

THE FIVE CAPABILITIES OF SOCIALY RESPONSIBLE COMPANIES

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Abstract

This paper develops and tests a model that integrates processes of public affairs management with stakeholder engagement and dialogue, business ethics, and social reporting to explain social responsibility capabilities in organisations. The model, called Corporate Social Responsibility (CSR) Management Capacity, describes social responsiveness as arising from a firm's social responsibility orientation and its public relations orientation. The paper shows how the model can be used by managers to measure, manage and improve their company's ability to be socially responsible.

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INTRODUCTION

Competency in responding ethically and responsibly to societal expectations is a critical issue for public affairs managers in multinational corporations (MNCs). Understanding what comprises socially responsible behaviour and how to manage it is, however, an unresolved issue. MNCs face complex challenges in establishing and maintaining legitimacy, or their 'license to operate', across many host countries with differing social and cultural norms and values. Firms have legitimacy when stakeholders perceive congruence between societal values and the firm's activities and goals (Dowling & Pfeffer, 1975), subject to the boundaries set by universal ethical principles (Donaldson & Dunfee, 1994). Legitimacy contributes to firms' survival and prosperity by reducing costs associated with stakeholder conflict and improving long term sustainability and employee satisfaction (Bansal & Roth, 2000). In this paper, we introduce the concept of Corporate Social Responsibility (CSR) Management Capacity to describe the firm-wide ability to adapt to the social environment by recognising and responding effectively to the responsibilities inherent in firm-stakeholder relationships. Because boundary spanning functions such as public affairs or public relations (PR) are used frequently by firms to respond to the social environment, the CSR Management Capacity tool we develop in this paper measures two concepts: a firm's corporate social responsibility orientation and its public relations orientation.

This paper addresses two key challenges in social responsibility management: what capabilities firms require to be socially responsible, and how managers can measure the extent to which these capabilities are embedded in their organisations. In answering the first question, we develop a model of the capabilities required for social responsibility management, called CSR Management Capacity. CSR Management Capacity is defined as the product of two firm-wide orientations: a social responsibility orientation and a public relations orientation. In answering the second question, we develop and test the CSR Management Capacity Index, a measurement

tool intended to facilitate social responsiveness capability development. The paper concludes with a case study of three MNCs in Australia and a discussion of how the findings can assist firms seeking to improve their social responsibility capabilities.

CONCEPTUAL FRAMEWORK

Our research questions, what capabilities do companies require to be socially responsible, and how are these capabilities to be measured and managed, derive from a largely instrumental view of corporate social responsibility. In other words, we acknowledge that firms seek legitimacy from their stakeholders because stakeholders can influence firm performance (Berman, Wicks, Kotha, & Jones, 1999; Freeman, 1984). However, firms may have mixed motives for entering relationships with their stakeholders. Sometimes, moral reasons drive firm receptivity to stakeholder interests (Welcomer, 2002). This may be especially pertinent when stakeholder interests form a basis for corporate strategy because of the organisation's identity, that is, stakeholders enter firm strategy because of how the firm defines who it is and what it stands for (Ashforth & Mael, 1996; Berman et al., 1999). In these organisations, the mental models for organisational action held by managers enable strategy based on moral considerations (Barney & Stewart, 2000). Therefore, we admit both instrumental and normative motives for socially responsible firm actions, and seek to develop a model that is managerially useful regardless of the basis of managerial motives. To develop our model of CSR Management Capacity, we draw together four theoretical streams: strategic management, social responsiveness, public relations and marketing. The contributions of each of these literatures to our model are described next.

Core capabilities

The strategic management literature suggests that firms develop capabilities that explain firm-level success or failure (Sharma & Vredenberg, 1998; Teece, Pisano, & Shuen, 1997). Capabilities are deeply embedded bundles of complex skills and knowledge that are the product of collective organisational learning (Day, 1994). For this reason, capabilities are difficult to replicate (Teece et al., 1997) and, as such, constitute a resource that can deliver competitive advantage (Barney, 1991).

An organisation's capability to be ethically and socially responsive may be a resource that contributes to firm competitive advantage (Litz, 1996). Litz suggested

that the ability to perceive stakeholder interests, ethical awareness and issues management ability are resources that can help organisations achieve and maintain legitimacy (ibid.) We suggest that firms can develop capabilities that foster socially responsive management, and that these capabilities contribute to competitive advantage by maintaining a firm's social license to operate. Firms wishing to improve their social responsiveness must therefore critically examine and develop the processes and capabilities which are modelled and tested in this paper.

Social Responsiveness

Social responsiveness has been described as the capacity for an organisation to respond to social pressure (Frederick, 1994), using processes such as environmental assessment, stakeholder management, and issues management (Wood, 1991). These specialised skills are normally the province of public affairs management. However, for an organisation to respond effectively to stakeholders, responsiveness mechanisms must be integrated into operational decision making (Miles, 1987) in a proactive manner (Carroll, 1979; Sethi, 1979). Thus, a firm's ability to be socially responsible relies both on the expert skills of public affairs professionals and the ability of general managers to factor social impacts into their business decisions.

Three critical public affairs processes for social responsiveness (environmental assessment or scanning, issues management and stakeholder management) describe how firms manage information, people, organisations and issues in their environment (Wood & Jones, 1998).

The first process, environmental scanning, is the "managerial activity of learning about events and trends in the organisation's environment" (Hambrick, 1981). It is "the first step in the ongoing chain of perceptions and actions leading to an organisation's adaptation to its environment" (ibid.). Scanning takes place in many staff functions and at different levels in an organisation. Managers tend to scan as part of strategy making (Bourgeois, 1980), whereas public affairs professionals use it to gather social and political intelligence (Post, Murray Jr., Dickie, & Mahon, 1983).

