HOW BUSINESS BEHAVIOUR CONTRIBUTES TO REPUTATION AND PERCEPTIONS OF PERFORMANCE:
A CASE STUDY AT ALCOA OF AUSTRALIA

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ABSTRACT

The link between social performance and reputation is not new (Burke & Logsdon, 1996; Fombrun & Gardberg, 2000), but translating the intuitively correct into measurable behaviours and performance indicators remains a key challenge for companies.

In 2008 Alcoa of Australia conducted research to develop metrics and key performance indicators for use by the business to achieve higher levels of consistency and effectiveness in stakeholder relations across the company's diverse Australian sites. The aim was to establish clear foundations in building reputation and perceptions of performance, and establish benchmarks against which achievement could be measured on an ongoing basis. The research drew on concepts of social capital (Boutilier, 2005, 2007) and organizational justice (Cropanzano, Bowen & Gillilan, 2007).

We devised a simple self-complete survey to measure social capital, interactional justice, procedural justice, reputation and perceptions of performance. The surveys were delivered by either post or email to 1,346 stakeholders. Surveys were returned by 418 stakeholders, for a response rate of 31%.

The results showed that social capital was a significant driver of reputation ($\beta = .353$ $p < 0.05$) and performance ($\beta = .189$, $p < 0.05$); interactional justice was a more significant driver of performance ($\beta = .388$ $p < 0.05$) than reputation ($\beta = .049$ $p < 0.05$), and that procedural justice is a more significant driver of reputation ($\beta = .299$ $p < 0.05$) than performance ($\beta = .158$ $p < 0.05$).

The study results have led to the specification of behaviours and actions for Alcoa community relations managers that can improve reputation and stakeholder perceptions of performance.

INTRODUCTION

Alcoa of Australia operates the world's largest integrated aluminium refinery operation. On average each year the Australian-based operation produces 8.7 million tonnes of alumina, 545,000 tonnes of aluminium and 190,000 tonnes of aluminium rolled products. The business has been operating within Australia since 1963, with the majority of its facilities in regional parts of the country. As such the company has very much 'grown up' with many of the communities in which it operates.

Globally and in Australia, the company has consistently received third-party recognition for being a good corporate citizen, an employer of choice, a leader in environmental management and a strong investor in the economy[1].

In parallel, Alcoa has at times been exposed to criticism from local community members, activist groups and the media. This public scrutiny can erode stakeholder confidence in the business, and weaken its reputation as a valued corporate citizen in Australia.

The absence of robust stakeholder perception data of operational performance, behaviour, and reputation potentially created a blind spot for community relations practitioners. Engagement strategies were formulated based on assumptions, experience and tacit knowledge about stakeholder interests, needs and perceptions, which may not always have included all relevant information.

The purpose of the research was two-fold:

Firstly to capture baseline stakeholder perception data that could inform and shape the company's stakeholder engagement strategy. As such the research was used to:

- Assess and measure perceptions stakeholders held of Alcoa's reputation, and understanding they had of the company's social, environmental and economic contribution and performance in Australia.

- Help build an evidence-based approach to identifying and managing reputational opportunities and risks.

- Help the company better anticipate stakeholder expectations of how it should engage with the community.

- Serve as a vehicle through which strategic recommendations from the research project could strengthen community relations planning.

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[1] This has been evidenced through recognition and awards such as: the United Nations Global 500 Honor Roll for bauxite mine rehabilitation in Western Australia; being named one of the world's most sustainable corporations by the World Economic Forum annually since 2005; receiving a Prime Ministers Award for its partnership with Greening Australia, being named Employer of Choice for Women for the 8th consecutive year by the Equal Opportunity for Women in the Workplace; ranked 4th in the CNBC European Businesses list of low carbon climate pioneers; and once again one of the top 10 multinational companies in the Covalence Ethical Ranking and one of the top 7 scoring foreign listed companies in the State of Corporate Social Responsibility report by the Australian Centre for Corporate Social Responsibility.

