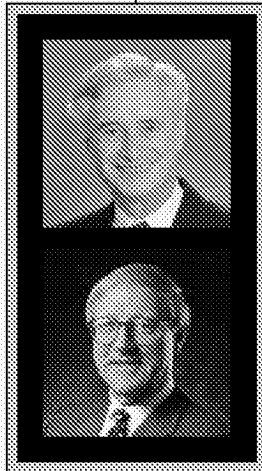


Keeping Score on Community Investment

Robert S. Kaplan and David P. Norton

Companies must continually earn the right to operate in the communities and countries in which they produce and sell. National and local regulations—on the environment, on employee health and safety, and on hiring and employment practices—impose standards on companies' operations. At a minimum, to avoid shutdowns or expensive litigation, companies must comply with all these regulations on business practices.

Many leaders, however, seek to go beyond complying with the minimal standards established by regulations. They wish to perform better than the regulatory constraints, so that they develop their organizations' reputation as an employer of choice in every community in which they operate. For example, see the following statement by NOVA Chemicals:



“At each of our plant sites, we have Responsible Care-based community initiatives that are designed to influence NOVA Chemicals' philosophy of being a neighbor of choice. That commitment means demonstrating outstanding performance concerning safety, health and environmental standards in the communities where we operate. Our commitment to community is further enhanced with corporate sponsorships and donations. We are very proud of our commitment to sustainable development programs everywhere we are located.”

Failure to perform adequately on regulatory and social processes puts at risk the company's ability to operate, grow, and deliver future value to shareholders. Even more important, many companies believe that achieving excellence in such processes enhances long-term

shareholder value. An excellent reputation for performance along regulatory and social dimensions assists companies in attracting and retaining high-quality employees, thereby making their human resources processes more effective and efficient. For example, after benchmarking its HR practices against companies such as Apple Computer and Microsoft, BellSouth added benefits for domestic partners. This was not done specifically to attract gay candidates, but because the company had determined that the young people it wished to recruit wanted to work for a company that they deemed “progressive.” It also added a diversity measure on HR department scorecards to ensure that the company attracted and retained a good mix of employees from the communities in which it operated and served.

Reducing environmental incidents and improving employee safety and health also improve productivity and lower operating costs. And finally, companies with outstanding reputations generally enhance their images with customers and with socially conscious investors. All these linkages—to enhanced human resource, operating, customer, and financial processes—illustrate how effective management of regulatory and community performance drives long-term shareholder value creation.

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**Focusing on
Community Investment**

Many companies provide extensive descriptions of the monetary contributions they make to community-based nonprofit organizations, and to the extensive volunteering done by company employees in communities. Most large corporations have established foundations by which money is systematically directed to worthy community-based organizations.

For example, Coca-Cola espouses, as one of its four core values:

“Community: We will contribute our time, expertise and resources to help develop sustainable communities in partnership with local leaders. We will seek to improve the quality of life through locally relevant initiatives wherever we do business.”

In its Citizen Report, Coca-Cola discloses:

“The strongest communities are those that draw people together in common causes. We empower employees to support civic causes through volunteer programs designed together with community partners. We enhance their individual efforts by matching the donations to charitable organizations. Coca-Cola managers play key leadership roles on the boards of United Way, Big Brothers and Big Sisters, Boys & Girls Clubs of

America, Special Olympics and other local, national and international nonprofit organizations.”

Some companies provide specific quantitative information on their investment into communities. Bristol-Myers Squibb created “Secure the Future,” a five-year, \$115 million commitment to partner with a number of African nations (South Africa, Botswana, Namibia, Lesotho and Swaziland, Senegal, Côte d’Ivoire, Mali, and Burkina Faso) to find sustainable and relevant solu-

the quality of life for people living in poverty. Its Community Partnership Day gives its employees around the world the opportunity to participate in social activities in the communities in which they live and work.

