SIXTH FRAMEWORK PROGRAMME

PRIORITY 7

'Citizens and Governance in a Knowledge Based Society'

Understanding and Responding to Societal Demands on Corporate Responsibility (RESPONSE)

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Final Report

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The study

In its communication of March 2006[1] the European Commission established the objective of building a stronger partnership between business and society. The success of this alliance, just like any partnership, depends on the partners' understandings of the common objectives to be achieved and of each partners' specific interests and goals. Alignment of thinking on the respective interests as well as on the joint ambitions is expected to be essential to progress towards effective mutual support between business corporations and their societal counterparts, for the betterment of both.

The RESPONSE project has been created and funded by the EU Commission's D.G. Research to develop knowledge and understanding on the degree of alignment between companies and their stakeholders about what corporate social responsibility consists of within their specific context (herethereafter referred to as "*cognitive alignment*"). In addition, the study seeks to assess the implications of the degree of alignment for the perceptions of social performance created by corporate behaviour, and to identify the internal and external factors that might influence the variation in the degree of cognitive alignment across business corporations. Finally, the RESPONSE project aims to study CSR at the level of the individual manager's behaviour, and to assess the relative effectiveness of diverse training interventions on the development of social consciousness in managers. The individuals' understanding and sensitivity towards the social implications of their decisions and actions is deemed in fact to be crucial to enhancing the capacity of business organisations to respond to and bridge the "*cognitive gaps*" that separate them from their stakeholders and from society at large.

This 3-year research project was conducted by a multi-disciplinary team of academic researchers from a consortium of leading business schools in Europe (INSEAD, France; Copenhagen Business School, Denmark; Universita' Commerciale Luigi Bocconi, Italy; Leon Kozminski Academy, Poland) and a training consultancy (Impact, Austria). In addition, the RESPONSE team was fortunate to be able to draw on the wisdom and knowledge shared by the members of the Academic Advisory Board, which includes some of the leading thinkers on the relationship between business and society. Finally, the project has benefited from the continuous support of, and engagement with, the European Academy of Business In Society (EABIS) and its corporate founding partners, in an innovative form of partnership between academic scholars and thoughtful practitioners.

The evidence base accumulated during the study consists of 427 interviews related to 19 companies in 8 sectors, selected through a matched pair/triad design aimed at maximizing the similarity in product, geography, size and financial performance, while maximizing the difference in social performance across companies within each pair/triad. For each company, a complex research protocol was executed, including a one day in-depth "fact finding" mission, around 11 interviews with senior executives and CSR managers, and 12 representatives of stakeholder organizations[2]. With respect to the individual level of analysis, four randomized controlled experiments were conducted with the collaboration of four multinational companies, involving 93 managers based in 15 locations worldwide, with the pre- and post-training assessment conducted via a web-based questionnaire[3]. Overall, the study has therefore leveraged the collaboration of over 300 managers in 20 multinational companies as well as representatives of 180 stakeholder organizations.

Key Findings

The key findings from the analysis of the collected data can be summarised as follows[4]:

1. The analysis reported in Chapter 4 shows that there is a wide gap between managers' and stakeholders' understanding of what constitutes the company's social responsibilities. In particular, managers seem to be tied to a fairly conservative view of corporate responsibility

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[1] Communication from the Commission to the European Parliament, the Council, and the European Economic and Social Committee, March 22, 2006. COM(2006) 136.

[2] See Chapter 3 for a detailed description of the research design

[3] See Chapter 8 for a detailed description of the design of the four experiments)

[4] See Chapter 10 for a more detailed elaboration

characterised primarily by refraining from negative impacts ("do no harm"), rather than a pro-active attempt to have a positive impact on society ("do good"). Moreover, managers exhibit a relatively narrow consciousness of their company's responsibility defined by the legal and moral boundaries while stakeholders have a broader notion of an expanded enterprise including and integrating the interests of wider stakeholders and society as a whole.

2. Chapter 4 also shows evidence in support to our hypothesis related to the link between cognitive alignment and the perceptions of social performance. The size of the gap (the lack of alignment) is indeed associated with lower social performance.
3. Chapter 5, then, reports evidence related to the influence of external factors on the degree of cognitive alignment, which includes the following results:
    - Industry dynamism: more dynamic industries (e.g. high-tech) are associated with better alignment
    - Regional dynamism: more dynamic regions (e.g. Anglo-saxon countries) are associated with better alignment
    - Pressure from external actors: the larger the pressure, the higher the alignment
4. In Chapter 6, the key internal factors influencing the degree of alignment are analysed and the results reported. In particular, we find the following dimensions to distinguish the companies with higher cognitive alignment from the others:
    - Business strategy: firms adopting a differentiation strategy is associated with higher alignment, compared to firms choosing to compete with a cost-minimization strategy
    - CSR initiatives: firms prioritizing internal change initiatives (adapting incentives, resource allocation, operating processes, etc.) to external stakeholder engagement processes show higher cognitive alignment
    - Motivation: firms motivated by an innovation-driven business case show higher alignment compared to firms motivate by organizational values or other types of business case arguments (risk reduction, cost efficiency, sales or margin growth)
5. Part 2 of this report focuses on one important way to bridge the gap between managers' and stakeholders' understanding and behaviour: training/coaching programs. The results of the first field experiments on CSR training effectiveness ever attempted, reported in Ch. 9, show that:
    - The standard executive education approach based on engaged discussions and case analyses fails to facilitate managers to shift towards higher probabilities to make socially responsible decisions.
    - On the other hand, coaching programs based on introspection and meditation techniques, without any discussion about CSR topics, exhibit a significant impact on both the probability to act in a socially responsible way and on the factors that influence the probability to behave that way
    - Even a second "non-orthodox" training intervention, based on "hatha yoga" techniques (postures, relaxation, etc.), produces a positive impact on socially responsible behaviour and on some of its psychological antecedents, however generally not as strong and diffused as the meditation-based coaching program.

Recommendations

The recommendations for all the various audiences to which the RESPONSE project speaks are presented in Chapter 11. The most important of them are briefly reported below.

For business leaders

Faced with significant growing expectations from society on their role in the development and (possibly) the solution of social and environmental issues, companies have so far primarily responded by developing external engagement practices to better understand and manage the risks and the opportunities associated with their social contract. However, the findings of the RESPONSE project indicate that significant gaps exist between managers and their stakeholders in their respective understanding of the role and responsibilities for environmental and social issues, primarily driven by internal strategic positioning and resource allocation choices. The data also shows a clear link between the magnitude of the gaps and the perception of social performance that the company is associated with.

To address these gaps and enhance social performance, corporate executives and CSR managers need to redress the balance between external engagement and internal change initiatives in favour of the latter. This includes building a platform of both sensing and change capacities at the organisational and the individual levels through innovative and effective learning processes.

Therefore, to drive social performance, executives and managers are advised to focus their attention on the following points:

1. Recognize the existence, the importance and the consequences of the gap in understanding the nature of their company's social responsibility.
2. Shift the focus of CSR activities from external engagement processes towards internal change initiatives aimed at adapting strategic and operating routines, developing change capabilities and enhancing managerial sensitivities to the social and environmental implications of their decisions and actions.
3. HR managers might consider re-designing internal and external training programs to move beyond awareness building and towards the development of social consciousness in managers and employees.
4. CSR managers could strengthen their (hitherto peripheral) role within the company's power structure by forging an innovative type of partnership with external stakeholders aimed at identifying and supporting the internal change processes that are required for a successful integration of corporate responsibility principles in the operating activities and strategic decision-making processes. This is a significant departure from the current framing of the stakeholders' engagement process as a dialogue exercise aimed, in the best case, at joint external initiatives.

For stakeholder representatives

The data analysed by the RESPONSE team also has specific implications for several categories of stakeholders, as they deal in their own domain with business managers.

1. Social Rating Agencies (SRAs) could reflect on the results of this project to re-design their methodologies for the assessment of corporate social performance. Much more attention should be devoted to the evaluation of internal change processes, and the reliance on corporate communication and non-validated web-based information correspondingly reduced.
2. Social pressure groups (NGOs) might also reflect on the need to invest in their knowledge and understanding of the internal operations and change processes in the companies they are dealing with. On the other hand, the data shows that their increasing scepticism towards corporations offering collaboration in external engagement initiatives, rather than in deep internal change processes, is justified.
3. Other "inner circle" stakeholders (employees, customers, suppliers, financiers and communities) are encouraged by the findings of the project to strengthen their voice and role as actors of the internal operating processes within the corporations that they deal with, and to avoid the "wait and see", detached, attitude typical of transaction- rather than relationship-oriented processes.