The intelligence gathered results in identification of issues that need to be managed. Issues arise from expectation gaps between organisations and their stakeholders (Wartick & Mahon, 1994), and their management can prevent strategic surprises and facilitate corporate responses to threats or opportunities (Ansoff, 1980). Corporations respond to issues of the most powerful stakeholders (Nasi, Nasi,

Phillips, & Zyglidopoulos, 1997), therefore stakeholder management represents an essential component of social responsiveness.

From the instrumental point of view, stakeholders must be managed because they can impact firm success (Frooman, 1999). Firms can use both bridging and buffering strategies to deal with their stakeholders (Meznar & Nigh, 1995). Typical bridging strategies include adapting corporate practices to changing stakeholder expectations and typical buffering strategies include lobbying governments and advocacy advertising. While Meznar and Nigh noted parallels between their buffering and bridging strategies and responsiveness categories of defence and accommodation, we also identify parallels between bridging and buffering concepts and the competing paradigms in public relations theory of persuasion (buffers) and mutual gains (bridges).

From the normative point of view, stakeholders must be managed because they have legitimate interests that give them a moral right to managerial attention (Donaldson & Preston, 1995; Post, Preston, & Sachs, 2002). Thus, stakeholder management requires managerial commitment and learning (Post et al., 2002) that includes identifying and understanding stakeholders and weighing decisions about social responsiveness according to the stakeholder's salience (Berman et al., 1999; Mitchell, Agle, & Wood, 1997). Multiple stakeholder interests must be taken into account in policy making through establishing organisational structures and policies (Donaldson et al., 1995; Jones, 1999). This balanced approach to stakeholder management is fairly common among large companies and results in collective gains or losses for stakeholders (Preston & Sapienza, 1990).

Stakeholder management thus refers to a configuration of activities, managerial orientations (cognitions and values), and ethics (Johnson-Cramer, Berman, & Post, 2003), that are bounded by conditions such as stakeholder autonomy and alignability of firm-stakeholder interests (Heugens & Oosterhout, 2002).

Public Relations

The public relations literature identifies the need for dialogue with stakeholders as part of balanced, two-way communication with stakeholders (Pearson, 1989). In contrast to the dominant view of public relations as persuasive and manipulative communication (Miller, 1989), support for the importance of dialogue arises from the alternative, "symmetrical" view of public relations, which sees mutual understanding

and managing conflict as the purpose of public relations (Grunig, 1989). The symmetrical view of public relations holds most promise for informing a model of social responsiveness capabilities because it holds as central the concern for ethical organisation-stakeholder relationships.

Dialogue requires a particular attitude to and structure for communication. The proper attitude for dialogue is “an effort to recognise the value of the other – to see him/her as an end and not merely as a means to achieving a desired goal” (Kent & Taylor, 2002: 22). The structure for dialogue gives participants equal power over the rules of discourse: paramount are questions such as who can initiate interaction, the frequency of communication, who selects the topics for discussion, how topic changes are handled and the satisfaction of participants with the rules of communication (Pearson, 1989).

Public relations scholarship further contributes to our understanding of social responsiveness by emphasising the need to communicate symbols (Grunig, 1993) to achieve legitimacy. For example, symbolic acts of communication such as media releases, reports and special events are necessary to help organisations become familiar and well-known to their stakeholders (Aldrich & Fiol, 1994), and thereby, legitimate. It follows that firms can increase their legitimacy by integrating symbolic communication with ethical, dialogic relationships with stakeholders.

So far we have identified contributions from three streams of literature which structures the assumptions underlying our model of social responsibility capabilities. The strategic management literature explains that capabilities can help deliver competitive advantage and suggests that the ability to manage firm-stakeholder relationships is such a capability. The social responsiveness literature stresses the need for both specialised expertise and embedded capabilities across all aspects of the organisation. It also highlights the instrumental and normative motives that may drive firm action and offers three processes for action: environmental scanning, issues management and stakeholder management. The public relations literature asserts that both symbolic communication and firm-stakeholder dialogue contribute to ethical relationships with stakeholders. We assume therefore that 1) organisations have, or can develop, social responsibility capabilities; 2) these capabilities arise from the interaction between specialist staff and general management and incorporate at least three key processes of environmental scanning, issues management, and stakeholder management; and 3) concern for ethical firm-stakeholder relationships underpins

responsiveness. Next, we turn to the marketing literature to identify a way in which our model can be operationalised and measured.

Orientation

The market orientation concept describes a firm's behavioural response to market information (Jaworski & Kohli, 1993). It emphasises the systematic generation and distribution of intelligence about customers to develop a more customer focused organisation. We borrow from marketing the term "orientation", to denote a firm's behavioural response to intelligence about stakeholders.

We suggest that a firm's orientation towards its social environment has three components. First, orientation implies there is a goal towards which the firm is oriented. Goals arise in the context of mental models or schemata held by organisational members which serve as a frame of reference for action (Senge, 1990; Weick, 2001). Second, the internal environment or behaviour of the firm must support the goal with structures and processes that can translate goals into action. Third, transactions occur with stakeholders; the firm acts in ways consistent with its goals and internal structures and processes. Our framework for classifying CSR management capacity capabilities is therefore based on orientations which comprise goals, behaviours and transactions with stakeholders. Unlike Carroll's (Carroll, 1979) classification scheme for social responsibility orientation, which describes domains of firm activity (Wood, 1991), we focus on the attributes of a firm-level behavioural response, that is, the goals, internal behaviour, and transactions with stakeholders.

