



Assessing Corporate Responsibility: Is it Good For Business?

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Corporate responsibility (CR) has again become a popular phrase in the wake of recent business scandals, the international mortgage and housing crisis, and the global recession. Indeed, running a business exclusively focused on bottom-line profits has become an increasingly rare management theory. A few years ago, companies that operated factories overseas may have focused solely on the line-item expenses of production. Today, those same companies could find themselves faced with stakeholders who demand to know if their factory employees work in a safe environment, whether or not they are paid fairly, and if the company's products are made in an environmentally sustainable manner. Whether it is to manage public image, or because it is the ethical and right thing to do, organizations across the business spectrum are paying heed to the notion of corporate responsibility. One school of thought is that CR is simply good for business. In this paper we will look at the prevalence of CR within organizations around the world, and examine what effect CR has on everything from customer service to bottom-line financials.

The State of Corporate Responsibility

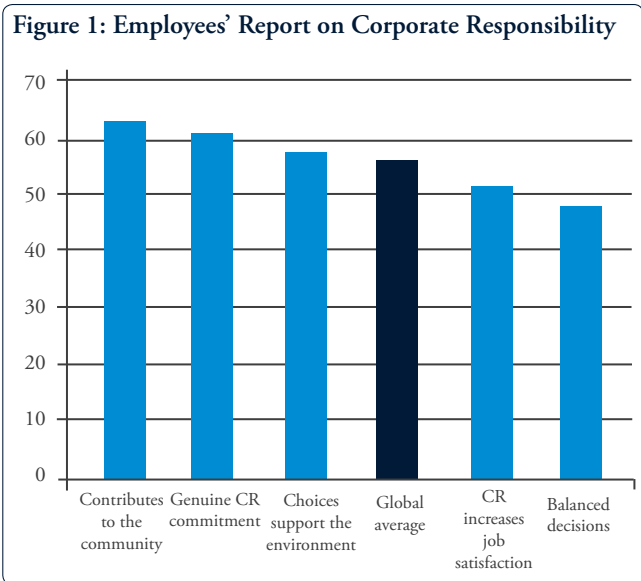
The Kenexa High Performance Institute (KHPI) has been measuring corporate responsibility and its dividends for over two decades. The data in this report came from KHPI's WorkTrends™, an annual international survey of people who work full-time in organizations with more than 100 employees. In 2010, the survey included almost 30,000 people in 21 of the world's most powerful economies including Canada, China, Brazil, France, Germany, India, Italy, Japan, Russia, Spain, the United Kingdom and the United States—these economies alone account for more than 70 percent of the world's gross domestic product (GDP).

A commonly used definition of corporate responsibility is: "a company's sense of responsibility toward the community and environment (both ecological and social) in which it operates." To measure CR and the impact it has on employees, the WorkTrends survey asked respondents about their opinions on the following five items using a standard five point balanced Likert agreement scale (i.e., for each question respondents mark either strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree):

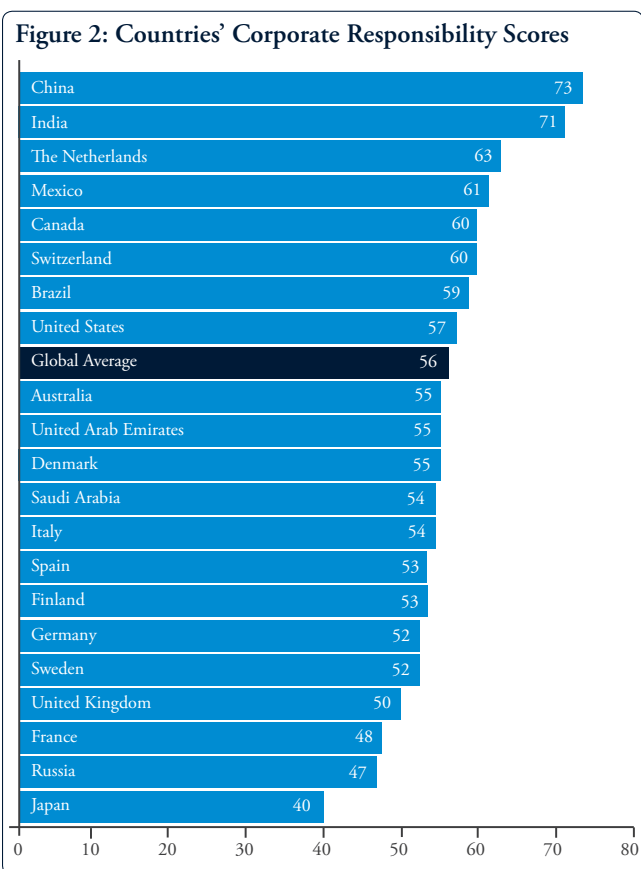
- My company does a good job of contributing to the communities in which we live and work
- My company's commitment to social responsibility (e.g., community support, protecting the environment, etc.) is genuine
- My company's corporate social responsibility efforts have increased my overall satisfaction with working here
- My organization makes business choices that support the environment, such as recycling, energy conservation, and vendor selection
- At my company, short-term business gains are balanced against investments in communities where we operate

