Commentary

Advantages and Disadvantages of Using the Brown and Perry Database

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The lead article in this research forum represents an important step in the development of corporate social responsibility measures. By attempting to remove the financial performance halo that lies within the *Fortune* rankings, Brown and Perry have given researchers in our field an interesting new data source that has potential applicability to a number of basic research questions. A variety of measurement approaches already exist, so it is appropriate to ask what this new database has to offer to the field. My comments will focus on the advantages and disadvantages of using the Brown and Perry database, as well as a brief list of alternative databases that can be used to assess corporate social performance.

From my own research, I am aware that the best and worst firms are easily identified. The firms in that nebulous region between the most admired and the least admired present a formidable challenge in the *Fortune* survey. I have often wondered about the firms that are "stuck in the middle" of the social performance rankings, to borrow a phrase from Michael Porter. Management in some of these companies must wish that they could improve their firms' reputations as social performers, if only to boost goodwill, revenue, and profits. There are a variety of other reasons to improve a company's reputation; chief executives such as William Norris and Arnold Hiatt believed that corporations must respond to a broad range of stakeholders. The fates of Control Data and Stride-Rite are not generalizable to all managerial practice, but it is apparent that the managers who succeeded Morris and Hiatt feel less obligated to focus on the noneconomic aspects of corporate reputation.

Fate stepped in as I was writing this commentary, although some may argue that the appearance of the 1995 *Fortune* "Corporate Reputation" rankings in my mailbox was more a result of good timing than anything else. As I read through the *Fortune* article, I came across a curious sidebar devoted to academic studies of the *Fortune* data. The author states that the survey is highly subjective, and should not be interpreted as anything else (Fortune, 1995). Indeed, the *Fortune* survey was created to enhance the magazine's reputation. Those companies that have ranked at or near the top of this list have seized on the rankings as a tool to promote their image and boost employee morale. It is a grave error to assume that *Fortune* ever intended to advance the science of management or the field of business and society. Of course, this does not automatically prevent researchers from attempting to refine the *Fortune* data as Brown and Perry have done. The *Fortune* data and the resulting database are not the best that one could hope for, but they are not so fatally flawed that they cannot be used by researchers.

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What Are We Measuring?

We should first consider the vague way that *Fortune* defines the corporate social responsibility in its rankings. *Fortune* cites two particular areas in which companies should exercise social responsibility: the community and the environment. This is really an amalgam of at least two separate areas of social performance. Brown and Perry defend their use of this measure by claiming that the vagueness of its definition gives respondents the ability to evaluate their own company on the basis of the important issues in the community or the environment. They also suggest that the subjectivity of the rating process is a strength of the *Fortune* data, when in reality this subjectivity is one of the great weaknesses of the database. From the descriptions, I believe there are few, if any, controls in *Fortune*'s data collection and analysis process to handle the potential for bias within the sample. Letting the subject express his or her own concept of what a criterion means is an acceptable research technique, but the researcher must also attempt to gain some understanding of what the subject believes those meanings are. A variety of research techniques exist for doing this, including grounded theory development, political subjectivity, and ethnography. Without this understanding, we cannot use the results effectively. It is important that any researchers who use this database develop a clear, unambiguous, and robust definition of the criterion that Brown and Perry have refined and presented in this forum.

As we move toward the millennium, our definition of community is being tested. "Responsibility to the community" at its most minimal level might include following the legal and cultural codes of conduct within a region of social or physical space. We can easily extend this definition to include discretionary or philanthropic acts by company management.

I use Carroll's (1979) language to describe the differences in these levels of corporate social responsibility because it is helpful to make a clear distinction between what the company must do (make a profit and follow the community's laws) and what it ought to do (make additional and significant contributions to the community in ways that enhance the standing of secondary as well as primary stakeholder groups).

Managers no longer have the luxury of limiting their view of the community to the physical world. The biosphere, the neighborhoods around the factories and the areas where goods and services are sold are all important. Community exists on a level beyond the physical. One could call the Internet a virtual community where users create their own environment through the exchange of messages and data. When the *Fortune* rankings began, this kind of community was considered science fiction (Gibson, 1984). The "not in my backyard" movement, which has presented strong opposition to landfills and facilities, extends into cyberspace, as users flame or post complaints that their E-mail accounts or Usenet newsgroups are cluttered with unsolicited advertising. Those who remember Lady Bird Johnson might appreciate the irony of the virtual community calling for information superhighway beautification while still creating 4 pounds of garbage per person per day.

