Corporate Social Performance and how the Australian index measures up

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Abstract

Corporate social responsibility has become a popular topic for businesses and academics alike in recent decades. The value laden nature of corporate social responsibility has made measuring the corporate social performance (CSP) of businesses problematic, however, and hindered theoretical developments. Valid and reliable measures of CSP are crucial not only for researchers and academics, but also for other groups in society who have become increasingly interested in the social performance of organisations, and for organisations themselves who wish to benefit from social performance. Early measures of CSP, including reputation measures, individual outcome measures and content analysis, lacked validity and although more comprehensive indices have recently been developed, surprisingly few academics have examined their validity as CSP measures. This paper proposes criteria for assessing CSP based upon stakeholder theory and Wood’s (1991) model of CSP involving principles, processes and outcomes. The criteria will then be applied to Reputex, the Australian social performance index, to provide a greater understanding of the usefulness of this index for the purpose of developing and testing theory.
Introduction

Measuring the social responsibility of businesses has proven to be problematic. This paper examines the issue surrounding the measurement of corporate social performance – how a business achieves social responsibility – with the aim of proposing criteria for assessing the reliability and validity of measures of CSP. The criteria are based upon an examination of the theoretical definitions and constructs of CSP, and an analysis of popular CSP measures. Finally, these criteria are applied to Reputex, the Australian corporate social performance model, for the purpose of increasing understanding of the usefulness of this index for the development and testing of theory.

Corporate social responsibility and the problem of measurement

Although business concern for society has existed for centuries (Carroll, 1999), the concept of corporate social responsibility has received increasing attention as social pressures have resulted in a growing awareness of the potential consequences for businesses of irresponsible actions and the benefits of acting responsibly. Since Bowen argued that businesses have an obligation to ‘pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society’ (1953, p6), academics have given increasing attention to issues of business and society.

The issue of corporate social responsibility was contentious in early academic works. While many academics argued that businesses owed an obligation to society to act responsibly, one camp, led by Friedman (1962), argued that the sole social responsibility of businesses was to earn money. Among the proponents of corporate social responsibility no early consensus was achieved on what businesses were obligated to do and to whom they were obligated to. Freeman’s (1983) stakeholder model has provided a logical solution to the question of to whom business are obligated to. Freeman (1983, p89) defined stakeholders as ‘those groups without whose support the organisation would cease to exist’, and proposed that the purpose of the organisation was not merely serving the interests of stockholders, but serving the interests of all those groups with a stake in the organisation. These included employees, suppliers, lenders and customers, as well as owners (Kaler, 2003). As Carroll (1999) observed ‘there is a natural fit between the idea of corporate social responsibility and an organisation’s stakeholders’, which several authors including Clarkson (1995) and Jones (1995) have recognised in their attempts to integrate stakeholder theory with the concept of corporate social responsibility.

From the concept of social responsibility emerged corporate social performance, the means through which businesses achieve social responsibility. Corporate social performance models were intended to operationalise corporate social responsibility and to provide a pragmatic means for assessing an organisation’s social responsibility. Proponents of corporate social responsibility, beginning with Drucker (1984), have claimed that being socially responsible has a positive effect on the financial performance of an organisation and the saying that businesses can ‘do well by doing good’ has become somewhat of a catchphrase in business and society literature. Hence it is not surprising that attempting to prove that corporations have a vested interest in acting responsibly has guided much of the research on CSP and that a large body of literature has emerged which attempts to establish a link between an organisation’s social performance and its financial performance.
Cochran and Wood (1984) were amongst the first to attempt to establish a relationship between CSP and corporate financial performance (CFP). Although they reported a positive relationship between the two, a similar study by Aupperle, Carroll, and Hatfield (1985) failed to find any relationship between social and financial performance. These contradictory findings would come to characterise the field of research on the CSP/CFP relationship. While the majority of empirical studies have supported Cochran’s and Wood’s (1984) findings of a positive relationship between CSP and CFP (Waddock and Graves, 1994; Orlitzki, Schmidt and Rynes, 2003; Johnson and Greening, 1994), a considerable number of studies have reported contradictory findings which suggest that the costs of CSP may in fact outweigh the benefits (Griffin and Mahon, 1997). These contradictory findings have led many researchers to conclude that, despite the intensity of study directed at it, the relationship between CSP and CFP remains in dispute.

The variance in CSP/CFP research findings is almost universally attributed to the problems inherent in measuring CSP. In response to the study by Cochran and Wood (1984), Aupperle et al. (1985, p. 446) observed that

Many of the methodological quagmires in studying corporate social responsibility stem from the nature of the subject, a relatively new field of study whose concepts are value laden and susceptible to particular ideological and emotional interpretations. Perhaps the overriding constraint has been the difficulty of developing valid measures.

