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# Measuring the immeasurable? Constructing an index of CSR practices and CSR performance in 20 countries

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**Summary** Presuming that a company's institutional environment matters to its corporate social responsibility (CSR) strategy, this article aims to contribute to the establishment of a more comparatively and structurally oriented framework for analysing CSR. To this end, the article develops two indexes: one measuring CSR practices and one measuring CSR performance in 20 OECD nations. The index construction is based on a formative measurement model, reflecting the degree to which companies of certain nationalities are over- or under-represented in major, global CSR initiatives and rankings, relative to the size of their national economies. The two indexes reveal striking differences between the 20 nations, indicating a need to address the impact of domestic structures on CSR.


## Corporate social responsibility — a universal concept?

Corporate social responsibility (CSR) has the hallmark of being a truly global idea. While originating in the United States (Carroll, 1999) CSR is now endorsed and actively promoted by key global institutions such as the World Bank, the OECD, the UN and the ICC. One can also discern an emergent "epistemic CSR community" consisting of leaders from non-governmental organisations (NGOs), business communities, academic institutions and think tanks. This community is central to the development of a global CSR discourse consisting of a set of shared references and collective ideas, as well as concrete, identifiable CSR practices such as certification schemes, reporting standards and investment criteria. CSR is in many ways interlinked with the process of globalisation, and the increased need to secure its human and environmental dimensions (Ruggie, 2003). Consequently, transnational corporations (TNCs) are in many respects the prime movers behind the CSR phenomenon, thus giving CSR a distinctly transnational and global dynamic.

The global features of CSR might lead to the assumption that national dynamics are secondary or even irrelevant. However, while CSR might be of a global nature, recent research suggests that it is applied differently across different social, economic, cultural, legal and political contexts. Matten and Moon (2004) were among the first to theorise on the relationship between CSR and the wider national contexts. Habisch, Jonker and Wegner (2005) strengthened the impression that CSR is contingent upon national contexts in their book "Corporate Social Responsibility Across Europe", and Midttun, Gautesen and Gjølberg (2006) traced current CSR patterns to national political-economic institutions established decades ago. However, few efforts have been made to systematically measure and analyse the impact of domestic structures on CSR.

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Blowfield (2005) characterises CSR as "the failing discipline" due to its inability to relate to structural conditions, such as globalisation, political-economic institutions and power relations. This article aims to contribute to the establishment of a more structurally informed analytical approach to CSR. As a precondition to addressing systematically the role of political-economic structures, one must be able to *measure* CSR practices across different political-economic systems. The article seeks to contribute to this end by constructing and evaluating an index of CSR practices at the country level which enables such measurements.

The basic motivation of the article is to answer the following questions: Which countries have the largest share of companies active in CSR, and how can CSR activity be measured on a national basis? The article attempts to answer these questions by developing an index of CSR practices in 20 nations. The index is constructed by identifying the nationality of the companies who have adopted or qualified for major, global CSR initiatives or CSR ratings. The results for each nation are compiled and weighed to correct for differences in the size the nations' economies. The article discusses methodological, conceptual and technical challenges related to constructing such an index. Based on the evaluation of the index's validity, a performance-based index is discussed and subsequently applied in a preliminary analysis linking the index results to political-economic factors, along the lines suggested by Blowfield (2005). The index covers 20 advanced industrialised nations — EU15,[1] Switzerland, Norway, Japan, United States, Canada and Australia — and is based on the most recent data as of February 2007.

## Nationality matters? The development of comparative CSR

As stated in the introduction, CSR is a globalised concept, disseminated through international and regional institutions, as well as through the supply chains of TNCs. It is also increasingly integrated into global managerial culture; CSR is part of the expected repertoire of every company wanting to be perceived as modern and legitimate. As such, it follows the general dynamics of international management trends by being branded and standardised into implementable packages like the UN Global Compact, The Global Reporting Initiative, and ISO standards (Sahlin-Andersson, 2006).

Nevertheless, the importance of local culture, context and traditions in shaping the perceptions and practices of global ideas has long been acknowledged in management studies, organisational theory and political economy. A wide variety of theoretical and empirical studies demonstrate how ideas are transformed, creolised, adapted and interpreted when introduced in a local setting (Guler, Guillén, & MacPherson, 2002; Czarniawska & Sevón, 1996; Powell & DiMaggio, 1991).

There is no reason to expect the CSR concept to diverge from this pattern. Quite the contrary: The proposition of this article is that there are distinct national patterns of CSR, and that the nationality of a company matters to its CSR practices and performance. While CSR is an idea with global diffusion, there are several reasons to expect national frameworks to play a decisive role. Companies do not operate in an existential vacuum; they adapt, refine and develop their strategies and competitive advantages in interplay with their institutional environments. There is an increasing literature on "the varieties of capitalism", focusing on how state, market and civil society relations are organised differently across capitalist systems (Amable, 2006; Crouch, 2005; Hall & Soskice, 2001; Whitley, 1998, 1999). This literature demonstrates how divergent capitalist models impact business strategy and behaviour differently. Even in TNCs, often portrayed as the nexus of global homogenisation, there is little evidence of convergence: "Durable national institutions and distinctive ideological traditions still seem to shape and channel crucial corporate decisions" (Pauly & Reich, 1997, p. 1). Thus, there is reason to believe that corporate strategies concerning CSR will also be shaped by national factors and thereby result in differences in CSR practices between nations.[2] These dynamics are therefore of central importance to future advances in CSR research.

Despite these insights from comparative political economy, only recently has the impact of national context on CSR been addressed in the discipline. Comparative studies are emerging (Albareda, Tencati, Losano, & Perrini, 2006; Brammer & Pavelin, 2005; Maignan & Ralston, 2002), but they usually cover only a few countries, and are seldom linked to established literature on political-economic institutions or structural relations.

One of the more theoretically influential articles in the field, which does link CSR systematically to the wider societal context, is Matten and Moon's article on implicit and explicit CSR (2004, 2008). Their hypothesis is that companies from liberal, laissez-faire economies choose a more explicit form of CSR since liberal market economies leave a larger share of corporate responsibility issues to the discretion of their companies. Conversely, the social and environmental responsibilities of companies located in so-called 'coordinated economies' are embedded in and regulated by institutional and legal frameworks, hence reducing the need to explicitly communicate these companies' contributions to society. Their analysis makes a convincing argument for the decisive role of national business systems and institutional underpinnings for CSR practices across nations, but it is supported by only a few empirical examples.

The edited collection of case studies "Corporate Social Responsibility Across Europe" (Habisch et al., 2005), which covers 23 European nations, is perhaps the most ambitious and systematic comparison of CSR practices. However, it is advertised as containing "7 figures and 18 tables" — an indication of the demand for more quantitative and comparable material in the field. Unfortunately the authors make limited efforts to compare the findings to established literature on national political-economic systems.

