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**Social Responsibility
As a Management Control System**

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June 2004**

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SOCIAL RESPONSIBILITY AS A MANAGEMENT CONTROL SYSTEM

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Submitted in partial fulfillment of the requirements for the degree of

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ABSTRACT

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EXECUTIVE SUMMARY

This report examines how businesses with social responsibility as part of their core strategy use related management control systems within Harvard Business School Professor Robert Simons' business strategy control model. The model explains the interaction of four control levers (Beliefs Systems, Boundary Systems, Interactive Control Systems, and Diagnostic Control Systems) to balance business strategy. We examine how management control systems for social responsibility apply to each control lever both in theory and through the application of case examples. Finally, we overlay the model from corporate America onto the Naval Postgraduate School to examine where socially responsible management control systems operate to control and adjust the overall socially responsible strategies.

The research effort for the project closely followed the initial plan. The topic currency provided an abundant source of recent information and the opportunity to conduct firsthand interviews with industry SR experts. Research into the background of SR revealed a rich history of theoretical debate that we highlight and follow with stakeholder analyses for businesses presently facing the issue of managing an SR strategy. Before providing some examples of notable SR business practices in each of the four levers of control, we provide a synopsis of the evolving definition of SR and an overview of the management control systems strategy model.

The project case analysis was conducted on the Naval Postgraduate School (NPS) to assess its SR management control systems relative to best business practices uncovered in the initial project research. Data for the case analysis was gathered through documentary sources including strategy and policy statements, departmental instructions, and other publicly available information. Management intent and further understanding of the control systems was gained through personal interviews with nine NPS principal staff members.

The analysis of the NPS management control systems for its SR strategy identified several strengths and weaknesses in the areas of its SR strategy and the beliefs, boundary, diagnostic, and interactive control systems for the SR strategy. The principal strength is that NPS effectively adopts Navy-wide SR control systems. The primary weakness lies in not communicating the SR beliefs and boundaries. Several implications and conclusions are drawn from the strengths and weaknesses before providing some final recommendations for further military relevant SR research.

I. INTRODUCTION

In the 21st century, the lines between government responsibility, corporate obligations to customers and society, and the role of each towards the other will become more blurred. Organizations may only survive by regulating themselves and continuing to make decisions that are beneficial to both themselves and society at large. Business is inherently risky, but the expectations of employees, communities, investors, customers, and governments for businesses to act socially responsible have only served to increase the number of factors affecting business risk. Understanding these emerging social responsibility risks, the strategies businesses employ to address them, and the systems they use to implement these new strategies are of primary importance to the Department of Defense.

A. RELEVANCE TO DEPARTMENT OF DEFENSE

Defense leaders and managers of the complex acquisition, contract administration, and auditing systems that interface with the defense industry must be aware of the emerging concern for social responsibility (SR) in order to adequately develop acquisition strategies, contract requirements, and risk assessments that will enhance the responsiveness and strength of the defense supply chain. For example, a defense contractor fails to address the growing discontentment of the labor force in its global supply chain adequately. A prolonged strike ensues that impacts delivery of critical items to deployed troops. Senior defense officials want to know what the contractor should have done to preclude this event, and what defense acquisition professionals are doing to ensure that other contractors adequately address this risk. A defense leader with an understanding of SR strategy will be better equipped to answer these questions.

The Navy's prime directive is to protect and defend the national interests of the United States. While this directive has traditionally left no room for social concerns outside of those mandated by laws or regulations, it has begun to change. Awareness of

the growing impact of SR on the operational side of the Navy has grown to the point where events that would not have been mentioned 20 years ago are now addressed at all levels of the chain-of-command.

For example, after a rash of recent marine mammal incidents including whale collisions with United States Navy war ships and unexplained porpoise beachings near Navy exercise areas, the public, Congress, and the President are demanding action by the Navy. Realizing that the SONAR used by Navy ships may be responsible, Navy leaders issue a moratorium for the use of the SONAR until further study may be conducted. The Navy responded even though the SONAR is only one of many factors that may cause the incidents. Navy leadership want to develop a strategy based on the best practices of leading corporations in the area of SR to address the increasingly volatile expectations of stakeholders. An understanding of SR will be important to the development and implementation of a new strategy.

This project provides a theoretical model and set of management control systems that specifically address the unique attributes of a SR strategy. For organizations with a SR strategy, this project provides the theoretical framework for assessing the probable effectiveness of the management control systems that support the strategy. Application of the theoretical model will be demonstrated through an analysis of the SR strategy and management control systems at the Naval Postgraduate School (NPS).

II. RESEARCH METHODOLOGY

A. PROBLEM IDENTIFICATION

Through current popular and professional journals, books, and other literature we identify a shift towards business performance being measured in terms of SR. The literature reflects a much broader set of issues than simple philanthropic actions and regulatory compliance and indicates a strong movement toward incorporating SR into overall business strategy. The problem this professional report addresses is how to implement management control systems in response to a defined SR strategy.

B. INFORMED FOUNDATION

We begin by identifying some core assumptions of the naturally occurring behavioral characteristics involved in the creation of wealth and value. We identify the sources of the modern SR debate and how the concept has evolved to its current definition. Professor Mary Malina, of NPS, educated us on the use of performance measurement and control systems for implementing strategy and introduced us to the levers of control model. Our understanding of strategy and stakeholder analysis was thoroughly explored under the instruction of Professor Nicholas Dew, also of NPS. We refine our understanding of the levers of control model by reading the Simons (1995) book that explains the model in detail. Our combined experience in the naval service of over thirty years provided us a broad understanding of typical military organizations with which to make an informed inquiry into the systems in place at the NPS facility.

C. APPROPRIATE DATA

We examine the current professional literature on SR and draw on recent business topics that fit into the levers of control model, which provide insight into the model by categorizing the types and actual use of management control systems. For the NPS data collection, a review of published policies, reports and instructions along with interviews of key managers with principal advisory positions to top level leadership was conducted to gather as much organizational specific data as possible.

D. APPROPRIATE ANALYSIS

We use the collected business ideas and issues to identify notable practices for each of the four levers of control based on industry wide standards or based on similarity to the organizational environment of NPS. The identified management control systems are compared to the control lever model characteristics to highlight the attributes of the control lever that are expected to effectively contribute to strategic control. With the theoretical framework as a baseline, we analyze the socially responsible activities of NPS to determine what management control systems it has in place and categorize those systems into one of the four levers of control. Finally, we examine the use, structure, and overall implementation of the SR strategy management control systems at NPS to identify the implications of its strengths and weaknesses.

III. BACKGROUND

A. ORIGINS OF THE SR DEBATE

Adam Smith identified the rent of land, the wages of labor, and the profits of stock to be the three great, original and constituent orders of every civilized society involved in production. He asserted that the interests of the landowners and laborer were "strictly and inseparably connected with the general interest of the society" (Smith 286). The profits of stock on the other hand are at the greatest odds with the general interest of society. Smith writes that its interest is "always in some respect different from, and even opposite to, that of the public" (Smith 287), and goes further in characterizing the order of men involved in the profits of stock as those "who have generally an interest to deceive and even to oppress the public" (Smith 288). He clearly saw the paradox that profits are "always highest in the countries, which are going fastest to ruin" (Smith 287). The foundational elements of achieving a societal point of equilibrium are clearly established where the owners of labor and land must balance their own dependence on the owners of the profits of stock with that group's lack of concern for society.

