

Toward a Valid and Reliable Measure of Bolted-on vs. Built-in CSR

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Abstract

Dowling and Moran's (2012) conceptualization of built-in vs. bolted-on corporate social responsibility (CSR) initiatives to generate corporate reputation has offered a much needed distinguishing framework between two distinct kinds of reputation building mechanisms that are available to companies. Notwithstanding the brilliance of this typology, one of the major roadblocks in conducting research on these two forms of reputation generating mechanisms is the absence of a valid and reliable measure. Advancement of such measurement instrument will positively contribute to literatures pertaining to both CSR and corporate reputation. We address this void by developing a measure for bolted-on vs. built-in CSR to generate corporate reputation that relies on coding publicly available content. Our measure of these two forms of CSR initiatives is expected to test favorably for discriminant validity and inter-rater reliability.

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Corporate reputation is an intangible resource that provides a firm with sustainable competitive advantage (Boyd, Bergh, & Ketchen, 2010; Roberts & Dowling, 2002; Shamsie, 2003) and has been viewed as one of the "most important strategic resources" of the firm (Flanagan & O'Shaughnessy, 2005, 445). While a firm may acquire corporate reputation in various ways, in this paper we focus specifically on the use of corporate social responsibility (CSR) as a reputation generating mechanism. To that end, Dowling and Moran (2012) conceptually distinguished between the bolted-on approach and the built-in approach of a firm to engage in CSR initiatives to generate corporate reputation. Notwithstanding the availability of this typology, one of the major roadblocks in conducting research on these two forms of CSR as a reputation generating mechanism is the lack of their operationalization. For research to advance in this particular area it is imperative that scholars have access to a valid and reliable operationalization of built-in and bolted-on CSR.

The purpose of this paper is to develop a valid and reliable measure of bolted-on and built-in firm-level initiatives to generate corporate reputation. While there can be various reputation generating mechanisms, for empirical purposes, we will align with Dowling and Moran (2012) and focus on CSR initiatives as the de facto reputation generating mechanism. Thus, we will focus on operationalizing CSR initiatives that can be characterized as either bolted-on or built-in. Advancement of such a measurement instrument will positively contribute to corporate reputation research dealing with different kinds of CSR initiatives in particular and reputation generating mechanisms in general.

We divide the paper into five sections. The first section reviews extant models on CSR measurement as a reputation generating mechanism. In the second section, building on Dowling and Moran's conceptualization of bolted-on and built-in CSR, we develop a measurement tool that strictly uses publicly available data to compute bolted-on and built-in status of CSR initiatives. The third section explains our methodology to test the validity and reliability of our measurement tool. Given the ongoing nature of this research project, we project on our results in the fourth section. Lastly, we discuss the theoretical and applied contribution of our measurement tool to evaluate bolted-on and built-in status of CSR initiatives, recognizing the limitations of our study and list avenues for future research.

CSR as a Reputation Generating Mechanism

CSR's role in generating corporate reputation is well established in the literature (Bear, Rahman & Post, 2010; Fombrun, 2005). While scholars have generally treated numerous CSR initiatives by aggregating their scores obtained from the MSCI ESG database, this established approach has left us with limited understanding of more sophisticated differences that are embedded within CSR initiatives. As a result, Dowling and Moran's (2012) typology of bolted-on vs. built-in CSR to generate corporate reputation is a major conceptual contribution to the literature. They define built-in CSR initiatives as the strategic approach to generate reputation that reflects the core strategy of a firm. Reputations emerging from a firm's integrated strategic decisions stand the best chance of securing a competitive advantage in the long term.

Tilley (1999) originally identified the distinction between bolted-on vs. built-in mechanisms to build reputation. She argued that successful branding depended on the extent to which branding was built-in to the corporation's core strengths. Dowling and Moran (2012) explained that built-in CSR was able to generate more lasting corporate reputation because of tight coupling between CSR initiatives and the core strategy of the firm. The "built-in" model proposes that reputation should emerge "from the strategic commitments of the organization and should offer the best chance of securing sustainable competitive advantage" (2012: 25). In contrast, the bolted-on CSR initiatives are loosely coupled with firm strategy (philanthropy or community service) and "foster a reputation that is less consistent with principle actions of the organization and less credible" (Dowling & Moran, 2012: 25) in terms of vulnerability to competitive imitation. Moreover, Blake (2017) asserts a built-in CSR campaign signals a firm's stated intention to form a strong reputation for its CSR commitment as opposed to the window dressing effect of a bolted-on model.