[1] Luxembourg is exempted from the EU15 here, please see footnote 12.

[2] This is not to imply that regional or local traditions are of no importance; however, assessing their importance is outside the scope of this article.

This lack of comparative data and of analyses linking CSR systematically to national political-economic contexts was an important motivation for Midttun et al. (2006) to create an index of national CSR practices and to correlate the resulting national CSR patterns with national political-economic institutions established decades ago. The aim of the present article is to refine the index by improving its methodological validity and analytical utility,[3] and to point to possible applications of the index in political-economic analysis.

## Methodology — conceptual aspects

Even though the literature on how to measure CSR on a company level is evolving rapidly (Clarkson, 1995; Székely & Knirsch, 2005), there is still no generally established method which can serve as a basis for this comparative study, and there is certainly no rigorous way of measuring CSR performance on a *national* level.[4]

CSR is an essentially contested concept. By nature, its definition intersects with fundamental debates on the theory of the firm, on voluntary versus regulatory approaches to corporate responsibility, and on the boundaries between state, market and civil society. These debates have both practical and ideological implications for research on CSR. To confuse matters further, other contested concepts such as 'sustainable development', 'corporate citizenship' and 'stakeholder theory', are often invoked when trying to construct a definition of CSR. de Bakker, Groenewegen and den Hond (2005) review 30 years of CSR research in a bibliometric analysis. Their conclusion is that while the number of publications has increased dramatically since the beginning of the 1990s and signs of agreement on central concepts have also increased, consensus is hampered by the continuous introduction of new concepts like "Corporate Social Performance", "Corporate Social Responsiveness", and "Corporate Social Rectitude".

Carroll (1991, 1999) definition of CSR is perhaps the most cited. He defines CSR as the economic, legal, ethical and philanthropic responsibilities of companies. However, Clarkson (1995), reviewing a 10-year project to measure and evaluate corporate performance based on these four categories, concludes that they did not lend themselves easily to empirical testing due to their complex nature. Nor for the purpose of the present project is Carroll's definition helpful. While economic data is easily available, it will hardly separate the responsible companies from the irresponsible ones. The legal dimension is problematic, given that most current CSR definitions emphasize the voluntary nature of CSR, such as the ones promoted by the EU Commission, the World Business Council for Sustainable Development, the International Chamber of Commerce and the UN Global Compact. Nor is the ethical dimension helpful, as long as what is ethical is not specified (Clarkson, 1995). One could argue that 'ethical responsibilities' correspond to the voluntary aspect referred to above, i.e. actions beyond those mandated by law. However, this cannot serve as an operational definition in a comparative project, due to the simple fact that the relevant legal frameworks differ between the 20 countries in the analysis. Consequently, an action classified as a voluntary CSR initiative in one country, falls in the category of regulatory compliance in another, precisely the argument made by Matten and Moon (2008). Finally, the philanthropic dimension is also problematic, and touches upon the so-called "Trans-Atlantic Divide" in CSR (Elkington, 2004): American CSR discourse and practices are strongly influenced by the US tradition of corporate philanthropy. The European CSR discourse has been more focused on integrating CSR into the management of core business operations, as underlined for instance in the EU (2001) definition of CSR. Thus, in the European CSR discourse, philanthropic activities are downplayed or sometimes even explicitly excluded from definitions of CSR. However, there are signs that the broader European concept of CSR is gaining ground also in the United States. In their influential articles Porter and Kramer (2002, 2006) used the term "strategic *philanthropy*" in 2002 but then used the term "strategic *CSR*" in 2006, perhaps signalling such a shift in perceptions. Due to the controversy regarding whether philanthropy is a core issue in CSR, and the fact that philanthropy partly is an American exceptionalism related to the US tax incentive system, philanthropic donations were not considered in the index.

To conclude, prevailing definitions of CSR are not suitable as a basis for a comparative measure of CSR practices. A further challenge is the lack of comparable data at the company level. There is an inherent problem in comparing practices related to a concept for which there exists neither definitional consensus nor sufficient data. Hence, an alternative approach was pursued: The most feasible strategy in the present circumstances is to chose a *formative measurement model*, whereby the indicators jointly determine the conceptual and empirical meaning of the construct (Jarvis, MacKenzie, & Podsakoff, 2003). Consequently, corporate adoption, qualification and membership in CSR initiatives and rankings are treated as proxies for CSR practice, thus letting the most prominent CSR initiatives define CSR for the purpose of index construction. The implications of using a formative strategy will be discussed in the following sections.

## Methodology — technical aspects

The aim of the index is to measure CSR 'practices' in the term's broadest sense, covering sustainability reporting, membership in CSR organisations and networks, certification practices, as well as different rankings of CSR performance along the triple bottom line. The index should not be regarded as an effort to measure Corporate Social Perfor-

[3] The main shortcomings of the original index are related to the choice of CSR indicators, to the choice of GDP measurement, to the use of a too simplistic indexing technique and to the lack of discussion of the analytical validity of the index. Furthermore, the empirical findings were presented in country clusters only, and individual country scores were not presented or discussed.

[4] The institute AccountAbility has published an interesting "Index of Responsible Competitiveness" (MacGilvray, Begley, & Zadek, 2007), combining data on economic competitiveness with data on CSR. While providing inspiring and policy relevant country rankings and analysis, the methodology does not satisfy academic criteria, e.g. it does not specify how the indicator "ethical behaviour of firms" is operationalised or measured.

mance (Clarkson, 1995; Carroll, 1999; Wartick & Cochran, 1985)[5] in terms of specifying a way to measure *outcomes* (see for instance Wood, 1991). Nor is it an attempt to measure CSR performance in terms of CSR excellence, since several indicators are unrelated to success or 'best-in-class' performance in CSR. Thus, it is labelled 'index of CSR practices' to reflect that it measures the broader corporate practices and activities in the CSR field. However, it does contain indicators more closely related to performance and a revised version of the index is discussed in the section "A revision of the index: from practices to performance".

Initially, all major, global CSR initiatives and ratings were considered a basis for establishing indicators for the index. The final selection was based on four main criteria. First, the indicator must relate to some aspect of CSR — preferably a triple bottom-line approach. Second, the indicator must have a global and general application. Consequently, regional and national initiatives and ratings were excluded, as well as sector- and industry-specific initiatives and ratings.[6] Third, the indicator must involve a minimum of 100 companies.[7] Finally, reliable and comparable data must be available at country level.[8]

Nine CSR initiatives and ratings met these criteria, and the resulting index comprises four broad indicator categories: (1) ratings based on socially responsible investment criteria (Dow Jones Sustainability Index, FTSE4Good and "The Global 100 Most Sustainable Corporations" list), (2) membership in CSR communities (UN Global Compact and the World Business Council for Sustainable Development), (3) sustainability reporting practices (KPMG Sustainability Reporting Survey and the Global Reporting Initiative) and (4) certification schemes (ISO14001). Please see Box 1 for a description of the individual indicators.