Where Smith found fault in the market system that improved the wealth of nations, the modern economists Milton Friedman went further by deflecting the blame away from the profiteer to his customer. He asserted, "the people responsible for pollution are consumers, not producers," (Friedman 215) and went on to attack the effectiveness of government reactions to the demands of various environmental activist and labor groups. He writes, "Perfection is not of this world. There will always be shoddy products, quacks, and con artists. But on the whole, market competition, when it is permitted to work, protects the consumer better than do the alternative government mechanisms that have been increasingly superimposed on the market" (Friedman 222). Friedman's best champion of the interests of society is the free market, and the only preventative method to abolish adverse effects is to stop progress (Friedman 223).

B. SR AND THE NATIONAL SECURITY STRATEGY

The championing role of the free market is matched with democracy to form the "single sustainable model for national success" in the National Security Strategy of the

United States (White House iv). The strategy goes on to identify failing states as threats and a strong world economy as an enhancement to our national security. The aim of the strategy is to make the world safer and better, and to achieve these goals the United States will “ignite a new era of global economic growth through free markets and free trade” (White House 1).

Originally characterized as deceivers by Smith, exonerated by Friedman, and championed by the White House, business and the wealth it creates are increasingly becoming the answer to all things.

Not so long ago, the church, the family, schools, and civil authority were the preeminent institutions of our culture. They were respected sources of moral authority. They transmitted the wisdom of one generation to the next. Now, for many complex economic and social reasons, these institutions have become less influential. And whether it likes it or not, American business has stepped into the breach. Business leaders have become role models. Their decisions set a moral benchmark for the nation. (Lear vii)

In its evolving role within society, business is confronted with the difficult tasks of becoming a moral entity and of managing its relationships with an increasingly broader spectrum of stakeholders.

The flurry and proliferation of interest in SR is a direct reflection of the severe consequences that result when businesses are not socially responsible. With greater things expected from businesses and more entrusted to their control, the severity of the negative consequences resulting from their poor choices will likely increase. Friedman might dismiss the Enron and other corporate scandals as a natural progression in the development of the free market and end by concluding that the average man is still improving his lot in life from year to year. The public eye and press have not come to the same conclusion, and the government has responded.

C. SR STAKEHOLDER ANALYSIS

Governments are key stakeholders in the activities of business, and, as free markets and free trade are part of a broader freedom that President Bush has identified as “the Almighty's gift to every man and woman in this world” (Press Conference 13 April 2004), government leaders are tasked with balancing societal interests with basic

freedoms. The recent Sarbanes-Oxley legislation requiring corporate officer certification of financial statements and other changes to auditing standards are costing businesses billions of dollars to implement. It behooves business to be on the development forefront of best business practices in SR rather than on the receiving end of costly legislative mandates.

Although the basic economic model depicts customers as simplistically price sensitive, they are emerging as powerful stakeholders in the activities of business. Their product and service choices increasingly involve considering what actions producers are taking to be good local and global citizens. The strategic business decisions are not always easy as in the case of corporate giants like Disney that continues to face boycott pressures from family groups for its abandonment of traditional family values in its labor policies and other actions. Another aspect of customer influence is simply what they demand for consumption. Prime examples include the sales boom in gas guzzling sports utility vehicles and the explosion of Internet based pornography consumption. The World Watch Institute's annual State of the World for 2004 focuses on "The Consumer Society" as one of the most central elements in achieving a sustainable future (Brende xv). Although tempted to wash their hands of guilt as merely satisfying consumer desires, business is expected to do more in influencing better consumer choices.

Investors are doing more to influence better business choices in their role as the suppliers of investment dollars. The emergence and success of social screening investment research groups like Kinder, Lydenberg, Domini & Co., Inc. (KLD) demonstrate the infiltration of investor demand for returns that are both monetarily and socially rewarding. This influence is felt not only in the investment accounts but also in the voting of the company's stockholders. Socially responsible funds are tracking social issues that affect their holdings. By communicating these issues to members and gathering input from members, socially responsible funds can present a single voting block, which the company must recognize instead of hundreds or thousands of independent voters.

Another key stakeholder in the activities of business is employees. Recent strikes over lack of quality medical benefits and other issues stress the expectation of employees for business to look after the whole employee. Corporate outsourcing of jobs to cheaper overseas labor is emerging as a key platform issue in the political races of the 2004 election year.

Communities are the final key stakeholders that businesses must consider. In addition to being the most likely source for its employees and the seat for local government authority, the communities where businesses operate can be dramatically impacted by business activities. Increased pollution, traffic congestion, negative economic impact, and a host of other perturbations demand some type of dialogue between local communities and the businesses that seek to operate within them. Retailer giant Wal-Mart has even shifted its California advertising theme from the price cutter to one that characterizes the company as a positive influence in making communities better. The perception of Wal-Mart as contributing to the economic collapse of local businesses has mobilized communities to exercise their stakeholder power by blocking Wal-Mart expansion into local areas.

The press is quick to point out perceived weaknesses in the relationships between stakeholders and air out those weaknesses in a public forum. With their power to expose a lack of responsible behavior, the press has considerable power to influence stakeholder perception. A clear example of this is in the following cartoon portraying the Justice Department's action of pursuing Martha Stewart in a recent case of insider trading while avoiding a perceived greater culprit of corporate fraud.

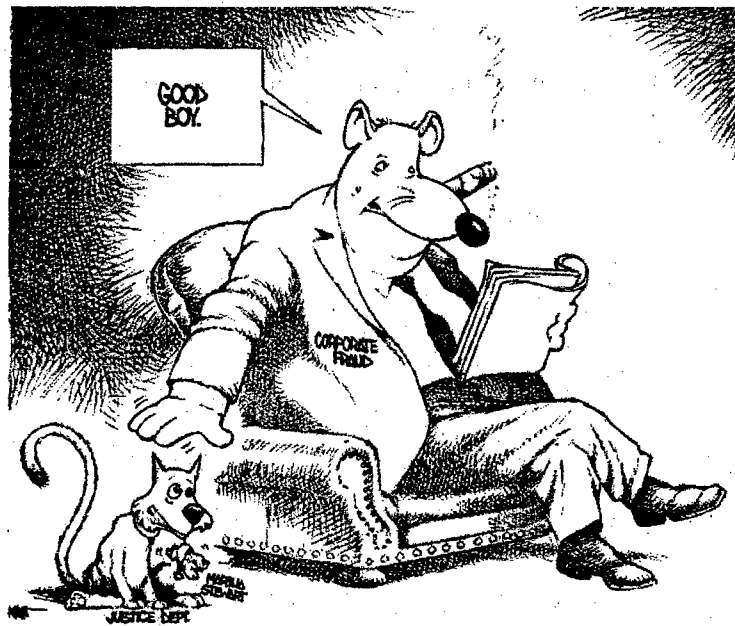


Figure 1. Justice Department's Action of Pursuing Martha Stewart in a Recent Case of Insider Trading While Avoiding a Perceived Greater Culprit of Corporate Fraud.
(From: Meyer)

D. NEED FOR A SR STRATEGY MODEL

The role of business in maintaining profitability is rapidly developing a congruent interest in a wider view of stakeholder management. Business cannot control the actions of governments, consumers, investors, employees, and communities, but it is coming to a greater realization of the risks these stakeholders pose to sustained profitability. SR is emerging as an integral part of the overall business strategy of an increasing number of firms, and though the debate and discussion of SR will continue, the pragmatic gains are going to those businesses on the pioneering forefront.

The next logical step following adoption of a SR strategy is the development of better control systems to gain a competitive advantage in effectively implementing that strategy to maximize profitability. By seeking sustainable profits in the long run, a company can survive in the turbulent world of business. Only by taking into account its social environment and the stakeholders in its SR strategy can a company ensure that it is evolving at the same rate as its environment. When a company evolves with its

surroundings it is ensuring not only its short-term profitability but also its long-term survivability. Therefore, SR has a direct connection to a company's long-term survival and sustainability.

