A CSR Europe Helpdesk Service

Integration of CSR/Sustainable Development into performance assessments and evaluation processes at large companies.

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Key Findings

The interviewers very much enjoyed working on this topic and would like to thank companies that contributed to this research by giving their time and valuable expertise.

All companies interviewed provided very positive feedback on their experiences in integrating CSR indicators into the performance assessment of employees, as well as in establishing the link between their sustainable development strategies and their compensation and benefits systems.

How?

The interviews revealed a **variety of processes and management systems** for the integration of KPIs, depending not only on the organisational structure of the company but also on the geographic area where the firm operates and its degree of internationalisation. Therefore, it seems that **no single mainstreamed approach and no dedicated management system can be identified** for facilitating the integration of CSR targets into employee's performance assessment. Indeed, one of the main challenges faced by companies **is how to adapt these KPIs to local specificities** whilst ensuring strategic alignment and taking into consideration local specificities and challenges. Multinational companies are challenged in terms of the application of a common remuneration system based on KPIs and CSR Targets. Targets have to be shaped and adapted to local realities in order not to become realistic.

Who?

One of the main positive elements highlighted by companies, apart from **strategic alignment**, is success in **fostering employee's engagement** in the company's CSR strategy. Thanks to the high level of visibility given to CSR, employees clearly feel encouraged and incentivised to integrate the CSR dimension into their everyday working habits.

Most companies place great emphasis on **the performance of top management**, leaving it up to each unit business leader to cascade and adapt the appropriate KPIs to their team. Therefore, the higher the position, the more accountable the employee is and the more KPIs.

What?

KPIs on CSR are diverse, covering topics ranging from health and safety to reducing CO2 emissions. They therefore need to be tailored to each business unit depending on their activities. As the formulation of these targets must be strategic, the **internal process to develop them is long and complex**.

KPIs related to **environmental targets seem more difficult to monitor** given the long-term scope of the results. Consequently, unlike other targets such as ensuring gender equality, these dimensions are more challenging to introduce into corporate culture. However, some companies go a step further by introducing **the assessment of leadership or behaviour** as part of their employee's evaluation of performance, directly linking a qualitative measure with their compensation and benefit system.

Most companies consider the relationship with rating agencies challenging as these tend to focus on concrete activities and visible data, penalizing companies which fail to take concrete action regardless of the effectiveness of their internal CSR strategies.

Most companies seem willing to share this information with other companies within the CSR Europe network and explore the possibility of exchanging best practices in this area. This could be done in the frame of **CSR Europe's new initiative the Enterprise 2020**, offering companies the opportunity to work with peers and a myriad of European stakeholders to collectively innovate

and bring to the next level new responsible business models and initiatives equipped to tackle nowadays societal challenges.

Being at the core of the implementation process of short- and long-term CSR strategies, the **integration of CSR performance** assessment and corresponding incentive patterns may **play a vital role in reshaping corporate governance** committed to sustainable action.

1 Context

CSR Europe offers bespoke services to its corporate members. Every member company is entitled to two days worth of helpdesk service annually. Within this credit, examples of services include a structured review of a CSR/Sustainable Development Report, or issue specific research on European policies. In an effort to increase the sharing of expertise within the network, a number of the resulting reports have been made available to CSR Europe members and national partners only.

www.csreurope.org

20+ reports available online for members:

- CSR Awards across Europe
- National Climate Change Policies
- CSR governance structures
- CSR Report assurance statements
- … and many more

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The report below was initially created upon request of one of CSR Europe's member companies. Considering the relevance of the information held within this study, CSR Europe, in agreement with the member company, decided to consolidate parts of the original report into the current research. This and other reports are available for download on CSR Europe's website: http://www.csreurope.org/pages/en/resources_for_members.html.

For more information about CSR Europe's helpdesk service offering, please contact Carien Duisterwinkel on cd@csreurope.org.

1.1 Objective and Briefing

Sustainable development is becoming more and more mainstreamed across large companies urging not only for a more mainstreamed and transparent governance structure but also for a more formal framework to engage employees to become active players in the company's sustainability strategy.

This research aims to map out how sustainable development and respective/according indicators are integrated in employee's performance assessment regardless of their department or management level. This analysis is based on interviews performed with various European companies willing to share their experiences and best practices in successfully integrating these indicators in their performance assessment.

First, the report will be highlighting the business case for integrating KPIs in manager's or employee's performance assessment as this new approach allows a company not only to actively drive its strategy towards a more sustainable future but also to engage employees in the "making" of its corporate strategy. Sustainability can be defined as a multi-dimensional construct, referring to the economic, social, psychological, and environmental characteristics that promote the long term survival, renewal and well-being of an organisation. A sustainable workforce relates to the interconnection of all these aspects affecting the job satisfaction, health, performance, and quality of work life of employees.

1.2 Methodology

As this type of information is often not publicly available, CSR Europe has conducted interviews with selected member companies to get a better insight in the Human Resource management process leading to integration of sustainability in performance assessment of employees. The interviews conducted in the frame of this research, allowed a more qualitative analysis and a better comparison.

- HP
- Anonymous
- Sony
- Alpro

- Veolia,
- Danone
- Enel

Interview Questions:

1. Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?
2. Scope: does it apply for top managers (incl. CEO), or all managers?
3. How are the criteria applied and how are they phrased? Are they qualitative/quantitative?
4. What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?
5. Are these criteria linked to the remuneration/bonus systems?
6. How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?
7. What is the overall experience with such a system?
8. What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company?

2 Business Case

Recruitment and competency development are central to human resource, however, the importance of compensation and performance management should not be underestimated. Typically companies reward on the basis of financial performance, which will singularly foster profit-maximizing behaviour, overlooking the need to also consider sustainability factors. The total reward and recognition program, including base salary, incentive pay, long term incentives and other non-monetary recognition benefits (such as award programs, employee of the month, promotions, etc.), needs to be aligned with the company's CSR values and strategy. Some argue that doing less would be to guarantee under-achievement of a company's CSR objectives.

As it has been analysed in the past, studies demonstrate that from every financial metric, an investment in recognizing excellence is strongly associated with the best financial performance. In a study of 200,000 managers and employees over a 10-year period, Gostick and Elton[1] found

[1] Study commissioned by the premier recognition solutions provider, O.C. Tanner Company, and conducted by noted research firm, The Jackson Organization, of Columbia, Maryland (2005) Why saying thank you is more than just good

that, in companies where few people agreed with the statement "My organization recognizes excellence", annual return on equity averaged a paltry 2.4 percent. By contrast, companies with a culture that emphasized thanking people for excellent performance racked up returns more than three times as high, at an average of 8.7 percent.