Further, as noted previously, we suggest that a firm's CSR Management Capacity arises from two discrete orientations: its general social responsibility orientation and its specialised ability to use public relations processes to mediate the organisation's responses to its stakeholders. Although the social responsiveness literature describes the public affairs or external affairs functions as implementing social responsiveness (cf. Miles, 1987), we opt for the term "public relations" rather than the term "public affairs" in our theoretical model because the former emphasises the relationship with stakeholders whereas the latter emphasises public policy implications for organisations (Fleisher & Blair, 1999). Next, our model of CSR Management Capacity is elaborated, as depicted in Figure 1.

[INSERT FIGURE 1 AROUND HERE]

THE THEORETICAL MODEL OF CSR MANAGEMENT CAPACITY

Our theoretical model of CSR management capacity is structured as the product of two orientations, public relations orientation, and corporate social responsibility orientation. As described above, each orientation has three elements: goals, transactions and behaviour.

The Goal of CSR and PR - Stakeholder Engagement

Our model has a single, mutually held the goal for social responsibility orientation and the goal for public relations orientation: stakeholder engagement. A stakeholder-engaged firm views itself as part of a system of stakeholders who sometimes have conflicting interests and expectations, which must be managed for long-term prosperity (Freeman, 1984).

We conceptualise stakeholder engagement as having two components. The first is the extent to which the firm sees its long term interests linked to those of its stakeholders, which we call “stakeholder identity”. The second is “stakeholder management”, which includes bringing stakeholder interests to bear on operational decision-making and the communication of socially responsible behaviour.

Public Relations Orientation (PRO)

In our model, social responsibility orientation and public relations orientation diverge with respect to the associated behaviours and transactions. In this section, we focus on the behaviours and transactions that define public relations orientation (PRO).

Behaviour

We use the term value attuned public relations to describe the specific contribution that the staff functions of public relations and public affairs make to organisation-level social responsiveness. This term is derived from Swanson’s idealised model of value-attuned corporate social responsiveness in which external affairs managers detect and transmit information about social values to guide executive decision making (Swanson, 1999). Value attuned external affairs is possible in an organisation where executives see values and facts as inseparable in policy formulation and where the corporate culture supports and rewards employees in identifying, selecting and

analysing social values. Our concept of value attuned public relations extends the concept of value attuned external affairs by identifying two other conditions vital for value attunement: support for the adequate resourcing of the public relations and public affairs functions and, the ability of a firm's public relations/public affairs function to contribute to organisation-level decision making and strategy (Lauzen, 1995).

Transactions with stakeholders

In the model, we identify dialogue as the key transaction with stakeholders that a firm can enact to ensure it is socially responsible. The attributes of effective dialogue are a respectful attitude, freedom of all parties to initiate and maintain communication, and agreement and satisfaction with the rules governing dialogue (Pearson, 1989).

Unlike the AccountAbility 1000 guidelines, which prescribe dialogue as the method of stakeholder engagement (Zadek, 1999), we suggest that dialogue and engagement are two discrete, albeit related, processes. Dialogue is more than involving stakeholders in defining the terms of engagement (*ibid*). Dialogue requires a conscious and respectful effort to share power in a discourse. A true dialogue creates a free space in which the topics, structure and rules of the dialogue can be co-created or challenged in safety.

Next, we examine the behaviours and transactions that define CSR orientation.

CSR Orientation

Behaviour

The CSR Management Capacity model identifies ethical business behaviour as the basis for the internal behavioural component of the model, since ethics governs how people relate to one another. The model develops two aspects of ethical business behaviour. First, is the commitment to, and reinforcement of, ethical behaviour throughout the organisation through the institutionalisation of effective ethics programs (Sims, 1991). Second, is the presence of an “other-regarding atmosphere” where people sincerely care for the well-being of fellow employees and other constituencies (Wimbush, Shepard & Markham, 1997). Research indicates that ethics programs need to be both values oriented and compliance oriented, with the latter exerting a bigger influence on ethical decision making (Weaver & Trevino, 1999).

Transactions with stakeholders

Transactions characterised by accountability are also a key part of a firm's CSR Management Capacity. Accountability refers to activities such as disclosure of social performance, even when the news is not all good, and, collection of independent measures of social performance (Elkington, 1997).

Social reports provide ample opportunities for corporate 'spin' (Deegan, Rankin, & Tobin, 2002). To address this issue, we include a second element in our measure of accountability, the belief or acceptance that the organisation should be accountable to stakeholders.

In sum, our model of CSR Management Capacity derives from five capabilities which each represent complex bundles of processes. The capabilities are stakeholder engagement, value attuned public relations, stakeholder dialogue, ethical business behaviour, and accountability (See Figure 1).

MEASUREMENT ISSUES AND METHOD

In the foregoing sections, we developed the concepts of public relations orientation and social responsibility orientation. We argued that a firm's CSR Management Capacity is the product of these orientations. Together, the orientations are structured around five capabilities, or sets of processes. Thus, we have developed a process model of corporate social responsibility.

Our process approach contrasts strongly with performance models of corporate social responsibility such as the Global Reporting Initiative (GRI, 2002b) and AccountAbility 1000 standards (Zadek, 1999). There are several problems associated with a performance focus. First, firms need to interpret and adapt such frameworks to suit their own circumstances, which may be judged differently by stakeholders, even in the same industry or country. For example, the performance approach means additional guidelines for using the GRI in different industries and countries must be developed (DFACS, 2003; GRI, 2002a). Second, social performance is a lagging measure, and describes what has already occurred. It may not be a guide to future strategy or performance. Our process model, in contrast, relies on leading indicators, that is, we identify the levers that management can manipulate to guide strategy and predict future performance.