IV. DEFINING SR

Kirk Hanson, the founding president of the Business Enterprise Trust, a national organization created by leaders in business, labor, media, and academia to promote exemplary behavior in business, said in 1993 "I don't think we have been able to yet articulate the overall vision of what business responsibility is" (Reder, *In Pursuit* 4). Various authors have coined their own definitions while admitting that a standard definition did not exist for the SR field of study.

The Journal of Business Ethics defines SR in general terms as:

The obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company (Kok 288).

The internet based CSRwire group provides the following definition:

SR is the alignment of business operations with social values. SR consists of integrating the interests of stakeholders – all those affected by a company's conduct – into the company's business policies and actions. SR focuses on the social, environmental, and financial success of a company – the so-called triple bottom line – with the goal being to positively impact society while achieving business success (Connolly).

In 1994, author Alan Reder described SR as an all-encompassing notion that refers to both the way a company conducts its internal operations and its impact on the world around it. He went further with his definition by providing a list of ethical policies and practices that most socially responsible business and investment leaders endeavor to further. The following items are some of those listed (Reder, *In Pursuit* 5-6):

- Reducing to the greatest degree possible the damage a company causes the environment
- Contributing in every conceivable way to environmental preservation
- Not doing business in repressive regimes
- Resisting the classic military-industrial complex temptations and converting to peacetime industries
- Aggressively hiring and promoting women and minorities

- Providing employees with a safe, clean, healthy work environment
- Helping employees care for children
- Protecting employees from sexual harassment
- Fairly compensating employees
- Providing permanent, domestic jobs to the greatest degree possible
- Obeying all laws and regulations
- Conducting international business in a non-exploitive manner
- Humanely treating animals
- Allowing employees to share the wealth they help generate
- Encouraging employees at all levels to contribute and participate in critical decision making
- Giving something back to the community through charity or volunteerism
- Purchasing in a socially responsible manner
- Designing a high-quality, durable, and safe products with a beneficial impact on society
- Marketing products or services only in socially appropriate manners

Based on these definitions and in conjunction with our research, we have distilled our own definition of SR. In our opinion, SR is the process of confronting the legal, ethical, commercial, and other expectations society has for a business and making decisions that fairly balance the claims of all key stakeholders. By considering the individual stakeholders' issues at the same time as the corporations' stakeholders, the organization is able to arrive at an equitable decision point for sustainable business activity.

V. LEVERS OF CONTROL OVERVIEW

A management control systems (MCS) is intended to ensure that employees (1) know what is expected of them, (2) will exert effort to do what is expected, (3) are capable of doing what is expected, and (4) accomplish what is expected (Merchant, 1998). While there has been considerable study on individual MCS, Harvard Business School Professor Robert Simons developed a model that integrated numerous MCS and both the external and internal environments. Simons set out to answer the question of how managers balance innovation and control in the achievement of business strategy. The model embodies a comprehensive theory of how managers control strategy using four basic levers: beliefs systems, boundary systems, diagnostic control systems, and interactive control systems. The following figure provides a visual representation of the relationships of the levers to each other and the strategy they control.

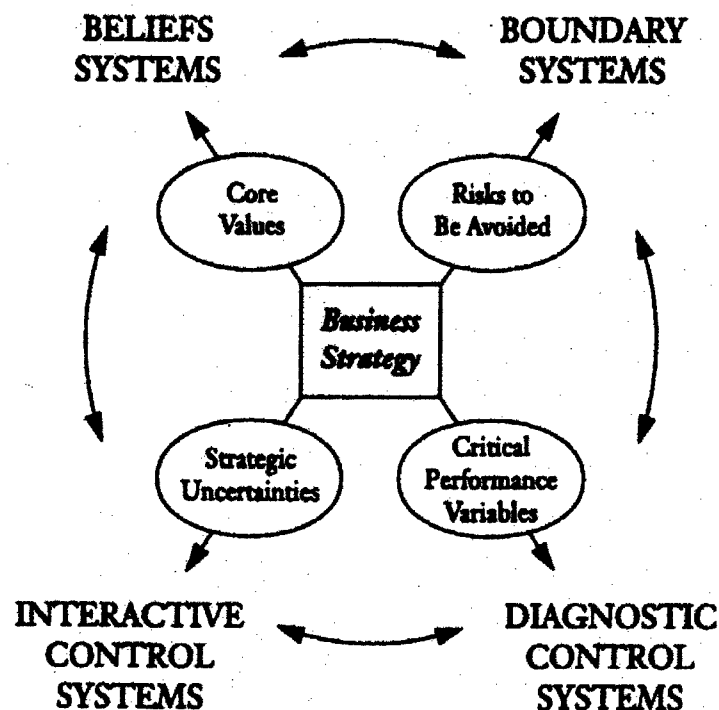


Figure 2. Visual Representation of the Relationships of the Levers to Each Other and the Strategy They Control. (After: Simons Levers of Control (159))

Empowerment and innovation are provided by the beliefs and interactive control systems. These provide the positive force. Limits to freedom and monitoring are provided by the boundary and diagnostic control systems. They counter the other two levers by providing the negative force in a dynamic tension model. Simons discovered that highly successful businesses do not choose one lever over the others, but rather they succeed by using all four levers and harnessing the collective power that lies in the mutually generated tension (Simons, *Levers* 5). More specific definitions of the four individual levers are provided later in the data and analysis sections of this paper. The focus of this project is to examine the four control levers used in providing strategic control to achieve a SR strategy.

VI. BUSINESS USE OF LEVERS OF CONTROL IN SR STRATEGY

A. BELIEFS SYSTEMS

1. Definition

A beliefs system is "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization" (Simons, *Levers* 34). This system of beliefs is communicated to members of the organization through mission statements, mottos, and the like. It provides guidance and motivation to the members in their pursuit of the organization's goals.

Every organization, whether governmental or commercial, is created with a goal or purpose in mind. This could be as formal as the Declaration of Independence for the United States or the simple statement, "to make money". How the organization explores and defines its short- and mid-term behavior in pursuit of the long-term goal(s) is the purpose of the organization's beliefs system. A common medium of communicating this purpose is the corporate mission statement. A mission statement is a short, succinct statement by a company declaring what business it is in and who its customer is. By offering this focus, it provides direction for future development of strategy.

While the traditional mission statement in the past has addressed solely the money making purpose of the organization, companies of the 21st century are beginning to add the two elements of social and environmental performance in pursuit of what some call the Triple-Bottom Line. By taking into account the social and environmental impact on its stakeholders, in addition to the financial impact, a company is said to become more responsible to society.

2. Corporate Application – Ben & Jerry's and Reflexite

When a company embraces the triple-bottom line approach, it is in their best interest to promote and advertise this move. For example, when Ben and Jerry's went public in 1984, it was aware of the necessity to communicate its devotion to the triple-bottom line as the real measure of success. This was plainly laid out in its three-pronged

mission statement. Its beliefs system explains to the world its approach to business which includes not only its products but also its economic and social impact on society (Ben & Jerry's). Each piece of the mission cannot exist in a vacuum but rather exists in cooperation with the other two. Only by balancing the three can Ben and Jerry's consider itself to be a successful entity.