The new tendency of integrating sustainability in performance assessment aims at achieving the same by helping each business unit to establish CSR targets and develop performance evaluation systems to foster a more sustainable behaviour. In fact, if CSR is promoted through incentive mechanisms such as– salary packages and targets that determine whether the manager receives a pay raise, promotion, or only achieves its yearly targets – the firm is likelier to reach a greater CSR alignment.

Even if this tendency is rising, the number of companies integrating sustainability indicators in their performance assessment is rather unusual as the management systems and frameworks used by companies are not always suited to take into account the intangible dimension of sustainability. Some frameworks already take into account intangibles; however, as of date there is no dedicated framework integrating the full sustainability dimension in the management system itself. The following paragraphs will be highlighting the existing management systems favoured by companies willing to build in CRS indicators.

2.1 Scorecard

The Balanced Scorecard translates Mission and Vision Statements into a comprehensive set of objectives and performance measures that can be measured and appraised. These measures typically include the financial performance, customer value performance, internal business process performance, innovation performance and **employee performance.** (see 0).

Kaplan and Norton[2], designer of this management tool, describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation." The balanced scorecard approach provides a clear prescription as to what companies should measure in order **to 'balance' the financial perspective with intangible values.**

According to a recent study on the use of the BSC (balanced scorecard), 65% of global companies were using this management tool in 2005[3].

manners, accessed on the 21/11/09 on
http://money.cnn.com/2007/04/11/news/economy/annie_praise.fortune/index.htm

[2] Kaplan, Robert S and Norton, David P. (2001), "The Balanced Scorecard: Measures Which Drive Performance", Harvard Business Review

[3] Balanced Scorecard Institute accessed on the 2nd of december
http://www.balancedscorecard.org/BSCResources/ExamplesSuccessStories/tabid/57/Default.aspx

For further information on the balanced scorecard and its nine steps to succeed, please visit the Balanced Scorecard Institute.

2.2 Performance Measures and Incentives

Strategic performance measures also called KPIs (key performance indicators) help to monitor the implementation and effectiveness of an organization's strategy and determine the gap between actual and targeted performance as well as to determine organization effectiveness and operational efficiency.

Good Performance Measure need to:

- Provide a way to see if the company's strategy is working
- Focus employees' attention on what matters most to success
- Allows measurement of accomplishments, not just of the work that is performed
- Provide a common language for communication
- Are explicitly defined in terms of owner, unit of measure, collection frequency, data quality, expected value(targets)
- Are valid, to ensure measurement of the right things
- Are verifiable, to ensure data collection accuracy

Incentives to reward the good performance of employees can take various forms depending on the company but most importantly rewarding individuals on company-wide goals widens the scope of what employee consider important. When meaningful, incentives tied to group results or profitability margins encourage loyalty, cooperation and get employees to look beyond just their function or department.

2.3 Ensuring employee's engagement and alignment with the company's CSR strategy

As mentioned earlier, employees are among the key stakeholders for the development of any CSR strategy or program. A critical first step in mission, vision, values and strategy development

is to understand the key concerns, priorities and perspectives of all key stakeholders, particularly employees.

Research by Towers Perrin in 2007 revealed that an organization's reputation for social responsibility was one of the top **10 engagement drivers**, along with senior management's interest in employee well-being, opportunities to improve skills and capabilities and input into decision-making.

The study[4] "Engaging employees in Corporate Social Responsibility" highlights the spectrum of employee's engagement in CSR from "I'm aware of the message", in which employees are familiar with the CSR strategy and how it helps the company meet its objectives; to "I understand the message" wherein employees learn the reasons behind the company's CSR objectives and begin to understand their role in making the company successful. The next stage is "I believe", where employees feel conviction towards the company's CSR values and objectives, and finally, "I am committed to act", the highest level of commitment. Those employees who are and feel their basic job needs are being met and who achieve this level, will be inspired to act in ways that help the company reach its goals.

Cascading a strategy means to translate the corporate-wide sustainability strategy down to first business units, support units or departments and then teams or individuals. The organization alignment should be clearly visible through strategy, using the strategy map, performance measures and targets, and initiatives. Scorecards are used to **improve accountability through objective and performance measure ownership**, and employee's behaviors are incentivized with recognition and rewards. The integration of sustainability KPIs in the performance assessment of employees aims to harmonize and align the company's values with the employees' values.

Therefore, if CSR becomes a core component of employee engagement and therefore a key driver of business value, CSR alignment will become a more critical tool for fostering corporate success over time.

[4] Melcrum (2006) Engaging employees in Corporate Responsibility accessed on http://www.melcrum.com/store/products/product.shtml?id=3125

3 Overview on the integration of Sustainability KPIs in the performance assessment of employees

	Anonymous	Sony	Alpro	Danone	ENEL	Veolia
1. System in place? **Since when?** **How many KPIs on CSR**	Yes Not specified Not specified	Yes 2007 Not specified	Yes 2007 Not specified	Yes 2007 - 1/3 CSR in the performance assessment	Yes 2005 - 2 out of 5 indicators related to CSR	Yes 2007 - 1/3 CSR in the performance assessment
2. Scope	- All levels of managers - The Board of Directors included	- All top managers and managers - But only Sony Europe - CEO not subjected to the system = targets set in Japan	- All top managers and managers - CEO has 3/4 KPIs (and the link with compensation - Management team has 2/3 KPIs - Employees have 1 or more	- Danone and applies to all director level, executive levels and the rest of the management - Managers of local subsidiaries responsible for cascading KPIs	- Only top managers and managers have MBO	- 300 top managers at corporate level
3. Criteria applied are they more Quantitative or Qualitative?	Mixed quantitative and qualitative criteria	Gender equality More quantitative. Environment: More Qualitative.	Quantitative	Quantitative	4 quantitative 1 qualitative	Qualitative approach of the service industry
4. Weight in performance assessment?	Not specified	20% of bonuses	10% of total bonus	33% of total bonus	40% of total bonus	Not specified
5. Criteria linked to renumeration/bonus?	Not specified	20% of bonus	10% of total bonus	33% of total bonus	40% of total bonus	Not specified