Despite the existence of this typology for several years, empirical research in this area has not sufficiently picked up on this distinction and we contend that this is because of the absence of a valid and reliable measure of bolted-on vs. built-in CSR to generate corporate reputation. Therefore, in the next section, we will elaborate on our approach to develop a content analysis worksheet to measure the CSR typology. Moreover, we will test for the measure's validity and reliability to establish our measure that can benefit future scholars.

A Measurement Instrument for Bolted-On and Built-In CSR

Dowling and Moran's (2012) framework for identifying the distinctions between built-in reputation and bolted-on reputation suggests eight items for auditing key factors of integrated reputation building that include desired reputation, environment, normative logic, performance goals, economic logic, managerial beliefs, supporting arrangements, and alignment. For our purposes, we combined the economic logic and alignment factors based on similarity and their shared organization-wide emphasis. Each item is scored as 0 when it more closely approximates a bolted-on quality and 1 when it more closely approximates a built-in quality to obtain an integer ranging between 0-7. The greater the value, the greater the built-in quality.

Identification is based on content analyses of CSR activities reported in the Corporate Register, a leading UK-based repository of CSR activity representing the U.S. and international public firms. For content analysis purposes, we developed a content coding worksheet using keywords identified against Dowling & Moran's (2012) "built-in reputation" audit framework. The worksheet is summative in design and is designed to assess the degree of the bolted-on vs. built-in characteristic of CSR.

Corporate self-disclosure scores on environmental matters are usually derived from the content analysis of corporate documents such as annual reports and CSR reports (Clarkson et al., 2008; Morhardt et al., 2002) and of corporate websites (Jose & Lee, 2007). In our data collection effort, we relied on data available on the Corporate Register database that aggregates CSR data disclosed by companies in their annual reports and CSR reports, and corporate web sites.

According to the Global Reporting Initiative, electronic or web-based reporting and paper versions are both appropriate and acceptable mediums for reporting company information. Given the lack of operationalization of bolted-on vs. built-in reputation generating mechanisms, and the appropriateness of web-based reporting, it is useful to create a point based measurement system.

Two raters were employed to use our bolted-on vs. built-in CSR measurement instrument on 48 firms representing 30 firms from Energy, 8 from Utilities, 5 from Healthcare, and 5 from Real Estate industries. Detailed instructions about data collections were provided for each question separately (see Table 1). For content source, we used CSR reports obtained from the Corporate Register database. The raters gathered data on each of the seven items in our content analysis worksheet.

Insert Table 1 about here

For all items in our scoring system an affirmative response garnered one point. To compute a bolted-on vs. built-in CSR score, we summed the scores for the 7 items. A lower score (e.g., 0-3) would suggest a bolted-on CSR approach and a higher score (e.g., 4-7) would suggest a built-in CSR approach to generating corporate reputation. Since the bolted-on and built-in characteristics of a firm's CSR are relative to how other firms in the same industry are engaged in their CSR initiatives, the range of points declared as bolted-on vs. built-in can be

easily adjusted to ensure a sizeable comparable group when designing quantitative research in the future.

Validity and Reliability Assessment

Dowling and Moran (2012) distinguish bolted-on and built-in CSR across eight categories, desired reputation, environment, normative logic, performance goals, economic logic, managerial beliefs, supporting arrangements, and alignment. They also provide clear guidance on how the bolted-on and the built-in categories ought to be different on each category. Following these guidelines, we developed a 7-item content analysis worksheet, (combining economic logic and alignment as noted previously) incorporating both the bolted-on and the built-in description for each category. Each category either receives a score of 0 or 1, depending on the content analysis. Thus, we arrive at a CSR score that ranges between 0 and 7, where a higher score denotes more built-in qualities in CSR initiatives. Besides testing for content validity, we also examine discriminant validity of our bolted-on vs. built-in CSR measure. We also test for inter-rater reliability of our measurement tool.