Ben & Jerry's is a clear example of a company communicating its socially responsible mission statement but what about backing that mission statement or socially responsible initiative? Companies not only need to "talk the talk" but also "walk the talk". A model of a company's traditional mission statement expanding to include social issues of empowerment and ownership is Reflexite in the early 1980s. Reflexite Incorporated is the epitome of changing the corporate and ownership structure to a more dynamic, involved, and productive system (Reder, *75 Best* 3-9). In 1985, Reflexite began an Employee Stock Ownership Program (ESOP) with a twist, employee empowerment. Instead of taking the view of the ESOP as another type of pension plan, Reflexite shared with its workforce the feeling of entrepreneurial ownership in the hopes of enhancing the interest and concern of these internal stakeholders beyond just the view of the company providing a paycheck.

Reflexite embraced the definition of beliefs system that "managers communicate formally and reinforce systematically" (Simon, *Levers* 34). Company letterhead, inspection cards, promotional videos, and advertisements all declare to the world that the company is co-owned by its employees. The employees are also provided monthly and quarterly financial documents that are edited to explain the financial and accounting terms used in the reports. This systematic reinforcement has ingrained in the employees the idea that they do make a difference in the company and are partners in the decision making process.

This increase in the stakeholders' power to the benefit of all was demonstrated in 1991. Having experienced a growth spurt during the late 1980s, Reflexite was experiencing a sales drop-off and faced a cash shortage. Rather than employ the quick, yet effective in the short term, method of layoffs, management decided to extend the responsibility of corporate strategy to include the members of the ESOP. While pieces of

paper, videos, and advertisements displayed the company "talking the talk", this was a prime example of the company actually "walking the talk". Management and employees established job retention as the number one priority and arrived at a multi-layered solution that, if directed by management without any employee buy-in, would have been difficult and unpleasant to implement under the old system (Reder, 75 Best 6). The solution included graduated pay cuts to those with higher incomes, voluntary leave without pay, and a call for cost saving ideas. According to President Cecil Ursprung, Reflexite emerged as "a much stronger organization, like a sports team after a big win" (Reder, 75 Best 7).

Reflexite's mission statement still includes the simple statement "to make money", but now includes the recognition that the employees can influence the company's performance and value (Reflexite). By empowering these stakeholders to a level never seen before, Reflexite has successfully managed to create a large company of entrepreneurs better prepared through knowledge and ownership to overcome many of the common obstacles businesses face during their lifecycle.

In order to achieve a best business practice in the use of a beliefs system, an organization must go beyond creating and communicating the beliefs. These beliefs must be supported by the actions of the organization both internally and externally. Ben & Jerry's and Reflexite successfully managed to create, promote, and implement a SR strategy.

B. BOUNDARY SYSTEMS

1. Definition

The second lever of control, boundary systems, outlines the acceptable domain of activity for an organization's members. While the beliefs system is the positive lever of control which encourages members to be adventurous and always seeking new opportunities or venues, the boundary system places limits on such searching. By imposing limits or restrictions on the creative drive of the employees, they naturally assume a negative role in an organization. This is even the case for boundaries that are in place to protect the individual from harm or wrongdoing. Often defined by what employees should not do, boundary systems are not unique to the business world.

Indeed, our whole legal system is formed of a litany of "do not do this or do not do that" restrictions that enable citizens to pursue their lives. The same can be said of religion with the Ten Commandments presenting a quick example of a boundary system for Christian and Jewish life (Robert 41).

According to Gatewood and Carroll (1991), the imposition of codes of business conduct has three sources: (1) society's laws, (2) the organization's beliefs systems, and (3) codes of behavior promulgated by industry and professional associations (Gatewood and Carol 667-90). In the age of growing multi-national corporations, we can take "society's laws" to include international treaties, pacts, and agreements. Even when a company is a multi-national, there may not be any type of formal agreement between the company's government of origin and the government where the company has a subsidiary or branch. This lack of agreement between governments creates regulations and laws that vary widely in their strictness in any particular area. Companies that begin to move into foreign markets are now faced with not only differing financial and accounting regulations but also new levels of social and environmental responsibility. Nowhere else is this as clearly displayed as in the environmental, health, and safety field.

2. Corporate Application – H.B. Fuller

In an age when more and more companies are moving off-shore to take advantage of more relaxed governmental regulations, H. B. Fuller has held itself to the highest standards and become a model for the industry to follow (Reder, *75 Best* 270). While having an initial SR document dating back to 1978, the company decided to review the document in 1984 due to the Union Carbide chemical leak in Bhopal, India, which caused 3,828 deaths and injured 207,337 local citizens (Bhopal).

With the fundamental question of "What if this happened to us?" being asked by CEO/Chairman Tony Anderson, the company established a Worldwide Environmental, Health, and Safety (WEHS) committee, an oversight committee of the WEHS at the senior management level, and ordered that every H.B. Fuller facility worldwide undergo tri-annual inspection by corporate headquarters in addition to periodic inspection by the WEHS (Reder, *75 Best* 271). Taking the strictest governmental regulations under which the company operated (those of the United States), the WEHS applied them across all of

their international operations. By doing so, H. B. Fuller ensured that only the strictest of regulations were being followed in all of its locations. Since that time the WEHS has met annually and updated the implementation and enforcement of its standards as well as continually revising those standards.

Take for example the removal and replacement of below ground chemical tanks with above ground storage tanks. Per U.S. regulation, all below ground tanks were to be replaced by 1998. Fuller had accelerated its time-table and met this requirement by 1993, a full five years ahead of schedule (Reder, *75 Best* 272). In keeping with its mandate of strict environmental regulation, Fuller also removed all of its Latin American below ground tanks by the following year, despite having no local regulation requiring such a move. H. B. Fuller has taken a clear belief of "caution over productivity and profit" and instituted valid boundaries that can be effectively communicated both internally and externally to the stakeholders (Reder, *75 Best* 273).

The best business practices in the use of boundary systems provide unambiguous codes of conduct to eliminate uncertainty on what is expected from subordinate units or individuals and how they are to respond in all situations. H. B. Fuller had no requirement to impose additional restrictions or boundaries on itself in its international operations. By doing so, it informed all of its subsidiaries and operating units that only the highest of environmental standards would be tolerated by the company. This communicating of the boundary system is vital in any business whose strategy is built upon trust and reputation and for a company attempting to differentiate itself from its competition (Simons, *Performance* 280).

C. DIAGNOSTIC CONTROL SYSTEMS

1. Definition

Diagnostic control systems are formal information systems that managers use to monitor organizational outcomes and correct deviations from preset standards of performance. They are used to communicate critical performance variables and to monitor the implementation of intended strategy.

Management's concern with diagnostic control systems for strategy implementation lies in the ability to identify and measure variables that reflect steps necessary to achieve an intended strategy. The identification of these critical performance variables normally centers on what would cause an intended strategy to fail. The factors attributable to failure become the source for identifying critical performance variables (Simons, *Levers* 59-63). In the area of SR, a maker of children's toys may monitor product failures for instances where the failure resulted in an injury to a child. Such an occurrence would be a failure of an intended strategy to provide safe products, thereby becoming a critical performance variable.

The range of possible critical performance variables for the breadth of issues covered by SR is enormous, but the range can be significantly narrowed by focusing the intended strategy to address certain areas of risk or opportunity. Within the range of possible measures the best measures are ideally objective, verifiable, complete in capturing relevant actions, and responsive to efforts at changing them (Simons, *Levers* 76).

2. Corporate Application – Wine Institute & California Assoc. of Winegrape Growers

The unique arrangement of the diagnostic control system employed by the Wine Institute and California Association of Winegrape Growers for its Code of Sustainable Winegrowing Practices (SWP) is highlighted here for its structure and implementation method for the industry that it serves. The industry is scattered throughout California, and the size of vineyards varies dramatically. The industry is heavily regulated by various local, state, and federal agencies to the extent that the amount of regulatory guidance is nearly overwhelming for the mid to small size vineyards with limited resources.