6. Channels of Communication?	- Sustainability Center - Employee seminars and trainings	- Sony's intranet - President of Sony Europe	- Alpro's guide on performance and KPIs - Weekly communication to employee	- Central Business Unit communicates through its Compensation and Benefits department and adapts annual bonus structure depending on the local context	- Each manager is informing its team on behavioural evaluation and targets	- HR communicates to top management - Top management communicates to each department/ business unit
7. Overall exprerience?	Positive	Positive but Environmental targets hard to reach/measure	Positive	Positive	Positive	Positive
8. Impact on rating agencies?	- Challenging to assess as these often look at KPI`s and specific criteria and results on tangibles	- Challenging relationship but the approach of honesty is valued rather than false promises	- No direct contact with rating agencies - Rating agencies tend to leave aside the applied strategy behind the Company's CSR strategy.	- CSR KPIs are more appreciated from institutional investors. - Sustainability is a good added value on top of the return on investment	- Not specified	- Veolia is always compared to homogenous companies so the rating is somehow biased

4 How CSR Europe can help

As has already been mentioned in this elaboration, the integration of CSR performance assessment in remuneration and bonus systems potentially bears numerous benefits to a company. In particular, CSR performance assessment may provide for a strategic alignment of business needs with long-term CSR targets, while harmonizing company values with employee values (compare chapter 3), therewith providing enhanced incentives to productivity and creativity. However, the different approaches taken by the companies represented in this report offer the opportunity to learn and share on best practices and potential short-comings in CSR performance assessment. Here, CSR Europe's new initiative **"Enterprise 2020"** provides various channels for co-operative engagement and innovation.

4.1 Enterprise 2020

Enterprise 2020 is an initiative by CSR Europe that will support sustainable business development, help optimize stakeholder collaboration, and further strengthen Europe's global leadership on corporate social responsibility (CSR).

This will be done by initiating, developing and sharing company initiatives and collaborative ventures in response to key socio-economic and environmental challenges which, leading up to the year 2020, seriously question our traditional patterns of living, consuming and sharing resources. These societal pressures and drivers include, among others, the new global governance, climate change, resource scarcity, demographic change, social divide, technology acceleration, and many more.

Specifically, Enterprise 2020 will look at how companies are responding to and proactively anticipating these global trends by effecting change in their products and services, organisations, and people. CSR Europe invites you to contribute through two concrete channels:

- Submitting Company Initiatives (later clustered into Communities of Practice)
- Proposing Ideas for Collaborative Ventures (stakeholder involvement/co-leadership)

The active involvement in these two channels offers the following benefits:

- Work with peers from other companies on further developing your company initiatives in communities or practice.
- Present your company's initiatives to European companies and stakeholders at the Enterprise 2020 launch in October/November 2010

- Develop practical tools to societal and business challenges through joint leadership
- Strengthen relations with EU institutions based on practical partnerships
- Contribute to building a critical mass of innovation within CSR and sustainability to (re)build trust between business and stakeholders

Summarizing the above, "Enterprise 2020" offers the opportunity to work with peers form other companies and a myriad of European stakeholders to collectively innovate and bring to the next level new responsible business models and initiatives equipped to tackle nowadays societal challenges. Being at the core of the implementation process of short- and long-term CSR strategies, the integration of CSR performance assessment and corresponding incentive patterns may play a vital role in reshaping corporate governance committed to sustainable action. For alternative approaches towards incentive patterns please see 5.2.3.

The companies represented with their name in this analysis were all open to learn and share with their peers, therewith providing fertile ground for a future cooperation on maximizing the modes and benefits of CSR performance assessment and incentive systems.

5 Appendices for further research

5.1 Interviews

5.1.1 Sony Europe

Minutes: CSR Europe Interview with Sony Europe

Input provided by: Mr. Roy White, VP Human Resources Sony Europe

Interview by: Nicoletta Pavese, Jan Kopper

Context

One of its member companies has asked CSR Europe to undertake a benchmark Implemented criteria to **evaluate, remunerate and incentivise managers with regards their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report[5].

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

   The System In place at Sony Europe is twofold:

   a) ***Employee survey*** on engagement and satisfaction (every two years)

   Targets are based for all managers and senior managers based on the results of the previous survey records. The targets constitute 20% of the bonuses.

   b) Although specific criteria are not in place, there are certain ***focus areas***

   - *Environment:* in 2009 the company has chosen environment as main target. Sony has started to develop target based on the environmental strategy.
   - *Gender Equality:* Previous targets were strictly linked to gender equality. Managers were asked to provide which qualitative actions there would take (collect numbers and data); 2010 will be more based on quantitative results

2) **Scope: does it apply for top managers (incl. CEO), or all managers?**

[5] The report will be delivered by mid January

The system of bonuses and remuneration based on targets such as environment and gender equality is applied to all top managers and managers and it is based in Sony Europe .

However the CEO in not subjected to such system, as the targets for his position are set from Sony's Global Headquarters in Japan.

3) **What are the criteria applied and how are they phrased?**

Are they qualitative / quantitative?

Criteria vary from year to year according to Sony's priorities. However Environment remains the main strategic target, together with gender equality in the workplace.

Gender equality**: More quantitative**. The target is measured by the collection of data which are subsequently broke down for business areas

Environment: **More Qualitative**. Extremely challenging to collect precise data on environmental performances. Since environment is relatively new as a strategic focus, the question asked to managers are mainly based on a qualitative approach:

- What are the actions taken?
- How do you think to engage your employees?
- How would you include the focus on environment on sales and marketing?

4) **What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?**

20% of bonuses and remuneration.

5) **How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?**

All employees at Sony have access to regular updates on ongoing or coming activities within the group. Top executives also communicate with Sony Group employees by **posting messages on Sony's intranet** and **seek feedback**, thereby facilitating the sharing of information and creating a sense of unity for the Sony Group as a whole.

The President of Sony Europe also present, on a quarterly basis, on the progress and activity of the Company. Data are then transmitted, at a local level, by top managers.

6) **Is your personal bonus also linked to the Targets set for the Company?**

Yes. The 20% based on the targets applies to every manager.

7) What is the overall experience with such a system?

The System is relatively new (it has been in place for 2-3 years). The experience has been quite positive. Managers and employees understand the importance of including targets such as environment and gender equality in the Company both from an economic point of you (most of Sony's consumers are, for example, women) but also from a moral point of you.

