

## The Business Excellence Model for CSR Implementation?

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### ABSTRACT

*Most of the Fortune 500 companies address Corporate Social Responsibility (CSR) on their websites. However, CSR remains a fluffy concept difficult to implement in organization. The European Business Excellence Model has since the introduction in 1992 served as a powerful tool for integrating quality in organizations. CSR was first introduced in the model in 2002. From 2004 the European Foundation for Quality Management (EFQM) has been eager to promote the model as an effective tool for implementing CSR. The article discusses the potentials of the model for this end and illustrates how a 2006 European Award winning company has used the model to integrate CSR. The company adapted the Business Excellence model to improve performance, stimulate innovation and consensus.*

**Keywords:** Business Excellence Model, CSR implementation

### 1.0 Introduction

Corporate social responsibility (CSR) has moved from the periphery to the centre on the corporate agenda. However, CSR is still surrounded by a great deal of ambiguity (Snider *et al.*, 2003). The growing interest in the topic from companies, governments and the general public has only served to extend the number of definitions (Blowfield & Murray, 2008).

Is CSR just another management fad that will go away in the near future? A number of evidence speaks to the contrary. 81 per cent of executives said, in a 2005 poll, that corporate responsibility is essential to their business (Blowfield & Murray, 2008). However, they disagree about what exactly “corporate responsibility” means. Today, CSR issues are found on the websites of more than 80 percent of the *Fortune 500* companies (Bhattacharya & Sen, 2004). 78 percent of the *Fortune 1000* companies now have separate code of ethics and 80 percent of the FTSE-100 companies disclose information on social and environmental policies (Smith, 2003). Moreover, the number of ISO 14001 certifications has skyrocketed and there has been a noticeable increase in Global Reporting Initiative (GRI) reporters (Pedersen, 2006a). It all indicates that CSR is here to stay. The challenge to day has moved from *whether* to *how*. The challenge is how to integrate economic, social and environmental concerns into day-to-day management decision making. However, evidence indicates that the integration of CSR into the company’s everyday practices still leaves much to be desired. For instance, a survey among corporate leaders concluded that only a minority (10 percent) of companies have taken meaningful steps to integrate CSR in the corporate strategy and the mainstream operations (Mirvis & Googins, 2004). As a consequence management is looking for tools to accomplish this task (Epstein, 2008). One of these tools could be the Business Excellence Model. The European Foundation for Quality Management’s Excellence model is one of more models to guide companies in striving to become excellent in quality management. The Excellence model was introduced in 1992 and is today the most popular approach to achieve Business Excellence in Europe (Kristensen & Westlund 2004, p. 629; Zink 2005, p. 1044).

The model has been reformulated a number of times, e.g. in 2002, when “corporate social responsibility” (CSR) for the first time was introduced in the model to replace “public responsibility” (Porter *et. al.* 2004, p. 159, 180). The last edition is the EFQM framework for CSR launched in Paris in 2004. It is stated “The EFQM framework for CSR is a new and integrated approach that uses the Excellent Model as a common base - the model enables organisations to have a integrated approach to CSR” (P. Margaria,

2004 p. 20). The EFQM has been eager to promote the Excellence model as a tool for effective implementation of CSR (Margaria, 2004, p. 19). It is further argued that the model is based on a stakeholder view of the firm. Companies can only be excellent if they satisfy the needs of their stakeholders (Porter et. al. 2004, p.159). Stakeholder theory is a common platform for the model as well for much of the literature in CSR (Neergaard & Pedersen, 2003 p. 47).

Is the EFQM Excellence Model a useful tool in implementing CSR? In short, the model consists of nine key elements that are illustrated in **Figure 1**. It distinguishes between *Enablers*, i.e. factors the company can manipulate, and *Results*, which can be considered as the effects of the manipulation. The model is expected to become a virtuous cycle where improved performance will stimulate innovation and learning which in turn may further improve the organisational processes and outputs.