Secondly, Alcoa required metrics it could use on an ongoing basis to track and measure its performance with stakeholders. Through the research process, the Australian Centre for Corporate Social Responsibility was able to design a 'do it yourself' tool Alcoa can use to measure its stakeholder perceptions of performance on an annual basis. The critical drivers and measures used were identified by its stakeholders as being the most influential on their perceptions of the company's performance and reputation.

CONCEPTUAL BACKGROUND

Alcoa's aim in this project was to develop leading measures that would help it drive higher perceptions of social performance and reputation and strengthen links between community relations strategy and business strategy. Therefore, instrumental approaches to stakeholder constructs were relevant (c.f. Jones, 1995). Given that social performance and reputation are both outcomes of organisation-stakeholder relationships, we turned to relational concepts to guide development of the research.

Boutilier (2009) argues that firm-stakeholder relationships are the thing to measure, because social relationships are the arena in which social reality is constructed. Social reality includes socially constructed perceptions of performance and reputation.

We conceptualised firm-stakeholder relationships as repositories of social capital. Social capital was defined as "the stock of active connections among people: the trust, mutual understanding and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible" (Cohen & Prusak, 2001). Strong and effective organisation-stakeholder relations are high in trust and shared goals (Boutilier, 2005, 2007, 2009). Studies of group-level relationships within organisations have shown that trust provides a context for positive feelings (Wech, 2002), so it is reasonable to assume this might also be the case in relationships between organisations and external stakeholders. Therefore:

> H1a: Social capital is positively related to reputation.
> H1b: Social capital is positively related to perceptions of performance.

The issues that stakeholders bring to organisations are often justice questions; that is, they are concerned about the fairness and outcomes of organisational decisions and activities. According to Carroll (1991), "The challenge of stakeholder management is to ensure that the firm's primary stakeholders achieve their objectives while other stakeholders are also satisfied" (p.43).

Husted (1998) viewed stakeholder management in a more instrumental fashion, characterizing it as "a way of organizing the firm so that it can be responsive to the concerns of its stakeholders precisely because those stakeholders can affect the plans and activities of the firm," (p. 647) and pointed to the ability of the organizational justice literature to "provide specific advice for the design of stakeholder relations" (p. 643). For example, he suggested that stakeholders need a voice in decision-making processes.

Justice is often conceptualized as consisting of three components: distributive, procedural and interactional (Cropanzano, Bowen & Gillilan, 2007). Firms cannot always deliver the outcomes stakeholders seek, especially when they have conflicting demands. Therefore the idea of justice as fair outcomes (distributive justice) was not incorporated into this research.

However, the other aspects of justice were more promising constructs for this research. For example, sharing information, being truthful and providing adequate justifications when things go badly are attributes of 'interactional justice'. Cropanzano et al (2007) cite a quasi-experimental study that showed improvement in citizenship behaviours by employees whose managers were trained to behave more justly in line with ideas about interactional justice. Following Cropanzano et al (2007), procedural justice occurs when decision-making processes are consistent with ethical norms, based on accurate information, include relevant stakeholder 'voices', and are consistently applied. Such processes are deemed legitimate because they conform to social norms (Husted, 1998). Therefore:

> H2a: Just treatment is positively related to perceptions of performance.
> H2b: Just treatment is positively related to reputation.

The constructs measured in this research are based on behaviours that are potentially controllable by Alcoa through provision of standards and guidance to employees. If the hypotheses could be confirmed, the underlying behaviours are therefore amendable to development as key performance indicators.