The adoption of targets based on gender equality has been easier to implement, given the quantitative approach. However, environmental targets have proven particularly hard to reach and to measure.

The difficulties of collecting precise data is linked to the fact that precise measuring systems are still being developed.

8) What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company? (Do they even ask about such a system? Have u been rated higher since adopting such a system?)

Most NGOs, ranking agencies and auditing groups do not focus on the adoption, by the company, of particular remuneration policies, but are more interested in monitoring the actions taken by the company on issues such as environmental protection, respect of employees' rights and Health and Safety.

In Sony's experience, the relationship with this kind of organisation can be really challenging. In fact, they often put pressure on companies on matters which are not easy to solve and on which the Company cannot make real and concrete promises.

Sony has chosen an approach of honesty rather than one of false promises, and this has possibly led the company to be ranked lower than others.

5.1.2 Anonymous

Minutes: CSR Europe Interview

Input provided by: Anonymous

Interview by: Nicoletta Pavese, Jan Kopper

Context

One of its member companies has asked CSR Europe to undertake a benchmark on implemented criteria to **evaluate, remunerate and incentivise managers with regards to their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report.

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

   - CSR is a core part of our business. Therefore, the CSR performance of managers is not measured via the application of a specified set of criteria. Rather, our organisation incorporates the pillars of economy, ecology and society in our overall strategy and business performance.
   - Remuneration/Bonus system is linked to the relation between earnings, return on assets and individual performance
   - Personnel Committee decides on bonus per executive manager

2) **Scope: does it apply for top managers (incl. CEO), or all managers?**

   The system applies to all levels of managers. It also includes the Board of Directors.

3) **What are the criteria applied and how are they phrased?**

   Are they qualitative/quantitative?

   Our business strategy incorporates the pillars of economy, ecology and society. Thus, CSR targets are implemented in the overall strategy. In this regard, quantitative and qualitative

criteria are not made explicit but rather follow a scheme of combined performance assessment.

[example: a manager 's remuneration could be influenced by his ability to push the sale of environmentally friendly products.]

Also, when criteria are applied, they are very much dependent on the role and position of individual managers.

4) What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?

No weight specified. CSR is linked to our core business and performance assessment.

5) How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?

The role of CSR Communication is part of our Sustainability Center, and not part of Corporate Communications. The Sustainability Center communicates with Corporate Communications, Human Resources and other divisions regarding CSR activities. We have a Sustainability intranet site where news and challenges related to CSR are posted. Additionally, CSR reports are published 2-3 times a year and disseminated to employees, stakeholders, investors etc. New employees are educated regarding CSR through a seminar.

6) Are these criteria linked to the renumeration/bonus system

See questions 1 + 3

7) What is the overall experience with such a system?

The overall experience that the company has had with its CSR system is positive.

We are regarded as a frontrunner in the field of CSR, which is reflected in the established CSR indices.

CSR is the core business of the Company, making it possible for us to avoid "Green Washing".

8) What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company? (Do they even ask about such a system? Have you been rated higher since adopting such a system?)

We occasionally find it challenging to explain our CSR-integrated approach to rating agencies, as these often look at KPI`s and specific criteria.

Although we don't apply a specific percentage allocated for CSR targets, our strong commitment to Corporate Social Responsibility is reflected in our top performance in a number of high profile international rankings:

- Leadership in DJSI
- Leading the sector in the CDP (Carbon Disclosure Project)
- Recently won the German award for CSR Reporting

5.1.3 HP

Minutes: CSR Europe Interview

Input provided by: HP

Interview by: Carien Duisterwinkel

Context

One of its member companies has asked CSR Europe to undertake a benchmark on implemented criteria to **evaluate, remunerate and incentivise managers with regards to their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report.

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**
    a) No, there is no triple bottom line reporting system in place in HP
    b) CSR performance is reported (report, web, etc) per topic/area, not linked to individual's targets, and not embedded in individual performance assessments
    c) Managers can however, if they see fit, set team targets/define job descriptions that also include CSR objectives, but this is up to individual managers, and not integrated as a system
    d) HP does measure employee engagement in green/social initiatives or volunteering projects.

5.1.4 Alpro

Minutes: CSR Europe Interview

Input provided by: Alpro

Interview by: Jan Kopper

Context

One of its member companies has asked CSR Europe to undertake a benchmark on implemented criteria to **evaluate, remunerate and incentivise managers with regards to their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report.

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

   Use of the balanced scorecard following the three pillars:

   - People
   - Profit
   - Planet

   System is composed of Financial targets + Social and environmental targets (3Ps)

   There are, within the management structure, certain KPIs (20), which are specific for each manager, i.e Energy and Health & Safety managers have specific indicators on financial and non financial performances related to their field of competence.

   On the one hand, the evaluation and bonus system has a financial dimension, i.e marketshare/sales, productivity, capital used etc.

   On the other hand, each employee within Alpro (managers & employees) potentially entitled to a bonus, should have at least one indicator related to the categories of People and/or Planet.

2) **Scope: does it apply for top managers (incl. CEO), or all managers?**

   The system applies to everyone within the Company. It starts at the highest level, with the CEO and goes to down to every level of management, to simple employees. The higher the hierarchical level the more indicators and the more generic the indicators, the lower the level in the organizational structure the fewer and more specific the indicators. Who

decides on the allocation of indicators to different managers and employees (process as described in question nr. 5)?

- CEO has 3/4 KPIs (link with the salary)
- Management team has 2/3 KPIs
- Employees have 1 or more

3) What are the criteria applied and how are they phrased?

Are they qualitative/quantitative?

Remuneration and bonuses are based on the activities of a one year period. At the highest level, however, executives and top managers are also remunerated through stock options, which have a more long-term impact (3 -5 years).

Example: People in production (factories) may have the following targets:

- To limit the use of water in a finished good
- To limit the energy consumption for producing the good
- % of green energy used to produce a finished good

4) What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?

10% of total bonus is linked to the achievement of CSR targets

5) How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?

The plan is to follow the guide's indications and regularly (once a year) adapt the strategy and the actions taken by Alpro.

At the highest level Alpro has a guide on performance and KPIs .This guide is consulted and adapted on a monthly basis by the management team. The info and KPIs are then cascaded to employees in each department.

At employee level, meetings are scheduled on a weekly basis to inform the workforce on actions taken by the company and to measure their level of satisfaction.

Team Leaders' meetings are scheduled every morning in the factories to discuss the objectives from the day before and revise and evaluate them. New objective are then set for the day to come.