For management education institutions

The experimental components of the RESPONSE project point to the need to reconsider the approach taken in dealing with the core issue of developing managerial skills and sensitivities related to the impact of decisions and actions on the social context in which companies operate. Whereas the pedagogical designs currently implemented in business schools, corporate universities and executive training centers might suffice in raising managerial awareness of the multiplicity and complexity of the issues at stake, they might fall short of the objective to develop a deep consciousness of the social role and responsibilities that managers carry in their daily activities. The likelihood of seeing socially responsible behaviour (particularly of a pro-active, "do good", kind) emerge and becoming part of the fabric of the organisation depends on how effectively the evolution of personal values, emotional traits and decision-making processes is facilitated during internal and external managerial education efforts.

The evidence emerging from the RESPONSE learning experiments shows that a coaching approach based on the practice of deep introspection and meditation techniques, without any mention of CSR concepts or cases, can succeed in shifting psychological traits and personal values towards increasing levels of social consciousness, and therefore towards increasing likelihood of socially responsible behaviour to emerge spontaneously and diffuse throughout the organisation.

For future academic research

We believe that the findings of the RESPONSE project hold multiple implications of interest for future research on the relationship between business and society, from both a process and a content point of view. For what concerns the *content* of future research the key indications can be summarised as follows:

1. **CSR Cognition**. The results show for the first time how important cognition is in explaining the characteristics of the CSR process as well as the quality of its outcomes. Future research could build on these initial findings to further understand (a) how managerial and stakeholders' understanding about corporate responsibility can be measured and validated, (b) how it evolves over time, (c) how it shapes the way firms behave and (d) what outcomes it generates in terms of social and financial performance.
2. **CSR Integration**. The integration of CSR principles and processes within operating routines and strategic decision-making is another area in which the RESPONSE data suggests future research should study more in depth. How is that integration really happening within business organisations? What are the barriers and the enabling factors for its successful realisation? What are the outcomes to expect in terms of social and financial performance and what factors might influence the quality of the outcomes?
3. **The Individual Level.** RESPONSE has also highlighted in both theoretical and empirical terms the need to study CSR not only as an organisational process but as an individual behaviour. We trust future scholars will build on these initial insights to further our understanding of the factors explaining socially responsible behaviour in managers, as well as of the outcomes for the organisation and for society.
4. **Learning CSR**. The last area where we feel RESPONSE has broken new ground for future scholarship to advance is the assessment of learning processes at both the individual and organisational levels of analysis. Whereas the learning experiments have shown the feasibility and the importance of studying different approaches to the problem of developing social consciousness in managers, this study has not been able to evaluate with the desired precision the impact of knowledge development and diffusion processes at the organisational level. We trust future scholars will be willing and able to make new inroads on this crucial quest to explain how firms develop competencies specific to the management of their social responsibilities.

The implications of our experience for the design of future projects in this domain are, in our view, equally important:

1. **Matched-Pair Sampling**. We consider the matched-pair design implemented in RESPONSE to be one of the strengths of the study. Empirical research in the Business & Society domain has been characterized so far by the study of a small number of companies, typically selected in an ad-hoc way on the basis of prior relationships. We have tried to go beyond that limited design and have paid the price of a much more complex and uncertain recruitment process. The fact that we have been able to complete the study, in all its limitations, with a solid sampling method should be an encouraging sign for future scholars in this field of work.
2. **Experimental Design**. The other innovative design successfully implemented in this study is the use of randomised controlled trials to measure the effect of training interventions on the psychological profile and behaviour of managers. Conducting this rather intrusive design with practicing managers in their own normal working environment (i.e. outside of the standard

laboratory conditions) on a sensitive subject such as CSR and with some non-orthodox intervention techniques (such as meditation practices) gives comfort in the possibility of running cutting edge research and developing the highest quality of knowledge (comparable to that published in natural science journals) in this area of social science research.

3. **Research Co-Development with Businesses and Stakeholders**. One of the key factors for the successful implementation of both the matched pair sampling as well as the experimental designs lies in the presence of multiple established relationships and cooperative agreements that the research team has been able to leverage with corporations, especially the founding partners of the European Academy of Business In Society (EABIS), and with some of the key stakeholders (leading social rating agencies, NGOs, etc.). This new model of social science research, based on the active collaboration with the "subjects" of the research throughout all the phases of the process, from the initial formulation of the questions to pursue all the way to the dissemination of results, offers important indications, in our opinion, for future scholars in this area on how to maximize their chances of success in complex, and politically charged, fields of study (see below for some related recommendations for policy-making and research funding institutions).

For policy-makers

A few key implications for policy-making institutions stemming from the results of the analysis ought to be carefully considered:

1. **Internal Change Processes.** The definition of CSR introduced by the EU Commission's white paper in 2001 mentions both the integration of CSR in the operations and the stakeholder engagement processes as constitutive elements of the concept itself. The application in business firms has so far prioritised the stakeholder engagement component to the detriment of the integration objective[5]. An important indication for future policy development could be, therefore, to invite enterprises to apply the definition of CSR to the *full* extent of its meaning and significance, focusing on the internal change processes necessary to realise the integration objectives. This will also help the alignment between the rhetoric (strongly developed in external stakeholder engagement initiatives) with the reality of concrete change in business conduct.

2. **The Role of Business Strategy.** Given the importance of the company's choices on how to compete in product markets for the likelihood of alignment with stakeholder expectations, we propose to extend the definition of the concept of CSR to include the integration of CSR in the decision-making processes and outcomes (major resource allocations, pricing strategies, corporate growth initiatives, market entries and exits, etc.) that characterise and shape the way the company competes on the markets of choice. The definition of CSR could therefore be edited as follows:

   *"CSR is a concept whereby companies integrate social and environmental concerns **<u>in their strategic decision-making processes,</u>** in their business operations and in their interaction with their stakeholders on a voluntary basis"*

3. **A New Role for the Partnership between Business and Society**. The recent initiative by the EU Commission towards the establishment of a partnership between business and society to enhance the quality of their mutual understanding, of their multiple interactions and ultimately of both of their development and growth. Our suggestion is to articulate and focus the concrete outcomes of the partnership on the facilitation of a profound change process inside both business corporations and their societal counterparts. We indicate the elements and the key steps of the mutually supported change and adaptation program in the final part of Chapter 11.

4. **A New Way to Conduct Research on Business & Society.** Related to the previous point, RESPONSE has also demonstrated a new way in which academic research can be conducted in this field. The cooperation between corporations, global stakeholders and scholars through all the phases of the research has yielded important results, despite the increased coordination costs, particularly in terms of achieving a fruitful balance between academic rigor and managerial

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[5] See to this end the results of the RARE project, funded by the EU Commission in the context of the 6th Framework Program

relevance. We see this as the foundation of a new model for conducting academic research in this area, and suggest policy-makers and research funding agencies to take this experience into account as they search for ways to enhance the quality of future research endeavours. The existence and pursuit of a stable relationship and commitment to cooperation between research centres, business corporations and key stakeholders might be viewed as a necessary condition, and recognised as such, for the development of research plans that can aspire to real breakthrough results with both academic as well as managerial audiences.

1 Introduction

1.1 This report

The RESPONSE project is a three-year study into the alignment of society's expectations with managers' understandings of their companies' responsibilities towards society. It therefore examines the practices of Corporate Social Responsibility (CSR), as defined by the European Commission in its July 2001 Green Paper, July 2002 Communication (the so-called 'White Paper'), and its March 2006 Communication to the European Parliament:

> *"Corporate Social Responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is about enterprises deciding to go beyond minimum legal requirements… in order to address societal needs."*[6]

Mutual trust is essential if business and stakeholders are to form a strong and lasting alliance that can produce the expected outcomes of combined social cohesion and economic development set by the Lisbon Agenda. Trust, in turn, depends on the cultivation of common understandings between the parties and a commitment to work towards similar goals. The critical goal to mitigate climate change, for example, demands that all parties in an alliance of business and society are able to reach rapid agreement on priorities and consequent plan of action.

Differing cognitive perspectives on the part of managers and stakeholders delay coherent action and therefore threaten the success of the alliance between business and society at its foundation.