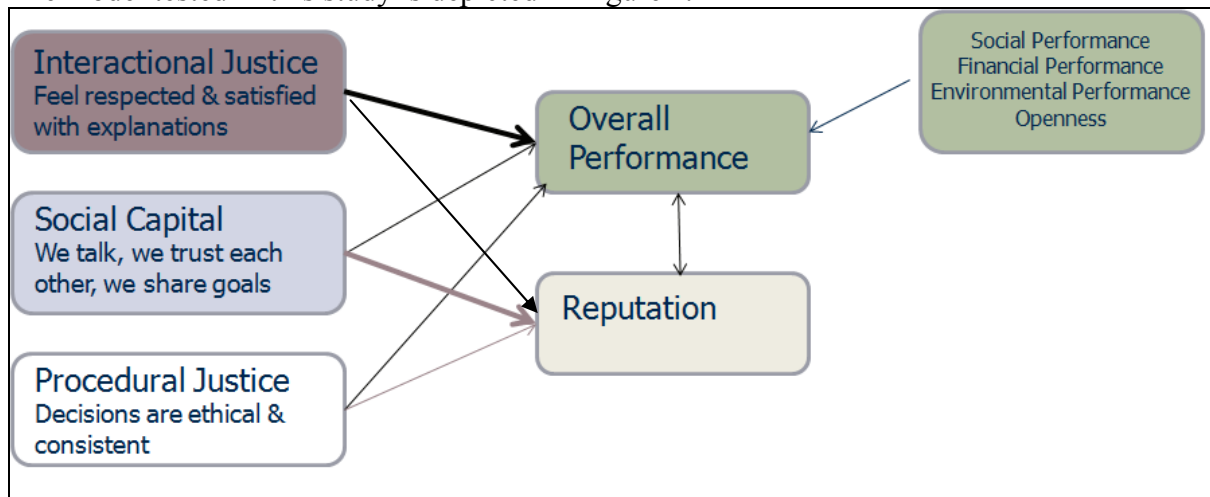The model tested in this study is depicted in Figure 1.

Figure 1: Model of relationships between justice, social capital, performance and reputation

To summarise: Interactional justice describes a state where stakeholders feel respected and satisfied with the explanations that Alcoa provides them. A high level of interactional justice leads to high perceptions of Alcoa's performance. Social capital is a measure of relationship quality that is determined by the level of trust and extent of shared goals between Alcoa and its stakeholders. A high level of social capital leads to a strong reputation and also contributes to perceptions of performance. Procedural justice is generated when decisions made by Alcoa are supported by procedures that are ethical, consistent, accurate and inclusive of stakeholder needs. A high level of procedural justice leads to increased perceptions of performance and strengthens reputation.

METHOD

Sampling and data collection

To achieve Alcoa's goals, the research was designed in two stages. (This paper reports only on Stage 2.) Stage one aimed to provide recommendations about strategies and tactics to build effective community and corporate relations strategies. Stage two developed and tested key performance indicators and questions for Alcoa's future surveys. Results from both stages provided benchmark data. The research attempted to apply the principle of 'stakeholder inclusivity'. This is a core principle of stakeholder engagement specified in international frameworks for corporate responsibility (AccountAbility, 2008).

All of Alcoa's stakeholders as identified by community and corporate relations personnel were invited to participate in either stage one or stage two of the research. Stakeholders were considered those people or organisations that were impacted by, interested in or had influence over its operations. In all, 36 per cent of Alcoa's stakeholders elected to participate, a response rate which is better than most commercial research and similar to responses received by top managers in academic research (Baruch, 1999).

In Stage 1, 254 key stakeholders across 10 sites were invited to participate in an in-depth telephone interview of approximately 45 minutes duration. Of those invited 62% ($n =158$) responded. Stages 2 comprised a self-complete survey sent by either post ($n = 158$, RR 12%) or email ($n = 260$, RR 19%) to the 1,346 other stakeholders at all sites (this excludes surveys that were undeliverable). Surveys were returned by 418 stakeholders, generating a response rate of 31%.

Measures

Stage 1 used the internationally-validated Stakeholder 360® framework (Boutilier, 2009) to provide empirical evidence of stakeholder relationship quality, and to identify evidence-based opportunities and risks relevant to Alcoa. Customised questions were added to measure stakeholder awareness and attitudes regarding Alcoa's reputation, operational performance, and economic, social and environmental impacts.

The quality of Alcoa's stakeholder relationships was measured by assessing the level of social capital in relationships between stakeholders and the company and between the stakeholders themselves.

Stage 2 used a modified version of relationship items in the Grunig and Huang (2000) scale to measure organisation-public relationships, as a proxy measure for social capital. A proxy measure was used to reduce the future analytic burden on company personnel, as the modified items are easily captured by the report wizard function in most on-line survey programs. The five-item scale asked respondents the extent to which they agreed that they trust Alcoa, believe Alcoa staff is truthful, agree with Alcoa on what to expect from one another, believe the relationship is worthwhile, and desire a long-lasting relationship with Alcoa.