6) Are these criteria linked to the remuneration/bonus systems?

Yes. They constitute 10% of the bonus if targets are met.

7) What is the overall experience with such a system?

The overall experience with the system is positive.

Alpro integrated CSR indicators in their managers and employee performance assessment 5-6 years ago. Moreover, the balanced scorecard model has been introduced 2-3 years ago.

The experience has been positive as the system offers the chance to make KPIs explicit and visible for all employees. Additionally, it gives employees incentives to contribute to the CSR strategy and concrete guidelines to meet the company's target in order to make Alpro a leader in CSR and Sustainable Development.

Every year the KPIs and the targets are reconsidered and adjusted to the Company's current challenges and CSR Strategy: this provides the opportunity either to point out areas of improvement, or to eliminate unrealistic targets. At the highest level, targets are reconsidered every year and modified to include more ambitious targets in order to improve performance constantly.

8) What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company?

Alpro does not have direct contact with rating agencies. The risk, according to the interviewed, is to become too dependent on the judgement of agencies that mainly focus on concrete achievements and activities, leaving aside the applied strategy behind a Company's CSR.

Employees are empowered to pro-actively shape the "making" of the sustainable strategy within Alpro.

5.1.5 Danone

Minutes: CSR Europe Interview with Danone

Input provided by: Mr. Jean-Christophe Laugee, Director Sustainability Center

Interview by: Marion Birnstill and Iker Albestain Gonzalez

Context

One of its member companies has asked CSR Europe to undertake a benchmark on implemented criteria to evaluate, remunerate and incentivise managers with regards to their contribution to the company's sustainable development/CSR strategy.

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report.

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

Yes, Danone has integrated CSR indicators in its bonus system 2 years ago (2007). Since 2008, the 650 top managers' objectives have taken societal and environmental criteria into account. They can fix up to one third of their variable pay. Objectives are set in 3 different categories: 1/3 of them are linked to economic performance, 1/3 are social and environmental objectives, 1/3 concern business development (which may include societal projects). Social and environmental objectives are chosen by the subsidiaries through Danone Way Ahead and then ratified by the Group (Objective example: implementation of a carbon impact calculator for all stages of the value chain). These objectives are then adapted to all employees of the subsidiary.

This strategic decision has been decided on the highest level of the company (Chairman and board of management).

As stated previously, the Bonus system is divided into 3 dimensions:

- Financial performance (33%)
- Social environmental value creation (KPIs related to social and environmental objectifs) (33%) with some mandatory objectives
- Business development (33%)

The mandatory KPIs on social and environmental value creation are:

- Co2 emission reduction % inside the reporting structure
- safety at work %
- Talent generation ratio (people development)
- Danone way if the business unit has a standard of less than 2 stars out of 5 (enters the mandatory objectives)

Sustainability strategy is global but KPIs depend on the Geographic area as well as on the business unit.

2) **Scope: does it apply for top managers (incl. CEO), or all managers?**

This system has been introduced by Franck Riboux, CEO of Danone and applies to all director level, executive levels and the rest of the management. All departments are following the same sustainability strategy and specific KPIs are to be cascaded by individual managers (collective KPIs as well as individual KPIs), taking into account the geographic area, and business unit and department specificities. This allows the company to have a greater sustainability strategy alignment throughout the various business unit, franchise and geographic area.

Danone uses the Balanced Scorecard to formulate its strategic priorities on a global management level. However, the company reports the achievement of its CSR targets through an integrated reporting system based on the SAP system.

The Danone Sustainability Report 2008 states that 88% of managers received an individual performance review.

3) What are the criteria applied and how are they phrased?

Are they qualitative/quantitative?

The CR strategy is part of all Business Units / Department managers' annual objectives, and then integrated into the operational action plans of their teams (variable pay takes their achievement into account and social and environmental objectives represent one third of overall objectives).

KPIs are strictly quantitative allowing a better traceability on key achievements.

- Co2 emission reduction in %
- safety at work in %
- Talent generation ratio in % (people development)
- Danone way if the business unit has a standard of less than 2 stars out of 5 (enters the mandatory objectives). Since 2001, the Danone Way (and then Danone Way ahead) initiative has allowed the company to ensure the integration of the CR strategy into the operational action plans of units and subsidiaries. It is also a way to speed innovation up and monitor CR performance through key indicators

Example on the reduction of Carbon emission:

1. During the year 2008, the Group Danone carried out a measure of the global carbon footprint (scope 1, 2 and 3) of all the subsidiaries of the Waters and FDP divisions through the consolidation of 1100 measurements in 64 subsidiaries.

2. The Group also committed itself to launch a "carbon neutral" program for 5 of its main brands (carbon neutral by 2011), including a computing tool measuring CO^2 emissions at each stage of the product lifecycle. Results influence decision-making processes regarding procurements, eco-conception, transport choices, production processes, etc. in order to reduce CO^2 emissions

4) What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?

These CSR indicators count for 33% of the overall performance assessment. Each indicator's weight varies depending on the subsidiaries, business unit and geographic area.

5) **How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?**

Each Central Business Unit (CBU) communicates through its Compensation and Benefits department (main guidelines to be adapted) on its annual bonus structure depending on the local context and local objectives.

6) **Is your personal bonus also linked to the Targets set for the Company?**

The bonus system relies on the following three main dimensions: (Financial Performance, Social and Environmental performance and Business development). The bonus relative to social and environmental performance (33%) is adapted to each type of function and cascaded throughout the various departments.

For example, the HR director has the same objective regarding the reduction of the CO2 emission as the collective objective expected in its subsidiaries; however, the individual contribution varies depending on the hierarchical level and function and the willingness of the director to cascade these objectives.

Even though employees are encouraged to comment on their KPIs related to sustainability, there is no framework or systematic approach to such a reporting.

7) **What is the overall experience with such a system?**

After 2 years of existence, Danone's experience of integrating CSR indicators in its employee's performance assessment is very positive. The main challenge regarding the implementation of these KPIs was the translation of the global CSR strategy into concrete and flexible indicators, taking into account the local specificities. For example, Danone has assessed the emission of 95% of its portfolio

(Scope 1/2/3).

Integrating sustainable KPIs into the manager's and employee's performance assessment allows a better strategic alignment among business units and departments and thus increases the strategic consistency without distinguishing financial and non-financial performance but by consolidating tangible and intangible benefits on a yearly basis.