The industry as a whole recognized the risks it faced from not having a SR strategy in place, but very few vineyards could devote resources to developing a strategy. The cooperative method in which the SWP is implemented removes the individual burden on each vineyard of determining critical performance variables for a diagnostic control system. The relative similarity of the requirements and operating characteristics

for all the vineyards lends itself to the use of a standard diagnostic control system. The collective organization has achieved what could not have been accomplished on an individual basis.

The completely voluntary system operates through area workshops that bring local wine grape growers together for day-long seminars where they are provided with a single notebook that functions as a self assessment tool. The notebook is the product of the efforts of over one hundred industry, research, and government experts at identifying critical performance variables from a resource list exceeding forty pages in length. Diagnostic summaries that clearly identify areas requiring management attention are provided to attendees (Figure 3), and the notebook goes further by providing forms and instructions for developing action plans. With very little individual effort, managers can quickly identify risks and develop plans to correct them.

SUMMARY EVALUATION SHEETS – VINEYARD

4. SOIL MANAGEMENT	V/W	Pg #	4	3	2	1	N/A
4-1 Petiole Analysis	V	4-3					
4-2 Soil Analysis	V	4-4					
4-3 Interpreting Results of Petiole and Soil Analyses	V	4-5					
4-4 Nutrient Management	V	4-8					
4-5 Nitrogen Management	V	4-9					
4-6 Amendments for Water Penetration	V	4-11					
4-7 Amendments for pH	V	4-12					
4-8 Organic Matter	V	4-13					
4-9 Soil Compaction	V	4-15					
4-10 Knowledge of Soil Series, Water-Holding Capacity, and Erosion Potential	V	4-16					
4-11 Surface Water Diversions for Erodible Sites	V	4-16					
4-12 Non-point Source Pollution Prevention	V	4-17					
4-13 Air Quality	V	4-18					
4-14 Cover Crops and Soil Quality	V	4-20					
4-15 Choice of Cover Crop	V	4-21					

Figure 3. Diagnostic Summaries (From: Wine Institute and California Association of Winegrape Growers)

The cooperatives formed an organization to assess the data aggregately on a continuing basis and to keep the diagnostic tool updated with changes to the industry and operating environment. Although only recently implemented, the 2002 SWP diagnostic control system appears to be developed effectively for its intended purpose. A greater testament to the effectiveness of the system is that despite its recent introduction and voluntary nature, nearly every vineyard and winery in the cooperative has attended a workshop. (Dlott)

The best business practice in the use of diagnostic control systems hinges on the identification of critical performance variables that are objective, complete, and responsive. The SWP is highlighted for its methodology in identifying and updating the factors that must be achieved or implemented successfully for the intended SR strategy to succeed. Even though vineyard sizes differed dramatically, their structural similarities allowed for the cost effective development of a standard set of performance variables with which to measure and improve social performance.

D. INTERACTIVE CONTROL SYSTEMS

1. Definition

Interactive control systems are formal information systems managers use to involve themselves regularly in the decision activities of subordinates. These systems are used to focus organizational attention on strategic uncertainties and provide a means to fine-tune and alter strategy as competitive markets change. Strategic uncertainties stem from the recurring question of what assumptions or shocks could derail the achievement of the vision for the future. They focus on the formation of emerging strategy and are driven by top management perception in search of the correct question (Simons, *Levers* 95).

The defining characteristics of interactive control systems follow (Simons, *Levers* 97):

- Information generated by the system is an important and recurring agenda addressed by the highest levels of management.
- The interactive control system demands frequent and regular attention from operating managers at all levels of the organization.

- Data generated by the system are interpreted and discussed in face-to-face meetings of superiors, subordinates, and peers.
- The system is a catalyst for the continual challenge and debate of underlying data, assumptions, and action plans.

Once a business has adopted a SR strategy, a functioning interactive control system will be the differentiator in whether the strategy becomes a mechanism for maintaining metrics within established parameters or whether the SR strategy integrates with the overall business strategy. Effective companies will use their interactive control systems to activate the search for SR strategic uncertainties and for identifying value-creating opportunities.

2. Corporate Application – Vermont National Bank and Hewlett-Packard

Not only can interactive control systems create goodwill with stakeholders, they can produce profitable ideas and strategies. One such case is that of the Vermont National Bank's Socially Responsible Banking (SRB) fund. The bank had a strong community focus, a few socially screened investment funds for its clients, and a beliefs system that embraced SR. The bank's management culture encouraged close customer relations, and the submission and discussion of new ideas at all levels of the organization. The question that emerged was whether social investing goals could be integrated with conventional banking and how. The SRB fund that designates deposits for lending to businesses and nonprofits that positively contribute to the environment, communities, and employees was the answer. The fund yielded over \$87 million in new deposits in a very short time, and the bank had to adopt a whole new lending process to increase the number of qualified loan applicants. (Bollier 9-22) The strategy that emerged transformed other processes in the bank and illuminated the profitability of a SR strategy that integrates with the other core business practices.

The Hewlett-Packard Company (HP) has been very successful in aligning its corporate strengths and industry skills with its SR strategy. Prior to 1999, HP had a SR strategy that was more diagnostic, and it simply responded reactively to requests for philanthropic giving. Understanding that the company's value rests in its products, processes, and its people's skills, HP adopted a new strategy of applying the full array of

its resources to solve social problems in a more proactive fashion. The company discontinued giving purely financial gifts with a few exceptions and instead started providing information technology solutions to social problems. If HP couldn't provide an information technology solution then it stopped financial support. The remaining key areas have evolved into a market segment that receives periodic upper management attention for review and refocusing. A new initiative emerged known as e-inclusion that seeks to make technology accessible to underserved areas and groups (Benioff and Southwick 129-131). Through this SR strategy, HP is able to meet its commitment to being a good global citizen while developing future market potential for its products and services.

In the area of environmental leadership, HP committed itself to the development of a more robust interactive control system. At the production management level, there was strong commitment to environmental leadership, and managers were confident in the ability of their internal diagnostic processes to meet and exceed established goals. The announcement of a special HP-developed infrastructure to facilitate a broader corporate level strategy was met with skepticism from within. With the assistance of expert consultants on team building and idea integration, HP leadership soon discovered the benefits and potential of a structured system that shared ideas and brought upper management attention to lower level activities. Rather than impose an industry standard of SR reporting with externally developed goals, the new infrastructure encouraged the development of HP unique initiatives that naturally emerged from its production processes (Bast).

The best business practices in the use of interactive control systems allow for the SR strategy to develop from the innovation and creativity of employees and management. Another key aspect of successful interactive control systems, as in the case of Vermont National Bank and Hewlett Packard, is the integration of SR strategy with core business strategy that makes the SR strategy a catalyst for profitable change rather than a costly compliance requirement.

VII. OVERLAY MODEL ON NPS

A. INTRODUCTION OF UNIQUE NPS ORGANIZATIONAL STRUCTURE

NPS located in Monterey, California, is a distinctive entity that is both an educational institution and a military installation. This two layered approach to achieving the overall mission of "providing relevant and unique advanced education and research programs to increase the combat effectiveness of U.S. and allied forces and enhance the security of the United States" has resulted in a challenge to applying a single model over the entire entity (NPS, *Fact Book*, 6).

The facility side of NPS consists of all the functions a normal military base would possess with a standard shore-base command structure. Each of the functional areas is not only responsible to the base commander, but is also accountable to its major claimant or community. As an example, the Morale, Welfare, and Recreation (MWR) department receives some local direction from the chain of command but relies heavily on the direction, regulations, and instructions set forth by its Navy-wide parent community.