Consequently, the index is based on a mix of data sources. Some reflect adoption rates, like the UN Global Compact and the GRI, while others are based on research, like the KPMG survey. Others still are more closely related to actual, demonstrable performance, like the SRI indexes and the rankings of the 100 best CSR reports and the 100 most sustainable companies. The nine initiatives all reflect different interpretations of CSR. Combining them in an index might seem like comparing apples and oranges. However, in accordance with the logic of a formative measurement model, there is reason to believe that the initiatives, when combined in an index, reflect the state of the art in CSR and provide an over all picture of CSR practices across nations.

For all nine CSR indicators, the number of companies from each nation was divided by the total number of companies from all 20 nations represented in the initiative. For instance, 18 Australian companies have qualified for the Dow Jones Sustainability Index. In total, 298 companies from the 20 countries have qualified for this index, which gives Australia a share of 6% in the Dow Jones Sustainability Index. However, this number does not provide any useful information in itself. For example, a direct comparison of the Australian results with those of Switzerland or the United States is misleading due to the fact that the Swiss and the US economies are respectively half the size, and 17 times the size of the Australian economy. Consequently, the results were weighed and corrected for GDP size by dividing each nation's GDP by the total GDP of the 20 countries, creating a GDP share for each nation. GDP was measured in purchasing power parities (PPPs)[9] as calculated by the OECD (2006).

With the exception of the KPMG indicator,[10] all indicators are in principle open to all companies, regardless of origin, and data for all indicators is available on a global basis, meaning that the index in principle can be applied worldwide. For manageability reasons, the universe in the present analysis was set to advanced industrialised democratic OECD countries, which were the main analytical focus of the project. Due to the calculation procedure's sensitivity to extremely low GDP values,[11] countries with a GDP less than 0.5% of the total GDP were excluded.[12] The final group of 20 countries was therefore: EU15, Norway, Switzerland, Japan, United States, Australia and Canada.

Ideally, one would like to correct for company size, for instance annual turnover or number of employees, to give a more accurate account of each company's relative importance in its respective economy. Due to the sheer number of companies analysed and the fact that their identities are not disclosed in all indicators, this was not feasible. This might favour economies consisting of many small companies, since there are numerically more companies who can enter into the data material. However, the opposite argument might be equally plausible: that countries with fewer but larger companies have an advantage since they have more companies with the resources to participate in international CSR initiatives. The question of the influence of national industrial structures is also relevant, since some markets and industries are more exposed to responsibility issues. However, in keeping with a structurally oriented logic, structural factors are not part of the index construction itself. Rather, structural factors are part of a succeeding causal analysis when one tries to explain the findings from the CSR index by investigating factors like national

[5] Apart from the emphasis on outcomes in Carroll's, and Wartick and Cochran's concepts of CSP, it is often difficult to separate CSP from the many definitions of CSR.

[6] This excludes major sector-based initiatives like the Forest Stewardship Council, the Extractive Industries Transparency Initiatives, the UN Principles for Responsible Investments and the Responsible Care Program.

[7] This excludes interesting initiatives like Business Leaders Initiative on Human Rights (BLIHR).

[8] This excludes Transparency International, ICCs Business Charter for Sustainable Development, OECD guidelines for multinational enterprises, SA8000 and OHSAS18000.

[9] PPPs are commonly used when measuring and comparing the size of economies, since PPPs eliminate the differences in price levels between countries and hence provide a more relevant measure in cross-national comparisons (Shchreyer & Koechlin, 2002).

[10] The KPMG survey was the only variable with missing values. The four countries concerned (Switzerland, Portugal, Ireland and Greece) were assigned their total average values, based on the natural logarithm of their ratio scores.

[11] While the calculation is sensitive to GDP size, and the selected countries have vast differences in GDP, the final results show that both small and large economies are represented at both the bottom and the top of the index ranking. Thus, GDP does not seem to have an undue influence on the results.

[12] Luxembourg, Malta, Iceland and New Zealand each had GDPs smaller than 0.5% of the total of the GDPs of all countries studied.

## Box 1. Variables in the CSR index

**Dow Jones Sustainability Index**
The Dow Jones Sustainability Index comprises the companies with the best CSR practices in their respective industries. The evaluation is based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM.
**FTSE4Good**
The FTSE4Good Index Series measures the performance of companies that meet globally recognised CSR standards; it is managed by the FTSE4Good Policy Committee, an independent body of CSR experts from academia, fund management and business.
**Global 100**
The Global 100 is a list of ‘‘The Global 100 Most Sustainable Corporations in the World’’ which is announced annually at the World Economic Forum in Davos. The list is developed by the Canadian magazine ‘‘Corporate Knights’’ in cooperation with Innovest Strategic Value Advisors, a leading research firm specialising in triple bottom-line analysis and socially responsible investments.
**UN Global Compact**
The UN Global Compact is a multi-stakeholder initiative seeking to advance 10 fundamental principles in the areas of human rights, labour, the environment and anti-corruption. It is a direct initiative of the UN Secretary-General; the network consists of a large number of companies, as well as NGOs, academia, UN bodies and labour unions. The initiative is voluntary; there are few specific requirements for membership.
**World Business Council for Sustainable Development (WBCSD)**
The WBCSD is a CEO-led coalition of 180 companies working towards sustainable development. The WBCSD is active in policy development, advocacy work and in developing best practice business leadership in CSR. Membership is by invitation only and requires extensive investments in terms of time and resources.
**The Global Reporting Initiative (GRI)**
GRI is a reporting standard for triple bottom-line reporting. It is developed through a multi-stakeholder process, led by the GRI secretariat. It is important to note that their database is based on self-reporting; therefore, the companies listed do not necessarily report in compliance with the GRI reporting standard.
**KMPG International Survey of CSR Reporting**
The KMPG Survey is the most comprehensive of its kind, based on a survey of CSR reporting practices in the 100 largest companies in each of the 16 countries in the survey. The methodology covers triple bottom-line issues, and is carried out by KPMG in each country.
**SustainAbility’s list of the 100 best sustainability reports**
SustainAbility is a leading think tank which provides a biannual evaluation of best practice sustainability reports. The reports are ranked on a number of indicators, culminating in a list of the 100 best reports worldwide. The reports are submitted by the companies themselves for evaluation by SustainAbility.
**ISO 14001**
ISO 14001 is an environmental management certification standard created by the International Standardisation Organisation (ISO). It is a generic management tool, applicable to all companies. The standard covers policy development, planning, implementation, monitoring and review. Certification is issued by a third party certification body.

industrial profiles. The causal analysis will be addressed in the concluding sections.

To summarize, the index represents over- or under-representation of 20 nations in 9 global CSR indicators, relative to the size of their respective economies. For each of the nine indicators, each country’s indicator share is divided by its GDP share according to the calculation formula in Fig. 1.