8) **What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company? (Do they even ask about such a system? Have you been rated higher since adopting such a system?)**

Yes, Danone believes that this proves and gives a demonstration of consistency in the company's willingness not only to perform financially but also to actively address the thematic of business ethics and governance.

- Some rating agencies are solely focused on the financial performance of a firm, first condition to fulfil to be considered as a performer on the market, the sustainability dimension is appreciated as an added-value.

- Other rating and rare rating agencies appreciate the strong commitment of companies to sustainability without linking it to a threat on return on investment or profitability.

- It seems that the sustainability dimension is more important and more appreciated from institutional investors.

5.1.6 Enel

Minutes: CSR Europe Interview with ENEL

Input provided by: Mr. Ricco and Mr. Giardina

Interview by: Marion Birnstill and Iker Albestain Gonzalez

Context

CSR Europe undertakes a benchmark on the implementation of criteria to **evaluate, remunerate and incentivise managers with regards their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report. The report will be delivered in January and published online in the member's only section.

Interview Questions

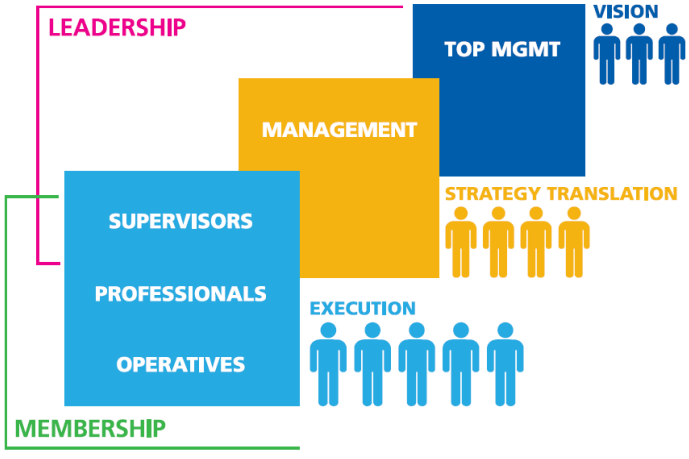
1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

Every year, the operating heads of the Divisions of ENEL receive a "Plan Letter" from the Chief Executive Officer containing the corporate social responsibility guidelines to be used in establishing the individual objectives and specifying the action areas. Regarding the Plan Letter, ENEL, among other action areas, develops systems for assessing the corporate climate. Individually, the company tries to make the most of individual capabilities extending evaluation processes, personalizing professional development paths and instilling the culture of sustainability.[6]

ENEL integrated various indicators in the performance assessment of employees and managers following the decision of top management. These indicators are integrated in the evaluation and compensation system in two ways:

a) Management by objectives approach

The system provides for a direct connection between reviews and compensation for employees with managerial incentives (MBO). The new assessment system combines differentiated instruments in an organic model:

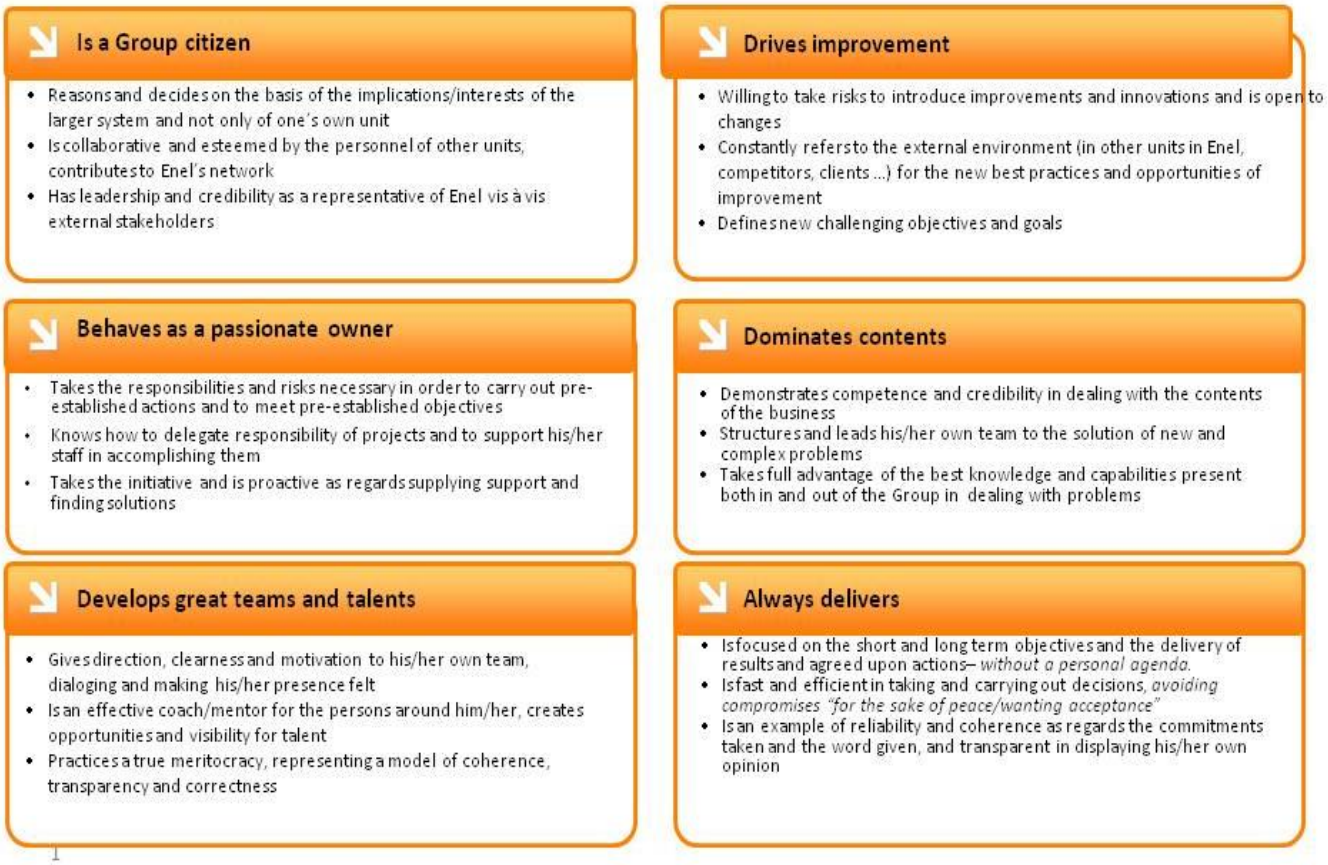


The performance review for managers, supervisors and, when the

[6] Sustainability Plan 2009

system is fully implemented all white-collar employees (in 2008 more than 4,000 employees of the Sales Division were involved in a pilot project).