1.2 Understanding and developing 'cognitive alignment'

Taking a multi-disciplinary, multi-level approach, RESPONSE has examined in detail both the internal and external factors that affect the perspectives of managers and stakeholders. Internal factors include: firms' CSR-specific initiatives, their motivations to engage in those initiatives, and a firms' characteristics (their origin, strategy, structure, leadership, etc.) as well as the values and traits of individual managers. External factors include the influences of industry and regional contexts, the pressure of external constituencies, and the presence of generally accepted social norms. A range of stakeholders were interviewed, including international NGOs, local and industry-specific organisations such as the media and customer associations, and Social Ratings Agencies.

Whereas previous empirical research has focused on the role of firm motivation - for example the implications of the 'business case' and 'values case' in driving CSR strategy - RESPONSE sees *cognitive alignment* between managers and stakeholders as an important determinant of outcomes. Only when all parties frame their thinking about society's problems in similar ways can a mechanism for cooperation develop. A model that encompasses both factors – cognition *and* motivation - is therefore necessary.

By quantifying the extent of cognitive alignment in different contexts this study is able to expose patterns in their causes and impacts. The most persistent of these are then extrapolated to form the basis of recommendations for enhancement of the relationship between business and society. Additionally, the results of an experimental study suggest how firms and educational institutions can enhance their approaches to CSR training programmes to cultivate in managers the values and the psychological traits that underpin socially responsible behaviour.

Specific recommendations are provided for business managers, stakeholder representatives and policy makers working to bring business and society closer together and to foster a climate of collaboration. The outcomes thus inform the work of the European Commission to make Europe a "pole of excellence" on CSR. In addition, the multi-disciplinary approach of RESPONSE supports the principles of the European Research Area in challenging traditional silos of research.

In summary, this research supports the view that the goals of growth, inclusion and sustainability are not mutually exclusive, but mutually reinforcing. It is therefore in line with the Lisbon Agenda to create

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[6] Communication from the Commission to the European Parliament, the Council, and the European Economic and Social Committee, March 22, 2006. COM(2006) 136.

"the most competitive and dynamic, knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion."

1.3 Aims of this study

The first objective addresses the well-known problem related to the definition of Corporate Social Responsibility (CSR). The theoretical argument is that there is a fundamental problem associated with the cognitive interpretation of societal demands on the part of business organisations and their leaders. This belief enables us to go beyond the current state of affairs that tends to focus on the variation related to the institutional environment, the industrial sector and the historical development of the corporation. Companies might have a hard time making a correct representation of what is being asked of them, partly because of the large number of different, and sometimes inconsistent, signals they receive from different stakeholders, but also partly because of the limited attention they pay in teasing out the issues.

In order to study this problem, the first goal of the project was to assess at a fundamental level what large corporations understand as their duties towards society in the different cultural contexts in which they operate. To this end we surveyed how they actually define their social responsibilities, and (most importantly) to what degree their definition differs from that offered by their societal counterparts. The measurement of societal counterparts' assessment of the companies' responsibilities and of the degree to which they are aligned is a core component of this part of the study.

SMART Objective 1 (Chapter 5): Understand how large corporations define their social responsibilities, and to what degree their definition differs from that offered by their stakeholders. Study particularly the impact of regional and industry contexts on the type and magnitude of these discrepancies (thereafter referred to as 'cognitive gaps', or in the positive sense as 'cognitive alignment').

Since the initial proposal, RESPONSE has addressed an additional objective, related to the above, that seeks to assess the impact of these discrepancies on the perceptions of the firm's social performance:

- **Objective 1b:** (Section 5.4) Assess the impact of cognitive alignment on the perception of the firm's social performance.

Also, the impact of regional and industry contexts are considered part of the external factors that are addressed in SMART Objective 2.

In the second step we study how external factors affect the cognitive alignment.

SMART Objective 2 (Chapter 6): Understand how external factors such as the firm's institutional environment, the strength and influence of advocacy groups and type of industry affect the perceived social risk to its normative legitimacy.

Subsequent to the initial proposal, we have developed a framework that calls for a broader assessment of external factors and a definition of the objective of the analysis focused on cognitive alignment; this is in line with the other research objectives and the overarching goal of the work. Hence, we aim to understand how external factors such as the firm's institutional environment (the strength and influence of advocacy groups and the overall industry regional context) influence the cognitive alignment between managers and stakeholders on the content of CSR.

Our third objective assesses how factors internal to the firm influence the cognitive alignment of its executives and stakeholders.

SMART Objective 3 (Chapter 7): Understand how a firm's management of knowledge – including stakeholder-engagement and learning processes, and the role of CSR departments - influences its ability to interpret and respond to society's demands.

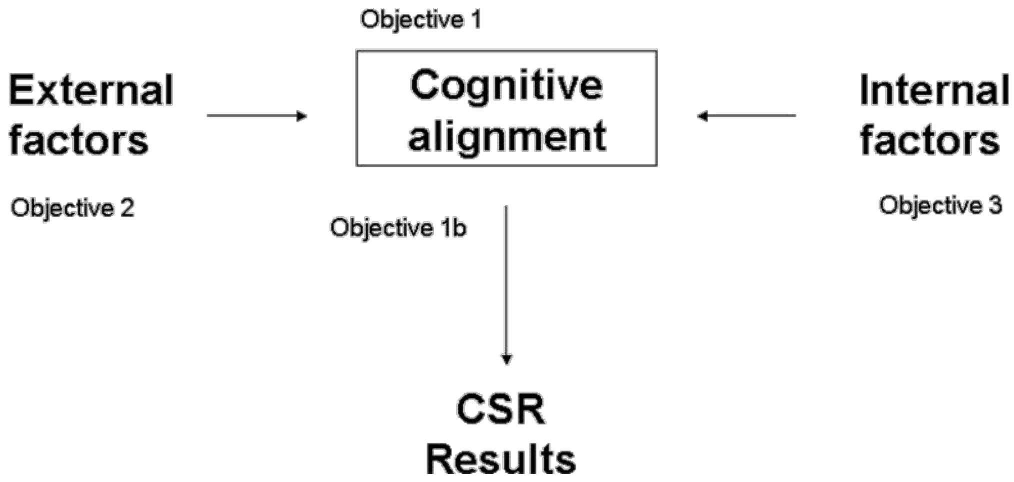
Since the initial proposal, we have broadened the conceptual and empirical definition of the internal factors beyond the knowledge management processes, to include other potentially relevant characteristics of the firm, such as origins, strategy, structure and leadership.

Empirically, the study draws on the qualitative analysis of cases to support SMART Objectives 1, 2 and 3 (see Chapter 4 for the methodology). A portion of the structured interviews in each of the selected companies is dedicated to the assessment of how information is gathered within the participating company, how it is transformed in applicable knowledge and then put into practice throughout the organisation.

SMART Objective 4 (Chapter 8): Test the degree to which training techniques can develop managers' social consciousness in order to produce socially responsible behaviour and decision making.

The following figure summarises the Research Objectives of the RESPONSE project addressed via the large scale case comparative study (Part 1 of this report).

Figure 1: Summary of research objectives



To meet these objectives, RESPONSE carried out 427 structured interviews with executives and senior managers in 19 multinational companies and selected stakeholders in global and local organisations. These leading companies are headquartered in Europe and North America and are active in eight industries: food, pharmaceuticals, natural resources, energy, banking, chemical, information technology and industrial products.

Research Objective 4 was alternatively addressed via a number of experiments conducted with 93 managers in four companies (three of which were also part of the main study) to assess the effectiveness of different training approaches in facilitating the development of social consciousness and consequently of socially responsible behaviour in managers.

1.4 Structure of the report

Part I: Cognitive alignment and CSR

- Chapter 3: A model of cognitive alignment and social performance
- Chapter 4: Methodology
- Chapter 5: Analysis of results: managers' understandings of CSR
- Chapter 6: Analysis of results: external antecedents of cognitive alignment
- Chapter 7: Analysis of results: internal antecedents of cognitive alignment

Part II: Developing socially responsible behaviour in managers

- Chapter 8: A model of Socially Responsible Behaviour
- Chapter 9: Methodology
- Chapter 10: Findings

Part III: Conclusions and recommendations

- Chapter 11: Conclusions from study findings
- Chapter 12: Recommendations

PART I: CSR AND COGNITIVE ALIGNMENT

2 A model of cognitive alignment and social performance

2.1 Objectives and the state of the art

2.1.1 Objectives of the study

The overarching aim of this study is to understand the factors that contribute to cognitive alignment in order that business and policy makers can optimise the performance of CSR strategies. To do so, an explanation is needed of the nature of differences that arise between the cognition of managers and stakeholders. This aim is encapsulated in the original RESPONSE proposal as Objective 1:

> "[to] understand how large corporations all over the world define their social responsibilities, and to what degree their definition differs from that offered (implicitly or explicitly) by their stakeholders."