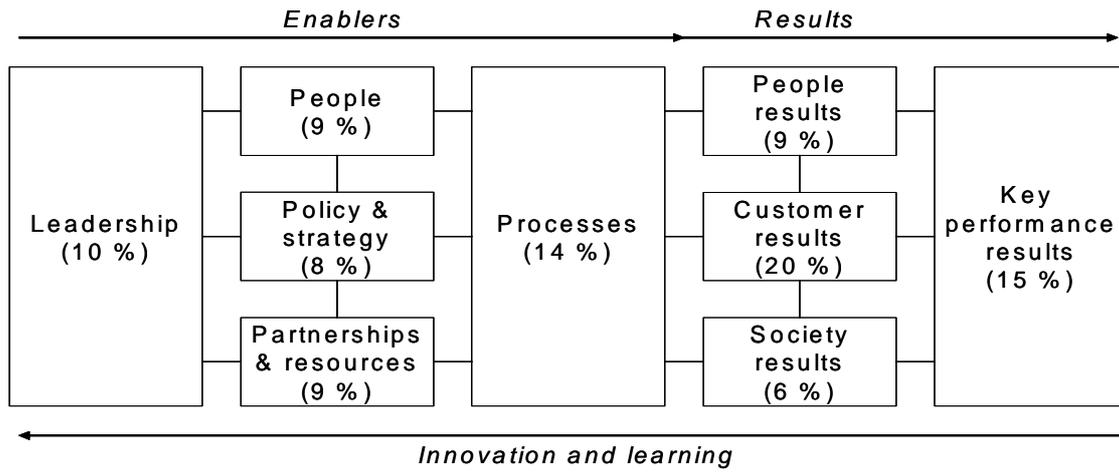


Figure 1: The EFQM Excellence Model (EFQM 2007, p. 12).

## 2.0 Integrating CSR in Business Excellence in Grundfos A/S

Grundfos Group is a global pump manufacturer with a net turnover of EUR 1.8 billion and approx. 14,500 employees (Grundfos, 2006), composed of 72 companies. With production sites in 14 countries ranging from Brazil to China, approx. 75 percent of the sales and production companies in Grundfos Group uses the Excellence model as the overall management philosophy. The analysis will focus on the Danish Grundfos A/S. It employees some 4.000 people and is the largest company within the Grundfos Group. In 1996, Grundfos A/S became the first company in the Grundfos Group to introduce EFQM Business Excellence. The main reason was increased competition, which forced Grundfos A/S to re-evaluate its business structure and processes if it wanted to ensure future production in Denmark. In 2006 the company won the EFQM Excellence Award - a European award for the high performing organisations within the field of Business Excellence. At the same time, Grundfos A/S received a special EFQM price for CSR and people development respectively. (EFQM, 2006).

### 2.1 Integrating CSR in the enablers

Managers are important change agents which are able to shape responsible business practises, e.g. by integrating CSR in the corporate vision, mission, and values (Epstein 2008; Werre, 2003). In this regard Grundfos A/S and Grundfos Group have to a large extent adopted the CSR discourse. For instance, CSR is an important part of Grundfos' core values and is even integrated in the corporate brand "Be, Think,

Innovate” (with “Be” referring directly to the company’s responsibility towards people/employees and society). Moreover, the concern for the environment is also mentioned in the corporate vision and mission (Grundfos, 2005).

In relation to CSR, a key target in Grundfos A/S (and the whole Group) is that three percent of the workforce should be employees with special needs who are unable to hold a full-time job on normal conditions. This is a distinguishing factor of Grundfos’ CSR engagement and something that seems to be deeply rooted in the corporate culture. Today, workshops now also play a role in helping other groups in risk of social exclusion (e.g. ethnic minorities).

In order to integrate Business Excellence at all levels of the organisation, Grundfos A/S has developed a simple version of the Excellence model that all production teams use in an annual performance assessment. The assessment, which also includes a few CSR issues, leads to the formulation of new goals that are transferred to balanced scorecards and strategy maps and is supposed to guide the work of the teams for the next year. Of more CSR-related initiatives is worth mentioning job retaining in flex departments, a centre for health and welfare (offers e.g. back training), other health programmes (e.g. anti-smoking courses), and facilities for hobby and sports. However, there are limitations to the CSR integration in people management. For instance, the management reward system is only to a limited extent linked to CSR performance.

The management of quality as well as social and environmental issues no longer stops at the perimeter fence of the company (Neergaard & Pedersen, 2005). In consequence, collaboration and *partnerships* with other companies in the supply chain becomes an increasingly important management task. In Grundfos A/S the partnership concept was introduced in relation to supplier management in 1998 and it has e.g. been manifested in an annual Supplier’s Award as well as a number of supplier seminars. Looking at the limitations of CSR integration in supplier relationships, it is worth mentioning that the purchasing department, which has received only limited education and training on these issues, ensures CSR compliance. However, they can get support from the corporate sustainability experts if they are in doubt about a supplier’s social and environmental performance. With regard to Grundfos’ internal *resources* in relation to CSR, Grundfos has a rather comprehensive system in place to manage and control these issues. The most important environmental, health and safety impacts are monitored internally every month and an external agency furthermore carries out two annual environmental audits.

Grundfos A/S considers *processes* as a key element in the Excellence model. Without a clear concept of key processes it is not possible e.g. to design targeted training and education of the employees, formulate clear policies, and allocate resources efficiently. In order to strengthen the focus on processes and the related results the organisation has supplemented the Excellence model with a wide range of other management technologies; including six sigma, lean production, quality circles, benchmarking, strategy maps, and Balanced Scorecard. In relation to social and environmental issues, Grundfos A/S has also adopted ISO 14001, EMAS, and the OHSAS 18001 standard. According to the manager of Grundfos A/S these CSR standards serve as benchmarks and a means to maintain the company focus on environmental, health and safety issues.