Stead and Stead (1992), Buchholz (1993), Shrivastava (1992), and Starik (1993a) have argued that the term *environment* has been used in a broad way by management researchers. We cannot assume that the editors of *Fortune*, the respondents of this survey, and other researchers who use this data set agree on what this term represents. Are we indeed measuring the firm's performance relative to the natural environment? Is the natural environment limited to local land and water resources, or does it extend to the atmosphere and the oceans? As I have suggested, it would be interesting to follow the *Fortune* respondents as they rated for the 10 companies within their own industry.

Other Databases

There are other databases available that try to fulfill a similar role as the Brown and Perry database. Social-investment research firms are a valuable source of reputation and performance data, and one well-known example is the KLD database, prepared by Kinder, Lydenberg, Domini, & Company, that has been used in a number of studies (Graves and Waddock, 1994; Sharfman, 1993; Starik, 1993b). The KLD database is far more specific than the *Fortune* rankings, incorporating measurements along a number of widely used social-investment criteria. Sharfman (1993) performed a content validity analysis of the *Fortune* and KLD ratings and socially screened mutual fund portfolios, and noted that the *Fortune* and KLD ratings seemed to tap different areas of corporate social performance. Some of the correlations implied that the *Fortune* raters might not be considering certain social criteria that are included in the KLD ratings, such as weapons contracting, nuclear power, and involvement in South Africa. (The South Africa criterion is now a moot point given the changes in that country's political structure.) If that is indeed the case, then it appears that the *Fortune* raters are taking a narrower view of corporate social responsibility and reputation than Brown and Perry have assumed. This finding lends support to Brown and Perry's assertion that their criterion is an acceptable measure of at least a portion of corporate social responsibility.

The database presented in this research forum has some advantages over the KLD data, however. KLD, and for that matter most social-investment research firms, uses a scale with very limited range and variability in comparison with the *Fortune* rankings. It is difficult to do much more than screen companies using social investment research databases; one cannot and should not try to determine why or how good corporate social performance in one area affects economic performance or how a company's reputation improves and worsens on the basis of this database alone. Then again that is also difficult to do with the *Fortune* data and the Brown and Perry database.

The *Fortune* rankings are also limited by their focus on companies based in the United States. *The Economist* publishes its own rankings of firms based in the United Kingdom, using a methodology similar to that used by *Fortune*. The relevant category in *The Economist* rankings is the category titled "community and environmental responsibility" (Ryan, 1993). As one might expect, *The Economist* employs a completely different sample composed of U.K. managers and financial analysts. One should also expect the same problems inherent in the *Fortune* data to appear in the *The Economist* data.

An additional problem with the Brown and Perry database is the number of firms that are included. The information covers 239 companies. The KLD database includes information about 63 rating criteria across 10 areas of social performance for more than 800 companies, although this is only current information and does not attempt to cover the passage of time. Other social investment resources available from the Investor Responsibility Research Center, the Interfaith Council on Corporate Responsibility, and the Council on Economic Priorities also provide current social investment research of companies based in the United States.

The authors' assertion that the database can be used for longitudinal studies is not quite correct, because the full 10-year span of data is provided for only 75 companies. Further, the regression method used to prepare the data did not account for industry effects and was not a good choice for producing time-series data. It may not be possible to develop any kind of time-series data on corporate social responsibility, at least in the way that the *Fortune* rankings are developed, simply because of the problems in defining the criterion.

The authors provide a few basic suggestions for using their database, but additional work needs to be done to assess the validity of these data and to interpret the meaning of the residuals themselves. When these tasks are done and the important questions answered, I believe that the database presented here will emerge as one of several useful tools that are becoming available to researchers in our field. One possible use for the Brown and Perry database would be as a broad-based screen for social performance to be used in combination with more specific data obtained through other sources. The recent study of CEO stakeholder attitudes by Lerner and Fryxell (1994) is one example of the kind of study where the Brown and Perry data might be used as a control variable representing the reputation of the responding firms.

The database presented in this forum is an excellent step toward the development of useful measures of corporate social performance. I hope that the authors or other researchers take the time and effort to update this database as additional *Fortune* surveys are completed. For now, though, this database should be used with caution. Any studies done with this new database should be interpreted in a conservative manner until research studies are concluded that provide some additional confidence about the validity and meaning of these data.

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