For example, which issues do managers identify as important in order to maintain or improve their company's relationship with society? Do stakeholders identify the same or different issues? Do they order their priorities similarly or with reference to differing short- and long-term objectives?

This study also investigates the key *causes* of cognitive misalignment and the consequences for corporate social performance. These various factors are classified according to whether they originate from sources external or internal to the firm. This simple typology corresponds to the Objectives 2 and 3 respectively of the RESPONSE proposal (table 1). The two categories are further operationalised into component constructs that are explored during structured interviews conducted with managers and stakeholders (see Chapter 4: Methodology).

Table 1. Typology of factors impacting cognitive alignment

	Constructs	Level of impact	Proposal objective
Factors external to the firm	Perceived social risk ▪ Institutional conditions ▪ Advocacy groups ▪ Sector norms ▪ Firm behaviour Globalisation National cultural norms Legal and regulatory framework	Firm's environment	Objective 2
Factors internal to the firm	Firm origins Business strategy Organisational structure Organisational change Knowledge management Organisational values	Firm	Objective 3
	Individual values	Individual manager	

Judging by textbook examples, CSR offers a win-win situation for both companies and society. Companies see an advantage in CSR because it prevents them from public regulation and pressure from various stakeholders, whereas society sees an advantage in self-regulation because it results in social and environmental standards that exceed the requirements of government regulation (K. Kollman, A. Prakash 2001), (M. E. Porter, C. van der Linde 1995).

Unfortunately, the perfect harmony between profitability and social and environmental awareness might not be as obvious as it appears in the literature of successful case stories (S. S. Hussain 1999). This goes well beyond the current state of the empirical literature on the correlation between social and financial performance, which still shows inconsistent results (D. A. Whetten et al. 2003). The problem is in the failure of the current literature to take into consideration the dynamics of the strategic interaction between the corporation and the constituencies it deals with. Social pressure groups, for example, might take a variety of positions vis-à-vis the business corporations, selecting from a (yet unknown) menu of strategic alternatives. The response of the corporation to simultaneously deal with several pressure groups in different cultural contexts and on different themes represents a complex strategic problem that has not been given sufficient attention neither in the CSR literature, nor (surprisingly) in the business strategy one.

2.1.2 State of the art: interpreting CSR

The majority of research within the field of CSR has focused on what societal demands on corporate behaviour is or should be. The question of what companies perceive social demands upon themselves to be and what explains the eventual gap between these two sets of perceptions has been left largely unresearched. The main task of Objective 1 is to begin filling this gap in our current understanding.

In the last 50 years, research in CSR has increased exponentially (A. B. Carroll, A. K. Buchholtz 1999;W. Frederick 1960). In the early 1950s, discussions focused primarily on the responsibilities of corporations versus governments. This was an important era in the development of the welfare state. Later, environmental responsibility became a major issue on the public agenda. From the early 1990s, however, industrialised countries witnessed a revival of the broader CSR concept, which includes elements of working conditions, child labour, union rights, training and technical assistance, gender issues, etc. One of the driving forces behind this development has been the globalisation of economic activities, which proved to be the trigger of both positive and negative social and environmental impacts (see e.g. (P. Christmann, G. Taylor 2001); (M. Halme et al. 2002); (R. Jenkins 2001); (M. W. Hansen 1995); (M. Hopkins 1997).

Practitioners have also adopted the concept of CSR. Today companies embrace the language of CSR and take measures to reform management systems to make them more responsive to the environmental and social concerns of different stakeholders (P. Utting 2000). Moreover, a number of business associations and international organisations (e.g. the World Bank, OECD, ILO, EU and UN) have launched CSR-related initiatives.

The emerging consensus seems to point towards a notion of CSR that goes significantly beyond philanthropic giving in the community, when profits are good, and focuses on responsible decision making and practice in all business activities. This includes core processes such as strategic planning and risk review, marketing and advertising, public relations, HR policies, auditing and reporting, and ensuring social justice across the supply chain (Freeman, 1984; Greenley and Foxall, 1997; Mitchell, Agle et al., 1997; Gantreau and Kleiner, 2001; Starkey and Madan, 2001; (R. Welford et al. 1998)).

Moreover, firms today are required to be responsive to broader concerns increasingly expressed by public interest groups. This approach necessitates looking beyond the immediate demands of shareholders, to include a focus on stakeholder interests[7]. This is why most of the literature on CSR seems to be inspired by stakeholder theory, in which the company is seen as a coalition of stakeholders, which affect and in turn are affected by the actions of an organisation (A. Kolk et al. 1999); (R. E. Freeman, D. Reed 1998); (D. J. Wood 1991)). Stakeholder theory offers - at least in principle - a combination between an inside-out (firm-centric) and an outside-in (society-centric)

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[7] Authors have suggested that the quality and acceptability of decision-making in such organisations is enhanced by incorporating stakeholder perspectives in the decision-making process (Thorpe and Hoffman, 2000; Pettijohn, Parker et al., 2001).

approach (D. A. Whetten et al. 2003). However, in practice most literature takes the point of departure in the external approach, in which CSR is constituted by a decision made by society, not by business (D. A. Whetten et al. 2003). In this view, CSR is the set of economic, legal, ethical and philanthropic expectations placed on organisations by society (A. B. Carroll 1979). When expectations are placed on organisations by society, the external perspective takes precedence.

This approach seems to us a little one-stringed and fails to recognise in its full extent the interrelationship between business and society. Companies shape and are shaped by the expectations of different stakeholders (Granowetter M. 1985); (Giddens A. 2001). They are able to affect stakeholders' expectations through dialogue, communication, information, but also manipulation (see e.g. (D. S. Ackerstein, Lemon K.A. 1999). Moreover, external stakeholder pressure might be ambiguous, incompatible and change over time[8]. Even if external stakeholders had stable preferences, their expectations are not necessarily manifested in concrete actions and are therefore hard to interpret. In addition, cognitive limitations, now recognised in both the organisational theory and business strategy literatures, impose severe restrictions to the attention span of managers and employees (R. M. Cyert, J. G. March 1992). Consequently, it becomes difficult for companies to assess the likely consequences of non-compliance to society's expectations.

The difficulties in interpreting social pressure are also enhanced by the confusion concerning the meaning and content of CSR. Even among scholars, there is no generally accepted definition of CSR and this lack of consistence is even more prevalent among businesspeople and other practitioners (A. Warhurst 2001); (D. J. Wood 1991)[9].

As Carroll & Buchholtz (1999:27) note: "What is particularly paradoxical is that large numbers of business people have enthusiastically embraced the concept of corporate social responsibility during the past three decades, but only limited consensus has emerged about what corporate social responsibility really means." Managers might perceive - not only the external pressure from stakeholders - but also the concept of CSR itself differently.

In conclusion, a company's ability to be responsive to society's expectations will depend on an interpretation it makes (or rather its top management makes) of what society expects from them. Moreover, managers' personal morality and understanding of the company's role in society will affect CSR policies and practices. Last but not least, the company must evaluate, whether the consequences of failing to meet society's expectations is higher than the costs of being responsive to them.

2.1.3 State of the art: explaining cognitive alignment

Objective 2, to understand the impact of external factors on cognitive alignment (figure 1), highlights the firm's sector and institutional environment, the strength and influence of stakeholder advocacy groups, and the effect of these on the perceived risk to the firm's normative legitimacy. Extant research considers various drivers of social risk perceptions (Yaziji, 2003), but our present contribution is to assess whether these also act as antecedents of cognitive alignment.

a. The legal and regulatory framework within which the firm operates sets the baseline for compliance. The location of the firm's operating subsidiaries will thus influence CSR practices and performance. In locations where high levels of public and political concern exist regarding the environment, for example, the firm may elect to go beyond the baseline by awarding bonuses related to performance targets. Beyond this, the firm's institutional environment matters, as legitimacy is not a result of merely obeying the law. A firm's normative legitimacy (Scott, 2001; Orts, 1993a, 1993b) is diminished through challenges related to corporate social responsibility. Legitimacy is the quality or state of being perceived or understood to be in accordance with a set of norms or

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[8] The literature is remarkably silent when it comes to the question, how managers align interests when they are faced with incompatible expectations of various stakeholder group*s*.