IBM has made education the top priority for its philanthropic efforts. Through its Reinventing Education program, IBM works with school partners throughout the world to develop and implement innovative technology solutions

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***Effective community performance drives
long-term shareholder value creation.***
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tions for the management of HIV/AIDS in women and children, and to provide resources to improve community education and patient support. The Bristol-Myers Squibb Foundation provides extensive support on issues relating to women’s health, health-care infrastructure in developing and transitioning economies, and science education and research.

Novartis established a Foundation for Sustainable Development that sponsors projects in the areas of health, social development, and emergency aid that will improve

designed to enhance the education of disadvantaged children. For each grant site, IBM contributes money, researchers, educational consultants, and technology. In its KidSmart Early Learning program, IBM donates tens of thousands of Young Explorer computers to preschools in the United States and internationally to give computer access to millions of children, most from low-income families with little access to computers at home.

In April 2000, Nokia established the Make a Connection program, a global initiative with the Inter-

national Youth Foundation to help young people connect with peers, families, and their communities. The program improves young peoples' educational opportunities and teaches them life skills through direct training, mentoring, and volunteering opportunities, and by training adults (teachers, youth workers). In the United States, Nokia initiated ClassLink, a project that equips thousands of classrooms with wireless technology, enabling students, teachers, and parents to connect more effectively, and VisionOne, providing tens of thousands of Native Americans with wireless phones.

Measuring Inputs, Not Results

The preceding descriptions are just a small fraction of the quite extraordinary investments that companies are making in the communities in which they operate and in disadvantaged countries around the world. The extent of enlightened corporate philanthropy is remarkable. Unfortunately, there is a dark side to this picture. Companies reporting on their community investments describe only the inputs they provide—money, people, equipment, and expertise. Extensive reporting on these investment inputs can be found in the detailed annual reports of their corporate foundations. Missing from all these reports, however, is any measure of

the outcomes achieved by such philanthropy.

Consider the reporting standards that companies use for their environmental, health, and safety reports, and contrast these with standards used to report on community investment. Company environmental, health, and safety reports provide quantitative evidence of the effectiveness of company investments. The reports contain detailed statistics and trends on reduction in water, air, and soil pollution, on reductions in energy and materials requirements per unit of output produced, and on reductions in days lost from accidents and illnesses. For employee hiring and promotion policies, companies provide detailed statistics of the number of women and minority employees who have achieved senior technical and managerial positions.

Company reporting on community investments, however, reveals only how much has been spent, how many employees have been involved in community activities, and which programs the company is supporting. While the reports often show pictures of committed employee volunteers and the happy and grateful recipients of this corporate largesse, we learn nothing systematic about the impact of companies' substantial investments. A Nokia statement, better than

most, at least makes an attempt at output measures:

“Altogether the Make a Connection program has already made a tangible difference in the lives of almost 20,000 young people, has trained almost 400 adults in reaching out to young people, and has indirectly benefited more than 1,000,000 young people and adults. Nokia has committed more than U.S.\$11 million to the program.”

But even this disclosure falls far short of what company executives should expect to learn about the returns from their \$11 million investment. What tangible difference has been made in the skills, capabilities, motivations, or successes of the 20,000 young people who have been reached by Make a Connection? What social return has Nokia realized from its investment?

Executives demand detailed justification for capital investments, and they expect tangible returns from spending on research and development, advertising, employee training, and quality. Yet these same executives put their analytic side to sleep when committing substantial financial, personnel, and equipment resources to community-based programs. Rather than being a constructive force for change, corporate executives acquiesce in the general lack of accountability and

performance information from the nonprofit and NGO sectors.

Perhaps companies' community investments are in an early evolutionary stage, and company executives are not yet demanding quantitative performance data from these programs. But this complacency should not persist.