Thus, the index aggregates company-level data into national scores. This aggregation from the company level to the national level is not an inverse ecological fallacy; the logic is that a score of 1 of represents a perfect proportion of companies active in CSR, relative to the size of the economy. A score higher than 1 equals over-representation and a score lower than 1 equals under-representation.

After all ratios for all indicators were calculated for all countries, the scores were added to form an index. Because some indicators provide for much larger variance, a simple aggregation of scores would produce skewed results since these indicators would have unduly influenced the final country scores. Three alternative calculation methods were tested. The first strategy was to transform all country scores on all indicators into a rank ordering, awarding 20 points to the highest scoring country, and 1 point to the lowest scoring country for all nine indicators and all 20 countries. The ranking points were totalled, and the sum divided by nine to get each country’s average ranking. This technique awards each indicator equal importance in the construction of the index, but at the expense of maximum data utilisation because the data richness decreases when the results are converted to a simple rank ordering.

The second strategy was to transform the country ratios into standardised scores (*z*-scores).[13] This mathematical transformation of the scores creates a new set of scores with a mean of zero, and a standard deviation of 1, and thereby preserves more of the information contained in the data than

[13] The *z*-score is an expression of how far, and in what direction, the score deviates from the mean of the distribution, expressed in units of the distribution’s standard deviation (Kleinbaum, Kupper, & Muller, 1988).

$$\sum_{i=1}^{9} \frac{\left(\frac{\text{Number of companies in indicator } X_i \text{ from country } A}{\text{Total number of companies in indicator } X_i \text{ from all 20 countries}}\right)}{\left(\frac{\text{GPD country } A}{\text{Total GPD all 20 countries}}\right)} = \text{Ratio of country } A\text{'s over-/under-representation on all 9 initiatives } \mathbf{X}.$$

**Figure 1** Calculation formula for indicator scores.

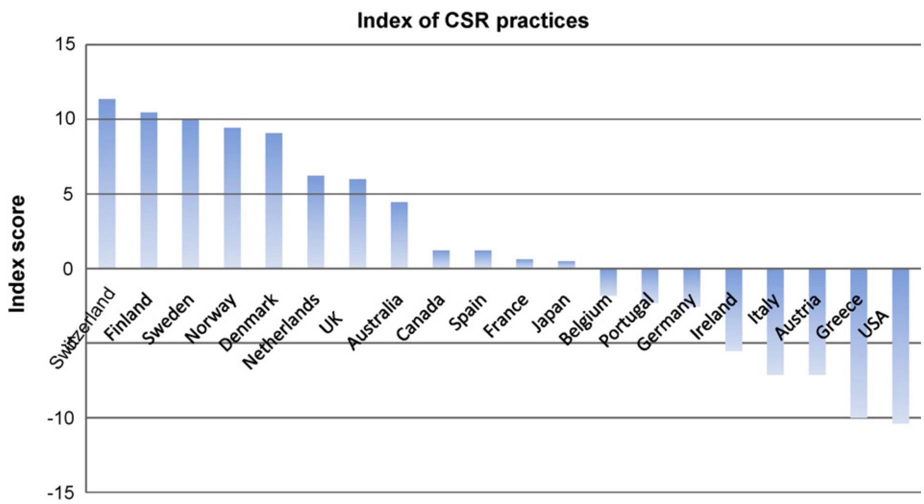


**Chart 1** Index of national CSR practices, total scores per nation.

the ranking procedure does. This standardising technique is particularly useful when comparing indicators that have different means and standard deviations, which is precisely the case for the present CSR index. However, while *z*-score standardisation is a more common technique, it is most useful when applied to datasets with normal distributions, which is not the case for all the indicators in the CSR index. Furthermore, *z*-score standardisation compresses the extreme values towards the mean. Thus, the preferred method of standardisation is to use the natural logarithm,[14] which ensures the best preservation of variation across all values. Since the natural logarithm of 1 is 0, the index is easy to interpret: A perfect proportionality between "CSR companies" relative to the size of the economy produces the score 0. Consequently, positive scores equal over-representation, while negative scores equal under-representation. All three calculation methods, as well as the simple summation of the ratio of over- and under-representation, produce consistent results overall, but the index based on the natural logarithm will be the reference.

## Index validity and initial findings

Factor analysis and Cronbach's alpha are commonly used to evaluate the validity of indexes. However, there is no reason to assume any relevant underlying factors or correlations between the nine indicators since the index is not built on a reflexive measurement model. The index relies on a purely formative measurement model in the sense that the nine indicators are assumed to intercept different shades and shapes of CSR practices across companies and countries. Consequently, internal consistency reliability is not an appropriate measure to evaluate the validity of the CSR index — criterion-related and nomological validity is a more relevant yardstick (Jarvis et al., 2003).

Using Matten and Moon's (2008) argument of implicit versus explicit CSR as a yardstick, one would expect the United States to be over-represented on the index, since the index captures the degree to which companies are sufficiently *explicit* about their CSR efforts to adopt, register or qualify for global CSR initiatives and rankings. While their argument mainly focuses on the differences between US and European CSR practices, it could be logically extended to cover the other economies affiliated with the liberal tradition, namely the UK, Ireland, Australia and Canada. Thus, one would expect companies from these countries, the Unites States in particular, to have the greatest need to be explicit about their social responsibility, and consequently to be the top scorers on the aggregate country level. However, the index, as shown in Chart 1, does not display any clear division between liberal versus regulated economies, and contrary to expectation, the Unites States obtains the lowest score in the whole sample.

In fact, the index produces a somewhat unexpected distribution of country scores; the group of countries with an over-representation of companies in the nine indicators is a rather hybrid group. Based on popular knowledge, one could argue that all the usual suspects are represented among the top seven countries: Switzerland has a large number of TNCs which are under continuous scrutiny from media and NGO watch dogs, and which therefore have a strong incentive to engage in CSR. Nordic companies are generally known for being subjected to strict social and environmental regulations, as well as for having a strong commitment to the international CSR agenda. Several British and Dutch companies have very innovative CSR policies. British and Dutch civil society are

[14] Since one cannot calculate the log of 0, scores of 0 were converted to 0.1 in the base numbers.

actively engaged in CSR and the two countries host trend-setting CSR organisations like SustainAbility, AccountAbility, and the GRI secretariat which may contribute to increased CSR efforts in their business communities.

The positive scores of Spain, France and Japan, however, may surprise. Companies from these countries are not generally known to be very active in the global CSR community. Furthermore, the negative score of Germany, internationally known for front-running companies and policies in the environmental field, is puzzling. The rock bottom score of the United States is also somewhat unexpected, based on the hypothesis of explicit CSR, and the fact that CSR is regarded by many as a concept which originated in the United States. Thus a more detailed analysis, based on substantive knowledge about the indicators themselves, is warranted to investigate the index's validity.