To render our model of CSR Management Capacity measurable and therefore useful to managers, we were guided by several considerations. First, being conscious of managers' limited time, we sought a method that was quick and easy to use. Second, in order for a measure to be useful, the scores it yields must be easily interpretable. Finally and most important, the method has to allow for the measurement of attributes that are not tangible or directly observable. For these reasons, it was decided to develop a psychometric survey tool.

Psychometric surveys, or scales, are popular in psychology, marketing and management because, when well developed, they are short and accurate (Hinkin, 1995). Psychometric surveys measure intangible concepts by asking respondents to indicate their level of agreement with several statements which each reflect a part of the intended meaning of the concept being measured (Nunnally & Bernstein, 1994). Development of sound psychometric measurement tools relies on two statistical techniques, factor analysis and calculation of reliability coefficients. Factor analysis groups together statements with meanings that are highly correlated. In our case, we used factor analysis to identify whether there was evidence for the five separate capabilities we described in our model. Reliability coefficients show the extent to which statements comprising a factor converge on a common meaning. A clear factor structure (i.e., statements belong to one factor only) and reliability coefficients of .70 or more are desirable (Nunnally et al., 1994). Statements that do not meet these statistical criteria are discarded and so the measures are said to be "purified". Further, new measures should be tested in more than one survey to help determine whether we measured what we aimed to measure. The statistical techniques described, and repeated tests, are essential quality checks when creating measures of abstract concepts, which might be interpreted differently by different people. Decisions about the research design were therefore guided by the requirements of sound psychometric scale development.

The measurement tool for CSR Management Capacity was developed in a series of studies. These were 1) a qualitative exploration of the concepts of corporate social responsibility orientation and public relations orientation through interviews with 18 public affairs and non-public affairs managers in 13 companies from which the initial measurement tool was developed, 2) a large scale quantitative survey of Australian public affairs managers to test the measurement tool, 3) focus group discussions with public affairs managers to further refine the measurement tool, and

4) a further test of the measurement tool through case studies in three firms. The fourth study is described in detail in this paper; the three prior studies are summarised only briefly as a context for Study 4, as the earlier studies have been reported elsewhere (Black, 2001, 2002; Black & Hartel, 2001, 2002, 2003).

PRIOR STUDIES TO DEVELOP AND TEST THE CONCEPT AND MEASURE OF CSR MANAGEMENT CAPACITY

Study 1

Study 1 developed the sensitising concepts of public relations orientation and corporate social responsibility orientation through in-depth interviews with managers in large firms (employing more than 1,000 people) based in Melbourne. Sensitising concepts are “individual concepts drawn from a wider body of theory or knowledge as a means of cranking up the process of theorising” (Layder, 1998). The core sensitising concept was that of “orientation”, to denote an organisation-wide philosophy of action. We thought that organisations may have orientations towards social responsibility and towards public relations which might govern their responses to stakeholders.

The first study consequently focused on understanding whether these concepts of orientation made sense to the managers whose actions the concepts were thought to describe (Layder, 1998). A grounded theory approach using qualitative in-depth interviews with managers was employed because it taps “the perspectives and voices of the people whom we study” (Strauss & Corbin, 1994: 274). Two categories of managers were important in the theoretical sampling, public affairs managers ($n = 11$) and non-public affairs managers ($n = 7$) such as CEOs, operating managers and heads of human resources and marketing. Respondents came from primary industry (resources, mining), manufacturing (pharmaceuticals, machinery, chemicals, steel, consumer products), retail (food, clothing and household products) and services (telecommunications, postal services, health, travel). Large companies were selected, as they are more likely than mid-sized or small firms to have a discrete public relations function. The companies were not representative of all Australian business, although an effort was made to obtain a broad sample. Three responding firms were Australian subsidiaries of foreign owned companies, and ten were Australian companies, of which all but two had substantial foreign operations. Therefore, the

majority of companies had international, as well as domestic, stakeholders. No attempt was made to obtain both a public affairs and non-public affairs manager in each firm as the study employed theoretical sampling of ideas, not people (Glaser & Strauss, 1967). This approach was appropriate as construct development was the aim rather than a description of managerial perspectives or individual organisations.

Transcripts of interviews were analysed to identify recurring themes and links identified between themes, and between themes and our parent bodies of theory described in our conceptual framework. Where possible, the actual words of managers were used as statements in the psychometric survey tool. In this way, statements were generated for all of the hypothesised capabilities except ethical business behaviour, which relied on the work of Wotruba, Chonko and Loe (2001) for items on enforcement of ethical behaviour, and on the work of Wimbush et al (1997) for items on other-regarding atmosphere.¹

Study 2

We tested the newly developed survey tool in Study 2. Following the methodology recommended by Nunnally for the construction of psychometric scales (Nunnally et al., 1994), we developed 56 statements to measure CSRO and 60 statements to measure PRO from the transcripts of interviews obtained in Study 1. A seven-point Likert scale format was used where 1 = “strongly disagree” and 7 = “strongly agree”. The statements were reviewed by three academic experts and three industry experts for content and face validity, and then subjected to two pilot tests with public affairs ($n = 20$) and non-public affairs ($n = 22$) managers respectively. Expert reviews allowed some items to be deleted and others reworded for greater clarity. Factor analysis and calculation of reliability co-efficients supported the existence of two factors, CSRO and PRO, and their hypothesised sub-dimensions. It also enabled us to trim the survey to 24 CSRO statements and 30 PRO statements. We attempted to minimise social desirability bias by negatively wording about half the items, and by assuring respondents of anonymity.

