

Article for CCPA newsletter on CSR study/survey

Development Of A Corporate Social Responsibility Management Capacity Index

By Leeora Black

While companies are preoccupied with meeting external ratings criteria for social performance or reputation, another, perhaps more crucial question remains unanswered. What are the critical success factors for managing a company in a socially responsible manner? Are there common factors across industries that constitute effective CSR management and how should they be measured? The need for a management performance evaluation tool that can help companies develop and measure the core competencies for being socially responsible is the impetus for my PhD thesis being undertaken at Monash University in the Department of Management.

As part of this thesis, many members of the Centre for Corporate Public Affairs participated in a survey late in 2001 that represented the first test of a measurement tool called the CSR Management Capacity Index, which is designed to identify and measure the ability of companies to be socially responsible. Since most participants indicated they would like a report on the survey's findings, the CCPA kindly offered to publish this article to keep members informed of the study's progress and outcomes. This article first explains the conceptual background of the study. Second, the study design and survey results are summarised. Finally, the next steps in further development of this tool are outlined.

Conceptual background

In this study, CSR is not about what companies do, but about how they do it. Looking at what companies do, such as philanthropy, caused related marketing, or business-community partnerships, is problematic for the development of standardised measurement tools, since each company's performance may be judged by differing stakeholders according to their interests or involvement. Such measures also do not take account of the drivers of social performance. Rather than look at social performance, a "lagging" measure, this study seeks to develop a "leading" measure of

the drivers of social performance, or in other words, measure the strategic intent of the company with respect to adaptation to the social environment.

The CSR Management Capacity concept therefore defines corporate social responsibility not as something that goes *beyond* the economic tasks of the firm (e.g. philanthropy), but as *embedded* in the economic tasks of the firm because the firm is seen as a network of stakeholder relationships. A firm's CSR management capacity is the collective or firm-wide ability to recognise and respond effectively to the responsibilities inherent in its stakeholder relationships, or its ability to adapt to the social environment. Given that corporate responses to the social environment are frequently managed by boundary spanning functions such as public affairs, the CSR Management Capacity Index was initially constructed from questions that measure two concepts: a firm's corporate social responsibility orientation (CSRO) and its public affairs orientation.

The elements that comprise an organisation's CSRO include engaging with stakeholders, ethical business behaviour, the extent to which broader social values are consciously incorporated into business decision-making, and the extent to which social accountability is pursued. The elements that comprise an organisation's public affairs orientation include the maintenance of both symbolic and behavioural elements of stakeholder relationships, the contribution of corporate affairs or public affairs to strategic planning, the usefulness and quality of public affairs information about the stakeholder environment, and the presence of structures and processes to facilitate stakeholder dialogue.

Study design

A good measurement tool should be judged by its reliability and validity. Reliability means that the survey measures what it is intended to measure, and not something else, and that it measures what it is supposed to, time after time. With physical measures such as distance and weights, it is easy to see that the measures we use are reliable. A metre is always a metre, no matter who measures it, when, or where. With social measures, demonstrating reliability requires repeated testing and analysis using statistical analytic techniques. Validity means that the measure behaves how we expect it to behave. For example, I hypothesised that both corporate social responsibility orientation and public affairs orientation would contribute to business

performance by using public affairs buffering and bridging strategies which reduce conflict with stakeholders. Therefore, the survey included measures of public affairs strategies, business performance and stakeholder conflict reduction. Additionally, I hypothesised CSRO and public affairs orientation would correlate significantly with customer orientation. Confirmation of these hypotheses using statistical analytic techniques would provide evidence of the tool's validity.

Study results

The Centre for Corporate Public Affairs in Melbourne provided a mailing list of names of public affairs managers from a range of organisations in every state in Australia. Of the 602 deliverable surveys, 205 useable questionnaires were returned, giving a response rate of 34%. Respondents came from 160 organisations covering 17 industries. Demographic data collected from 20 executives at non-responding organisations (10% of non-responding organisations) revealed no significant differences between respondents and nonrespondents.

The demographic profile of the sample was assessed using organisation characteristics such as ownership, organisation type and number of employees, as well as respondent characteristics such as seniority of manager, gender and age. The responding organisations comprised foreign owned multinational corporations, Australian owned multinational corporations, Australian domestic corporations, government owned or controlled businesses, and other organisations such as professional associations and government departments. A summary of organisation characteristics is contained in Table 1. The respondents comprised 42% who reported directly to their chief executive officer or top manager and a further 44% who reported one level below that. This is comparable with respondents to a survey of public affairs managers undertaken by the CCPA in 1992. Approximately 40% of the sample was women. Respondent characteristics are summarised in Table 2.

