

# **Exploring Patterns of Corporate Community Involvement on Social Impact Measurement**

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## **Abstract**

Companies are increasingly paying attention to corporate community involvement (CCI), however academics and practitioners still lack an understanding of how to measure the action of multitude of stakeholders in society who affect and are affected by companies. Most CCI guidelines, standards and reporting frameworks that have been developed over recent decades have remained primarily at the level of capturing companies' inputs and in some cases outputs with respect to their social and community initiatives. However, there is a difference between program's outputs and program's impact. Outputs are the direct, immediate results of a program, while impact can be defined as a result of the activity of an organisation above and beyond what would have happened. This paper aims to increase our understanding of how leading Australian companies adopt social measurement. As part of an exploratory study, we use data from the Corporate Responsibility Index (CRI) for the 29 companies participated in the 2007 survey. This is one of the first empirical studies of CCI based on the CRI in Australia/ New Zealand. The findings show that measuring the impact of CCI on business and society is still a challenge for many businesses and there is a need to develop a more systematic approach to assess the impact of CCI initiatives on the community over time.

## **Introduction**

There is a variety of views about the role of companies in the community. These range from the view that a company should focus only on profit to the view that a company should fulfil all community needs (CCPA, 2007; Smith, 2007). Nevertheless, corporate community involvement (CCI) is on the rise as more companies recognise the many benefits of being socially responsible (Hess & Warren, 2008). However, despite increasing attention toward CCI, a recent joint project of the Aspen Institute, Boston University and the Marketing Science Institute (2007) suggests that academics and practitioners still do not pay enough attention to measuring the multitude of stakeholders in society who affect and are affected by the actions of companies (Bhattacharya & Korschun, 2007). There is a difference between program's output and program's impact. Output is the direct, easily identifiable, immediate result of a program, while impact defines 'the result of the activity of an organisation, above and beyond what would have happened anyway' (Clarke, et. al., 2004, p. 3). Thus, the aim of this research is to increase the understanding of how social impact measurements are being adopted by leading Australian companies. As part of an exploratory study, we explored CRI survey for the 29 companies who participated in the 2007 survey, which was published in 2008. To date, this data is the first time being analyzed for Australia and thus may offer initial estimates of CCI levels among leading Australian companies. This paper is structured as follows: a review of the CCI literature; a discussion of the identified research gaps, presentation of a research question, and a proposed methodology, a discussion of the findings, and finally, conclusions and limitations.

## **Corporate Community Involvement**

Corporate Community Involvement (CCI) is one of the activities that reflects a company's Corporate Social Responsibility' (CSR). CSR may cover social, economic, and environmental impact aspects of the company. CSR can be defined as the 'continuing commitment by business to behave ethically and to contribute to economic development while improving the quality of life of the workforce and their families as well as that of the local community and society at large' (WBCSD, 2006). CCI specifically refers to 'the structures and policies companies have in place to provide financial and in-kind assistance (e.g. corporate philanthropy) as well as contributions of time and expertise (e.g. employee volunteer programs) to the wider community, often through partnerships with non-profit organisations' (Zappalà & Cronin, 2003, p.6). CCI strategies may range from donation activity at the discretion of management without an expectation of a profit return, to complex business and community partnerships that are integrated into a business strategy (Centre for Corporate Public Affairs, 2000; Varadarajan & Menon, 1988; Wymer & Samu, 2003; Zappalà, 2004).

However, research on CCI has mostly analysed the business benefits that accrue to corporations (Du, Sen & Bhattacharya, 2008). Porter and Kramer (2007) contend that many initiatives reported by companies merely emphasise the dollars spent or time dedicated for volunteering, but rarely discuss the impact an initiative has on a community. Other researchers voice a similar concern regarding the extent to which the intended recipient benefits from CCI initiatives (Blowfield, 2007; Drucker, 1984; Gourville & Rangan, 2004; Horin, 2007; Kotler & Lee, 2005; Raghuram et al., 2010; The Centre for Corporate Public Affairs, 2007). Research on CSR consequences has mostly analysed the business benefits toward corporations (Du, Sen & Bhattacharya, 2008) and these have been found to include: a positive impact on the present value of a firm's cash flow (Godfrey, 2005; Hamilton, Jo, & Statman, 1993; McWilliams & Siegel, 2001; Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997); an increase in positive attitude toward the company and/or the brand (Brown & Dacin, 1997; Kotler & Lee, 2005; Lichtenstein, Drumwright, & Braig, 2004); as an insurance policy in a crisis situation (Dawar & Pillutla, 2000; Ricks, 2005); and a positive spill-over effect to strategic alliances (Beckmann, 2007; Cornwell & Smith, 2001; Lafferty & Goldsmith, 2005; Ross, Patterson & Stutts, 1992);

The previous discussions show that few studies in marketing and management examine the impacts or consequences of CCI on the recipients or the intended beneficiaries, the unexamined stakeholder group in the community (Du, Sen & Bhattacharya, 2008; Arli & Zappalà, 2009; McWilliams, Siegel, & Wright, 2006). Arguably, the best CCI initiative should specify clear, measurable objectives and track results overtime (Porter & Kramer, 2007).