Globally, the majority of employees—56 percent—reported that their organization did contribute to the community and did display a genuine commitment to corporate responsibility efforts. These employees also believed their companies properly balanced their short-term business decisions with longer term investments in the community. Figure 1 reports the average number of employees who indicated 'agree' or 'strongly agree' to the statements above¹.

¹In this document, all employee responses represented by a percent follow this format.



When we looked across specific countries (see Figure 2), we found that the percentage of employees who agreed, or strongly agreed, with all five corporate responsibility questions ranged from a high of 73 percent in China and 71 percent in India, to a much lower 40 percent in Japan and 47 percent in Russia. China and India being at the top of the list may strike some

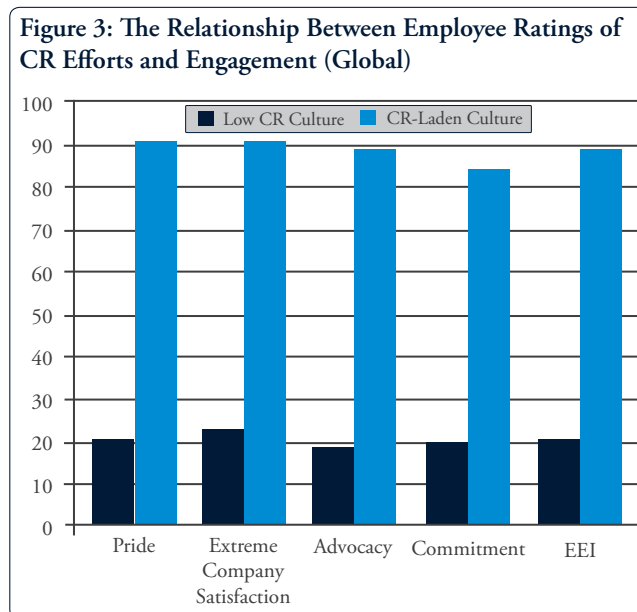


Western readers as a surprise, and several reasons may explain their high scores including the possibility that corporate responsibility is a paramount goal in these societies. Employees in China and India may also be making different kinds of comparisons than employees in other countries. For example, survey answers in these countries may reflect how much progress has been made over the past few years. In China, the country's Confucian and Communist roots may also play a role. While Confucian principals support a focus on humanity and filial piety, it is also true that an underpinning of communism is the belief that people should make decisions for the benefit of the group. This focus on the society and community—the country as a collective—are in line with the values of corporate responsibility.

Corporate Responsibility and Organizational Success

Corporate responsibility may be a good tool to burnish a business image. There is a strong, positive relationship between employees' opinions of their organization's CR efforts and their own engagement at work (see Figure 3). Using the Kenexa Employee Engagement Index (EEI), we quantify engagement by measuring pride, satisfaction, advocacy and commitment. For this analysis we averaged the percent of employees who agreed or disagreed with the four EEI items below using the same Likert scale—from strongly agree to strongly disagree—as described earlier:

- I am proud to tell people I work for my company
- Overall, I am extremely satisfied with my company as a place to work
- I would gladly refer a good friend or family member to my company for employment
- I rarely think about looking for a new job with another company