[9] This article uses the definition of the European Commission describing CSR as the voluntary activities of companies that contribute positively to society and the environment (EC 2001). CSR consists of an internal (e.g. improvements in working conditions, management of natural resources used in production) and an external (social, responsible practices concerning the local community) dimension.

values concerning what is desirable, proper, or appropriate (Suchman, 1995). Normative legitimacy lies in the domain of social values (Selznick, 1957) and is indicative of society's moral evaluation of the norms and values, means and ends of an organisation. Multinational organisations are subject to a multiplicity of conflicting institutional demands. Efforts to mitigate the risk associated with one set of institutional demands can trigger new complaints by another set of advocacy groups concerned with other institutional values.

b. The second external factor considered is the social movement context. This largely determines the strength of the advocacy groups expressing particular institutional demands. The various social movement histories, infrastructure and political systems of diverse countries give advocacy groups different levels of influence. For example, the US, France, Germany and UK tend to have more powerful groups which push their institutional demands than, say, Ukraine or Singapore. Within a single country the strength of various advocacy groups will also differ by issue. In France, for example, social movements supporting the "French cultural exception" are quite powerful while anti-nuclear groups are relatively weak.

c. A third external driver that potentially affects a firm's alignment is the industry in which it operates. Some industries, for example those with "high externalities" such as mining or dam construction, or high-profile industries such as big brand retailers attract more attention and social pressure. Therefore the firms within these industries may be more prone to react to events in their external environments.

Objective 3, to understand the impact of internal factors, is drawn from a range of observations within the firm.

a. Most importantly, how effectively does a company gather knowledge through processes of stakeholder engagement and learning? Within the small literature on environmental scanning, the problem of gathering information on the social (rather than economic) objectives and actions of peers has received attention only very recently (A. Palmer, B. Hartley 2002). Even in these recent treatments, however, there is only limited attention given to the fundamental problem: firms can scan only a very small portion of their environment. In order to be efficient in the use of their cognitive resources, therefore, they need to understand how to direct their attention among all the possible phenomena that they could potentially scrutinise under a given issue (in our case, CSR). The efficiency and effectiveness of these processes should be sensitive to improvements in information management systems, but the degree to which this is the case and the conditions for which the link is stronger or weaker still await scholarly attention. A second barrier to effective response strategies concerns the cognitive limitations of the individual. Some time ago (H. A. Simon 1959) noted that "[t]he decision-maker's model of the world encompasses only a minute fraction of all the relevant characteristics of the real environment, and his inferences extract only a minute fraction of all the information that is present even in his model". The large literature on managerial and organisational cognition (Walsh, 1995, for a review) takes these foundational observations on bounded rationality seriously in their studies of how managers form cognitive representations of the world and use them to make decisions. Similarly to the organisational level, these cognitive-behavioural learning processes could potentially be significantly enhanced through the enhanced efforts by managers to deliberately share their experiences and inferences from their interactions with the external environment. Besides the investments in articulation of their implicit knowledge, codification processes might be particularly useful to force rigorous thinking about 'fuzzy' problems such as the appreciation and response to societal demands (Zollo and Winter, 2002).

b. However, knowledge management is only one internal factor that we hypothesise to drive cognitive alignment. Business strategy and the founding beliefs about the firm's role in society also impact cognitive alignment (table 1). A company focused on differentiating itself against competitors might be expected to maintain closer links with customers and thus exhibit closer cognitive alignment with this bracket of stakeholder. Alternatively, a company focused on cost minimisation might be relatively unresponsive to the needs of its suppliers and so allows cognitive differences to widen.

Recent research distinguishes integrated and decoupled CSR practices within organisations (Weaver, Trevino and Cochran, 1999). To our knowledge, however, no linkage has been shown between the nature of a firm's CSR practices and its managers' sensitivity to stakeholder demands.

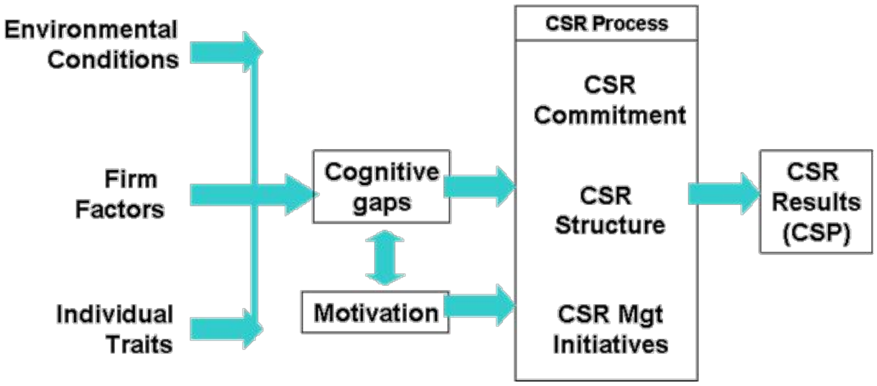
c. Other factors that affect the potential for cognitive alignment include the structure of the business and location of accountability within that structure. A decentralised subsidiary that is accustomed to tailoring products and services to the needs of local customers might enjoy relative autonomy to similarly tailor its CSR initiatives. However, it may be relatively unreceptive to centralised CSR policies if responsibility for the consequences is deemed to lie with headquarters.

Specific hypotheses are developed and tested in Chapters 4-6, where, based on the literature, we predict that cognitive alignment is positively associated with social performance. We also detail the external and internal factors that are expected to drive cognitive alignment, and compare our findings against these hypotheses.

2.2 The RESPONSE model

Figure 2 shows the RESPONSE model for explaining variance between firms in terms of their cognitive alignment and CSR performance. Although other linkages and causalities exist – such as the impact of cognitive misalignment on firm motivation - this conceptual model is limited to the focus of analysis in the interests of clarity. Each component of the model is described in Table 2 on the following page.

Figure 2: The RESPONSE model



The left-hand column shows the three levels of analysis encompassed by the two studies: the external environment, the firm itself and the psychological characteristics of individual managers. External conditions include the legal and regulatory environment, societal pressure, political trends and myriad other factors beyond the firm's immediate control. Firm factors include the company's business strategy, its ability to manage knowledge, and so on, excluding factors directly related to CSR. The box labelled 'CSR process' represents the commitment, structure, and initiatives that the firm demonstrates and implements in support of its CSR objectives.

For example, CSR *commitment* may be expressed in the company's mission statement, in the time dedicated to the subject by top management, or the integration of CSR concerns into strategic business decisions. *Structure* refers to the evolution and location of responsibility for CSR within the firm; does a centralised department exist, if so how close is it to senior management, or is responsibility delegated elsewhere? CSR *initiatives* are specific programmes and activities designed to achieve stated objectives and oriented either to external audiences (communication, philanthropic efforts, etc.) or towards internal processes and the development of CSR-specific capacity – CSR training programmes, changes in resource allocation and staff appraisal processes, for instance.

Table 2. Components of the RESPONSE model

	Component	Description and purpose
	Environmental conditions	Determine whether the firm's cognitive alignment is significantly impacted by its **geographic location**. Do firms with bases in Northern Europe exhibit notably different characteristics than those in Southern Europe or Anglo-Saxon countries (UK, North America)? Do some **industry sectors** have better cognitive alignment than others? Do advocacy groups have a stronger presence in some sectors than others?
	Firm factors	Determine how the firm's cognitive alignment is influenced by its **business strategy** and **market position**; its **origins**; **structure** and capabilities in **knowledge management** and **internal change management**.
	Individual characteristics	The individual's impact on cognitive alignment is not investigated directly. Instead RESPONSE has conducted experiments to determine the influence of coaching techniques on managers' capacity to develop higher levels of **social consciousness** and to demonstrate **socially responsible behaviour** (Objective 4).
Mediators	Cognitive alignment	Cognitive alignment is a key focus of the RESPONSE project and is analysed and measured in the form of **cognitive gaps**. The aim is to determine the degree to which managers' and stakeholders' understandings are aligned. Measurements are taken in order to quantify the magnitude of cognitive gaps and thereby establish their impact on CSR practices and corporate social performance. In addition, inferences are drawn regarding the causes of cognitive misalignment from among the internal and external factors described above.
	Motivation	Motivation is measured in terms of how managers express their commitment to CSR. A measure is taken of how strongly managers cite the supporting **business case**, their **personal values**, the **values of their organisation** and **expectations in their industry**.
CSR process	CSR commitment	CSR commitment is measured in terms of the company's **mission statement**, the time dedicated to the subject by **top management**, and the integration of CSR concerns into **strategic business decisions**.
	CSR structure	Structure refers to the **evolution and location of responsibility for CSR**. To what extent is this centralised or distributed within the organisation and how close are CSR staff to top management?
	CSR management initiatives	CSR initiatives are specific programmes and strategies designed to achieve stated objectives, such as **CSR training programmes** and **staff appraisal**, and the integration of CSR into core **business processes**, such as due diligence for M&As.
Outcomes	Corporate Social Performance (CSP)	Desired outcomes from CSR activities in terms of their likely impact on social, environmental and economic goals. RESPONSE assesses CSP using an aggregate of evaluations by Social Rating Agencies (SRAs); stakeholder assessment; RESPONSE team's own assessment from interviews and fact-finding visits.