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***Expect and demand performance data
on community investments.***
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Company executives should expect and demand performance data from any program in which they invest. The outcomes need not and likely should not be denominated in dollars, euros, or yen. But they should be denominated in measurable improvements in educational performance, women's opportunities, health, or whatever outcome the community-based program is expected to produce.

Mechanisms for performance-based social investing do exist. Organizations like the innovative venture philanthropy fund New Profit Inc., in Cambridge, Massachusetts, demand that the social enterprises in which they invest have a detailed performance model,

based in fact on the Balanced Scorecard, to describe their strategy for success and to provide feedback on the outcomes achieved. Companies need to demand output and outcome data from their foundation executives and from the executives of community-based programs that they support. The goal would be to have the quality

of reporting from companies' community investments match that from their environmental, health, and safety programs.

Deriving Competitive Advantage from Community Investment

Michael Porter and Mark Kramer echo our view about the need for companies to think much more strategically about their philanthropic activities. In their *Harvard Business Review* article "The Competitive Advantage of Corporate Philanthropy," they argue that corporations should use their charitable efforts "to improve their *competitive* context—the quality of the business environment" in which they

operate. For example, Cisco Systems invests in educational programs that train computer network administrators. The programs provide skills for an attractive job opportunity for high school graduates and simultaneously alleviate a potential constraint for expanded use of Cisco products. Porter and Kramer identify four elements of a competitive context that companies can influence through philanthropic activities:

1. *Input factor conditions:* A company's productivity and competitive position can be enhanced by increases in the supply of trained workers, high-quality scientific and technological institutions, good physical infrastructure (such as roads and telecommunications in developing nations, and excellent arts organizations in developed regions and nations that attract mobile, talented employees), and transparent, honest governmental processes.
2. *Demand conditions:* Companies such as Digital Equipment Corporation in the 1960s and 1970s and Apple Computer donated their products to universities and schools. Upon graduation, students who had become computer literate with the donated equipment naturally

preferred to purchase that equipment for their companies and their personal use.

3. *Rules for competition and rivalry:*

Companies that compete based on superior products, processes, and services don't want to have their advantages undermined through theft of intellectual property and bribery and corruption activities by less able rivals. It is in the best interest of high-performing companies to compete on a level playing field. Companies can donate to organizations that improve the rule of law in countries where they produce and sell.

4. *Related and supporting industries:*

Porter had previously described the competitive benefits in geographic clusters of suppliers, producers, and sophisticated consumers. Companies can invest in suppliers and infrastructure that support the industry in which they compete.

Porter and Kramer conclude, "The more tightly corporate philanthropy is aligned with a company's unique strategy—increasing skills, technology, or infrastructure on which the firm is especially reliant, say, or increasing demand within a specialized segment where the company is strongest—the more disproportion-

ately the company will benefit through enhancing the context."

They concur with us that companies must "rigorously track and evaluate results. Monitoring achievements is essential to continually improving the philanthropic strategy and its implementation."

Company Strategic Alliances

Several companies have indeed moved beyond a pure "philanthropic but no results" stage in their community investments to active involvement and partnerships in the community organizations they support. Research by Jim Austin (see *Leader to Leader* Number 18, Fall 2000) of the Harvard Business School documents how companies' collaborations with nonprofits yield important benefits in:

- *Strategy enrichment:* Generating business opportunities and promoting a positive and trusted image with customers (particularly important for retail service organizations), regulators, and legislators.
- *Human resource management:* Attracting and retaining higher-quality employees; strengthening employee motivation and morale; developing leadership capabilities.
- *Culture building:* Shaping and reinforcing the core values that elicit desired employee behavior.

- *Business generation:* Enhancing a company's reputation, building goodwill, expanding networks of relationships, increasing access to key consumers, and providing a venue for testing innovations.