Items to measure justice were adapted from constructs described by Cropanzano et al (2007). A four-item procedural justice scale asked respondents the extent to which they agreed that decisions made by Alcoa are based on accurate information, that appropriate stakeholders

have input into important decisions, that Alcoa is ethical when making decisions and that Alcoa is consistent when making decisions that affect the stakeholder. A four-item interactional justice scale asked respondents the extent to which they agreed that they are satisfied with the amount of respect, the explanations they hear, and the amount of information they get from Alcoa, and the way that Alcoa communicates with them.

Following Dess and Robinson (1984), a five-item scale was created to measure performance and included items to measure overall performance, financial performance, environmental performance, social performance and openness. The latter item was included as it was the strongest performer in a range of custom performance questions developed and tested in Stage 1 of the research.

A single item global measure of reputation asked respondents whether they thought Alcoa's reputation was very poor, poor, neutral, good or very good.

Analysis

The social capital proxy measures were first subject to principal component analysis using Varimax rotation. This produced a two-factor solution which corresponded to the constructs of trust and relationship maintenance expectations. The two factors accounted for 78.528% of variance. The Cronbach Alpha coefficients were .795 and .878 respectively.

The procedural and interactional justice measures were subject to the same process. The procedural justice items produced a single factor which accounted for 64.652% of variance. The interactional justice items produced a single factor which accounted for 70.706% of variance. The Cronbach Alpha coefficients were .818 and .706 respectively.

The performance items produced a single factor that accounted for 62.976 of variance, with a Cronbach Alpha coefficient of .846.

Variables were then created for each of the constructs and subjected to regression analysis.

RESULTS

The results confirmed both H1 and H2, as depicted in Figure 2. The results showed that social capital was a significant driver of reputation ($\beta = .353$ $p < 0.05$) and perceptions of performance ($\beta = .189$, $p < 0.05$); interactional justice was a more significant driver of perceptions of performance ($\beta = .388$ $p < 0.05$) than reputation ($\beta = .049$ $p < 0.05$), and that procedural justice is a more significant driver of reputation ($\beta = .299$ $p < 0.05$) than perceptions of performance ($\beta = .158$ $p < 0.05$).

Drivers of Reputation
Adjusted R square = .44; F3, 303 = 78.501, p < 0.05 (stepwise method). Predictor Variable Beta *p* Social capital .353 *p* < 0.05 Procedural justice .299 *p* < 0.05 Interactional justice .049 *p* >0.05
Drivers of Perceptions of Performance
Adjusted R square = .52; F4, 306 = 81.715, *p* < 0.05 (stepwise method). Predictor Variable Beta *p* Interactional justice .388 *p* < 0.05 Social capital .189 *p* < 0.05 Procedural justice .158 *p* < 0.05

Figure 2: Results of hypotheses tests

We also examined the actual scores on each variable at each of Alcoa's sites. This enabled Alcoa to draw lessons from the data to inform company-wide strategy as well as provide each location with its own site-specific results and recommendations.