## Varieties of CSR initiatives

The index is composed of nine diverse CSR initiatives which function as a proxy for CSR practices in a broad sense. Obviously, these nine initiatives cover a spectrum ranging from easy-access initiatives like the UN Global Compact, to the stringent screening of companies in the qualification for the sustainability stock indexes. This diversity is not necessarily unfortunate as the initiatives cater to different needs and to different stages of CSR development. However, if one wants to get a fuller picture of the reality behind the aggregate national scores, one must look deeper into the data material and try to identify some underlying dimensions.

Two relevant dimensions can be discerned in the initiatives: First, one can distinguish between *results-oriented* versus *process-oriented initiatives*. The results-oriented initiatives require documented CSR achievements, are often narrowly directed towards business, and consist only of companies. For example, the sustainability stock market indexes are typically results-oriented, focussing on demonstrable performance. Conversely, the process-oriented initiatives that focus on participation, continuous improvement, and learning processes. Often, these initiatives are multi-stakeholder based where NGOs, academia, governments or other social actors participate alongside companies. Typical examples include the UN Global Compact with its strong emphasis on multi-stakeholder cooperation and the WBCSD, which initiates learning processes based on active participation from the companies.

The second dimension concerns the initiatives' barriers to entry; *hard versus soft requirements*. Some have performance-based membership requirements; therefore, membership does to a certain extent vouch for CSR performance. Again, the stock indexes serve as a good example where, for instance, companies must be among the top 10% of companies in their respective sectors to qualify for DJSI listing. In contrast, initiatives such as the GC and GRI have *soft requirements* which focus on relative achievements. Such initiatives have no lower performance limits, indeed some are explicitly designed with low barriers to entry; they aim not to identify the best in class, but to inspire, motivate and educate.

The analytical value of these two dimensions appears when they are combined, as shown in Table 1: All indicators based on socially responsible investment evaluations (DJSI, FTSE4Good and the Global 100) can be categorised as *results oriented with hard requirements*. The same holds for SustainAbility's ranking of the 100 best sustainability reports, even though it ranks *reporting* performance, not CSR performance as such. To qualify for these four initiatives, companies must document their achievements, and approval depends upon external evaluations.

In the opposite corner of Table 1 are *process-oriented initiatives with soft requirements*. The UN Global Compact and the Global Reporting Initiative belong to this category of initiatives which typically focus on learning processes and continuous improvement. They explicitly have no barriers to entry; the only requirement is a willingness to learn and to participate. Thus, the purpose is not to single out the best-in-class companies, but to disseminate CSR. However, there are process-oriented initiatives with strict membership requirements, as exemplified by the WBCSD and ISO. Membership in the WBCSD is by invitation only, and requires rather extensive contributions and commitments, even from top management (Vormedal, 2005). In other words, to be invited to become a member, companies must demonstrate best-in-class performance, but the initiative itself is process oriented in terms of activities and working methods. Likewise, ISO 14000 is a demanding certification involving audits and third-party

**Table 1** Varieties of CSR initiatives, two-dimensional matrix.

| THE TWO DIMENSIONS OF CSR INITIATIVES | | |
|---|---|---|
| | **Hard requirements** | **Soft requirements** |
| **Results oriented** | DJSI<br>FTSE4Good<br>Global 100 Most Sustainable Companies<br>SustainAbility 100 best reports | KPMG Reporting Survey |
| **Process oriented** | WBCSD<br>ISO 14000 | Global Compact<br>GRI |

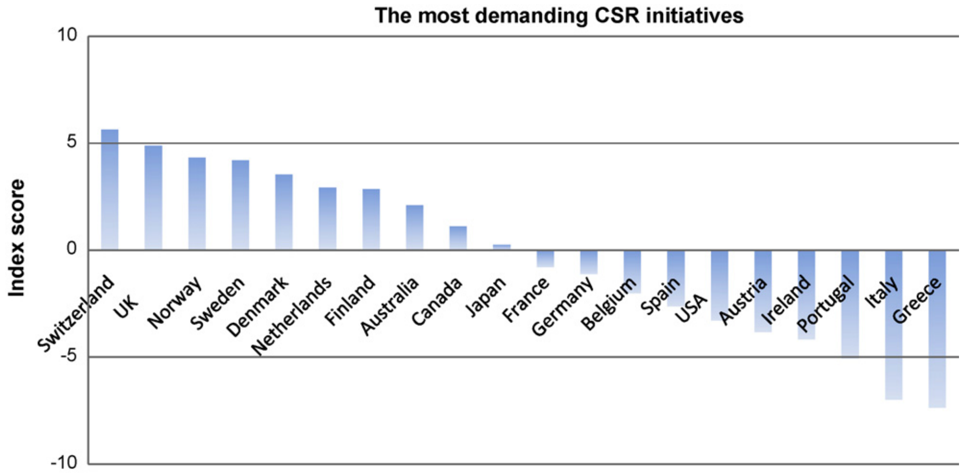


**Chart 2** Results-oriented initiatives with hard requirements: DJSI, FTSE4Good, Global 100 and SustainAbility.

verification, but the ISO certificate guarantees only that the company has certain management procedures in place. It does not vouch for any absolute achievements in terms of environmental performance. Conversely, the KPMG ranking is based on a company's having a CSR report, but does not set any requirements concerning the quality of its content.

## Behind the aggregates

As discussed above, the validity of a formative measurement model must be assessed by a nomological and criterion-related evaluation. In light of common and theoretical expectations the index produces a somewhat unexpected distribution of countries with positive and negative scores. This discrepancy encourages a closer inspection of the index's individual components. An interesting starting point is to explore the difference between indicators measuring some degree of CSR best-in-class performance, and the indicators merely measuring some kind of CSR activity.

As demonstrated above, the initiatives which most closely reflect actual CSR performance are the results-oriented initiatives with hard requirements, namely the DJSI, the FTSE4Good, the Global 100 and SustainAbility's 100 best sustainability reports. If we separately study these initiatives, the results clearly change from the original index score shown in Chart 1. As shown in Chart 2, the results of the index based on the most demanding indicators, clearly deviates from the original index. Switzerland is still the leading country, and all the Nordic countries are in the leading group, although with slightly lower scores. The UK, on the other hand, has made a substantial leap towards the top, perhaps indicating a preference in British companies for the more advanced, performance-based CSR initiatives that require demonstrable results.[15]

Japan barely achieves positive scores. But the most remarkable change is in France and Spain's scores, both positive in the original index. In the present ranking, France and particularly Spain attain substantially negative scores. This is because the process-oriented variables with soft requirements are excluded from this analysis. Both the Global Compact and the Global Reporting Initiative produce sharply deviating results for several countries, particularly Spain. If one looks at the scores for the least demanding indicators as shown in Chart 3, the dynamic is very clear: As shown in Chart 3, the country scores on the least demanding initiatives depart radically from the scores on the most demanding ones. The most remarkable result is for Spain, which has a distinctly negative score on the most demanding initiatives, but achieves the top score in the least demanding ones. Two other Mediterranean countries, France and Portugal, as well as Austria, which were all in the group of countries with negative scores on the most demanding initiatives, make it to the top six here. Japan, in the leading group in the main index, falls to the second lowest score of all 20 countries in these easy-access initiatives, while Austria, which had substantial negative scores on all other variables, scores in the leading group on the GRI.