Next, we developed a theoretical model to test the revised measurement tool. Testing new scales within a theoretical model of previously validated measures can help assure the soundness of new measures by showing how they relate to established

concepts. We developed a model which hypothesised that CSRO and PRO would contribute to business performance by using public affairs buffering and bridging strategies that reduce conflict with stakeholders. Measures of these variables have been validated in previous studies (Dozier, Grunig, & Grunig, 1995; Meznar & Nigh, 1993; Saimee & Roth, 1992). Our full results are described elsewhere (Black et al., 2002).

A survey to measure each of these variables, together with the refined measures of PRO and CSRO, was then completed by 205 Australian public affairs managers representing 160 organisations across a broad range of industries². The responding organisations comprised foreign owned multinational corporations ($n = 52$), Australian owned multinational corporations ($n = 27$), Australian domestic corporations ($n = 23$), government owned or controlled businesses ($n = 40$), and other organizations such as professional associations and government departments ($n = 18$). Demographic data collected from 20 executives at non-responding organisations (10% of non-responding organisations) revealed no significant differences between respondents and non-respondents. There were also no differences between managers with the title of public affairs and managers with the title of public relations. 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 results of other surveys of public affairs managers in Australia (Post & CCPA, 1993).

Statistical analysis confirmed the existence of three conceptually distinct, but correlated groups of concepts relating to CSRO, PRO, and stakeholder engagement. The CSRO scale comprised two dimensions related to ethical business behaviour and accountability, and the PRO scale comprised two dimensions related to value attuned public relations and stakeholder dialogue. Our CSRO scale contained 13 statements with reliability of .74, the PRO scale contained 19 items with reliability of .87, and the stakeholder engagement scale contained 4 items with reliability of .64. Thus, the data supported a five-factor model.

We then used regression analysis to test our main hypothesis. Our results showed that CSRO accounted for 6% of variance in business performance ($F(1, 203)$

¹ Wimbush et al's work is based on the ethical climate questionnaire developed by Victor and Cullen, 1988.

² The Centre for Corporate Public Affairs in Melbourne kindly provided access to their mailing list.

= 15.10, $p = 0.0001$, $R^2 \text{ Adj} = 0.064$). When PRO was added to the equation, it partially mediated the relationship ($F(1,202) = 9.2688$, $p = 0.0026$, $R^2 = 0.04$). Both buffering and bridging strategies were positively associated with conflict avoidance ($r = .276$, $n = 204$, $p < 0.001$ for buffering and $r = .361$, $n = 204$, $p < 0.001$ for bridging). Conflict avoidance partially mediated the individual effects of PRO and CSRO on performance. CSRO was significantly correlated with conflict avoidance effects ($r = .291$, $n = 204$, $p < .01$), as was PRO ($r = .404$, $n = 204$, $p < .01$). The effect of PRO on business performance was partially mediated by conflict avoidance ($F(1, 201) = 4.50$, $p = 0.0350$, $R^2 \text{ Adj} = 0.02$). The effect of CSRO on business performance was also partially mediated by conflict avoidance ($F(1,201) = 7.62$, $p = 0.0063$, $R^2 = 0.03$). Confirmation of the hypothetical model thus provided additional evidence for the soundness of the new measures by showing their interaction with established measures.

Study 3

However, results of Study 2 indicated areas where the measurement tool could be improved. In particular, we were not satisfied that our measure of stakeholder engagement adequately captured our intended meaning. For Study 3 we organised five follow-up discussions with small groups of public affairs managers from a range of Australian and foreign-owned MNCs in Melbourne and Sydney. These discussions explored the convergent and different goals of social responsibility and public affairs/public relations, in order to refine further the stakeholder engagement concept. Based on these discussions, new statements relating to the stakeholder engagement goal were developed. The need to retest the revised set of statements comprising the CSR Management Capacity Index led to the development of Study 4, which is the main focus of this paper.

A COMPARATIVE CASE STUDY OF CSR MANAGEMENT CAPACITY

Method

For Study 4, we tested the revised measurement tool in a comparative case study of multinational corporations. As noted in our opening section, MNCs are of particular interest because of the complex challenges they face in maintaining their license to operate from diverse stakeholders in different countries. A comparative case study

design was adopted to help the process of theory development (Eisenhardt, 1989). If we could demonstrate that the construct of CSR Management Capacity applied to firms in different settings, we could strengthen our case for the general applicability of the model and measurement tool.

We therefore developed a sample of 31 respondents from multinational corporations. Nineteen respondents came from three MNCs that had participated in earlier studies. Each MNC is considered an exemplar of social responsibility in its industry. Company A is a manufacturer ($n = 10$), Company B is a miner ($n = 5$) and Company C is a bank ($n = 4$). By choosing companies that are in critical ways the same but different, we hoped to demonstrate the usefulness of the measurement tool across different settings, and illustrate how the CSR Management Capacity model can be used to tease out differences in social responsibility capabilities that require alternative strategies for improvement. A further 12 respondents from a Doctor of Business Administration program at a large Australian university created a larger respondent set for testing the psychometric properties of the measurement tool. The combined sample comprised 13 public affairs managers and 18 non-public affairs managers, with an average tenure of 7.9 years. A sample with both types of managers was important to test for integration of social responsiveness within an organisation. The remainder of this paper details the data analytic strategy and results of Study 4, and discusses implications of Study 4 results for managerial practice.