Alcoa's overall performance is viewed positively by its stakeholders, with the lowest average ratings scoring at least 'satisfactory' (scale point 3) or better. Average (mean) stakeholder perceptions of Alcoa's overall performance of both stages of the research are depicted in Figure 3 (Levene's violated $p<.05$, equal variances not assumed, Sig F - $F(9,340) = 4.741$ $p<.05$, Dunett C, Point Henry>Wagerup, Huntly and Willowdale, Kwinana, Pinjarra, Yennora).
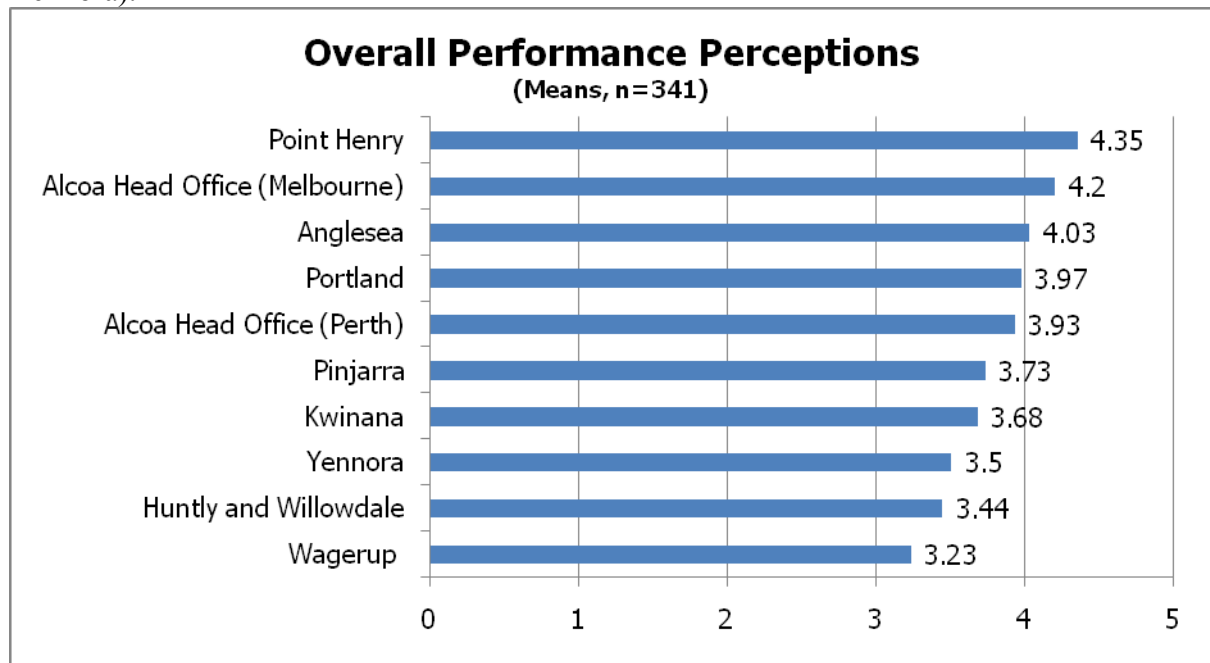

Figure 3: Perceptions of Alcoa's overall performance

Stakeholders also generally rated Alcoa's reputation well at most sites. Sites which rated lower have had specific issues that account for the lower scores.[2] (Reputation: Levene's violated $p<.05$, equal variances not assumed, sig F - $F(9,408) = 8.906$ $p<.05$, Dunett C, Point Henry>Wagerup, Kwinana, Pinjarra, Huntly and Willowdale. Anglesea> Wagerup. Portland>Wagerup. Melb Head Office>Wagerup. Perth Head Office>Wagerup. Huntly & Willowdale>Wagerup.)