If one looks at the membership in the Global Compact only, five of the top scorers in the most demanding initiatives actually receive negative scores on the Global Compact (UK, the Netherlands, Australia, Canada and Japan). Another case worth mentioning is the United States, where the legal context has made companies reluctant to join the Global Compact for fear of litigation.[16] Georg Kell, executive officer of the UN Global Compact, specifically points to the exceptionalism of US companies who tend to involve their legal departments before signing the 10 Global Compact principles (Gjølberg, 2003). Considering the controversy surrounding the Global Compact and its low barriers to entry, it is tempting to speculate on the reversed pattern which the Global Compact exhibits, compared to the pattern exhibited

[15] Arguably, this group of indicators favours countries with many companies listed on the stock market. One way to ensure an unbiased measure is to weigh the data on companies listed on the Dow Jones Sustainability Index and FTSE4Good against data on the total number of companies in the Dow Jones and FTSE global indexes. However, this information is not publicly available. Furthermore, the country scores on these two indicators are correlated (a Pearson coefficient of 0.56) but not so strongly correlated as to indicate a severe measurement problem.

[16] The Nike v. Kasky case in the US Supreme Court is an example of a US company's being sued over CSR campaigns; Kasky sued Nike for deceptive PR that portrayed Nike as a responsible company despite extensive human rights violations uncovered in Nike factories. Nike countered claiming "the right to commercial freedom of speech" but lost. The case ended in a settlement.

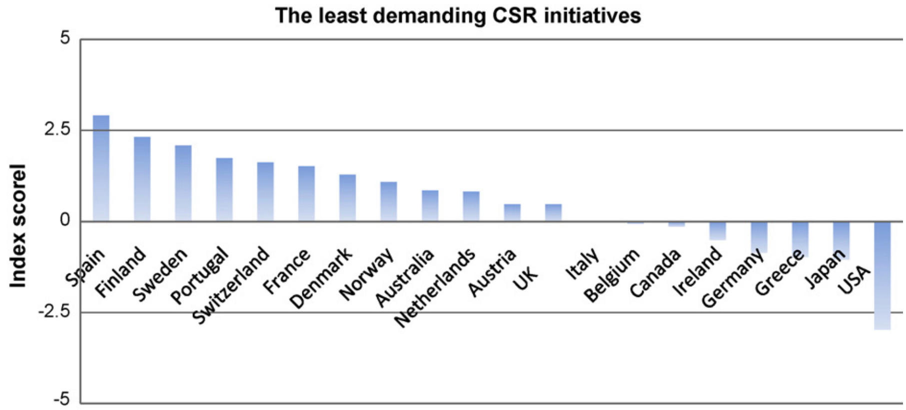


**Chart 3** Process-oriented initiatives with soft requirements: Global Compact and GRI.

by the stricter, performance-based indicators. Suffice to say that the Global Compact has never intended to be an initiative for only the best-in-class companies.

To conclude, if the two types of initiatives are studied separately, the easy-access initiatives result in country scores which are diametrically opposed to the scores on the demanding initiatives. This underlying bifurcation in the data material, which is masked when the indicators are aggregated, might account for the somewhat hybrid group of countries with positive scores in the initial CSR index in Chart 1.

## A revision of the index: from practices to performance

If the intention is for the index to reflect CSR *performance* rather than participation, the analysis above indicates a need to exclude the process-oriented initiatives with soft requirements. If one excludes these indicators (the UN Global Compact and the GRI) which are the least related to performance, and which produce outliers in both the leading and laggard groups, one is left with the distribution of countries in Chart 4.

This revised, performance-based index (Chart 4) shows a three-tiered structure with Switzerland and the Nordic countries clearly leading, followed by the UK and the Netherlands with intermediate scores, while Australia, and particularly Japan and Canada, have markedly lower, but still positive scores. These 10 leading countries all have consistent and robust scores across the different types of indicators.

In contrast to the initial version of the index, Spain and France are excluded from the group of leading nations in this performance-based index. Their positive scores on the initial index (Chart 1) were almost exclusively due to the extremely high representations of Spanish and French companies in the Global Compact and GRI. On all other indicators, both France and Spain have low or negative scores. This might be a sign that the Spanish and French business communities have taken an active interest in CSR, but so far not achieved results sufficient to qualify for the more demanding initiatives. It will therefore be interesting to follow developments of French and Spanish companies to see whether present efforts are translated into improved performance in the future.

In the laggard group, two countries are worth commenting on: the United States and Germany. The United States receives a low total score in both the original and revised indexes, and is firmly placed at the bottom of the Global Compact, GRI, ISO and KPMG indicators. However, a look at Chart 2 tells us that the United States has substantially better scores (although still negative) on the more demanding indicators, such as the DJSI, the FTSE4Good and the Global 100, suggesting that there are several American companies with top performance in CSR. The United States thus displays

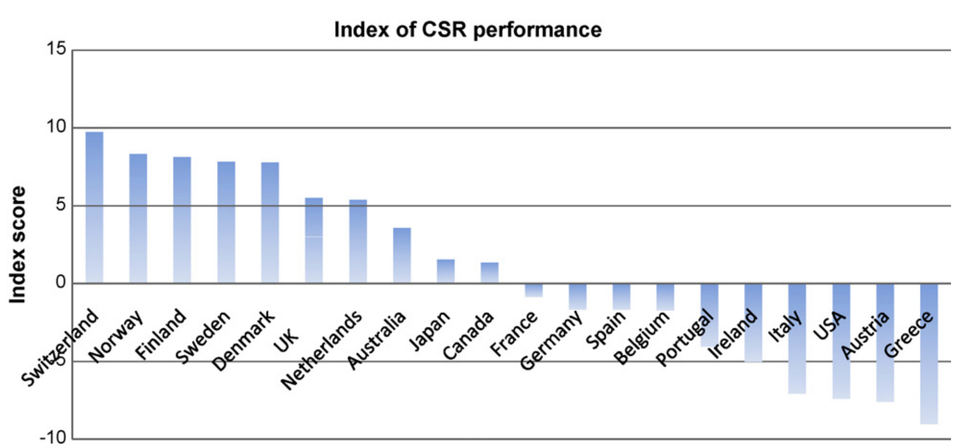


**Chart 4** Revised, performance-based CSR index.

the opposite pattern of Spain, France and Portugal, which all score better on the softer, process-oriented initiatives than on the harder, performance-based initiatives. Furthermore, the decision to not include philanthropy as part of the index probably puts American companies at a disadvantage.