2.2.1 Mediators

Two other elements are interposed between the external and internal factors and CSR practices in figure 2:

- Cognitive alignment – the extent to which managers and stakeholders have consistent understandings of the role of the firm. A lack of alignment – i.e. the existence of cognitive gaps between managers and stakeholders - is apparent in many dimensions, notably in different understandings of the complexity of the stakeholder engagement process; expectations regarding outcomes, and the impact of stakeholders on the company and vice versa.

- Motivation - the overt and underlying objectives and incentives that drive the firm's CSR activities. These may be articulated in terms of the business case for CSR (a direct or indirect financial return), an institutional case (sector or other norms), or as a direct consequence of organisational or individual 'values'. A firm's motivation to pursue CSR strategies thus reflects its normative understanding of the role of business in society as well as instrumental concerns about competitive position.

Motivation is impacted by all three boxes on the left of the model – external and internal factors, as well as individual values. The focus of the RESPONSE project, however, is on cognitive alignment, given that motivation has been explored in previous empirical work (especially regarding the business case for a link between CSR and financial performance[10]). Cognitive alignment is thus considered an important, and under-explored, determinant of corporate social performance.

Motivation is positioned as having a direct impact on cognition (figure 2). For example, if a manager perceives ROI to be the key motivation for undertaking a CSR initiative, yet the relevant stakeholders expect the company to absorb ongoing costs, the apparent cognitive gap has obvious consequences for the success of the project.

The potential for differences in cognition to develop is clear: managers have to engage with multiple stakeholders that have disparate interests and claims on the firm's resources. These claims are subject to change and can at times be in conflict. In addition, the constituencies that stakeholders represent may be unclear and so the degree to which the company should respond is open to interpretation.

The following section examines cognitive alignment in more detail and presents an analytical model of their causes and impacts.

Differences in cognition may reflect different scope in the beliefs of managers and stakeholders regarding the extent of the firm's influence. For example, stakeholders of an IT company may articulate their view of the firm's priorities in terms of stakeholder rights. The firm itself may regard its primary role as having impact on the world beyond its immediate stakeholders, for example through providing low-price communications facilities to schools.

It is important to note that the four types of cognitive gaps RESPONSE has analysed (see section 5.2) represent deeper levels of interaction than are generally considered under the more familiar rubric of 'stakeholder engagement'. The assumption of this study is that commonly used metrics such as frequency and duration of stakeholder consultation and number of mentions in CSR reports, are inadequate in capturing the underlying beliefs and expectations of the parties involved. By focusing on the *cognition* of managers and stakeholders, RESPONSE is able to identify the more salient antecedent factors behind Corporate Social Performance (CSP).

2.2.2 Corporate Social Performance (CSP)

Corporate Social Performance (CSP) is the umbrella term used to encapsulate the notion of desired outcomes from CSR activities. The ability to identify causes of social performance has clear instrumental value for business, stakeholders and policy-makers and so this objective (1b) has been added to those of the original RESPONSE proposal.

However, CSP is a notoriously problematic concept given the subjective impacts of CSR on the economy, the environment and on society. Most measures of CSP are perceptual; even where measures depend on quantifiable criteria, the decision about which criteria to include remains subjective. For the purposes of this study, we assessed CSP based on three sources:

- Evaluations of commercial Social Rating Agencies (SRAs)
- Stakeholder assessment obtained through the interview process

[10] The current state of knowledge is equivocal. Margolis, J and Walsh, J (2001), in People and Profits? The search for a link between a company's social and financial performance, conducted a meta-analysis of 90 empirical studies from 1978-2000 and found little consistent evidence for such a link. Other meta-studies, Orlitzky et al (2003) for example, found significant evidence to support a link.

- RESPONSE team's own assessment from interviews

SRAs provide an important benchmark indicator of a company's performance. However, RESPONSE has found these ratings to be an insufficient summary on their own, reflecting the concern recently voiced about their predictive validity (Chatterji, Aaron, Levin and Toffel, 2007). Differences between SRA assessments appear influenced by the founding conditions of the ratings agency itself. An SRA that traces its roots to environmental concerns, for example, will tend to reflect these origins in the prioritising of its evaluation criteria. Assessments of the same firm across SRAs are thus inconsistent. A second problem is that SRA methodologies depend for their data on the firm's self-promotion in the form of published reports. We believe that one of strengths of this study lies in the fact that we have obtained direct assessments from a plurality of stakeholders, in addition to relying on SRAs and our own judgments.

An overview of the CSP of the 19 companies is provided in Table 3, which contains information on agency ratings, stakeholder evaluations and our own RESPONSE evaluation. Not all social rating agencies cover all 19 companies. Although some agencies provide triple letter ratings, most agencies do not provide a single measure of a company's social performance. Instead, they publish a score for individual areas of performance (environment, stakeholder relations, governance, etc.). In such cases, individual scores cannot be easily aggregated because different weightings should apply across different sectors. For example, while the environment is a potentially important domain in all industries, mining firms are likely to have a much larger impact on the environment than IT firms. For that reason, we have chosen to give a brief qualitative description of the published ratings.

The degree of variation in CSP differs markedly across sectors. In most cases, the three sources of measures (rating agencies, stakeholders and our own CSP evaluation) are broadly consistent in their ranking of the companies' social performance. In cases where the differences in social performance are more nuanced, rating agencies and stakeholders may disagree about the best performers in a sector. In making our own assessments we have paid particular attention to the comments we received from well-informed stakeholders who have roughly equal amounts of interaction with all companies in the pair or triad.

Table 3. Overview of CSP measures

	Pair/Triad	Rating Agencies	Stakeholder Evaluation	CSP
1	Food #1	According to the agencies, Food 1 outperforms Food 2 on most dimensions. Food 2 scores highly on environmental, but poorly on social issues.	Stakeholders consistently rate Food 1 more positively than Food 2.	Great
2	Food #2			Good
3	Pharma #1	All are rated highly. The very highest ratings are for Pharma 1 and 2, but their ranking differs according to the agency.	Stakeholders agree that Pharma 1 and 2 outperform Pharma 3.	Great
4	Pharma #2			Great
5	Pharma #3			Good
6	Nat. Resources #1	All three firms obtain the highest rating classification from one agency. According to other agencies, Nat. Resources 1 scores slightly higher on most dimensions, especially community relations.	There is general consensus that Nat. Resources 1 and 2 outperform Nat. Resources 3.	Great
7	Nat. Resources #2			Great
8	Nat. Resources #3			Good
9	Energy #1	Both are well above the sector average, with #1 slightly ahead. The rank order differs across agencies, however. Both firms appear in the main sustainability indices.	Evaluations of both companies are broadly similar.	Great
10	Energy #2			Good
11	Banking #1	All agencies give much higher ratings to Banking 1 than Banking 2. According to one agency, Banking 1 outperforms Banking 2 on all relevant dimensions.	Although stakeholders rate Banking 1 more highly, their perception is of a smaller performance difference than that portrayed by the social rating agencies.	Great
12	Banking #2			Good
13	Chemical #1	Chemical 1 appears in the largest number of sustainability indices, but is not yet covered by many agencies. Chemical 3 lags behind Chemical 2 in the major ratings.	Chemical 1 outperforms the others. Chemical 3 lags behind.	Great
14	Chemical #2			Good
15	Chemical #3			Fair
16	High tech #1	Both firms have high ratings. High tech 2 is generally – though not universally - ranked higher. According to one agency, High Tech 1 outscores High Tech 2 on dimensions such as employee and community relations, while High Tech 2 is stronger in domains such as environmental management.	While more stakeholders assess High Tech 2 as the higher performer, those who have equivalent interaction with both firms typically judge High Tech 1 to be the superior performer.	Great
17	High tech #2			Good
18	Industrial Products #1	Industrial Products 2 is not covered by the rating agencies so a basis for comparison is unavailable.	Stakeholders give positive assessments of Industrial Products 1, but are unable to compare the performance of the two companies.	Great
19	Industrial Products #2			Good

3 Methodology

3.1 Scope

The research design calls for an in-depth, matched-pair study of large multinational companies involved in selected industries and headquartered in Europe and the Anglo-Saxon countries. The selected industries are: food, pharmaceutical, natural resources, energy, banking, chemical, information technology and industrial products. In three of these eight industries, a triad of companies has been studied, bringing the total number of case studies to 19.