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[2] For example, at Wagerup stakeholders have opposed site expansion plans.
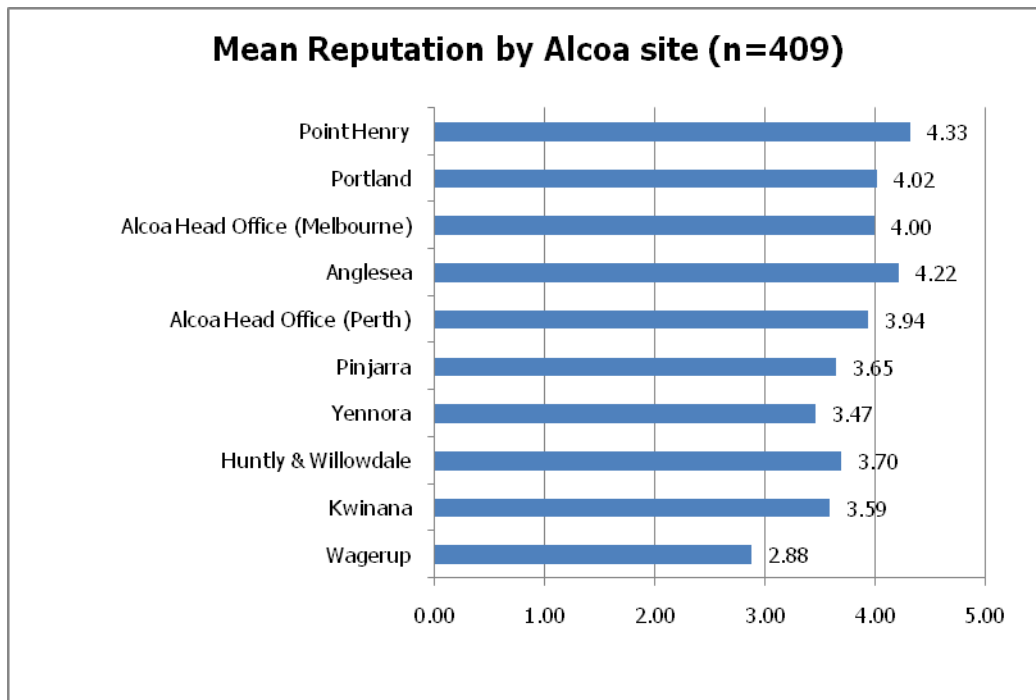
Figure 4: Reputation scores at Alcoa sites

Stakeholders rated Alcoa moderately to high in terms of their just treatment. Interactional justice generally rates slightly higher than procedural justice, though these differences may not be statistically significant.
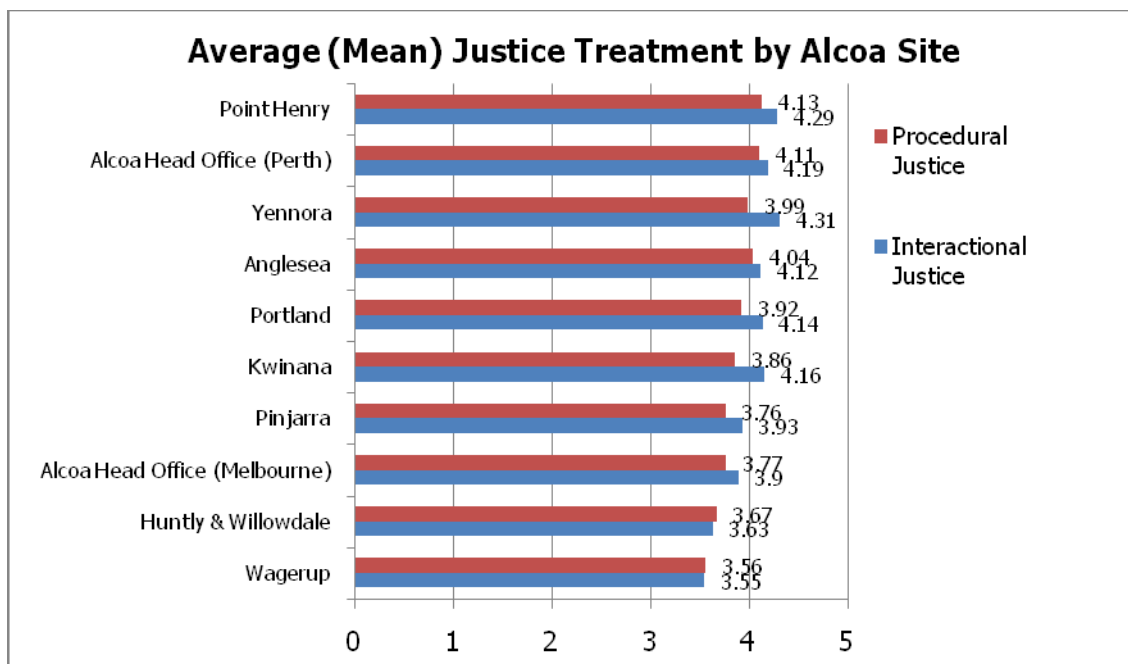