Germany is widely recognised for its high environmental standards; therefore, its mediocre score on all indicators might come as a surprise. In fact, Germany has *negative* scores on all indicators. One possible explanation is the fact that Germany is a large economy of great regional importance, and therefore perhaps German companies are more domestically or regionally oriented. If so, their CSR efforts might be oriented towards national or regional initiatives not captured by this index.

The language barrier might also influence the index's validity as a measurement of CSR performance. All countries in the leading group, except Japan, are English speaking, multi-lingual (Switzerland) or proficient in English (The Netherlands and the Nordic countries), while the laggard group is dominated by German or Latin-speaking countries that are generally known to be less proficient in English. For instance, Spain scores well on the Global Compact, GRI and ISO, which happen to be the only initiatives with translations or homepage options in Spanish. Thus, language might act as a barrier to active participation in many of the initiatives included in the index.

With these limitations in mind, there is reason to believe that the original and the revised CSR indexes do reflect real cross-country differences of CSR practices and performance, and not just methodological biases related to the index construction itself. The findings indicate that a company's nationality does matter to its CSR practices. Therefore, to explain diverging CSR practices and performances across countries, one must look at structural, institutional and political-economic factors.

## Exploring a structural explanation of differences in CSR performance

Companies do not exist in a vacuum; they operate in an institutional environment which creates both barriers and opportunities. According to the literature on the varieties of capitalism and comparative political economy, companies tend to gravitate towards strategies that take advantage of the opportunities provided by their institutional environments:

> In short there are important respects in which strategy follows structure. For this reason, our approach predicts systematic differences in corporate strategy across nations and differences that parallel the overarching institutional structures of the political economy (Hall & Soskice, 2001, p. 15).

Even in the age of globalisation, national structures still constitute a crucial context which affects corporate strategy. Contemporary capitalist models continue to differ fundamentally in their conceptualisation of the roles and responsibilities of state, market and civil society (Manow, 2001; Whitley, 1998; Pauly & Reich, 1997; Esping-Andersen, 1996). Cooperation between employers and employees, the role of financial institutions, the extent of public regulation of corporate behaviour and the strength of civil society, vary between countries, and provide companies with comparative institutional advantages for specific types of activities. Consequently, one might expect national political, economic and social institutions to produce national differences in corporate decision making also in relation to CSR. If so, national institutional environments are highly relevant to understanding CSR.

Which political-economic structures create a comparative institutional advantage for CSR? A closer analysis of the political-economic characteristics of the countries which are over-represented on the revised, performance-based CSR index reveals an interesting, bifurcated pattern: In political-economic terms the group of CSR leaders consists of two country clusters (Gjølberg, 2007),[17] indicating the existence of two separate roads to CSR success.[18]

The first country cluster of CSR leaders comprises countries with comparatively strong globalised economies[19] and large proportions of TNCs,[20] namely the UK, Switzerland and the Netherlands. One possible mechanism linking TNCs to increased CSR efforts is the fact that these companies are more exposed to the spotlight of watchdogs from NGOs and the media (Bendell, 2000a, 2000b; Rodgers, 2000). The anti-globalisation movement in particular has targeted these companies directly with violent attacks as well as with more subtle and elegant reversed marketing campaigns such as Adbusters' distorted versions of global brand images. Furthermore, NGOs and the media have the power to negatively affect corporate reputation and brand value, to make access to capital more difficult, and to worsen employee and public relations (SustainAbility & UNEP, 2001). This ability to affect corporate reputation puts a price tag on irresponsible behaviour; it gives NGOs, the media and other stakeholders leverage vis-à-vis the companies. At the same time, it also provides business leaders with justification for engaging in CSR from a purely shareholder perspective. Thus, the risk of being named and shamed is a fundamental component of the business case for CSR, and may therefore induce these companies to prioritise CSR into their risk management on purely utility maximising terms. The strongly globalised and transnationalised economies of the UK, Netherlands and Switzerland have a larger proportion of such vulnerable companies than do the economies of the other countries in the analysis. Consequently these three countries have a larger proportion of companies with a particularly strong business case for CSR. This might explain their aggregate national over-representation on the CSR index.

However, not all the countries with high scores on the CSR index have a large proportion of TNCs or many globally oriented companies, particularly the Nordic countries. Consequently, the dynamic referred to above appears less relevant in explaining their high CSR scores; therefore, a different explanation for this country cluster is warranted. These countries have several political-economic features in

[17] This analysis is based on a "fuzzy set qualitative comparative analysis" (Ragin, 2000) of the set theoretic relationship between CSR score and political-economic factors. Please see Gjølberg (2007) for a complete account of the fs/QCA analysis.

[18] Australia, Canada and Japan will not be the focus of analysis due to their low scores on the revised CSR index.

[19] Measured as the size of outward foreign direct investments.

[20] Measured as the number of companies listed on the Forbes 2000 and the Fortune Global 500 lists, relative to GDP.

common. The Nordic countries all have strong consensualist and corporatist traditions[21] (OECD, 2005; Siaroff, 1999), more extensive social and environmental public policies (ESI, 2005; Ferrera, 1998) and strong political cultures in terms of post-materialist, rationalist, participatory values (Inglehart, 2003).

This strong social embedding of corporate behaviour presents Nordic companies with a particular set of expectations as well as resources possibly producing a different dynamic concerning CSR performance. These countries are characterised by close, cooperative and consensual relations between state, business and labour, as well as a long-standing tradition for involving civil society in policy making. The result is a carefully crafted system of roles and responsibilities, duties and rights, in which all parties have vested interests. This consensual interaction has evolved over decades and has fostered a business culture for balancing business interests and societal interests in a more long-term perspective, as well as a management style based on consensus building and participation (Grenness, 2003). This consensual interaction moreover might facilitate a greater awareness of and capacity for including stakeholder relationships in corporate strategy, as well as greater competency for working strategically with social and environmental issues due to the strict regulations in these areas. While these traditions rest on political, economic and social institutions long preceding the CSR debate, this cultural and institutional inheritance can, when CSR enters the agenda, be converted into a comparative advantage for CSR performance. This dynamic contrasts sharply from the adversarial naming and shaming dynamic described above.[22]

Using Matten and Moon (2008) terms, one could argue that the UK-Dutch-Swiss cluster represents an explicit dynamic, while the Nordic cluster represents an implicit dynamic. The prevalence of TNCs in the Dutch, UK and Swiss economies implies a larger share of companies susceptible to naming and shaming tactics. Hence companies in this cluster have a stronger need to be perceived as responsible, making it necessary to be explicit about their social and environmental efforts. In contrast, companies in the Nordic cluster conform to Matten and Moon's description of being embedded in an institutional environment with a strong regulatory framework, creating a more implicit style of CSR. Consequently, either a need to be explicit about CSR efforts, or an institutional environment fostering strong implicit CSR competencies might translate into CSR success at the aggregate, national level. However, the index measures only explicit efforts in CSR, i.e. the companies must take active steps to be included in any of the nine indicators. Thus the high score of the Nordic countries and the low score of the United States appear to contradict Matten and Moon's argument. One possible explanation, consistent with Matten and Moon's framework, is that the strong Nordic traditions for implicit CSR constitute a comparative, institutional advantage also in explicit CSR. Simply as a function of having to adhere to stricter regulations and stronger social embedding, companies from these economies will by default qualify more easily for the CSR initiatives in the index. In other words, the institutional environments of the strongly embedded economies force the average company to have a higher baseline in CSR-related areas both qualitatively and quantitatively, an issue not discussed by Matten and Moon (2008). Thus, provided that Nordic companies are able to convert their implicit CSR traditions into more explicit CSR strategies as demand for CSR increases worldwide, they are arguably ideally situated for CSR success.