The problem of CSP measurement prompted Griffin and Mahon (1997) to describe the entire body of CSP literature as ‘incomparable’ and has resulted in continuous calls for the development of more valid and reliable measures of CSP by researchers (Waddock & Graves, 1997; Griffin and Mahon, 1997; Agle & Kelley, 2000; Waddock & Smith, 2000; Davenport, 2000).

Valid and reliable measures of CSP are crucial not only for researchers and academics for the purpose of testing and developing theory, but also for other groups in society who, due to increased social awareness, have become increasingly interested in the social performance of businesses. Businesses themselves are also becoming more concerned with their own social performance given the (albeit disputed) empirical evidence of the benefits of corporate social performance and the consequences of non-performance.

Corporate social performance: Theoretical constructs and definitions

Both academics and practitioners have had difficulty measuring corporate social performance because of insufficient agreement about it as a theoretical construct. Despite significant attention and numerous attempts to develop definitions, CSP continues to suffer from a lack of consensus. Without accepted definitions researchers and businesses lack a foundation for the work of systematically gathering, organising, and analysing data on corporate social performance.

The earliest definition of CSP was offered by Carroll (1979). This definition of the social performance of a business attempted to ‘bring into the fold those who have argued against social responsibility by presuming an economic emphasis to be separate and apart from social emphasis’ (Carroll, 1979: 500), by identifying economic performance as just one aspect of the total social performance of businesses, rather than as a separate activity. Carroll’s (1979) model judges CSP based upon all those business functions that he perceived as falling under an organisation’s social responsibility, namely economic, legal, ethical (those activities which go above and beyond the legal obligations and which society expects) and discretionary functions (those activities which go above and beyond ethical activities, which society does not hold expectations in regard to and
therefore are undertaken with a degree of discretion) (Carroll 1979). Carroll states that the model is not the ‘ultimate conceptualisation; it is, rather, a modest but necessary step toward understanding the major facets of social performance’ (Carroll, 1979: 503).

This concept of social performance was expanded upon by Wartick and Cochran (1985). They felt a more expansive definition of social performance was necessary for the purpose of assessing an organisation’s social responsibility. They accepted Carroll’s (1979) basic definition of corporate social responsibility but expanded upon his model by adding the concept of social issues management. They redefined social responsibility as ‘the underlying interaction among the principles of social responsibility, the process of social responsiveness, and the policies developed to address social issues’ (Wartick and Cochran, 1985: 758). Social issues management involved identifying the social issues to be addressed, analysing the issues, and developing responses to the issues. Judgement of an organisation’s CSP was, according to their model, to be based upon the formal policies developed in relation to an organisation’s social responsibility (Wartick and Cochran, 1985).

The use of formal policies as a means of assessing CSP proposed by Wartick and Cochran (1985) was criticised by Wood (1991: 692) as being too restrictive as it provided ‘only one possible outcome by which a firm’s social performance can be judged’. Woods emphasised the necessity of separating the principles guiding the organisation’s action from the processes employed and the outcomes achieved to obtain a true perspective of the organisation’s performance. Assessing the outcomes individually, she argued, has the potential to mislead, as there was the potential for ‘bad outcomes from good motives and good motives but poor translation via processes, good process use but bad motives and so on…’ (Wood, 1991: 693). Based on this, Wood’s model considers the principles motivating organisational behaviour, the processes through which organisations enact their social responsibility, and the incorporated social impacts, policies and programs that are the collective outputs of an organisation’s environmental interactions, in relation to the various dimensions of CSP. Wood’s (1991: 693) definition of CSP as ‘a business organisation’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm’s social relationship’ allows for a pragmatic assessment of an organisation’s social responsibility.

Further attempts have been made to expand upon the model developed by Wood (1991). Swanson (1995), for example, attempted to ‘reorient’ Wood’s (1991) model and Carroll (1995) provided an updated, reworked version of his own model. However Wood’s (1991) definition remains the most comprehensive and is the most commonly cited in the literature and is thus the basis for this paper.

An assessment of CSP measures

It is possible to trace the development of measures of CSP in the empirical literature from relatively basic measures used in early studies to more complex indices used today, such as the Dow Jones Sustainability Index. While some authors have chosen to develop their own scales for assessing CSP, such as Aupperle et al. (1985), most measures of CSP fall into the categories of content analysis, reputation measures and individual output measures.

Content analysis involves assessing an organisation’s corporate social performance based upon the content of company reports such as annual reports (for example Cochran and Wood, 1985). While this method provides valuable insights into the motives behind the actions of an
organisation, content analysis has been heavily criticised as a measure of CSP for its potential to confound social performance with social orientation (Ullman, 1985; Waddock and Graves, 1997; Aupperle et al., 1985). This measure depends largely upon the comprehensiveness of the reports and the purpose for which the reports were initially intended, and hence can be biased by inclusion or omission. Content analysis measures social performance based upon what the company itself has reported and while this may reflect what the company believes it is doing, it may not be the same as what the company is doing in practice. Agle and Kelley (2001: 281) observed that ‘one need not be an expert to know that actions and words are often highly divergent’.