On the educational side of NPS, there is a standard educational system with schools, deans, chairs, etcetera all in place to foster educational advancement. While there is a desire to achieve and maintain accreditation, along with pursuing research with major stakeholders, there is not a Navy-wide educational community that deals specifically with graduate level education.

B. NPS STAKEHOLDERS

NPS has a diverse set of stakeholders to consider when moving forward with its strategy. The following list provides some of the key stakeholders identified in our research and includes a brief reason for their interest in the activities of NPS.

- Students. The students are the recipients of the graduate education provided by NPS. Their lives are directly impacted by what NPS does and does not do for them.
- International Students. The international students are a specific subset of the students that are of such importance to mandate special attention by NPS. Their lives are impacted by what NPS does for them to a greater extent than domestic students.

- **Military Services.** The international and United States military services are the future employers of the NPS educated students.
- **Department of the Navy.** NPS is part of the Department of the Navy and subject to resource justification within the department and within the wider Department of Defense budget.
- **Sponsors.** Certain curricula are sponsored by particular navy staffs that are specifically involved with the curricula content to ensure the students are equipped to meet the challenges of future assignments.
- **Faculty.** The faculty is directly involved with producing the graduate education and is impacted by NPS policy and strategy.
- **Staff.** The staff provides support to the students, faculty, and administration of NPS and is impacted by NPS policy and strategy.
- **Local Communities.** The local communities are affected by the jobs and spending initiated by NPS and can be dramatically affected by the level of volunteerism and involvement of NPS employees in community affairs.

C. INTERVIEW PROCESS

1. Selection of Interviewees

The NPS organizational structure was reviewed in order to identify the principal advisors and department directors who directly support top NPS leadership (the superintendent, provost, and chief of staff). Those principal advisors and department directors who did not have SR related functional responsibility were eliminated from interview consideration. The remaining key staff members were divided between the two researchers corresponding to the dual structure of military installation and educational institution.

2. Interview Preparation

In preparation for the interviews, we developed a standard read ahead briefing that was presented before and during the interviews. The briefing introduced and provided an overview that defined SR and the levers of control model. It also provided a generic list of NPS stakeholders. Standard questions during the interview included, but were not limited to, the following:

- Does NPS have an SR strategy?
- What stakeholders would you add to the list provided?
- Do you have any beliefs, boundary, diagnostic, and interactive control systems for SR in your area of responsibility?

We performed additional fact finding prior to each interview to gain some insight and understanding of the probable SR functions performed under the leadership of each staff member. The fact finding included reviews of instructions governing department actions, reviews of various departmental reports, and intranet and internet browsing for SR related material. We also monitored public press sources to gain an external viewpoint of how NPS is portrayed to the community. This additional fact finding combined with our firsthand knowledge of NPS and the Navy was used to develop other specific questions for each interview.

3. Interviews Performed

Most interviews were conducted in person and ranged in length from approximately 15 minutes to one hour. The following is a list, by position title, of the staff that were interviewed from the period 26 April to 14 May 2004:

- Chief of Staff
- Director, Executive Council, Strategic Planner
- Executive Director for Human Resources
- Executive Director for Facilities and Support Services
- Chief Maintenance Officer
- Director, Quality of Life
- Deputy for Institutional Advancement, Public Affairs Officer
- Dean of Students
- Supply Officer

All of the staff were eager to assist us and were generous with their available time.

D. INTERVIEW FINDINGS

1. Mission Statement - Strategy

As mentioned previously, the NPS strategy is "to provide relevant and unique advanced education and research programs in order to increase the combat effectiveness of US and Allied armed forces and enhance the security of the United States" (NPS, *View* 4). The strategy does not specifically mention any facet of SR, but NPS has an abundance of management control systems designed to direct a socially responsible strategy. NPS is similar to a large business segment in private industry that adopts the

SR policies of corporate headquarters. Corporate headquarters for NPS comes in the form of higher-level staffs within the Navy. The SR strategy manifests itself in the day-to-day operations of the NPS staff involved with managing the naval facility. Without a specifically stated overarching NPS SR strategy, it might be concluded that one does not exist, but the management control systems point to a definite implied and adopted SR strategy.

2. Description of NPS Levers of Control

The following chart provides a summary of the levers of control, NPS management control systems, and the SR elements within those control elements. The NPS model outlined below is discussed in further detail in the following paragraphs.

NPS Strategy: To provide relevant and unique advanced education and research programs in order to increase the combat effectiveness of US and Allied armed forces and enhance the security of the United States.		
Lever	MCS	SR Area
Beliefs	Core Values	Honor – ethics, integrity
		Courage – best interest of the nation
		Commitment – safety, diversity
	NPS Focus Area (<i>View</i>)	Community
		Integrity
Boundaries	Core Values	Honor – illegal or improper behavior...
	Human Resource Policies	Expose corruption
		Equal opportunity
		Sexual Harassment
		Safety
	Facilities Policies	Environmental Compliance
Diagnostic	Workplace Safety incidents	Employee safety
	Environmental incidents	Environmental
	Workforce profiles	Equal Opportunity
	NPS in the news	Reputation
Interactive	NPS in the news	Strategic SR uncertainty
	Construction project meeting	Strategic SR uncertainty
		Stakeholder involvement

3. Beliefs Systems

There is not a NPS specific SR beliefs system as defined under the Simons business model, but there are a multitude of other statements that provide basic values,

purpose, and direction for how the organization achieves its SR mission. An attempt to discover the origin of these beliefs systems would certainly lead us back to the foundational thinking behind the formation of our great nation, but the Navy has attempted to capture that rich history in a broad statement of its Core Values:

Honor: "I will bear true faith and allegiance ..." Accordingly, we will: Conduct ourselves in the highest *ethical* manner in all relationships with peers, superiors and subordinates; Be honest and truthful in our dealings with each other, and with those outside the Navy; Be willing to make honest recommendations and accept those of junior personnel; Encourage new ideas and deliver the bad news, even when it is unpopular; Abide by an uncompromising code of *integrity*, taking responsibility for our actions and keeping our word; Fulfill or exceed our legal and ethical responsibilities in our public and personal lives twenty-four hours a day. Illegal or improper behavior or even the appearance of such behavior will not be tolerated. We are accountable for our professional and personal behavior. We will be mindful of the privilege to serve our fellow Americans.

Courage: "I will support and defend ..." Accordingly, we will have: courage to meet the demands of our profession and the mission when it is hazardous, demanding, or otherwise difficult; Make decisions in the *best interest of* the navy and the *nation*, without regard to personal consequences; Meet these challenges while adhering to a higher standard of personal conduct and decency; Be loyal to our nation, ensuring the resources entrusted to us are used in an honest, careful, and efficient way. Courage is the value that gives us the moral and mental strength to do what is right, even in the face of personal or professional adversity.

Commitment: "I will obey the orders ..." Accordingly, we will: Demand respect up and down the chain of command; Care for the *safety, professional, personal and spiritual well-being of our people*; *Show respect toward all people without regard to race, religion, or gender*; Treat each individual with human dignity; Be committed to positive change and constant improvement; Exhibit the highest degree of moral character, technical excellence, quality and competence in what we have been trained to do. The day-to-day duty of every Navy man and woman is to work together as a team to improve the quality of our work, our people and ourselves. (Core Values)

These are monumental statements of SR when compared to anything found in the business world, and the vision expressed in these statements reflects the values and commitment to being socially responsible that we have found embedded in the lower

level organizational statements of goals and purposes at NPS. The systematic reinforcement of these overarching definitions occurs daily with the sighting of any uniformed service member or at the daily performance of colors in front of the administration building, Herrmann Hall.