This analysis indicates the value of a more structurally and contextually informed analysis of CSR. It points to the fact that while the CSR concept is global in nature, national social, political and economic institutions play important roles in shaping practices and performance. Thus, more contextually informed studies are needed to complement the macro picture provided by the index and to identify the exact mechanisms and processes linking CSR practices to political-economic institutions.[23]

## Conclusion

This article's title points to the challenges related to measuring and quantifying CSR practice and performance. CSR is, due to the definitional disagreements in academia and the wide variety of practices labelled 'CSR' in the corporate world, an elusive concept which to a certain extent defies quantification.

However, as Blowfield (2005) emphasizes, there is a pressing need to move the CSR discipline forward by linking it to a more structurally informed framework of analysis. The aim of this article was to contribute to this end by developing an index comparing national CSR practices, and to explore the possibility of developing an index which reflects CSR performance more closely. Notwithstanding the methodological limitations, there is reason to believe that both indexes do capture important aspects of current CSR practice and performance, respectively, in the 20 countries. While language barriers, domestic industrial structures and legal frameworks might bias the results, the indexes are nevertheless constructed on the basis of leading, global CSR initiatives and ratings which set the tone for present and future CSR developments.

The indexes reveal striking differences between countries in terms of the relative proportion of CSR-active companies they host. In line with arguments put forward by the literature on comparative political economy and on the varieties of capitalism, this article argues that based on its nationality, a company is faced with a certain set of barriers and opportunities in its environments. Differences in institutional framework may in turn translate into differences in comparative institutional advantages, thereby leading to the observed aggregate differences in the CSR performance of the 20 countries. Consequently, the indexes pave the way for drawing on the rich, established literature in comparative political economy, as illustrated by the explorative analysis in the preceding section.

[21] Measured as union density (OECD, 2005) and corporatist integration (Siaroff, 1999).

[22] Certainly there is no absolute division between the two groups of countries — both The Netherlands and Switzerland have elements of consensualist traditions, and Sweden has a quite large share of outgoing FDI and transnational companies. Thus, their placement in their respective groups is based on their overall characteristics; see Gjølberg (2007) for a more detailed discussion.

[23] Please see Gjølberg (2007) for a preliminary, but more thorough analysis of the explanations discussed in this section.

National differences in CSR practice and performance can easily be interpreted as differences in ethics. However, one cannot a priori assume that corporate decision makers in some countries have higher moral standards than their counterparts elsewhere. Quite the contrary, this analysis of the top scoring countries on the performance-based index indicates that their CSR success is determined by non-ethical factors, such as susceptibility to naming and shaming, and the degree to which business is socially embedded in society. To conclude, CSR practice and performance are apparently determined by more than ethics; indeed, some political-economic systems seem more conducive to CSR than others.

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## Appendix A. Base numbers for calculation of the CSR index. Data as of February 2007

| Country | GDP | GDP prop | FTSE | DJSI | Global 100 | WBCSD | GC | GRI | KPMG | Sustain Ability | ISO |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | 643066 | 0.02151 | 26 | 18 | 2 | 6 | 18 | 127 | 25 | 3.5 | 1778 |
| Austria | 276409 | 0.009246 | 3 | 0.1 | 1 | 0.1 | 9 | 32 | NA | 1 | 481 |
| Belgium | 337110 | 0.011276 | 8 | 1 | 1 | 1 | 13 | 19 | 17 | 0.5 | 659 |
| Canada | 1061236 | 0.035498 | 24 | 11 | 5 | 5 | 27 | 83 | 42 | 7 | 1636 |
| Denmark | 182717 | 0.006112 | 6 | 5 | 3 | 4 | 31 | 9 | 29 | 1 | 837 |
| Finland | 163882 | 0.005482 | 5 | 3 | 2 | 5 | 10 | 64 | 42 | 1 | 923 |
| France | 1829559 | 0.061197 | 39 | 19 | 2 | 9 | 381 | 93 | 43 | 8 | 3289 |
| Germany | 2417537 | 0.080865 | 31 | 20 | 6 | 11 | 82 | 69 | 37 | 7 | 4440 |
| Greece | 261600 | 0.00875 | 7 | 0.1 | 0.1 | 1 | 6 | 10 | 3 | 0.1 | 254 |
| Ireland | 169931 | 0.005684 | 3 | 1 | 0.1 | 1 | 5 | 8 | NA | 0.1 | 282 |
| Italy | 1667753 | 0.055785 | 14 | 6 | 0.1 | 4 | 95 | 67 | 33 | 2 | 7080 |
| Japan | 3943754 | 0.131915 | 190 | 39 | 10 | 27 | 49 | 256 | 80 | 10 | 23466 |
| Netherlands | 537675 | 0.017985 | 13 | 14 | 4 | 10 | 18 | 85 | 38 | 5 | 1107 |
| Norway | 185656 | 0.00621 | 7 | 5 | 2 | 8 | 15 | 16 | 22 | 3 | 452 |
| Portugal | 212446 | 0.007106 | 3 | 0.1 | 0.1 | 4 | 23 | 26 | NA | 1 | 504 |
| Spain | 1133539 | 0.037916 | 10 | 14 | 2 | 3 | 261 | 210 | 32 | 1 | 8620 |
| Sweden | 280305 | 0.009376 | 24 | 5 | 8 | 2 | 35 | 42 | 26 | 1 | 3682 |
| Switzerland | 255625 | 0.00855 | 18 | 13 | 4 | 9 | 26 | 30 | NA | 3 | 1561 |
| UK | 1926809 | 0.06445 | 107 | 66 | 30 | 7 | 74 | 188 | 71 | 20.5 | 6055 |
| USA | 12409465 | 0.415087 | 177 | 58 | 17 | 38 | 91 | 201 | 36 | 12 | 5061 |
| Total | 29896074 | 1 | 715 | 298.3 | 99.4 | 155.1 | 1269 | 1635 | 540 | 87.7 | 72167 |

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