Perceptual measures were first developed as a means of assessing CSP by Moskowitz (1975). Fombrun and Shanley (1990) recognised the value of measuring reputation, observing that return on assets is highly correlated to reputation. Reputation is defined as the ‘net present value’ placed on a company’s accomplishments and its prospects (Fombrun and Shanley, 1990), and is society’s counterpart of the stock market (Szwajkowski and Figlewicz, 1999). Reputation is implicitly multidimensional, and hence provides an important device for assessing an organisation’s social performance. While the use of expert assessors to rate a business’s social performance can create a measure that is free from self-report bias and that reflects the business’s social performance, the validity of this method depends largely upon the selection of those making the assessments. If assessors are not chosen so that their qualifications and knowledge are consistent with the industry being examined, then true reflections of an organisation’s social performance may not be achieved. An additional limitation is that, because CSP has not been operationally defined, the ratings of individuals are not necessarily comparable as the ratings may be based on different understandings of the concept of corporate social performance (Ruf, Muradldihara and Paul, 1998).

The popularity of individual output measures, such as pollution emissions and philanthropic contributions, is due to their relative objectivity and simplicity (Stanwick and Stanwick, 1998). This also happens to be their biggest limitation however; they reflect only one outcome of one dimension of CSP. Pollution emissions, for example, represent only one aspect of environmental performance, and do not represent other dimensions of CSP, so do not accurately reflect the overall social performance of an organisation. The multidimensional nature of CSP makes the use of individual output measures inappropriate.

Reliability and validity issues in CSP measurement

The two main issues for assessing the appropriateness of measurement instruments are reliability and validity. The reliability of a measure refers to the precision or accuracy of the measurement (Kerlinger, 1986). Validity depends upon reliability, and refers to the degree to which the measurement instrument measures what we think it is measuring, or rather the degree to which a measurement instrument accurately operationalises the theoretical constructs (Kerlinger, 1986).

It is difficult to ensure the reliability of CSP measures due to the value-laden nature of the construct. While some aspects of CSP can be assessed using objective measures, such as pollution emissions, CSP is a largely normative construct; as Blackburn (1994) observed ‘CSP is in the eye of the beholder’. While reliability can be improved through the use of impartial assessors with some expertise, assessments of CSP will always be vulnerable to a degree of personal and ideological bias.
Agle and Kelley (2001) comment that validity concerns in CSP measures have not been fully addressed. Construct validity has been difficult to demonstrate in measures of CSP due to the lack of a clear definition. Wood’s (1991) model, which is the most comprehensive and commonly cited definition of CSP, emphasises the importance of principles, processes and outcomes. Researchers have demonstrated the potential for misleading assessments of CSP that are based solely on outcomes as they may be coincidental and inconsistent with organisational principles (Agle and Kelley, 2001). However, the necessity for assessing the outcomes of CSP was reiterated by Carroll (2000), who claimed that measures need to be realistic assessments of the results of corporate social performance and hence need to be outcome focused.

Content validity has also been difficult for researchers attempting to measure CSP. The complexity and multidimensionality of social performance and the involvement of a range of stakeholder groups with varying agendas and perspectives mean that a truly representative, valid measure must be comprehensive. A consensus on the dimensions on which CSP should be judged has never been reached. The literature indicates five prevalent categories of CSP – the consumer, the employee, the community, the environment, and civil rights or equal opportunities – and recent literature on ethical investments has contributed additional dimensions to the list. This indicates the necessity for a composite measure of CSP that uses multiple measures based on multiple dimensions.

Criteria for the valid and reliable assessment CSP

Given the above review of existing CSP measures, the following criteria are proposed for the purpose of assessing measures of corporate social performance. These criteria relate to what is being assessed and how the assessments are conducted.

An instrument that assesses CSP needs to be a composite measure that captures all of the important aspects and dimensions of business-stakeholder relations. Carroll (2000) suggested that no less than four or five stakeholder groups should be represented in any measure of CSP. The logical stakeholder groups that should be considered are employees, owners, the community and environment, and customers. These stakeholder groups are likely to differ in importance and relevance across industries and regions, and provision should be made for this within the measures. Further, individual measures relating to each stakeholder group must reflect the values of the stakeholder groups and of society, rather than assessing what is most easily or most credibly measured.