## 2.2 Results and CSR

According to Hoffman *et al.* (2001) if the company is serious about CSR they should also be serious about how they evaluate CSR. Based on the available evidence, Grundfos A/S seems to have a comprehensive system to track social and environmental progress and has also received external recognition. In 2005 Grundfos A/S was also placed on the Great Place to Work Institute’s list of the 100 best workplaces in Europe (2005). Looking at the internal management of *people results*, Grundfos A/S has measured employee satisfaction regularly since 1987. The results from recent years indicate a high

level of employee satisfaction both when it comes to the employees' attitudes toward the work, the management, and the company (on a 1 to 5 scale, the average satisfaction on all categories are above 4). Moreover, the employees consider the corporate values to be very in line with their own.

It is not possible to evaluate *customer results* in relation to CSR without knowing the buying criteria and priorities of this stakeholder group. Moreover, it also makes it difficult to assess to what extent Grundfos A/S promotes CSR because customers put forward social and environmental demands that the company has to comply with. However, what can be said is that the Grundfos Group in recent years has tried to integrate environmental concerns in product development and affect the market by being involved in the development of an energy-labelling scheme for circulation pumps. Grundfos was the first company to market a so-called A-rated pump that uses up to 77 percent less electrical energy than the least energy-efficient ones.

The potential *society results* of this initiative are noticeable since the greatest environmental impact occurs at the end-users. According to Grundfos' own estimates reducing the energy consumption of the pumps can lead to significant reductions of the energy consumption (as well as representing a business opportunity). In 2005, the sale of energy saving pumps results in reductions in energy corresponding to 144,883 households' energy consumption. With regard to managing the social and environmental impacts of the manufacturing itself, Grundfos A/S tries to manage the external effects on the local communities by measuring e.g. working accidents, water and electricity consumption, and oil/grease contents in the wastewater. Moreover, the company is consistently placed in the top-10 in various Danish image and reputation surveys among citizens, students, and in the business community

According to EFQM (2007, p. 15) *key performance* results are linked to the company's policies and strategies. In consequence, key performance can cover a wide range of social, environmental and economic measures. However, since people, customer and society results has already been dealt with, it is probably no surprise that companies like Grundfos A/S emphasises financial and commercial performance measures when evaluating this element of the Excellence model. Actually, social and environmental performance is only dealt with to the extent it is expected to have economic effects. For instance, in 2005 Grundfos A/S estimated that the reduced costs from environmental, health and safety improvements amount to more than EUR 5 million. Even though this indicates a business case for CSR, the implication may be that the economic view of key performance results removes the focus from of the more normative elements of the mission, vision, values, policies, and strategies. As we discuss in the next section, the Excellence model tends to promote an instrumental view of CSR.

### 3.0 Summary and Perspectives

Grundfos A/S served as a good practice case example to illustrate how a company has integrated social and environmental concerns in the Excellence model. However, the article also identified rooms for improvement regarding e.g. management compensation and supplier relationships in the case of Grundfos. In conclusion, the Excellence model has proven to be a useful tool for Grundfos to implement CSR in the organisation. Even though the Excellence model is one of the first management approaches to explicitly deal with the impact of business on society it is important to note that the nine elements of the Business Excellence model do not have equal weight (Hardjono & Klein, 2004). When assessing the companies, customer results are considered as the most important factor (count 20 percent) whereas the impact on society has the lowest value (6 percent). One might say that the Excellence model is an explicit attempt to map and evaluate the importance of the company's various stakeholders. The fact that the Excellence scoring primarily attaches importance to results delivered for employees, customers, and owners it is questionable whether the model in its present form can be used as a vehicle to mainstream CSR. In order for CSR to make a difference, the model will have to be more explicit about the results the

company generates for all corporate stakeholders. Excellence in turn becomes a matter of creating value for stakeholders; not just the shareholders (cf. Freeman *et al.*, 2004).

Furthermore, the Excellence model seems to assume – in line with other performance management tools like the Balanced Scorecard – that ‘the business of business is business’ (Kaplan & Norton, 1996). As noted by the Kristensen & Westlund (2004, p. 630): “*The main focus of BE (Business Excellence, our amendment) is, of course, internal, i.e. on managing the value of stakeholder assets to enhance financial performance*”. However, if business performance is understood solely in terms of financial and commercial objectives CSR activities will always become a means to an end rather than an end in itself. This instrumental view of CSR places some limitations on the potentials for CSR integration in performance management. Not all CSR issues can be expected to generate win-win solutions, which imply that even important social and environmental impacts on society may be subdued concerns for the bottom-line (Duska, 2000). Essentially, the model says that it is acceptable to ignore social and environmental concerns if especially the customers do not value it. From a normative CSR standpoint, however, it can be questioned if companies deserve to be in business if they do not act in accordance with societal norms, rules and values (Post *et al.*, 2002).

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