3.2 Sample selection

Initial desk research, supported by the data received from four social rating agencies (Innovest, Oekom, E-Capital and Vigeo), was conducted in order to select the matched pairs of companies in the identified industries. Multiple criteria were used to bracket companies by size, product/service portfolio and industry in order to allocate pairs for comparison. The matched-pair design requires that two companies are grouped based on their similarities in as many dimensions as feasible, and to maximise the differences in the relevant dependent variable (Eisenhardt, 1989)[11]. In this study, the dependent variable is the perception of Corporate Social Performance (CSP). Therefore, the design requires that variation in CSP among the members of the pair/triad should be high. Pairs/triads should share broadly *similar* characteristics in terms of:

- Business sector
- Company size
- Financial performance
- Degree of multinationality

Accordingly, evaluations from commercial ratings companies were used to stratify companies according to their social performance. After a long invitation and recruitment process, a total of 19 companies joined the study, representing eight sectors: food, pharmaceutical, natural resources, energy, banking, chemical, industrial products and information technology. These sectors were selected for their association with a wide range of corporate responsibility issues: process-based industries with heavy environmental responsibilities (natural resources, energy, chemical); consumer goods companies with significant product liability issues (food and pharmaceuticals); financial services with community development and customer transparency responsibilities; high-tech companies (including, again, pharma) with significant product access issues. Moreover, some sectors have longer histories in CSR (natural resources, chemical, pharmaceutical) than others (banking, industrial products).

Within each sector, most firms are fairly comparable in terms of degree of multinationality and financial performance. With respect to the other dimensions of selection, the participant companies compare within each sector as follows:

[11] Eisenhardt, K. M. (1989) Building Theories From Case Study Research. Academy of Management. The Academy of Management Review, 14, 532.

Table 4. Sample of 19 companies in matched pairs and triads

	Pair/Triad	HQ Region	Similarity of Size	Business Similarity	CSP
1	Food #1	N.Europe	High	Low	Great
2	Food #2	N.Europe			Good
3	Pharma #1	Anglo Saxon	High	Very high	Great
4	Pharma #2	N.Europe			Great
5	Pharma #3	S.Europe			Good
6	Nat. Resources #1	Anglo Saxon	High	High	Great
7	Nat. Resources #2	Anglo Saxon			Great
8	Nat. Resources #3	N.Europe			Good
9	Energy #1	S.Europe	High	High	Great
10	Energy #2	S.Europe			Good
11	Banking #1	S.Europe	Very high	Very high	Great
12	Banking #2	S.Europe			Good
13	Chemical #1	N.Europe	High	High	Great
14	Chemical #2	N.Europe			Good
15	Chemical #3	N.Europe			Fair
16	High tech #1	Anglo Saxon	High	Medium	Great
17	High tech #2	Anglo Saxon			Good
18	Industrial products #1	N.Europe	Low	Low	Great
19	Industrial products #2	N.Europe			Good

Of the eight sectors, therefore, one (Industrials) is overall a poor match on the dimensions of size and business similarity. Consequently, we have ensured that, in the analysis section below (see Chapters 5-7), the results described do not rely significantly on the presence of the Industrials pair. Additionally, the food sector pair has one weak dimension, namely a low business similarity. Finally, the pharmaceutical triad was created with one company representing each region to study eventual inter-industry regional effects, excluded by design in the other sectors.

For each company, stakeholders were selected for relevance, firstly, based on RESPONSE's desk research of NGOs and other organisations specialised in the industries under study, and secondly, from company recommendations and the opinions of Social Ratings Agencies (SRAs). In making their recommendations, companies were asked to name, in equal number, stakeholders with whom they had differences of opinion and those with whom they had good relations.

3.3 Company case studies

An initial sample of 70 companies was selected, arranged in matched groups based on similarity of industry, headquarters location, size, financial performance and differences in CSP ratings. These were invited to join the study in sequential order, starting from the 'best matches' in terms of maximum variance. Those companies that declined were replaced with alternatives identified from desk research.

The participant companies made up five pairs and three triads (table 4). Triads were formed where more than two invitations sent to several companies in a given industry group were accepted.

In each participant company, the data collection process followed the five steps in table 5.

Table 5. Research Protocol

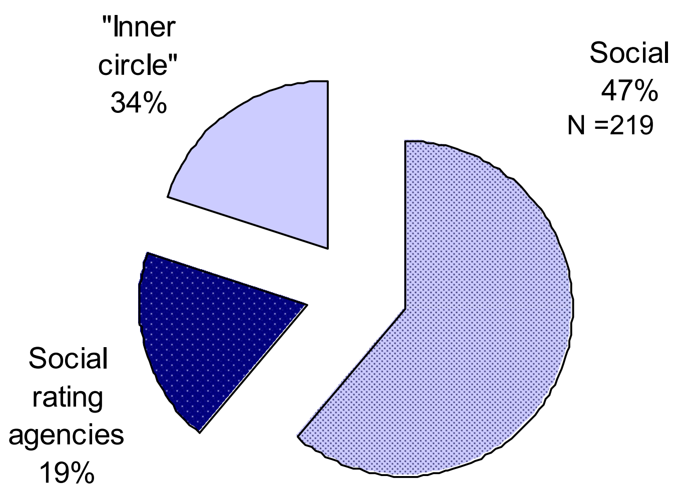
Step 1	Desk research
Step 2	"Fact finding" field visit
Step 3	Selection of stakeholders
Step 4	Stakeholder interviews
Step 5	Internal company interviews

Step 1: After a data collection exercise from publicly available sources, including official company communication (annual and social reports, etc.) and a web-search for debates and external initiatives concerning the company's activities, an initial 'fact-finding' visit was made to meet the managers responsible for "corporate responsibility" issues (however defined by the company).

Step 2: The fact-finding field visit followed a structured protocol (see Exhibit 1) aimed at reconstructing the evolution of corporate responsibility practice in the company and collecting systematic information about firm-level characteristics, such as its origins, its strategy and organisational structure, its governance and leadership, its key change events, etc.

Step 3: An average of 12 stakeholders were selected for each firm. Stakeholders included social rating agencies (SRAs), social stakeholders such as non-governmental organisations (NGOs), international institutions and educational institutions, as well as the company's "inner ring" of stakeholders (Freeman, 1984; Preston, Post and Sachs, 2002). "Inner ring" stakeholders include shareholders, employees, customers, suppliers, local governments, the media and industry associations. Figure 3 presents a profile of the stakeholders who were interviewed.

Figure 3: : Overview of Stakeholder Interviews

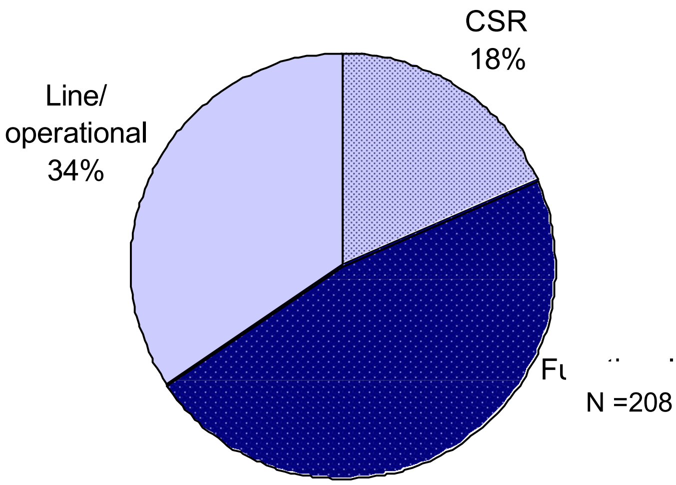


The majority of stakeholders who were interviewed can be classified as social stakeholders. Non-governmental organisations comprised the greatest number of these. In total, 89 non-governmental organisations were interviewed for the research. A total of 41 interviews took place with Social Rating Agencies, while 44 interviews involved the inner circle of more classical corporate stakeholders.