On a less grand scale, the beliefs found in the Navy Core Values are restated in some form in the NPS policies for employee relations, environmental compliance, public affairs, employee safety, and employee services. The public affairs instruction provides the following specific example in its introduction: "... the common ownership of the Defense establishment by the citizens of the United States suggests that Navy and Marine Corps resources can support certain events and participate in forums that serve the common good." (Secretary of the Navy 0402a.) This is the common tenor of commitment to good citizenship found in the belief statements of instructions governing the various constituent activities of the NPS facility.

Recognizing that there is not a specific overarching SR beliefs system that would serve to unify the various stakeholders beyond the Navy's Core Values, NPS has created an overarching strategic plan titled View to the Future that does include several SR statements in the overall vision document. These statements range from "NPS is a valuable member of the region and local community" (NPS, *View* 5) to Guiding Principles that include "Treating everyone with respect and dignity" and "Honesty, integrity, and commitment" (NPS, *View* 4).

4. Boundary Systems

The boundary systems for NPS are typically located and communicated in close proximity to the belief statements. The Navy Core Values identify boundaries by stating that even the appearance of illegal or improper behavior will not be tolerated and by reinforcing personal accountability for individual actions. The code of ethics published by the human resources department encourages employees to expose corruption, and the equal opportunity statement of the command states that discrimination in the workplace is against the law and will not be tolerated (Dunne 1). The base also conducts sexual harassment training and other similar training to reinforce the boundaries for socially responsible behavior. Similar training is performed in the area of safety and

environmental compliance for those activities posing the greatest risk to employee safety and the environment. These boundaries of acceptable behavior are extended to the NPS private contractors for products and services. Contractors must pass preliminary standards of acceptable socially responsible behavior before gaining admittance to a list of approved contractors. Supply chain management for NPS goes further by mandating awarding of contracts to qualified small and disadvantaged businesses even when other businesses may have lower priced products and services.

5. Diagnostic Control Systems

There are numerous diagnostic control systems associated with implementing the SR strategy, but only a few critical performance variables are frequently briefed to NPS top management. These variables address stakeholder interests and NPS commitment to them. The first is the daily tracking and reporting of any workplace safety related incidents. The metric is reported with a thorough analysis of what occurred and what action will be taken to prevent a reoccurrence. The diagnostic control system reflects top management commitment to providing a safe workplace for its employee stakeholders. Any types of environmental protection incidents are reported in a similar fashion to ensure top management attention to this key area. The command utilizes workforce profile diagnostics to measure satisfactory goal achievement of its commitment to equal employment opportunity. These workforce profile metrics are briefed and discussed by top leadership annually.

The Public Affairs Office utilizes the most robust of all the SR diagnostic control systems. Daily counts and analysis of whether NPS is or is not portrayed favorably are conducted of instances where NPS appears in the news anywhere in the world. Control of the diagnostic is achieved through NPS press releases and preemptive communications with reporters to ensure that the information they report is accurate and objective. These news summaries are then given to NPS leadership and assessed for risk and the need for follow-up. This rigorous diagnostic system is also used interactively.

6. Interactive Control Systems

The daily news diagnostic system is used interactively to assess the possible need to modify the planned public affairs strategy. The public affairs strategy highlights issues

that unify and divide the command with the community and provides a road map for developing dialogue and familiarity with community stakeholders. The news diagnostic system initiates a valuable interactive control system by facilitating the identification of a need to change the planned strategy through the incorporation of emerging issues and stakeholders. The interactive control system facilitated by the news diagnostic system is the dialogue that it initiates between upper management and various staff and faculty employees with expertise in the issue area. The diagnostic news system runs through a daily cycle of counting and reporting whereas the interactive system is implemented on an as needed basis to modify the public affairs strategy.

The public works office uses an interactive control system in the planning of intended strategy for major construction projects. Although not formalized into the written policies of the public works office, the beginning of every proposed project begins with a meeting to determine who is going to be impacted or who might have a stake regarding the actions to be undertaken during the project. To the maximum extent possible, the internal and external stakeholders identified in that strategy session are solicited for input into the planning process and are given an avenue of communication to voice their initial and continuing concerns. The public works office monitors the stakeholders and suggests strategy changes to NPS leadership based on the interactive system and other pertinent variables.

E. NPS STRENGTHS AND WEAKNESSES

1. SR Strategy

The National Security Strategy contains an SR strategy for the nation in relation to defense. The Department of Defense (DoD) has taken that strategy as its own in the National Military Strategy that has then been passed down to the Department of the Navy (DoN). The individual communities in the Navy have applied the SR strategy to their specific areas of expertise that results in the experts being aware of the SR strategy in their field. This reliance on experts suits the environment the Navy operates in as no single document can outline all the scenarios that could be encountered. Since NPS is a unique entity in the Department of the Navy, it could be considered to be a community unto itself with the need to create and implement its own SR strategy.

The core of Simons' levers is the identification of a business strategy from which all the levers come from and support. The question of whether NPS had a SR strategy was typically answered negatively but followed with the qualification that NPS performs SR functions in response to Navy-wide regulations and policies. NPS's current mission statement does not address SR. This deficiency is somewhat mitigated by the mentioning of SR issues in the focus areas of the strategic plan but the statements are vague and obtuse ("NPS is a valuable member of the region and local community" (NPS, *View 5*)). While this lack of an overarching SR strategy is a definitive weakness at NPS, the institution has identified the need to consider and address SR and has begun to integrate it into the factors to be considered when constructing a strategy. We consider this to be one of the first steps in an organization's growth towards embracing SR in its strategy.

The current strategic plan was published in 1999 but show no dissemination or publication since then. In order for a strategy to be effective, it must be communicated, at the very least, to all internal stakeholders. By not ensuring this is done across the board at NPS, some of the principal stake holders, such as faculty and staff, are not aware of the integration of SR issues into the NPS strategic plan.

2. Beliefs Systems

The Navy Core Values specifically guide the Naval staff, faculty, and students but do not specifically address the similar core values of other military services or the civilian employees at NPS. Nearly 37% of NPS students, faculty, and staff are civilians (Conner). By not communicating and applying these values to the civilian employees of NPS, the organization has automatically created a difference in the expectations and perceptions between the military and civilian population. NPS could easily resolve this issue by defining and advertising the Core Values as the institution's guiding principles (for both military and civilian employees), providing additional amplification that the values are relevant and pertinent to NPS's mission, and holding regular base-wide training to ensure that all members of the organization have a clear understanding of what is required of the values.

3. Boundary Systems

Any given system of beliefs must be restricted by boundaries. These boundaries must be communicated, enforced, and violations publicized to be effective. While there are numerous boundaries to the Core Values such as the Uniformed Code of Military Justice and various Naval instructions and regulations, at NPS no formal reinforcement training exists to communicate these boundaries to the individuals. The chain-of-command has assumed that the boundaries are known and followed at the individual level.

4. Diagnostic Control Systems

The departmental or functional areas of NPS have employed best business practices in the use of diagnostic control systems by properly identifying critical performance variables that are objective and responsive to efforts at changing them. The human resources, public works, environmental, and public affairs departments all have well designed diagnostic controls that are monitored on a regular basis and used to measure attainment of SR goals. Whenever the metrics warrant a change, the processes or training are adjusted to affect the desired change towards meeting the SR goal. The diagnostics are designed to measure the SR beliefs and boundaries stated in the policy documents of the various departments.