### **Research gaps and a research question**

As previously discussed, despite the increased attention on CCI from both companies and researchers, certain areas in this field have received very little or no attention. In particular, there have been few attempts to understand how to measure social impact (Atkinson, Schaefer, & Viney, 2000; Brammer & Millington, 2003; Zappalà, 2010). While some studies have examined these issues separately, only a few have explored the actual level of social impact measurement amongst large companies. Much of the research attention focuses only on the returns for business instead of the social returns or benefits for the recipients. Thus, we explore this research question: ***What are the patterns of companies' responses toward measuring the social impact of their corporate community involvement?*** This research

will investigate the CRI index database focusing on the pattern of responses toward social impact measurement.

## **Research Methods**

In order to examine social impact measurement among Australian companies we focused on a selection of responses to the CRI. The CRI was launched in 2003 by the St James Ethics Centre, and is based on the UK The CRI, facilitated by Business in the Community, has operated since 1996. The purposes of CRI are to help improve corporate responsibility by providing a systematic process that assists companies to identify their non-financial risk, as well as develop and improve corporate responsibility in line with their business strategy. It provides a benchmark for companies who are committed to managing, measuring and reporting their impact on society and the environment (CRI, 2009). It involves voluntary participation with around 18-30 companies annually participating in the index; 83% of participants are large companies employing more than 10,000 people and 72% are publicly listed. The CRI covers a broad spectrum of responsible management practices from CCI to leadership quality. The Australian index consists of an extensive questionnaire (around 82 question sets) which has to be supported by internal documentation to substantiate responses. In general, a CRI requires final sign off from the Chairman, Chief Executive or Board Director responsible for Corporate Responsibility within the organisation. These documentations are then externally assured for credibility and validity by an independent third party (i.e., PricewaterhouseCoopers). The overall results of participating firms are publicly released annually in a special supplement to *The Sydney Morning Herald* and *The Age* newspapers. The CRI started the survey in 2002 and continually reviews and changes the survey according to current needs. Unfortunately, the companies who participate annually are not always the same; therefore, due to the inconsistencies of survey format and the number of companies participating in the survey, we chose the latest database available. We analysed 29 companies participated in the 2007 survey which was published in 2008. We then produce purely descriptive summaries of the data.

## **Findings**

### **Community Investment – Benefits and Impact**

Despite increasing transparency and accountability in the use of resources, measurement of performance for both business and social impact has been difficult. Slightly less than half, (48% (14 of 29)) measure the inputs in terms of cash, employee time and management cost and only 35% (10 of 29) measure the inputs in terms of gifts in kind. Input can be viewed as the overall cost to the company of making its community contribution (BITC, 2008). The percentages are even lower when it comes to measuring the outputs of CCI programs. Only 28% (8 of 29) measure the outputs in term of leverage (i.e., the additional resources brought to a project) and business benefits (i.e., the internal and external benefits that community involvement brings to the company) and only 21% (6 of 29) measure the outputs in terms of community benefits (i.e., the various ways in which the community gains an advantage from the corporate support). This fact will create a new challenge since external stakeholder audiences have become more demanding and want to know more about the impact of company's funding.

### ***Business Benefits***

Slightly more than half of companies (59% (17 of 29)) can demonstrate business benefits from their programs through anecdotal information. Less than half ((48% (14 of 29)) can demonstrate business benefits through a formal evaluation process which includes regular

dialogue with community stakeholders. Only 35% (10 of 29) use feedback from the evaluation process to continually improve programs which can demonstrate continuous and sustainable business benefits.

### ***Community Benefits***

Similarly, slightly more than half of companies, (59% (17 of 29)) can demonstrate community benefits from their programs through anecdotal information. Less than half (45% (13 of 29)) can demonstrate community benefits through a formal evaluation process that includes regular dialogue with community stakeholders. Only 31% (9 of 29) use feedback from the evaluation process to continually improve programs that can demonstrate continuous and sustainable community benefits. Most companies do not work directly with the recipient and thus leave the measurement process to the non-profit partner. The non-profits are obliged to provide reports back to the company. The complexity of the measurement reports usually depend on the dollar amount given to the non-profit.

