1. absenteeism rate
2. staff retention rate
3. staff enthusiasm index
4. development of teamwork
5. level of employees' skill base.

Case C also reported internally, environmental measures including:

1. use of paper
2. number of miles travelled by car
3. energy consumption.

However, Case C had no internally reported performance measures in relation to its community involvement or its suppliers.

Case D linked its internally reported social performance measures with its published measures. Case D had a very detailed system with more than 100 objectives covering community, customers, employees, environment, investees and others. To give a flavour of the internally reported performance measures, the 41 environmental measures included the following reported against targets:

1. quantities of recycled materials in purchased products
2. environmental impact of its company car scheme
3. data on water use
4. volume of waste produced and sent to landfill
5. volume of waste recycled.

The overall finding from the four case studies was that the internally reported social performance measures were less developed than the externally reported social performance measures. Only in Case D were the internally reported social performance measures linked to those published in the externally reported social report. Generally a mismatch existed between the internal and external reporting of social performance.

2.5 Social information needs of managers

In Cases A, B and C, managers generally considered that they received too little social information and, in particular, both accountants and managers agreed that there were too few social performance measures reported internally. The interviewees in Case D liked its comprehensive internal

reporting of social performance measures. However, many interviewees in Case D considered that the system had too much emphasis on input measures and too little on outcome measures such as the effects of Case D's community involvement.

2.6 Social performance measures and performance evaluation system

At present in all four cases, social performance is not part of the formal performance evaluation and remuneration system. Almost all the interviewees in the four cases recognised that this was a weakness. Only Cases A and D were considering changing their performance evaluation system to take the social performance aspect explicitly into account. However, neither Case A nor Case D was considering changing its remuneration system to include an individual's contribution to the organisation's social performance.

2.7 Social performance and controls

One similarity between the four cases was the importance of self-control and informal group control in relation to social performance. How did such informal controls arise? In all four organisations a great deal of effort was put into the employee recruitment and induction processes. Interviewees suggested that job applicants were at least partially influenced by a desire to work in 'socially and ethically oriented' organisations. There was evidence that job applicants were rejected because they had values incompatible with those of the organisation. After a very thorough recruitment process, all four organisations also had an extensive induction process that included an emphasis on the organisation's values. The most important formal controls in relation to social performance were the recruitment and induction processes.

3. Conclusions

The findings from these four case studies suggest the following ten recommendations for management accountants to consider if they wish to implement internal social performance reporting:

1. Have an implementation team including a management accountant and other managers but led by a non accounting manager so that it is viewed as management rather than an accounting led approach.
2. Consult managers about the social information and social performance measures that they need to help them to improve your organisation's social performance.

3. Develop explicit links between the externally and internally reported social performance measures.
4. Consider developing internal social performance measures and reports, if your organisation does not have an external social report.
5. Develop logical links between your organisation's mission statement/objectives and your internally reported social performance measures.
6. Develop internal social performance measures for each of your organisation's stakeholder groups (such as communities, customers, employees, environment, shareholders and suppliers) and identify any possible conflicts between these stakeholder groups.
7. Check that the internally reported social performance measures include both input and outcome measures.
8. Develop a formal system for internal monitoring and management of social performance.
9. Develop explicit links between managerial evaluation (and remuneration) and contribution to your organisation's social performance.
10. Remember that the internally reported social performance measures are important but so are the organisation's culture and social values that affect social performance – often through informal employee group control and employee self-control.

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Other literature generated from this research project

1. Norris, G. and Innes, J., *Corporate Social Responsibility: Case Studies for Management Accountants*, Elsevier and CIMA, Oxford, 2005, 112 pages. Please click here for further details.
2. Norris, G. and O'Dwyer, B., *Motivating Socially Responsive Decision Making: The Operation of Management Controls in a Socially Responsive Organisation*, *The British Accounting Review*, June 2004, pp. 173-196.

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