The partnership between Timberland, the outdoor boot and apparel outfitter, and City Year, an urban youth service corps, provides an excellent example of such a strategic collaborative relationship. It took several years for this relationship to evolve from the philanthropic stage—giving money and in-kind donations (Timberland boots to City Year corps members)—to the transactional stage (joint events, such as cause-related marketing, event sponsorships, licensing, and paid service arrangements), and then on to the integrative stage—the company and the community organization have become an integrated joint venture that is central to both organizations' strategies. Value creation becomes a joint process, rather than two separate processes, one for the company and one for the community organization.

Georgia-Pacific and The Nature Conservancy (TNC) provide an example of a relationship that has evolved from confrontation to collaboration. TNC wanted to preserve land untouched, and Georgia-Pacific wanted to use land intensively to harvest trees. The two

organizations found common ground to jointly manage unique forested wetlands in ways that preserved biodiversity while also permitting commercial development. Other such integrative relationships include Starbucks and CARE; Bayer North America and the Bidwell Training Center in Pittsburgh; Reading Is Fun and Visa International; The College Fund (the

business sense for us to support science education. . . . It's not that we don't get good public relations from being involved, but we have a core reason to be involved."

When companies enter into such strategic collaborations, they can help to shape the value that will be created and the metrics that will be used to assess performance. The

nity organizations in which they invest. Even for their passive, philanthropic-stage investments, companies can restrict funding to those organizations that can document successful outcomes. Companies can then use such outcome data in their reports rather than simply itemizing all the resources contributed to organizations.

With a performance-based model for community investments, the community organizations and the NGOs that are more successful in generating superior outcomes will attract higher and more stable funding. Those organizations that are unable to deliver measurable performance improvements will receive less and eventually wither away. This performance-based competitive dynamic will make the nonprofit/NGO "third sector" far more effective and much more efficient, thereby generating large aggregate benefits to society. But companies must take a lead role—through their foundations and through their voluntary contributions—in setting a standard that requires output and outcome measurement from their community investments. Continued simplistic reporting of money spent and programs supported, accompanied by pictures of grateful and happy recipients, should not be the preferred standard for companies' community investments, any more than disclosing money spent on en-

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*Measure how society is better off
from your investment.*
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largest minority educational assistance organization in the United States) and Merck; The National Science Resource Center (for improving the teaching of science in elementary and high school education) and Hewlett-Packard; Time to Read and Time Warner.

Successful collaborations generally occur when the community partner complements the company's core business or strategy. As a senior executive of Bayer emphasized:

"You need to be invested in something that has to do with your business. . . . You need to be able to give and to get. We're a science-based company. It makes

social value generated will arise from the mission of the nonprofit community organization. The challenge is for the company to assess the incremental or distinctive social value created by the collaboration. The company needs to measure how society is better off from its investment and its collaboration with the community organization.

As companies shift their community investments from the philanthropic stage to the integrative or collaborative stage, they will, like the New Profit Inc. venture philanthropy fund, be able to exert more leverage for measurable performance data from the commu-

vironmental cleanup and an occasional picture of a smokeless exhaust tower and fish swimming in a nearby river would be considered adequate for environmental reporting.

Assessing Effectiveness

Many companies today recognize that achieving excellence in environmental, safety, health, employment, and community practices is part of long-term value-creating strategy. At a minimum, achieving good regulatory and social performance is a long-term objective that enables companies to maintain their franchises to operate in all communities where they wish to make, market, sell, and distribute their products and services. Beyond just complying with local regulations and expectations, however, companies that excel in critical regulatory and social processes can enhance their reputations among customers and investors, and also help to attract and retain valuable employees who take pride in their companies' roles in improving the environment, the workplace, and the community.

Companies should strive to identify the regulatory and social process objectives that will have the biggest impact for enhancing employee attraction and retention, the customer value proposition, and financial performance. In their in-

vestments in communities around the world, companies should seek opportunities that leverage their competencies and that enhance their strategic objectives. They should be as diligent and rigorous in assessing their returns from community investments as they are in evaluating the effectiveness of their investments in tangible and intangible assets.

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