### ***Reporting***

The majority of companies (72% (21 of 29)) publicly report their community investment activities and the inputs of their community investment. Around 52% (15 of 29) publicly report the outputs and impacts and less than half of companies (45% (13 of 29)) publicly report their targets. The most challenging reporting activity is showing company's performance over time: only 35% (10 of 29) said they were accomplished in this area. Similar results found by The Global Reporting Initiative, the University of Hong Kong and CSR Asia (2008) who analysed 72 sustainability reports of various companies worldwide. They concluded that the majority of companies only emphasise their positive contribution without mentioning any negative implications and that each company has different ways of communicating the impact of their initiatives.

### ***Assurance***

The assurance process appears to have received little attention from companies. The assurance process section discusses a formal system used to provide someone with confidence that all information collected for a particular purpose is of an acceptable quality and that it addresses all relevant risks (BITC, 2008). The survey provides five qualifying statements. The findings show that only a small percentage of companies can confirm all statements in all areas. In the case of CCI, only 34.5% (10 of 29) can confirm community statements; 17% (5 of 29) for the environment; 31% (9 of 29) for the market place for suppliers, customers and the workplace – health, safety and wellbeing and 34.5% (10 of 29) for the workplace employee issues. We argue that lack of measurement and assurance might be due to the unavailability of a dedicated CSR department within the organisation. In many cases, the person in charge of CSR has multiple roles, usually with other functional areas such as Corporate Affairs, Marketing, Corporate Communication or Human Resources. Usually, the CSR manager is the only person working in the company or is part of a small team. The challenge of measuring the social impact of CCI initiatives becomes difficult if not impossible in a situation of limited time and resources (Australian Center for Corporate Social Responsibility, 2007, p.14). In addition, Chatterji and Levine (2006) suggest that there are still no consistent standards of measurements used by companies. Some companies use external organisations (e.g., London Benchmarking Group), others match the program with targets and others do not have a measurement system in place. Measuring impact was perceived as well worth having if possible, but was not seen as essential.

## **Conclusion and Limitation**

This research makes several contributions. First, exploring various decisions about CCI activities in the area of social impact measurement can verify or contrast with other studies of

CCI. We hope that the findings of this investigation will help business managers in comparing their current CCI activities with those who participate in this study. Second, this research presents evidence about whether there is an imbalance of exchange between a company's CCI activities and the community. There is some scepticism that CCI only increases corporate image and brand value, but is not benefiting the community. It is clear that measuring the social impact of CCI on business and society is still a challenge for many businesses and organisations. Companies are mostly publishing the inputs or the amount invested in the community without examining the impact of their investment in the community. This fact shows that there is a need to develop a more systematic approach to assess the impact of CCI initiatives on the community over time (Global Reporting Initiative, 2008; Hess & Warren, 2008; Raghubir, et al., 2010; Zappalà & Lyons, 2009). Currently, the majority of companies do not apply the same sort of measurement rigor to the management of work related to their relationship with the community as they would to other aspects of their business. While there are exceptions to the rule, community impacts appear to be something not many companies are able to clearly define or report on (Global Reporting Initiative, 2008). Measuring and reporting are important aspects of an initiative to show a company's accountability to stakeholders (Harila & Petrini, 2003; Holland & Gibbon, 2001). The benefits for companies are to: (1) identify what they are trying to accomplish and how best to measure performance against their aims; (2) identify the implications of their initiatives; (3) understand in what ways, if any, they can clarify their actions to increasingly sceptical and aggressive stakeholders; (4) identify whether there are practical alternatives for improving their social performance in ways that will not harm their business performance and in many cases improve it (Zadek, 2001).

Unfortunately, according to Morimoto, Ash, and Hope (2005) there is still little agreement between companies regarding CSR measurement in general. Currently there are various standards, guidelines and auditing techniques which a company can use to measure, evaluate and report their CSR which include CCI. Some examples are: (1) the Dow Jones Sustainability Index; (2) the Global Reporting Initiative; (3) London Benchmarking Group; (4) AccountAbility: AA1000 Assurance Standard; (5) Business in the Community; and (6) World Business Council for Sustainable Development. Arguably, managers as well as the measurement and standard setting bodies have not arrived at a consensus on what to measure and how to do it. Future research should focus on better measurement systems that involve less paperwork but which provide more information that matters and is reliable, comparable and valid (Chatterji & Levine, 2006). Understanding the social impact of any CCI program is an essential element for good decision making, justifying courses of action, understanding a company's social performance and for ensuring that social value creation is embedded into the way a company does business (Blowfield, 2007). Finally, this research has several limitations. Besides a small sample size, this sample might not be representative. We are consciously focusing on a group that has taken a keen interest in CCI. Therefore, it is plausible that the sample is weighted towards companies that have accepted the merits and necessity of CCI. In addition, data on how each company actually measures their own social impact is not available. This study is based only on how the companies respond to this survey. Finally, since the analysis is based on Australian companies, it might not be valid for companies outside Australia to the extent that legal, social, and cultural environment are likely to influence CCI investments.

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