Validity

Since the main purpose of this paper is to operationalize bolted-on vs. built-in CSR as a reputation generating mechanism, it is important to establish content validity of our instrument. By strictly adhering to Dowling and Moran's (2012) conceptualization of the bolted-on vs. built-in taxonomy, we have ensured that our operationalization is content valid.

Given that bolted-on and built-in CSR approaches have not been operationalized in the past, it is not possible to test for convergent validity of our measure. However, in order for bolted-on vs. built-in distinction to have a meaningful impact on the literature and in practice, we ought to be able to show discriminant validity of our operationalization. To establish discriminant validity, we test whether our measure of bolted-on vs. built-in CSR is distinctly different from the standard computation of CSR score (as obtained from the MSCI ESG database) for a firm.

Reports were available for 48 firms over the ten-year study period. In 11 firms, reports were available for the full ten-year study period. The remaining 37 firms had partial reporting during the period. Given that missing CSR reports may often limit how much content coding can be done, scholars engaging in this kind of research have the option to treat incomplete reports as circumstances where the firm did not produce a significant CSR initiative that was worth reporting in a formal CSR report.

We tested our ECSR measure for discriminant validity. To satisfy this requirement, our instrument must not be significantly correlated with seemingly related but conceptually different constructs. Fortune Reputation Index has been used as a proxy measure for CSR and the ranking has received its share of criticism for not capturing fundamental CSR issues (including ECSR aspects). Hence, if our ECSR measure is not significantly correlated with Fortune Reputation Index, then that would confirm discriminant validity. Since Corporate Register only lists firms with a formally published CSR report, only 48 of the 256 firms in our sample had issued formal CSR reports that were listed in the Corporate Register database. It is fair to state that the other 208 firms would have lower levels of CSR initiatives than the 48 that were listed in the

Corporate Register. The correlation results suggest that our measure of bolted-on vs. built-in CSR initiatives to generate corporate reputation has substantial discriminant validity.

Reliability

We tested for inter-rater reliability of our measure. Since our measure requires raters to evaluate various CSR initiatives of firms against seven categories in terms of their bolted-on or built-in characteristics, examining inter-rater reliability is highly relevant. To account for chance correlation effect, we calculated the kappa coefficient for our two raters (Cohen, 1960; Fleiss, 1981). Each of the two raters evaluated 2009 items (i.e., 7 items for each of the 11 firms over 10 years, and 7 items for each of the remaining 37 firms for a range of 1 and 9 years). A reconciling session between the two raters removed all existing disagreements yielding 100 percent agreement of a revised kappa coefficient of 1.00. These results suggest strong evidence for inter-rater reliability of our measure for bolted-on vs. built-in CSR initiatives to generate corporate reputation.

Discussion and Conclusions

Managing CSR programs has become a dedicated organizational function; however, there is still a great deal of ambiguity behind how to best manage CSR activity and its reporting to offset its investment (Wang, Tong, Takeuchi, & George, 2016). We suggest CSR initiatives enacted using the conceptualized characteristics of differentiated and built-in CSR per Dowling and Moran (2012) to enhance reputation can outperform rival CSRs within the resource-based framework and suggest characteristics of CSR can positively influence corporate social performance effectively under the conditions of linking the CSR to the firm's core organization strategy and differentiating the CSR initiative itself to be unique to rivals' initiatives.

The built-in coding instrument, adapted from Dowling and Moran's (2012) framework, would benefit from a detailed analysis of its efficacy as an instrument to assess the contribution and degree of variance among the seven factors analyzed.

We also suggest doing more CSR does not equate to better corporate social performance. In fact, to achieve improved corporate social performance, firms may be able to invest fewer dollars in CSR, provided the program is built-in to its strategic core and unique relative to the actions of the industry. Moreover, within the RBV theory, identifying and isolating the specific firm resources that fulfill the VRIN to examine and assess precisely the resources that can produce greater differentiation and inimitability becomes a necessary next step.