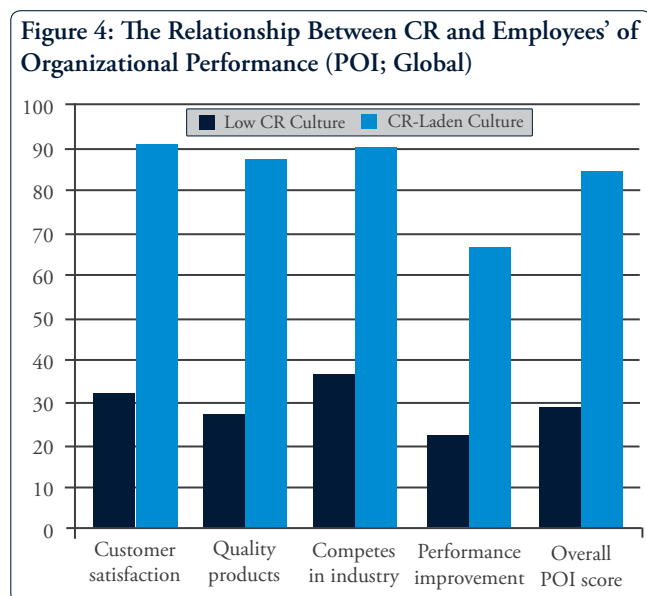


For employees who work in a strong, CR-laden culture (those who agreed with all of the CR items), their engagement score, as a group, was very high at 89 percent. Those working in a low CR culture (those who disagreed or responded neutrally to all of the CR items) had a demonstrably lower engagement score of just 21 percent.

Why does employee engagement matter? Intuitively, managers know that working with engaged employees is a lot easier than working with employees who aren't. More tangibly, employee engagement is important because it is strongly related to a host of outcomes such as individual and team performance, customer satisfaction, profitability and total shareholder return. Simply put, organizations with a more engaged workforce consistently outperform their competitors.

The most recent research in the KHPI WorkTrends study also revealed a significant, positive relationship between CR and employees' opinions of their organization's success (see Figure 4). We measured this by asking employees to rate their organization's customer service, quality and competitiveness. Specifically, the four questions that make up the Performance Outcome Index (POI) include:

- Overall, customers are very satisfied with the products and services they receive from my organization
- My organization provides higher quality products and services than other similar organizations
- My organization competes well against others in the industry
- My organization's performance has improved during the past year



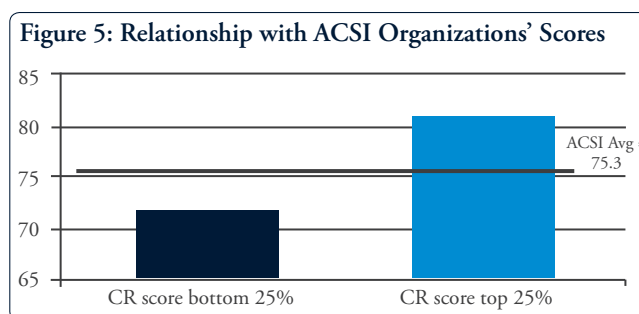
The differences between employees in CR-laden cultures and those in low CR cultures were stark. In fact, 84 percent of employees working in CR-laden cultures rated their organization's performance highly, and 91 percent of employees believed that their customers were very satisfied. Contrarily, where corporate responsibility is not a cultural value or practiced with consistency, only 29 percent of employees reported strong organizational performance, and only 27 percent believe their organization provided better quality products than the competition.

Employees certainly have opinions about their organization's success (or lack thereof), but are these perceptions a proxy for real gains (or losses) in organizational performance? To answer this we sought out the latest research on actual customer service scores as well as tried-and-true financial metrics. By correlating CR scores' against these metrics we found that the answer is yes.

Corporate Responsibility and Customer Satisfaction

To measure customer satisfaction, we relied upon an already existing and highly regarded measure, the American Customer Satisfaction Index (ACSI)—an economic indicator based on customer evaluations of U.S. and foreign-owned entities selling products in the United States. Companies use ACSI evaluations to improve and maximize their customer relationships and this in turn drives customer loyalty and profitability. Over the 16-year period of the survey, it has been shown that companies with high ACSI scores tend to have better performing stock prices than low ACSI scorers. The national ACSI average is 75.3 points. Scores above that are viewed as good, and in general scores of 80 and above are viewed as excellent. Scores of 70 and below are generally considered an indication that companies need to work on improving their customer relationships².

How did high-CR scorers fare against low-CR scorers? It turns out that employee perceptions are indeed a good proxy for customer attitudes. For example, the top 25 percent of companies in our CR survey had an average ACSI score of almost 81—comparable to an excellent customer service rating. Those companies that made up the bottom quartile of our CR survey fell below the ACSI average with a score of just 72.6.