Figure 5: Procedural and interactional justice scores at Alcoa sites

The quality of Alcoa's relationships with its stakeholders was moderate to high but varies across each site (see Figure 6). (Levene's violated $p<.05$, equal variances not assumed, Sig F - $F(9,417) = 4.70$ $p<.05$, Dunett C, Portland>Wagerup, Anglesea> Wagerup. Point Henry
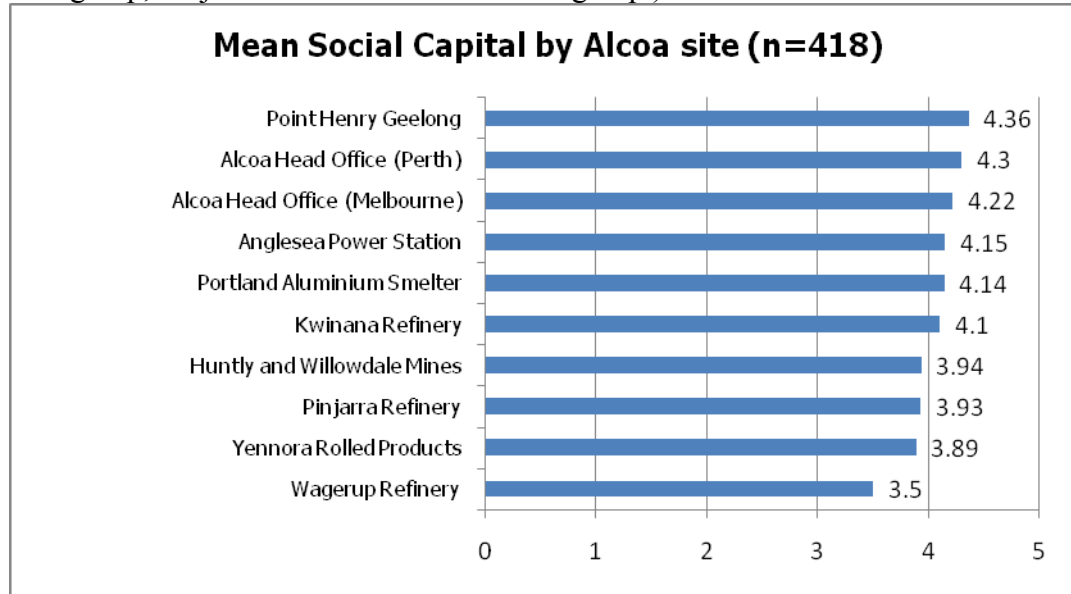
>Wagerup, Pinjarra. Perth Head Office>Wagerup.)

Mean Social Capital by Alcoa site (n=418)

Site	Value
Point Henry Geelong	4.36
Alcoa Head Office (Perth)	4.3
Alcoa Head Office (Melbourne)	4.22
Anglesea Power Station	4.15
Portland Aluminium Smelter	4.14
Kwinana Refinery	4.1
Huntly and Willowdale Mines	3.94
Pinjarra Refinery	3.93
Yennora Rolled Products	3.89
Wagerup Refinery	3.5

Figure 6: Social capital at Alcoa sites

DISCUSSION

Theoretical implications
Social capital was the strongest of our variables to contribute to reputation. Given that strong reputations require consistency of action over a long period of time (Herbig, Milewicz & Golden, 1994), it is possible that the influence of social capital on reputation is explained by its effect on building collaborative relationships (Boutilier, 2009). Close collaboration to achieve shared goals, for example through environmental partnerships such as Alcoa's, can help dispel negative perceptions that may have been held. In addition, relationships with high social capital can lead companies to change their behaviour to become more legitimate in stakeholder eyes.

Social capital made a more modest contribution to perceptions of performance. Given the theoretical arguments that strongly support the relationship between social capital and performance (Boutilier, 2005); the relatively weak (though still positive and significant) result obtained in our study may partly be explained by the use of the proxy measure, or by the nature of the stakeholder-reported performance measure. Possibly, our result was diluted by using an aggregate measure of social, environmental and financial performance perceptions. If social performance were separately measured, we would probably see a stronger relationship. This is certainly a proposition supported by the results of a more recent study that showed a strong positive relationship between stakeholder engagement and perceptions of social performance (Black & Bice, 2009).