Key results were:

- The CSR management capacity tool comprises three factors (not two as hypothesised), called CSRO, stakeholder engagement and public affairs orientation. Whereas stakeholder engagement was previously thought to be an element of CSRO, the study results suggest it is a superordinate factor that

links CSRO and public affairs. The reliability coefficients were stakeholder engagement .64, CSRO .84 and public affairs orientation .87. This is considered good for the early stages of development (Perfect reliability would be 1.0, a score which is impossible in reality. Scores of .80 to .90 are considered desirable for measures used on groups).

- CSRO made a unique, statistically significant contribution to business performance: it accounted for two and a half percent of variance in business performance, an effect partially explained by public affairs and conflict avoidance.
- Social bridging was the only public affairs strategy to be significantly correlated with business performance, a relationship partially explained by conflict avoidance effects.
- Public affairs orientation made a statistically significant contribution to business performance. It accounted for 10% of variance in business performance, an effect partially attributable to conflict avoidance.
- There was a positive, statistically significant correlation between customer orientation, public affairs orientation and CSRO.
- Separately, each of CSRO, public affairs orientation and customer orientation accounted for significant variation in business performance. When all possible interactions between CSRO, public affairs orientation and customer orientation were included in the analysis, the three factors together accounted for 12% of variance in business performance. Only CSRO had a significant unique contribution, an effect partially explained by public affairs effects.

In brief, the major hypotheses of the study were confirmed, providing evidence of the Index's validity.

To demonstrate the usefulness of the CSR Management Capacity Index, scores on the three factors (stakeholder engagement, CSRO and public affairs orientation) were summed for each respondent, then for each company where there was more than one respondent, and finally by organisation type and industry where there were at least 10 respondents in the same industry. These scores are shown in Table 3 and 4.

Clearly, these scores should be interpreted with caution. First, a true measure of management capacity would require a sample from across the organisation and most

organisation scores in this study are based on the responses of only one or two people. Second, the measures are still under development and may not yet reflect the full suite of management competencies required for social responsibility. Third, the weighting system for calculating a final score is yet to be determined. The scores reported in this article assume equal weights for each question within each factor, and equal weight for each of the three factors. In reality, some aspects of the Index may carry more weight than others, affecting the final score. Nevertheless, the data shows that a CSR management capacity score can potentially be calculated for industries, individual organisations, sites or cohorts of employees within organisations, or other groups.

Scores for foreign-owned multinational corporations (MNCs), Australian-owned MNCs, and Australian owned domestic corporations generally fell in the rank order expected. While one might expect foreign owned MNCs to score higher because they are generally larger and may have operated internationally for longer than many of the Australian MNCs, the “head office/branch office” factor may account for their slightly lower score. That is, an outpost of a large company in a generally stable social environment (such as Australia) may require a lower capacity to manage CSR than a head office of a large company with multiple sites and many employees (such as a locally headquartered MNC). Generally MNCs were expected to score higher than domestic firms because they face multiple social environments and therefore an inherently more complex social adaptation task.

The higher scores for government owned businesses and other types of organisations might be explained by two factors. First, the mission of such organisations may include a more explicit social dimension, especially if the organisation is constituted as an instrument of government policy. Second, the measure was initially designed for corporations. The CCPA mailing list provided a convenient opportunity to collect data for comparison purposes from government owned enterprises and other organisations, but it may turn out that CSR management capacity for these organisations should be understood and measured differently.

Next steps

The survey results reported above show good progress against the goal of developing a CSR Management Capacity Index. Nevertheless, further development and testing is required. A number of survey respondents have participated in group

and individual discussions over the past weeks to help refine and further develop the survey. Further tests of the instrument will be carried out mid-year in up to three large organisations. Finally, a series of case studies in best-practice large Australian owned MNCs representing different industries will be undertaken towards the end of 2002 and into the early part of 2003 to obtain qualitative evidence for the existence of the various CSR management competencies, and to understand the relationships between them. The case studies will also employ the survey to demonstrate the utility of the CSR Management Capacity Index. The final tool is expected to comprise a simple, 10-12 minute survey of approximately 50 questions, the answers to which would be added up to get a “score”. The instrument will be published and available for managers to use. The thesis is anticipated to be finished in the second half of 2003.

I would like to thank all the participants in the survey, the many managers who have given freely of their time for discussions about CSR over the last two years, and Geoff Allen of the Centre for Corporate Public Affairs for supporting the study through making mailing labels and meeting rooms available to facilitate data collection. I would especially like to thank my supervisors in the Department of Management, Associate Professor Charmine Härtel and Dr Ken Coghill.

For information or copies of other papers arising from the study: Phone Leeora Black 03 9576 1694 or 0412 163 327.

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About the author:

Leeora Black has 20 years experience in public affairs, issues management and public relations in the consulting, not-for profit and corporate sectors and has taught in the Bachelor of Communication and Bachelor of Business at Monash University. She went back to school to try and decide what she would be when she grows up.