As such, researchers and practitioners are challenged to deliberate on additional firm- and industry-level characteristics that will improve CSR's impact going forward. In essence, as strategic conformity of CSR campaigns becomes the norm, competing on virtue alone is insufficient. Corporate social investing is becoming a strategic necessity and requires careful examination of its implementation and the strategic value.

Moreover, if we are able to show that the built-in vs. bolted-on CSR better predicts the following year's corporate reputation than the standard computation of CSR, then we have additional research implications of our measurement.

We relied on information made available on Corporate Register. Therefore, the analysis is limited by the extent of content availability. The low correlations between our measure of bolted-on vs. built-in CSR initiatives and MSCI ESG scores suggests that we have captured the distinguishing essence of Dowling and Moran's (2012) taxonomy and have been able to contrast it against the omnibus computation of CSR.

According to Ilinitich et al. (1998: 404), scholars should consider "whether the cost of gathering information is worth the benefit, whether the measures allow stakeholders to interpret performance easily and track improvement over time, and whether the measures treat companies and industries fairly." If unlimited resources were available, a comprehensive measurement of bolted-on and built-in CSR initiatives across all industries would have been desirable. However, in light of limitedly available narrative content on CSR, content analysis can only be as powerful as the available content itself. Notwithstanding, given the increasing rate with which firms across industries are reporting on their CSR initiatives, developing a measure for bolted-on vs. built-in CSR initiatives to generate corporate reputation is an important contribution to the literature.

The dynamics of bolted-on and built-in CSR initiatives is expected to be different between large corporations and small and medium-sized enterprises (SMEs). In their empirical study, Williamson, Lynch-Wood, and Ramsay (2006: 317) find that "for the larger businesses that went beyond compliance there is no real evidence that legislation was the main catalyst in shaping corporate behaviour – though it was clearly part of each firm's business environment." This finding contrasts with their finding about SMEs that regulation is what makes them compliant when business performance cannot be enhanced with compliance. Since our measure of bolted-on and built-in CSR is based on published CSR reports, it will be limitedly useful for SMEs as they may not have a rich public relations office to formally report all the relevant pieces of information. Already some research initiatives have been undertaken to measure CSR reporting by content analyzing SME websites (Parker, Bellucci, Torlina, Zutshi, & Fraunholz, 2014). Future research in this direction seems promising and fruitful.

In advancing our measure of bolted-on vs. built-in CSR, we have assumed that firms that report their CSR initiatives through a formal CSR report are more responsible in their environmental practices. However, some scholars have reported that firms with major CSR concerns demonstrate the highest attention to CSR strengths initiatives (Delmas & Blass, 2010). Future research can investigate whether CSR concerns are more strongly correlated with bolted-on CSR initiatives rather than built-in CSR initiatives. Similarly, since political spending has been found to be correlated to negative environmental ratings for firms, it would be interesting to see how our measure of bolted-on vs. built-in CSR initiatives associates with the political spending. Future research can explore this issue along with various other variables that may be strongly correlated with CSR performance.

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Table 1
Content Coding Worksheet