b) Leadership model for a behavioural evaluation

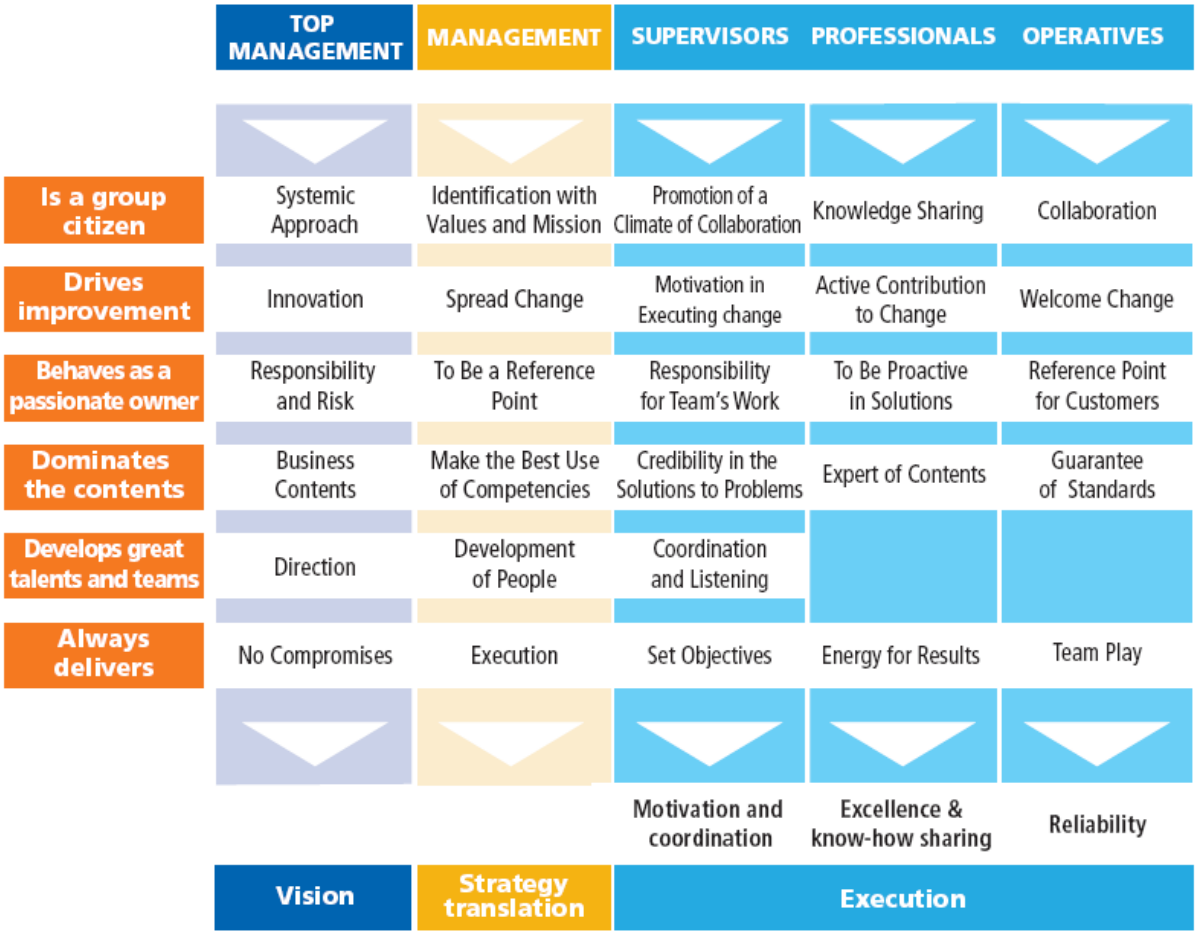


ENEL confirms its commitment to the dissemination of behaviour that is consistent with its corporate values and the leadership model the Company adopted, for which constant dialogue with employees and the structured processes of internal communication remain the instruments of choice.

The new assessment system started with the Leadership Model, which contains the kind of behavior that is expected at the various corporate levels and according to which the different employee segments are measured: "operating", "professional", "resource managers", "management", and "top management". In this way, the assessment is more transparent and explicit, and thus fairer.

Following a global survey in 2006, ENEL developed and integrated the leadership model for the entire company. This has been introduced in 2008 and the assessment and incentive systems have been updated to further involve employees and their families in the issue of sustainability and specifically health and safety.

2) Scope: does it apply for top managers (incl. CEO), or all managers?



The management by objectives and the behavioral evaluation applies only to top managers and managers.

3) What are the criteria applied and how are they phrased? Are they qualitative/quantitative?

The evaluation of performance of employees (excluding operatives) is based on 5 main variables; 4 of them are quantitative/qualitative and 1 is directly linked to the behavioral assessment. More or less 2/3 out of 5 Goals are linked to sustainable development or corporate social responsibility.

1. Behavior part CSR 20% of the evaluation with the following indicators adapted to each employee segment:

2. Project or Activities engaging employee in on various CSR topics 20%

- ❖ Protection of the Environment
- ❖ Reduction of CO2 emissions
- ❖ Diversity
- ❖ Responsible Supply chain,
- ❖ Transparency and
- ❖ Service quality

3. Economic and financial specific performance indicator (20%)
4. Economic and financial specific performance indicator (20%)
5. Various projects or activities (20%)
6. Safety in ENEL is a crucial "collective" target in order to incentive a lower organizational health and safety accident from one year to another. The achievement of this target "collectively" will influence the "individual" compensation (for each manager involved in management by objectives) and a de*multiplicator* is foreseen to be applied to all target achieved by the managers in the coming year, if the indicator of safety is worse than the year before.

4) What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?

- ❖ Minimum 20% of total Bonus
- ❖ The number of targets and objectives depend on the segment and specificities
- ❖ So far there are no different weights for the indicators but a demultiplicator might be applied to the health and safety target.

5) How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?

Each manager is informing its team on the behavioural evaluation and collective targets are cascaded into individual targets every year. MBO process mainly starts first month of the year by setting up the goals for the top management.