CSP assessments must be conducted so that the principles, processes and outcomes of social performance in relation to each of the stakeholder groups being assessed are considered. As has been demonstrated, the use of one type of measure is insufficient to adequately assess a business’s social performance. While measures such as content analysis and individual output measures provide valid assessments of a business’s processes and outputs respectively, it is important that they be used in conjunction with other measures to ensure a comprehensive assessment is made. In addressing an organisation’s performance in relation to the community, for example, an assessor of CSP might examine public company reports to determine the processes, interview the CEO to determine the principles behind the processes, and examine the actual outcomes of company processes in the community.
An assessment of CSP indices

The growth of consumer concern with corporate social responsibility, and in particular the increase in the popularity of socially responsible or ‘ethical’ investments, has recently resulted in the development of numerous indices that assess and rank organisations according to their social performance. These include the Dow Jones sustainability index, FTSE4 Good, and the British BITC Corporate Responsibility Index. However, despite the growing popularity of the business and society field and numerous calls from authors for the development of more reliable and valid measures of CSP, there is relatively little literature that examines the validity of existing measures of CSP. Two CSP indices that have gained popularity with social researchers and which are exceptions to this are the Domini social index and the Fortune Reputation Survey.

The Kinder, Lyndenberg and Domini (KLD) Domini social index 400 is part of an ‘alternative’ database of companies that was founded in 1989 to conduct social research on corporations to provide information to the investment community. Thousands of companies are rated and ranked based on a multidimensional assessment; after excluding companies involved in ‘negative’ activities such as nuclear power, alcohol, gambling and military contracting, companies are evaluated in qualitative areas including community relations, workforce diversity, employee relations, environment, and product safety. Hierarchical rankings are assigned on the basis of these assessments, with those considered the most responsible included in the Domini Social index 400. Although the Domini social index 400 was designed for social investors, and not as a source for empirical research, it has become a popular source for social scientists and many CSP researchers have praised it as a measure of corporate social performance (Wood, 1995; Waddock and Graves, 1995; Griffin and Mahon, 1997; Szwajkowski and Figlewicz, 1999). The strengths of the index are that it reflects the multidimensionality of CSP and that, because the ratings are assigned by independent evaluators, the potential for self-report bias is eliminated. However it has also come under criticism for representing aspects of social investing and not necessarily aspects of CSP (Entine, 2003; Simerly, 2003).

The other CSP measure that has gained acceptance among social researchers is the Fortune Reputational Survey (FRS). The FRS surveys over 8000 executives, outside directors and finance analysts across twenty industries to evaluate firms within their area of expertise on eight different attributes. These are quality of products or services; innovativeness; value as a long term investment; financial soundness; ability to attract, develop and keep talented people; wise use of corporate assets; and community and environmental responsibility. The fact that the survey is based on the opinions and judgements of credible experts – Simerly (2003) goes as far as describing them as some of the brightest minds in the country – within the same industry overcomes the limitation of concern for knowledge and experience of the raters and augers well for the validity of the survey. However, the single measures of CSP – community and environmental responsibility – highlights that the FRS is not specifically a CSP measure, but rather a measure of overall performance. A common criticism of the survey is that there is a ‘financial halo’ on its data. While some authors claim this criticism is based on faulty research and that it is as good a measure of CSP as any other (Simerly, 2003; Szwajkowski and Figlewicz, 1999) others conclude that it should be dismissed altogether as a measure of social performance (Brown and Perry, 1995; Baucas, 1995; Wood, 1995, 1997).

These, like many of the measures that have been used to assess CSP, have suffered from a lack of discriminant validity; that is, the ability to differentiate the construct under consideration from other related constructs. Reputation measures do not actually measure the principles, processes and outcomes of social performance but rather perceptions of an organisation’s social
responsibility. While this may reflect an organisation’s social orientation and performance, as a measure of CSP it lacks validity. Similarly, social screens such as the KLD are designed to assess businesses for ethical investment purposes and not to measure CSP. While their assessments may reflect social performance, their methods of assessment do not validly measure corporate social performance. Social screens, for example, disregard any businesses involved in so called ‘sin issues’ as irresponsible, without regard for the business’s actual social performance. Care must be taken to ensure that measures which do not address social performance in respect to processes, principles and outcomes, should not be labelled a measure of CSP.

Reputex: Australia’s CSP index

Like many of the indices that have been developed for assessing and reporting the social performance of businesses, Australia’s social performance index, Reputex, has not been subjected to rigorous academic scrutiny. Reputex first appeared in 2000 under the name the Good Reputation Index. While initially it was a reputation measure that assessed the perceptions of various community groups of the social performance of Australia’s top 100 and New Zealand’s top 20 companies, it has recently undergone radical changes in the way in which it carries out its assessments of businesses social performance. This paper will conclude with an assessment of the validity of Reputex as a measure of CSP. It is expected that the recent changes to how Reputex assesses CSP will be found to have resulted in an improvement in the validity of Reputex as a measure of CSP, but that discriminant validity will remain an issue, as it is with other CSP indices. These results will hopefully provide a greater understanding of the usefulness of the index for the development and testing of theory.
Reference List