<i>(What are we looking for?)</i> Evidence of a built-in CSR program	<i>(How to score)</i> Coding Mechanism	<i>(What to look for)</i> Keywords/phrases -- same or similar in nature <i>If Yes=1</i>	<i>(What to look for)</i> Keywords/phrases -- same or similar in nature <i>If No=0</i>
Desired reputation – Does the firm communicate its desire to be seen as, - good corporate citizen? - major contributor to social needs?	If major contributor, then 1; If good corporate citizen, then 0	<ul style="list-style-type: none"> providing social value plus profits Business and society are interdependent; create “measurable,” “enduring,” or “shared” value; provide social benefits in addition to product/service “mutual benefit” or “shared progress” between business (economic) and society demands “long term” commitment create value for the company and society (or stakeholders) 	<ul style="list-style-type: none"> Firm wishes to be seen as “Good Corporate Citizen” Mention of “profits” and/or “shareholder benefits” or “company growth” is firm’s primary objective Create value for the company
Environment – Does the firm communicate a strong, long term commitment to environmental issues?	If Yes, then 1; If No, then 0	<ul style="list-style-type: none"> Building sustainable future; Exceed industry standards; Exceeding LEEDS or other certifications; Stewardship of natural resources; CSR is grounded into all operations and organization culture 	<ul style="list-style-type: none"> if CSR appears linked to specific social concern or a direct response to social pressure “Meet/meeting standards” “Currently integrating into...” “Recent” or “new” focus, “Recent changes to support...” “working” toward “enhance” or “improve” or “meet” current environ standards, LEEDS or other certifications; “Managing” or “mitigating” risks or the “negatives” of doing business;
Guiding Principles Are the priority guiding principles of the firm shareholder-driven, Social-benefit-driven or some combination of both?	If priority is socially-driven or combination of both, then 1 If shareholder-based, then 0	<ul style="list-style-type: none"> “CSR” or “sustainability” infused into all we do... People and environment discussed before economic profit “Profits with principles” CSR “intrinsic” to business CSR “Fully integrated” “We believe in contributing to more than profits” “Proactive approach” CSR “exceeds” compliance requirements 	<ul style="list-style-type: none"> Mention of “shareholder,” “economic,” or “profit” gains as priority, followed by people and environment; Mention of “making efforts” to “improve,” “enhance” or “advance” CSR or sustainability Firm seeks to “expand its role” in society’s needs; “Continue” to build... (knowledge, support, programs) “In compliance”
CSR performance goals – Are the CSR goals focused and well defined or broad in scope?	If focused, then 1 If broad, then 0	<ul style="list-style-type: none"> Look for specific CSRs and related themes across them, (i.e., business and community partnership for economic development.) Well-defined = strategic in nature = long term, bigger picture planning 	<ul style="list-style-type: none"> CSR is broadly discussed without specifics; covers many types of activities with no clear connection to the firm or one another; long listing Tactical = short term fix or activity, responsive to specific external pressures

		<ul style="list-style-type: none"> • “framework” • program developed that “unites all CSR efforts” 	
Economic CSR & alignment Does the firm’s CSR campaign align with its business model?	If Yes, then 1; If No, then 0	<ul style="list-style-type: none"> • “product design or sales,” “supply chain,” “operations,” or “organization’s culture” • Integrated into the business model; • “Invest in R&D” related to social benefits; • evidence of a “sustainability market position” • “preserve,” “protect,” “reuse” or “recycle” natural or operating resources 	<ul style="list-style-type: none"> • “Awarded R&D” money via grant related to social benefits (in lieu of investing own corporate capital) • “working” toward “integrating,” “expanding,” “spending more,” on R&D (as opposed to having been committed to doing so historically)
Managerial Beliefs – Does the firm believe its CSR efforts produce an advantage (sales, image, reputation) over competitors?	If Yes, then 1; If No, then 0	<ul style="list-style-type: none"> • Specific mention of CSR activity producing an advantage over competitors • “Competitive advantage,” “social advantage,” • “best,” “first,” or “only” firm in the industry doing this type CSR. 	<ul style="list-style-type: none"> • No mention; • “mitigate” negative events, • “reduce risk” • “protecting firm from damage”
Support Arrangement – Does the firm have enterprise-wide support for its CSR?	If Yes, then 1; If No, then 0;	<ul style="list-style-type: none"> • All business units or managers have line responsibility; “every,” “each” manager or department “conducts” or “participates in CSR • All employees “have been” trained or assessed regularly • Fostering a culture of sustainability 	<ul style="list-style-type: none"> • Single department or support unit in charge of corporate CSR • The firm has assigned “several internal champions” • “committee” oversight of CSR • “begin” training or assessing, • “improve” training or assessing; • mention of CSR emphasis devoted to all “new projects,” or “new acquisitions,” • “Must” or “plan” to meet new standards