Break out box if space allows:

Public affairs strategies measured in this study were social bridging, social buffering, political bridging and political buffering. Buffering strategies are attempts to influence or buffer organisations from the external environment, whereas bridging strategies are thought to help organisations adapt to the external environment. Effective public affairs management is thought to use both types of strategies. These measures and their development are reported in Meznar, Martin B. and Douglas Nigh (1995), "Buffer or Bridge? Environmental and Organizational Determinants of Public Affairs Activities in American Firms," *Academy of Management Journal*, 38 (4), p. 975f.

Another break out box if space allows:

Stakeholder conflict reduction was measured in this study by adapting conflict avoidance effects for communications programs reported in Dozier, David M., Larissa A. Grunig, and James E. Grunig (1995), *Manager's Guide to Excellence in Public Relations and Communications Management*. New Jersey: Lawrence Erlbaum Associates, p. 227. Questions looked at the extent to which complaints and disagreements were reduced, strikes or litigation was avoided, and government interference was reduced.

Table 1: Characteristics of responding organisations (N = 160)

Employees	Foreign owned MNCs	Aust owned MNCs	Aust. Domestic firms	Gov't businesses	Associations	Gov't departments	Other	Total
<499	3.0%	2.5%	3.5%	9.4%	3.5%		1.0%	22.8%
500-2,499	7.4%	4.5%	5.0%	8.9%	.5%	2.5%	1.0%	29.7%
2,500-4,999	4.0%	5.4%	3.0%	4.5%				16.8%
5,000-9,999	2.5%	2.5%	1.0%	.5%			.5%	6.9%
10,000-50,000	2.5%	8.4%		4.0%				14.9%
>50,000	6.9%	2.0%						8.9%
Total	26.2%	25.2%	12.4%	27.2%	4.0%	2.5%	2.5%	100.0%

Table 2: Characteristics of respondents

Age	Seniority	Female	Male	Total
Under 35	Report to CEO	6.9%	2.0%	8.9%
	Report to someone who reports to CEO	9.9%	3.0%	12.8%
	Report at a level below this	2.5%	.5%	3.0%
	<i>Group Total</i>	19.2%	5.4%	24.6%
36-45	Report to CEO	5.4%	8.4%	14.3%
	Report to someone who reports to CEO	9.9%	11.3%	21.2%
	Report at a level below this	1.0%	1.0%	2.0%
	<i>Group Total</i>	16.3%	20.7%	37.4%
46-55	Report to CEO	2.5%	15.8%	18.2%
	Report to someone who reports to CEO	2.5%	8.9%	11.3%
	Report at a level below this	.5%	2.0%	2.5%
	<i>Group Total</i>	5.4%	27.6%	33.0%
56 or older	Report to CEO		2.5%	2.5%
	Report to someone who reports to CEO		2.0%	2.0%
	Report at a level below this		.5%	.5%
	<i>Group Total</i>		4.9%	4.9%
		40.9%	58.6%	99.5%*

* Total does not add up to 100% as some respondents declined to answer the question on age.

Table 3: Summary means by organisation type (scores are out of 7)

	CSR management capacity		Stakeholder focus		Corporate Social Responsibility Orientation		Public affairs orientation	
	Mean	Std Dev	Mean	Std Dev.	Mean	Std Dev	Mean	Std Dev
Foreign owned MNCs	5.1857	.8141	5.1895	1.054	4.8943	.9931	5.4732	.7553
Aust owned MNCs	5.1419	.7939	5.1105	1.0238	4.9794	.9582	5.3814	.7701
Aust domestic firms	5.0043	.8585	4.9679	1.0669	4.5751	1.0055	5.3929	.8473
Gov't business enterprises	5.4183	.6764	5.5556	.8265	5.2086	.8986	5.4907	.7083
Other	5.8278	.5167	5.9583	.7537	5.6838	.6664	5.8413	.6475

Industry	CSR management capacity		Stakeholder focus		Corporate Social Responsibility Orientation		Public affairs orientation		
	N	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev
Biotechnology & health	10	4.8959	.8437	4.6750	.8664	4.7769	1.1952	5.2357	.6398
Finance, banking, insurance	26	5.2161	.8676	5.2115	1.1569	4.8962	.9451	5.5406	.8498
Manufacturing	32	5.0250	.8846	5.0391	1.1272	4.6777	1.1082	5.3583	.7510
Mining	14	5.3936	.8088	5.25	1.0284	5.5165	.9039	5.414	.83766
Resources	12	5.5812	.4092	5.9167	.6246	5.0769	.7734	5.7500	.4159
Services	35	5.5060	.7402	5.6929	.8872	5.3842	.9187	5.4408	.8017
Utilities (water, electricity, gas)	32	5.3099	.7958	5.3672	.9224	5.0447	1.0075	5.5179	.7535

Table 4: Summary means by industry (N= number of respondents)

(scores are out of 7)