²American Customer Service Index, "Economic Indicator."

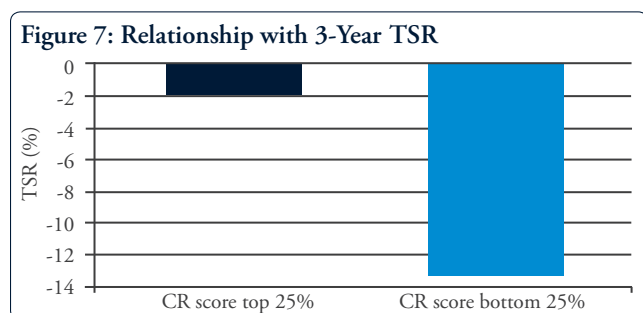
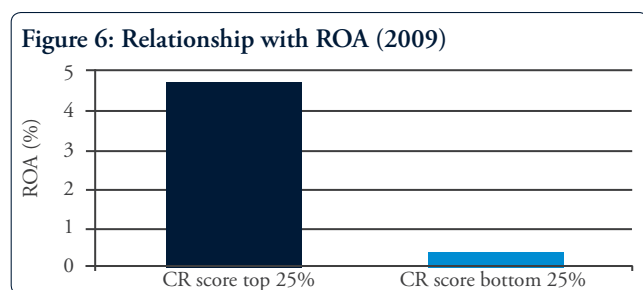
Corporate Responsibility and Financial Metrics: ROA and 3-year TSR

It is not just customer satisfaction where we have seen a correlation with corporate responsibility. There are statistically considerable and positive relationships with common measures of fiscal health including Return on Assets (ROA) and 3-year Total Shareholder Return (TSR). For these financial metrics, we see substantial gains for organizations that have a CR score in the top quartile when compared to those in the lowest quartile.

The organizations we measured represent all major industries including retail, finance and banking, manufacturing, hospitality, healthcare and business services in all major economies around the world. More than 80 percent of the companies studied are multi-national with locations and employees in more than 100 countries. These companies represent about 10 percent of the Fortune 100.

ROA is a measure of how much profit a company generates for each dollar of asset value under its control. The news for companies in the top 25 percent of our CR scale is good. They reported an ROA gain of 4.83 percent in 2009. When we looked at companies in the bottom quartile of our CR scale their gain was a mere .25 percent.

TSR, on the other hand, looks at the difference in stock price at the beginning of a period—in this case, three years—to the end of that period. The period in question, 2007 to the end of 2009, was a tumultuous time financially due to the recession. In fact, the vast majority of public companies showed a loss on the books during this time period. What stands out, however, is that low-CR organizations lost by 11 percentage points more than their high-CR counterparts.



Summary

Corporate responsibility is a buzz-word sweeping the world of business. More organizations around the globe are supporting their community, the environment and their stakeholders. Research from the Kenexa High Performance Institute reveals a profound relationship between those high-CR companies and impressive gains in employee opinion, customer service, and financial metrics. Low-CR organizations suffer on all the same fronts.

As we expand our research into corporate responsibility we will look to further explore and understand the relationship between CR and organizational success. For example, does CR create these benefits? Or do highly successful companies simply have more resources to devote to CR, creating a positive cycle? Either way, executives and managers are taking note about the tangible business benefits of corporate responsibility. ■

About KHPI

The Kenexa High Performance Institute (KHPI) features a multidisciplinary team of highly qualified professionals with offices in London and Minneapolis. Executive directors, Dr. Tony Cockerill and Dr. Jack Wiley, oversee rigorous, global and innovative research and development programs, spanning all aspects of human capital management. KHPI produces books, academic papers for top journals and practitioner articles. For more information, visit www.khpi.com.

About Kenexa

Kenexa provides business solutions for human resources. We help global organizations multiply business success by identifying the best individuals for every job and fostering optimal work environments for every organization. For more than 20 years, Kenexa has studied human behavior and team dynamics in the workplace, and has developed the software solutions, business processes and expert consulting that help organizations impact positive business outcomes through HR. Kenexa is the only company that offers a comprehensive suite of unified products and services that support the entire employee lifecycle from pre-hire to exit.

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