Data analysis

We once again used factor analysis and calculation of coefficient alpha to analyse the psychometric properties of the CSR Management Capacity Index. This analysis demonstrated clearly the existence of five capabilities. The measures also captured the multi-dimensional nature of most of the capabilities, for example, stakeholder engagement comprised measures of the extent to which the firm sees itself as linked long term to stakeholders (stakeholder identity), and the extent to which stakeholder interests are incorporated into operational decision making (stakeholder management). As a result, we had eight separate measures that fit within the theorised five-capability framework (See Table 1). Each of the eight measures also

demonstrated reliability levels over .75. Thus, our CSR Management Capacity tool passed the test of a quality psychometric measurement tool.³

Following these analyses, we created variables for each of the eight measurement areas, that is, two stakeholder engagement variables, a value attuned public relations variable, a dialogue variable, two ethics variables and two accountability variables. The means, standard deviations, correlations and co-efficient alpha scores for the eight measures are shown in Table 1.

Next, we compared mean scores on each capability for public affairs and non-public affairs managers, as depicted in Table 2. Where a capability depended on more than one variable, we took the mean of the variables, i.e. the score for the ethics capability is the mean of the two ethics variables.

Finally, the scores for three companies representing three different industries were calculated. These scores are presented in Table 2 for the three firms, labelled Firm A, Firm B and Firm C respectively.

[INSERT TABLE 1 AROUND HERE]

Results and discussion

In this paper, we developed and tested a model of CSR Management Capacity. The findings from the CSR Management Capacity Instrument demonstrated that there are five discrete and multidimensional management capabilities that can be defined and measured separately.

A low score on any of the capabilities indicates an area to be addressed by internal strategy or training. An examination of the means on each of the five capabilities for public affairs and non public affairs managers in Table 2 shows that the scores of the two groups are similar, i.e., the MNCs studied generally enjoy a high level of integration of CSR capabilities throughout the organisation, and thus meet one of Ackerman and Bauer's (Ackerman & Bauer, 1976) criteria for firm-wide commitment to CSR. The only significant differences between public affairs and non public affairs scores occurred on value attuned public relations. The differences in scores on this competence highlight the usefulness of obtaining scores from non-

³ Scale items and item-to-total correlations are available from the first author.

public affairs managers as a reality check against the natural tendency for self promotion or impression management.

[INSERT TABLE 2 AROUND HERE]

The three firms for which detailed data is presented were all considered to be exemplars of socially responsive organisations within three different industries. Each has independently established a reputation within its sector for CSR. However, there is wide variation between the firms in measures of the five capabilities that comprise CSR Management Capacity, ranging from a low of 57% for the social reporting factor in one firm to a high of 93% for the stakeholder engagement-identity factor in another firm. Our discussion will examine data on each of the five capabilities for three firms (See Table 3).

Value attuned public relations

The first notable result in Table 3 is that each firm exhibits almost identical abilities in value attuned public relations, which is a measure of the effectiveness of the public affairs/public relations function in gathering value-pertinent intelligence about stakeholders and disseminating it throughout the organisation. Our measure of value attuned public relations aimed to capture three factors: the discovery and use of value-attuned information about stakeholders by the firm, the strategic relevance of the public relations function, and the adequacy of resources attached to the function. We were not able to separate the three factors with our relatively small sample. However, the uniformity of scores for value attuned public relations, compared with the wide variation in scores for other capabilities, illustrates that public affairs capability is a necessary, but not sufficient condition, for firm-wide social responsiveness.

[INSERT TABLE 3 AROUND HERE]

Stakeholder engagement

Two aspects of stakeholder engagement were measured. The first aspect was the firm's identity as a stakeholder engaged firm, or the extent to which it sees itself and

its future aligned with its stakeholders. The second aspect measured was the integration of stakeholder management processes into firm strategy.

The three firms had scores for stakeholder management, ranging from 71%-80%, suggesting that each firm makes a concerted effort to incorporate stakeholder needs into operational decision-making and thus uses stakeholder management principles as part of its strategy. However, there were large differences between the firms in the identity component of the measure (ranging from 71% - 93%), as well as differences within each firm on the two stakeholder engagement measures.

The difference between the strategy and identity measures was 8% for Company B, 13% for Company C, and 17% for Company A. The tightness of the coupling between strategy and organisational identity contributes to consistent strategic action by helping managers view opportunities or threats that might not otherwise be apparent (Barney et al., 2000). The gap between the two stakeholder engagement measures in each organisation suggests a loose coupling, especially in Company A. While company C had the highest scores, the scores are not tightly coupled. Company B's scores were more tightly coupled, but not high. These findings suggest that, at present, stakeholder engagement processes are not (yet) fully integrated within these firms.

The between-firm differences in the identity component of stakeholder engagement indicate that Company A and Company C do identify strongly with their network of stakeholders, even though their incorporation of stakeholder interests into strategy is somewhat lower. In these firms, institutionalisation of formal processes to improve stakeholder management capabilities is likely to lead to a tighter coupling between strategy and identity. For example, such processes could include setting stakeholder engagement-related performance goals for line and operations managers.

In contrast, Company B's stakeholder management processes are at a higher level than its identity as a stakeholder engaged firm, even though, compared to the other companies, it does not have a strong sense of its identity as a stakeholder-engaged firm. If stakeholder engagement is to become a core capability in Company B, it needs to strengthen its understanding of how long-term relationships with stakeholders may influence its future. In the very least, we suggest that a revision of its mission, values, and belief systems is warranted.

Ethics

Two aspects of ethical business behaviour were measured: commitment to and reinforcement of ethical behaviour, and the ‘other-regarding atmosphere’ in the workplace. On the commitment aspect, the scores were high and the differences between the firms were negligible; that is, each firm is enforcing effectively its code of ethics. On the ‘other-regarding atmosphere’ aspect, differences between the firms were more apparent, especially in the case of Company B.