Interactional justice was the strongest predictor of perceptions of performance. Our results support Husted's (1998) argument that it is essential for stakeholders to have some sort of 'voice' in decisions that affect them and support the notions of inclusivity and responsiveness on which stakeholder engagement standards such the AA1000SES are based (AccountAbility, 2008).

Cropanzano et al (2009) suggest that justice builds feelings of inclusion, which may be most important to those who feel they lack it. Therefore, stakeholders lacking power may be more

likely to respond to just treatment with improved perceptions of performance and reputation, than stakeholders with equal or more power than a given corporation. In future studies, feelings of inclusion may be tested as an intervening variable to better explain the effect of justice on perceptions of performance and reputation.

Procedural justice made a stronger contribution to reputation than to perceptions of performance. Several scholars have shown that individuals are more accepting of unfavourable results as long as the process is fair and ethical (cited in Cropanzano et al, 2009). Therefore, stakeholders given procedural justice may be more accepting of a company's 'social license to operate'. Legitimacy is an essential component of reputation. Our results lend support to strategic or instrumental approaches to stakeholder relations.

Management implications

Identification of key performance indicators

The project assisted in testing and validating key performance indicators relevant to assessing stakeholder relationships and perceptions. These indicators are measures of reputation, satisfaction, social capital, just treatment and performance perceptions. These indicators allow Alcoa to assess its performance as a whole, as well as providing site-specific data to all of its Australian locations. These indicators will be used on an annual basis to measure improvements and track performance.

Build internal understanding

The results from the research were viewed by many within the company as a significant piece of work, that allowed community relations practioners to gain a better understanding of the quality of relationships they had with their stakeholders, what behaviours influenced the perceptions stakeholders held of the business and how this influenced reputation.

Importantly and from a practical sense, the research helped unpack the building blocks of relationships with stakeholders, and thus provided clear and valid inputs into strategy development.

The research project itself assisted in raising the internal profile of stakeholder engagement as an enabler for Alcoa's ongoing social 'license to operate' and grow. The ability to present and discuss meaningful data with leaders within the company helped them better understand the 'science and strategy' behind leading practice stakeholder engagement.

As is the case in many organisations, it remains a challenge to create a shared level of understanding and support amongst some business leaders, that strategic stakeholder engagement is critical to ongoing reputation management irrespective of circumstance or business maturity.

Tool to visualise and communicate data to business leaders

Prior to conducting this research, Alcoa of Australia did not have a tool to measure stakeholder perceptions or the quality of relationships it has with its stakeholders. Without this data, community relations managers were not as well equipped as they were after the research to present and discuss stakeholder data in a visual way with business leaders.

The ability to translate information about relationships, perceptions, opportunities and risks into black and white data, graphs and network maps, instantly transformed the results in to a format that business leaders (primarily engineers) were accustomed to and could easily digest and interpret. This immediately improved their understanding of the results and engaged them in the planning process.

Further to this, Alcoa's Community Relations Manager developed a 'dashboard-style' report that synthesised the results, key lessons and actions for each location. This enabled location leaders to at a glance get a sense of their site's results, and visually track the implementation of agreed actions. This is now used as a tracking tool and reviewed on a regular basis at each location.

Function-wide and site-specific relevance

Recommendations and data generated from the project were provided in aggregate as well as in sub-sets specific to each individual location. Aggregated recommendations and data created an opportunity for company-wide improvements. These related largely to how systems and processes could be enhanced and included initiatives such as developing a stakeholder engagement framework, collectively reviewing community consultation networks, and finding ways to better communicate the company's portfolio of social and environmental partnerships. At a site level recommendations were very specific about the opportunities to build stronger shared goals and improve motivation to collaborate with critical stakeholders. These lessons, coupled with a greater understanding of risks and opportunities, allowed for both a shared and customised approach to implementing the findings.

This in itself served well to engage community relations managers and business leaders in the findings, as they were guaranteed relevant data that they themselves had the scope to influence and act on at their location. Equally, they supported company-wide efforts to systemise and improve the performance of the function which ultimately could strengthen relationships with their set of unique stakeholders.

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