Even though employees are encouraged to comment on their KPIs related to sustainability, there is no framework or systematic approach to such a reporting. The targets represent a minimum of 20% of the total bonus.

6) Is your personal bonus also linked to the Targets set for the Company?

- Yes, as discussed above the performance assessment of CSR related KPIs links directly the compensation and benefit system
- Moreover, the behavioural assessment contributes to foster promotion opportunity among the 29 000 people that have been evaluated this year

7) What is the overall experience with such a system?

The overall experience is positive. The system was introduced five years ago as a process to integrate CSR in performance assessment of employees/ managers. In the course of the years, the system has been developed with the leadership model (2 years ago) in order to create a closer connection between CSR and the company's strategy and foster CSR strategic alignment. Next year, ENEL will most probably apply a demultiplicator to the health and safety dimension to emphasize on the importance of lowering organizational health and safety accident.

Regarding the balance scorecard, ENEL tried to implement the ENDESA's scorecard after the merger with this company in the current year, but finally ENEL decided to use other management systems.

8) What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company?

Not specified

5.1.7 Veolia

Minutes: CSR Europe Interview with Veolia

Input provided by: Mr. Andre Mollon, VEOLIA

Interview by: Marion Birnstill

Context

One of its member comapanies has asked CSR Europe to undertake a benchmark Implemented criteria to **evaluate, remunerate and incentivise managers with regards their contribution to the company's sustainable development/CSR strategy.**

We commit to provide each CSR Europe member participating in the research effort/interview with a copy of the final report. (The report will be delivered by mid January)

Interview Questions

1) **Is there such a system in place within your company? When did you set it up? How does it work, how is it managed?**

   Yes, there is an annual assessment and management reviews carried out on a yearly basis. However, the system has a global and transversal approach that makes the local adaptation difficult. As Veolia operates in 72 different countries and as Veolia is a holding for 1500 companies operating in 4 different sectors (water, environmental services, energy services and passenger transportation). The CSR strategy is decided on corporate level, therefore there are no CSR criteria adapted to each country.

   Veolia applies a transversal management in order to better integrate its various business unit. The group has 300 different salary systems which makes the integration of KPIs difficult on operating level. The aim of Veolia's strategy is to first report efficiently on 100 different KPIs in order to assess the corporate social performance. These address the workforce, their characteristics and movement, compensation, training, working hours, safety and social dialogue. A multi-year labor progress plan was implemented to improve the group's overall performance.

   Veolia's strength is to be highly transparent and ensure a good traceability on the group's achievement or failure on CSR related topics.

   CEO conseil administration : rémunération conseil d'administration

2) **Scope: does it apply for top managers (incl. CEO), or all managers?**

   The KPIs are supposed to be cascaded to all employees but this depends on the managers willingness to do so. Veolia has therefore only the visibility of 300 top managers and their performance on sustainability KPIs.

3) **What are the criteria applied and how are they phrased?**

Are they qualitative/quantitative?

These managers are assessed based on 3 different criteria:

- Economic performance (33%)
- Values (Corporate Social Responsibility related topics) (33%) Qualitative
- Leadership abilities (33%) Qualitative

4) **What is the weight of CSR/Sustainable Development related criteria in the overall performance assessment/evaluation?**

The weight of sustainability KPIs is one third of the overall performance assessment

5) **How does the company communicate to employees/managers on the performance related to specific CSR related targets and key priorities for the company, e.g. health and safety?**

Top managers are all directly in relation with the Human Resources department and their performance assessment. As for the rest of the employees, they are directly informed by their manager on local level.

6) **Is your personal bonus also linked to the Targets set for the Company?**

There is a direct connection between reviews and compensation with managerial incentives.

7) **What is the overall experience with such a system?**

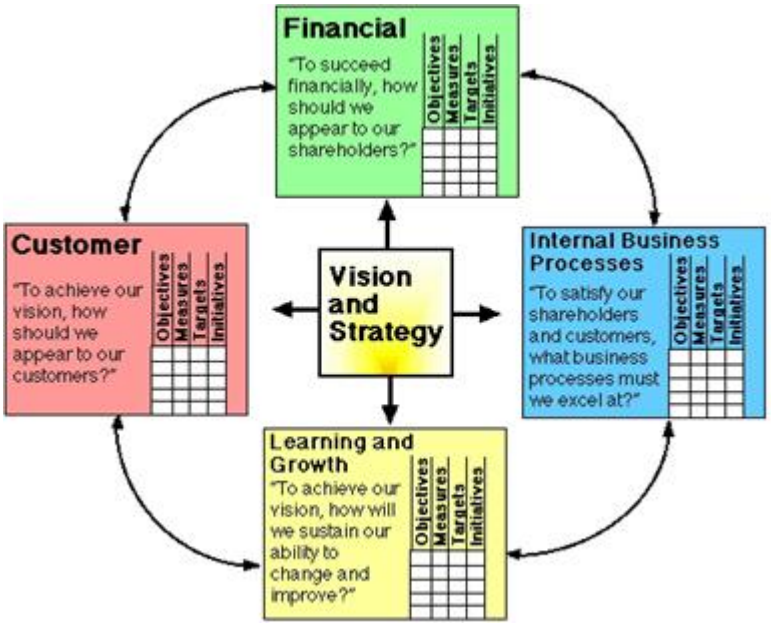
There is a transparent direct link between employee performance and remuneration. Variable pay is used to reward performance that meets or exceeds the financial and non-financial targets in the balanced score card. KPIs are reviewed by the Board on a yearly basis for the past 3 years.

8) **What has been the impact of this with rating agencies? Do they ask about it and how does this reflect/impact on how the agency ranks your company? (Do they even ask about such a system? Have u been rated higher since adopting such a system?)**

Rating agencies are always comparing Veolia with homogenous companies so the rating is somehow biased. In general Veolia achieves quite high ranking in systems such as in Vigeo, for example).

5.2 For further research

5.2.1 Appendix 1: The balanced scorecard



5.2.2 EFQM Model

For further details on the various Management System Model, visit
http://excellenceone.efqm.org/Default.aspx?tabid=345

5.2.3 Ted talk

The science of motivation
http://www.ted.com/talks/dan_pink_on_motivation.html

5.2.4 European People Governance Network

European people governance Network for further insight in the implementation of ethical principles and attitudes that lead to the integration of people-related questions in all stages of the decision-making process by the governing bodies of the company
http://www.epegon.eu/index.php?page=definition-of-people-governance