Most striking are the within-firm differences between scores on the two ethics factors. In each firm, the caring atmosphere within the organisation is scored much lower than its compliance with codes of conduct, with differences of 18% in Company A, 29% in Company B and 21% in Company C. A caring atmosphere is an important corollary to ethics compliance in delivering ethical behaviour (Wimbush & Shepard, 1994). In fact, there is some evidence that a values orientation makes a greater contribution to ethical decision making and employee commitment than does compliance (Weaver et al., 1999).

The relatively low scores on the caring component of ethical behaviour indicates that each company carries a level of risk arising from inadequate ethical decision-making abilities of employees. Where discretion is permitted or required, employees are more likely to consider their own interests at the expense of stakeholders. Programs aimed at improving employees’ moral reasoning and ethical decision-making abilities would help companies avoid such risks and improve firm-level social responsiveness. Table 1 shows strong, significant correlations between the caring atmosphere, dialogue, and accountability.

Dialogue

While all the measures in the CSR Management Capacity tool correlate positively, dialogue is the only measure that correlates strongly and significantly with other measures ($p = < .01$). In other words, there is a less than 1% chance that dialogue does not matter in the list of capabilities MNCs require to be responsive to their stakeholders and earn their license to operate.

Each of the three companies studied had a relatively low score for dialogue, despite the fact that each was an exemplar of CSR in their industry. It is likely that each firm has formal stakeholder consultation processes, particularly given the high scores for value attuned public relations. But as described, our measure of dialogue focuses on the attitudes and structure of dialogic communication, rather than whether

or not firms communicate with their stakeholders. The relatively low scores on this measure point to an achilles' heel in each organisation's social responsiveness. Without careful attention to attitudinal and structural aspects of dialogue, companies risk the accusation that stakeholder consultation processes are symbolic only and without substance.

Accountability

Our accountability measure comprised two factors: the presence of a social reporting system and the genuine belief by employees that their firm is accountable to stakeholders. Although social reporting correlated positively with all factors, the correlation was significant only with dialogue ($p = < .05$). In contrast, the sense of accountability factor correlated significantly with both the ethics measures ($p = < .01$) and the dialogue measure ($p = < .05$). This suggests that in developing social responsiveness processes within firms, attention to the values and beliefs of employees regarding accountability to stakeholders is perhaps even more important than producing the actual social report. Studies examining the link between performance, accountability, and impression management show that people are driven to seek approval and status and therefore accountability contexts provide rich opportunities to manage impressions rather than improve performance (Frink & Ferris, 1998; Zadek, 1999). The implication for organisations is that social reports might serve image enhancement goals more than performance improvement goals unless employees believe themselves to be genuinely accountable to stakeholders.

CONCLUSION

In this paper, we have developed a model of corporate social responsiveness processes that relies on the assumption that social responsibility is not a discretionary activity, but arises in the day-to-day interactions in relationships between firms and their stakeholders. In this sense, our perspective has much in common with the idea of corporate citizenship as operating practice outlined by Waddock (Waddock, 2001).

Our model contributes to the understanding of social responsiveness by placing ethical relationships with stakeholders at the heart of social responsiveness processes. We suggest that firms pursue genuine dialogue with stakeholders, pay attention to developing a caring atmosphere in the workplace, and foster employee

beliefs about the value of accountability as this may ensure that firm-level systems for stakeholder management, ethics compliance and social reporting have a substantive benefit for the company and its stakeholders, rather than a purely symbolic role in communications to stakeholders.

The purpose of this study was to demonstrate empirically the existence of five capabilities required by companies that wish to be socially responsible. They are stakeholder engagement, value attuned public relations, dialogue, ethical business behaviour and accountability. We thus reformulate earlier models of social responsiveness which were based on three processes of public affairs management (Wood, 1991). While none of the five capabilities we describe can of itself produce social performance, together, they comprise organisational behaviours likely to lead to socially responsible performance. The study has further shown the utility of the measure for diagnostic purposes by examining scores from three MNCs and showing how the tool can be used to identify weaknesses in social responsiveness processes that can be rectified.

Interpretations of the findings need to be made in light of the study's limitations. First, the sample of respondents within each firm was small, ranging from four to ten. Although the respondents were all senior managers, who could be said to hold a privileged view of the organisation, scores would be considered more generalisable to the firm as a whole if a larger cross section of employees had been surveyed. Second, the study did not consider in detail the interaction between each of the capabilities, or whether interactions would vary between industry or strategic groups, or with the stage of a company's life cycle. Although the findings show that both public affairs capabilities and firm wide capabilities are essential for social responsiveness, we have not explored how the integration of capabilities by embedding organisational values throughout the organisation is to be approached, or what public affairs managers can do to improve the integration of these capabilities within the firm.

Third, measurement issues remain to be resolved. It is not clear from the studies to date whether each of the capabilities should be weighted equally, as they are in the studies reported in this paper. If not, future research needs to understand how should they be weighted and what conditions indicate variations in weighting.

Fourth, future studies should employ alternative strategies for accounting for social desirability bias in respondents' answers. A social desirability bias in our study

would mean that organisational scores are somewhat inflated. We attempted to control for social desirability by negatively wording some items and assuring respondents of anonymity. Alternatives such as the inclusion of separate measures of social desirability could provide an indication of the extent to which scores may need to be adjusted for social desirability bias.

