

# How business behaviour contributes to reputation and perceptions of performance:

A case study of Alcoa of Australia

Dr Leeora Black, Managing Director, Australian Centre for Corporate Social Responsibility

Ms Kathryn Sydney-Smith, Community Relations Manager, Alcoa of Australia

Dr Yu Zhao, Research Fellow, Department of Management and Marketing, University of Melbourne and Visiting Research, ACCSR



australia's aluminium

## Background

The link between social performance perceptions and reputation is not new, but translating the intuitively correct into measurable behaviours and performance indicators remains a key challenge for corporations. In 2008 Alcoa of Australia conducted research to develop metrics and key performance indicators for use by the business to achieve higher levels of consistency and effectiveness in stakeholder relations across the company's diverse Australian sites. The aim was to establish clear foundations in building reputation and social performance; and establish benchmarks against which progress could be measured on an ongoing basis. The research drew on concepts of social capital and organisational justice.

## Research Questions

What is the quality of relationships between Alcoa and its stakeholders?

How do stakeholder relationships contribute to perceptions of performance and reputation?

What are the performance indicators that can be developed for consistent application across the company?

## Measures & Hypotheses

**Interactional justice:** a state where stakeholders feel respected and satisfied with the explanations that Alcoa provides them. High interactional justice positively influences perceptions of Alcoa's performance.

**Social capital:** Level of trust and extent of shared goals between Alcoa and its stakeholders. High social capital positively influences reputation and performance perceptions.

**Procedural justice:** Decisions made by Alcoa are supported by procedures that are ethical, consistent, accurate and inclusive of stakeholder needs. High procedural justice positively influences perceptions of performance and reputation.

## Method

Survey completed by 418 stakeholders (RR 31%) as follows:

Web responses: 260 (RR 19%)  
Paper responses\*: 158 (RR 12%)  
(\* where internet is unavailable)

Five-point Likert scales:  
Interactional justice 4 items  
Social capital 5 items  
Procedural justice 4 items  
Performance 5 items  
Reputation 1 item

**Interactional Justice**  
Feel respected and satisfied with explanations

**Social Capital**  
We talk, we trust each other, we share goals

**Procedural Justice**  
Decisions are ethical & consistent

**Overall Performance**

**Reputation**

**Social Performance**  
**Financial Performance**  
**Environmental Performance**  
**Openness**

## Theoretical explanations

Social capital contributes to reputation and perceptions of performance because:

- Relationship quality is an attribute of social performance,
- Relationships with high social capital can lead companies to change their behavior to become more legitimate in stakeholder eyes, and
- Collaboration in firm-stakeholder relationships can dispel negative perceptions that may have been held.

Justice contributes to perceptions of performance and reputation because justice:

- Builds feelings of inclusion,
- Maintains social conventions (legitimacy), and
- Is viewed as an ethical way to treat others.

Given the effect of justice on feelings of inclusion, it follows that the effect of justice may be stronger for stakeholders with low power vis-à-vis a given corporation, and weaker for stakeholders who have high power in relation to a given corporation.

## Key Results

### Drivers of Reputation

Adjusted R square = .44; F3, 303 = 78.501, p < 0.05 (stepwise method).  
Predictor Variable Beta p Social capital .353 p < 0.05  
Procedural justice .299 p < 0.05 Interactional justice .049 p > 0.05

### Drivers of Performance

Adjusted R square = .52; F4, 306 = 81.715, p < 0.05 (stepwise method).  
Predictor Variable Beta p Interactional justice .388 p < 0.05  
Social capital .189 p < 0.05 Procedural justice .158 p < 0.05

## Lessons and Implications

### 1. Identification of key performance indicators

Identification and adoption of key performance indicators relevant to stakeholder relationships.

*Key indicators:* reputation, social capital, perceptions of performance, satisfaction and justice.

### 2. Build internal understanding

Improved understanding of value and quality of stakeholder relationships. Helped unpack the critical ingredients of quality relationships. Increased the profile within the company of stakeholder engagement as an enabler of 'license to operate'.

### 3. Tool to visualise and communicate data to business leaders

Provision of robust and valid data assisted in visualising and communicating to business leaders current condition in a manner and language they understood.

### 4. Function-wide and site-specific relevance

Data and recommendations were provided in aggregate to drive company-wide improvements as well as in sub-sets specific to each of Alcoa's nine locations. This allowed for shared strategy development as well as customised plans to suit the needs of specific communities.