The only exception to the completeness of the critical performance variables lies in the human resources measurement of the belief and boundary system statements regarding the equal opportunity of employment for persons without regard to religion or sexual orientation. The other equal employment opportunity variables of race, color, gender, age, disability, and ethnicity are proactively measured and compared to aggregates to ensure the NPS workforce is diverse and all employees are awarded and promoted fairly. The two variables of religion and sexual orientation are not proactively measured, but grievance procedures are in place for employees to file discrimination complaints based on these characteristics. Although there may be legal restrictions on gathering this data from employees, they comprise the only lack of completeness and

weakness in the critical performance variables of NPS SR goals. All other relevant and industry standard SR critical performance variables are measured and controlled through NPS management processes.

5. Interactive Control Systems

How an organization interacts with its environment is of key concern to any leader/manager who requires continual feedback to adjust the intended strategy of the organization. NPS has a very strong interactive control system that stems from the news diagnostic system employed by the Public Affairs Officer (PAO). Utilizing his set of metrics, the PAO routinely briefs the chain-of-command on any issues that the media have addressed and that are of concern to NPS. By identifying such public statements, NPS is able to assess which are of strategic importance, formulate a response to the media, and change the public affairs planned strategy. A similar noteworthy process is employed by the Public Works Department.

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VIII. IMPLICATIONS FROM FINDINGS

A. FUNDING NEEDED TO DEVOTE TIME TO SR CONTROL AT LOCAL LEVEL

In the commercial world, a company is structured and designed to support the production of a given output. This design is unique and company specific. The same can be said for educational institutions with support facilities and functions that are accountable to only the university and the laws of the city, state, and nation. In NPS's case, we have an educational institution residing on a military facility.

While the two parts of NPS have the same overall goal, there is a definite difference in how SR is communicated and acted upon. The facility side of NPS has a mature SR control system that it adopts from regulations and instructions set forth by its various Navy-wide parent professional communities. The educational side of NPS does not have the benefit of having instructions and regulations to direct and measure its SR performance.

While there is funding to conduct social events in the community relations realm (such as Armed Forces day), this funding is of limited scope and depth. Operations funding is also available to conduct mandated SR training, such as sexual harassment training. While funding is normally thought of in pure dollar terms, it can also be thought of in terms of time. In order for NPS to pursue a SR strategy, not only will additional funds for SR control systems be necessary, but more time must be committed to SR.

B. LACK OF ASSURANCE OF CONTINUITY

The lack of an overarching NPS specific SR strategy increases the risk of the command to stakeholder actions by not providing a mechanism to ensure continuity and focus of socially responsible management control systems. The typical hierarchical structure in organizational activity flows from vision, to mission, and on down to goals, objectives, and specific tasks. NPS has a robust set of management control systems that collectively perform exceptionally well in realizing an unstated SR strategy. The risk to NPS comes into play with personnel turnover. Some examples include the systems currently in place in the Public Affairs Office. That office's proactive community

relations strategic planning did not exist prior to the tenure of the present officer in that position. A single iteration of leadership turnover in the offices of public affairs, chief of staff, and superintendent could easily result in the loss of that effective planning system. The incorporation of an SR strategy into the NPS core vision that then flows down to specific tasks would help to ensure continuity and sustained superior performance in the area of social responsibility.

C. MONITORING COMPLIANCE AND REPERCUSSIONS

While there are numerous boundaries to the Core Values such as the Uniformed Code of Military Justice and various Naval instructions and regulations on NPS, the assumption is that the boundaries are known and followed at the individual level. By not communicating the repercussions of a violation, a perception can grow that there is a lack of enforcement. This perception of a lacking formal boundary system, could lead to more violations. This could easily be solved in a way very similar to the local police blotter, by publicizing the infraction and repercussion. The violator's name need not be known but the infraction and the severity of the punishment would effectively communicate to the organization that there does exist a boundary system and that there are consequences for those that violate it.

D. WHOLE PERSON CONCEPT

The Navy not only instills "Honor, Courage, and Commitment" in its officers, it also seeks out the "whole person". The Navy is not looking for the jock, the scholar, or the mechanic but rather the renaissance person who is the best combination of all three. All the training and indoctrination an officer receives in the formative years is designed around providing the best "all around" officer that can be formed out of that person and of instilling the Core Values and a high ethical standard.

Now transfer this "whole person" concept to our four levers model and SR. SR attempts to bring about the "whole company/organization" rather than concentrate on money, technology, or some other narrowly defined mission. Since there are several different types of military commands (operational, logistical, etc.) that can take protection from a narrow defined mission/role (combat command), training commands must strive to emulate the current move to social responsibility in the commercial world. The newly

indoctrinated service members will view SR as something familiar. This will further reinforce why the military organization must continue to exist which could be considered the ultimate social responsibility, to preserve a society founded by the people, of the people, for the people.

E. AREAS OF POTENTIAL FURTHER RESEARCH

During this study, the researchers found several areas warranting further research. Each area is presented below and given a brief synopsis:

- **Does the cost of SR outweigh the benefits and at what level should the decision authority be maintained?** We have already identified that SR equates to sustainability in the commercial world but at what point does it become a hindrance to the main mission of the military. Should the decision to protect SR issues such as the environment or individual liberties be subsumed in order to protect the nation as a whole?
- **How do other military schools control SR? Can NPS mirror them?** DoD maintains three levels of education for its services: indoctrination (Reserve Officer Training Programs [ROTC] and the service academies), specialist (dealing with the primary mission of the individual), and advance (NPS, Service War Colleges, Air Force Institute of Technology) with a generic set of mission statement for all from the Navy Education and Training Command (NETC). A comparison and contrasting of NPS against other institutions in its own level, as well as the other two levels, would lead to a possible definitive SR strategy that encompasses both the military and education functions.
- **Is SR performance relevant in base realignment and closure (BRAC) decisions?** The BRAC Act of 1990, as amended, included the following guidance: "The Secretary of Defense shall consider any notice received from a local government in the vicinity of a military installation that the government would approve of the closure or realignment of the installation." (BRAC) Communities have become more involved in the operations of military bases, which have resulted in military leadership altering its long-term plans. An example of this is the redeployment of F/A-18 E/F Superhornets in the Hampton Roads area after a local community group sued the government over violation of noise compliance laws. If a base maintains the DoD standard for SR without any further amplification of initiatives, could it be considered a "bad neighbor" and have the local community desire the installation's removal?

- **Are Navy SR Flagship Awards incentive to devote time and funding to SR?** The Navy has a program for encouraging SR towards the community and environment beyond the levels mandated by normal operating regulations. The program is implemented in BUPERSINST 1650.12D and has several awards that are labeled Flagships. The details of each Flagship award category are outlined below.

Flagship Award Criteria

- **Personal Excellence Partnership Flagship.** Recognizes the best educational partnership program between a Navy command and school or youth service organization.
- **Health, Safety, and Fitness Flagship.** Recognizes the best project that teaches and encourages individuals to lead healthy, active lives.
- **Campaign Drug Free Flagship.** Recognizes the best program that reaches out to teach children about the dangers of drug abuse using the Naval Reserve Force specially prepared video tapes and presentation. Other anti-drug programs such as Drug Education for Youth, shall be recognized by the Health, Safety, and Fitness Flagship.
- **Project Good Neighbor Flagship.** Recognizes the best year-round program or special project that encourages activities to provide humanitarian assistance to the less fortunate of the community.
- **Environmental Stewardship Flagship.** Recognizes the best year-round volunteer supported program or special project that promotes education and good stewardship of environmental resources.

Further research is required:

- To determine the existence of other programs that promote SR.
- To determine the effectiveness of these types of programs at actually increasing socially responsible behavior.
- To determine the level of awareness at eligible commands of these programs.
- To determine whether there is a specific strategy behind the initiation of these instructions.
- To analyze the incentive structures of these programs against known research in the area of incentives to determine whether the incentives are properly structured to achieve the desired outcomes.

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