Future research needs to replicate the validation study of the CSR Management Capacity tool in MNCs that are not as advanced as the firms in this sample at developing social responsiveness, with samples of employees across all organisational levels and from other countries. Studies have shown that consumers interpret social responsibility differently according to their national and cultural context (Maignan & Ferrell, 2003), with significant implications for the communication of social responsibility initiatives. Therefore, it is possible that managers will interpret social responsibility capabilities differently as well. Testing the cross-cultural relevance of the CSR Management Capacity tool would help public affairs managers in MNCs understand the extent to which it is realistic to establish standard internal processes across all the firm's subsidiaries, or whether the social responsiveness processes described in this paper require adaptation for local conditions.

In conclusion, we have shown how social responsiveness capabilities can be incorporated into operating practice by giving managers a measurement tool and showing how it can be used to identify gaps in capabilities that can be addressed. When integrated into operating practice, social responsiveness processes have the potential to become capabilities that deliver a competitive advantage by increasing the legitimacy with which firms are perceived.

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Figure 1: A model of CSR Management Capacity

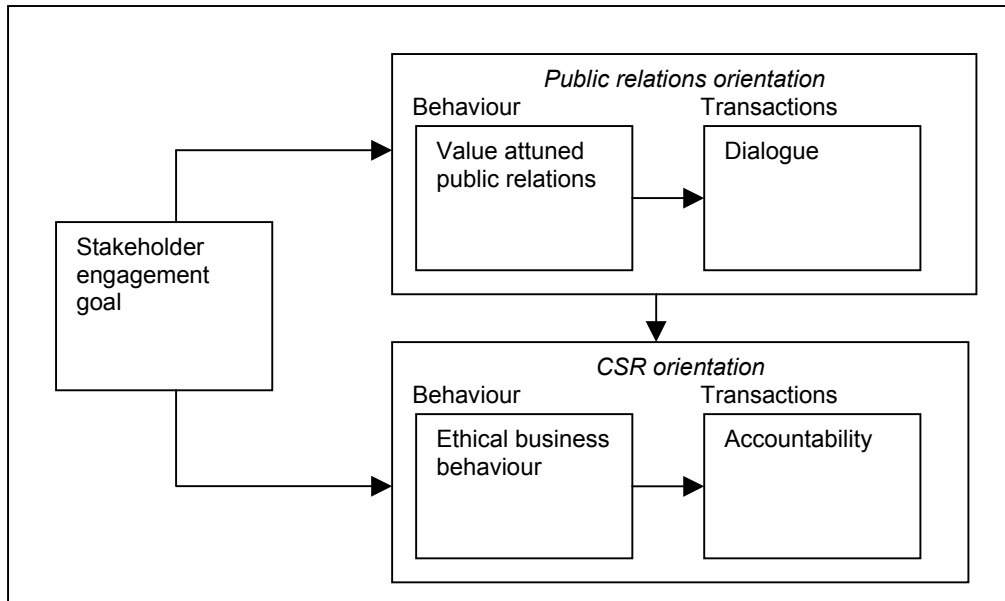


Table 1: Alpha Co-efficient, means, standard deviations and correlations for eight factors.

Variable	α	Mean	S.d.	1	2	3	4	5	6	7
1. Stakeholder identity	.85	5.7016	1.0893							
2. Stakeholder management	.78	5.2188	0.9969	.586**						
3. Value attuned public relations	.90	5.5451	0.922	.524**	.539**					
4. Dialogue	.78	4.779	0.9973	.530**	.579**	.405*				
5. Ethics (compliance)	.93	6.1324	1.1186	.553**	.399**	.721**	.463**			
6. Ethics (caring atmosphere)	.89	5.0797	1.2202	0.333	.371**	.468**	.588**	.592**		
7. Accountability (reporting)	.82	4.9625	1.5091	0.199	0.193	0.307	.424*	0.179	0.179	
8. Accountability (sense of)	.75	5.3229	1.2018	0.236	0.286	0.305	.623*	.546**	.476**	.516**

$n = 31$
 * $p < .05$
 ** $p < .01$

Table 2: A comparison of capabilities for public affairs (PA) and non public affairs (NPA) managers.

		N	Mean	%	Std. Dev.
Stakeholder engagement	PA	13	5.6474	81	.8243
	NPA	18	5.3354	76	.9992
Accountability	PA	13	5.5096	79	1.3075
	NPA	18	4.8165	69	1.1721
Ethics	PA	13	5.6317	80	1.0893
	NPA	18	5.7176	81	1.0584
Value attuned public relations	PA	13	5.9573	85*	.4220
	NPA	18	5.2778	75	1.0961
Dialogue	PA	13	4.8846	70	1.2425
	NPA	18	4.7143	67	.8416

*The difference in means is significant. $p = < 0.05$

Table 3: Results from three companies

	Firm A N = 10 (9NPA, 1PA)+		Firm B N = 5 (all PA)		Firm C N = 4 (all PA)	
	Score*	%	Score	%	Score	%
Stakeholder engagement Factor 1 (Identity)	6.2	88	4.9700	71	6.500	93
Stakeholder engagement Factor 2 (Management)	4.9667	71	5.4733	78	5.6250	80
Value attuned public relations	5.6778	81	5.8222	83	5.7500	82
Dialogue	4.5714	65	4.4429	63	5.3571	76
Ethics Factor 1 (Commitment & reinforcement)	6.4857	93	6.3048	90	6.500	93
Ethics Factor 2 (Other regarding atmosphere)	5.2800	75	4.3100	61	5.050	72
Accountability Factor 1 (Report and verification)	4.0200	57	5.600	80	6.400	91
Accountability Factor 2 (Sense of accountability)	4.9333	70	5.4667	78	6.000	86
Total		75		75.5		84

* Scores are out of 7

+ Number of non public affairs respondents and public affairs respondents