Stakeholders varied in terms of their level of knowledge about the company in general – as well as in terms of their knowledge of the company's social responsibility activities. In part, this is a reflection of how they were identified, with stakeholders nominated by the company being – in general – more knowledgeable. In part, the varying level of knowledge is a reflection of the interests and focus of specific stakeholders. Many external stakeholders have issue-specific interests, and as a result, their knowledge of a company may be relatively narrow. However, the number and range of interviews conducted provides a high level of knowledge about individual companies.

Step 4: Stakeholder interviews followed a structured approach. This allowed for a systematic comparison of the observations made with those coming from the managers of the focal company, as well as within and across pairs (see Exhibits 2 and 3 for the interview protocols).

Figure 4: : Overview of Manager Interviews



Step 5: Internal interviews were scheduled with the help of the CSR managers championing the project in the company. The selection of interviewees was guided by a fixed number of functional areas and geographic coverage that we developed by design: these included the CEO or COO, managers with direct responsibility for CSR (usually interviews during the "fact finding" field visit), the heads of selected corporate areas such as strategy or marketing strategy, HR, finance, one executive in charge of a product division and four country managers representing territories outside the home region in four of the following areas: Northern Europe, Southern Europe, Eastern Europe, North America and China. The majority of interviews with company managers involved people with functional and line responsibilities. Only 18.4 percent of company interviews involved individuals with direct CSR responsibilities (see Figure 4).

In total, 427 interviews were conducted. This included 208 interviews with managers of the partner companies and 219 interviews with external stakeholders.

3.4 Case comparison Analysis

3.4.1 Measures and Analysis Protocol

The desk research, fact-finding fieldwork and the structured interview protocol were designed to elicit information that could be used in comparative analysis between and across companies in the pairs/triads.

Interview protocols were developed for managers and stakeholders. For managers, questions were centred around the nature of corporate social responsibility (CSR) in general and specifically in their industry, the relevance of CSR to their work and day-to-day management processes, their perception of their own firm's social performance relative to that of competitors, the identification of relevant stakeholders – including a ranking of these stakeholders according to their impact on the company and the company's impact on them - and their motivation for engaging in CSR. These interviews were recorded and generally lasted between one-and-a-half and two hours.

Many of the questions posed to managers were replicated in the stakeholder interviews. For example, stakeholders were asked to define the responsibilities of companies towards society and in the industry of interest, to benchmark the social performance of the focal firm against its competitors, to identify the relevant stakeholders for the firm (with the same ranking exercise as conducted in the managerial interviews), and to provide information on their interactions with the firm. This replication of the important questions in both sets of interviews gave us a solid basis for the calculation of the cognitive alignment between managers and stakeholders.

Table 6 below summarises the constructs used to categorise the dimensions of relevance in the comparisons between firms.

Table 6. Constructs used for case comparison

	Construct	Measurements
Firm's CSP	Corporate Social Performance	Agency ratings, stakeholder evaluation, RESPONSE evaluation
Firm's CSR process	Strategic CSR commitment	Top management articulation of support for CSR; integration of CSR into mission/vision statement, strategic decision-making and business processes
	Organisation of CSR	Centralised or decentralised; extent of influence; input from staff; historical evolution
	CSR practices	Stakeholder engagement; performance targets; appraisal; training; reporting; monitoring, CSR in investment decisions
Firm's motivation	Business case	Perceived benefits of CSR in terms of risk reduction, efficiency, sales and premium pricing, new market opportunities.
	Values case	Perceived importance of individuals' and organisation's values
	Institutional case	Norms and pressures at the level of the industry sector, regulation, competition.
Individuals' cognition	Social consciousness	Psychological attributes in terms of cognitive capacities, personal values and emotional characteristics.
	Cognitive gaps	Magnitude of differences in manager and stakeholder understandings regarding CSR definitions, performance and motivations.
Company characteristics	Origins	Influence of founders and early corporate culture.
	Current position	Articulation of business strategy
		Organisational structure; independence of corporate governance; concentration of ownership; leadership style; corporate culture, knowledge management

Source: Derived from case analysis protocol.

Interview data were collected for each firm against a large number of structured dimensions, as summarised in Table 6. This largely qualitative information was then scored on a scale of 1-5. We adopted a process of open scoring, where each item to be scored could be given any value within the range. We defined the reference population for the scoring as our sample of 19 firms (i.e. the highest performers in a given domain scored 4 or 5, while the worst scored 1 or 2). Based on the quantitative data in the interviews, some of the dimensions (e.g. firm's motivation to engage in CSR) could be scored objectively, while some other scores were more subjective. In these latter cases, researchers were asked to justify their scores, and there was a check for inter-scorer reliability.

The scoring mechanism was necessary to enable comparison between companies in a pair or triad, as well as across pairs and triads. So, for example, if one firm scored highly (5) on its strategic commitment to CSR and the other firm in the pair scored low (2), the difference in levels is considered of important magnitude. Therefore, if the former firm has a higher CSR performance rating than the latter, then the variable 'strategic commitment' could be a potentially significant factor in explaining this difference, at least in the context of the industry being considered. If this conclusion is drawn on a large number of industry pairs/triads, then the variable under consideration is deemed an important factor to explain the variation in CSP (see below in 4.5).

3.4.2 Dimensions of cognitive alignment

The construct of 'cognitive gaps' was further broken down into four dimensions and associated measurements (table 7).

Table 7. Dimensions of cognitive alignment between managers and stakeholders

Cognitive gap type	Interview measurement	Interpretation	Cognitive alignment construct
Gap 1: Sequentiality	Order in which interviewees mention stakeholders	Salience of stakeholders (assumes that first stakeholders mentioned are more salient)	Similarity in understandings of relative salience of different stakeholders
Gap 2: Risk ranking	Ranking of stakeholders based on their perceived impact on the company	Perceived risk posed by stakeholders (assumes that higher ranking indicates higher perceived risk)	Same as above, with explicit request to rank the stakeholder orders by importance for the company
Gap 3: Responsibility ranking	Ranking of stakeholders based on the perceived impact the company has on them	Perceived responsibility toward stakeholders (assumes that higher ranking indicates higher perceived responsibility)	Similarity in understanding of the rank order of stakeholders based on the company impact
Gap 4: Perceptions of Corporate Social Performance (CSP)	Level of social performance as judged by interviewees		Similarity in understanding of company's social performance

Sequentiality: this measures the order in which interviewees mention the company's most important stakeholders when answering the question: "who are the most important types of stakeholders for your company?" (question 11 in the interview protocol; see Exhibit 3). This measure is an indirect indicator of the salience of different stakeholders. The gap between manager and stakeholder perceptions shows the degree of alignment in identifying and prioritising different stakeholders. To normalise the sequence across interviewees from the same company (and to ensure comparability of stakeholder interviews associated with the same company, as well as cross-company comparisons), we developed a formula to convert the sequence order into a number from 1 (the first stakeholder mentioned) to 0 (not mentioned at all). This number is averaged across interviewees related to the same company for each stakeholder type. The *sequentiality gap* is thus measured as the difference between managers and stakeholders of the same company, either for each individual stakeholder, or averaging overall across all the stakeholders. For the purpose of comparison across companies, we use the overall average version of the sequentiality gap.

Stakeholder impact on the company (Risk Ranking): Managers and stakeholders were asked to rank the impact *on the company* of the stakeholders they mentioned. The question was: "how would you rank the stakeholders types you mentioned vis-à-vis the impact that they have on the company?" The variable is normalised using a similar technique as for sequentiality. The value '1' is assigned to the first stakeholder type in the rank order; 0 is assigned to stakeholders not mentioned, and an intermediate number is assigned for those mentioned (taking into account the total number of stakeholders mentioned which varies per each interviewee). The normalised figures are thus averaged across interviewees (managers or stakeholders for a given company) for each stakeholder type, and then the difference between managers' and stakeholders' assessments are computed for each stakeholder type. The *Risk Ranking* gap is therefore the average of the differences between the prioritisations of stakeholders and managers across stakeholder type.

Company impact on stakeholder (Responsibility Ranking): this dimension quantifies the answer to the question: "how would you rank the stakeholders types you mentioned vis-à-vis the impact that the company has on them?" The quantitative procedure to turn the ranking into a normalised figure ranging from 0 to 1 is the same as described above for Sequentiality gaps and Risk Ranking gaps.

Social performance: This is a 1-10 rating of performance given to the company by stakeholders and managers interviewed (1 as minimum and 10 as maximum). The *social performance gap* is simply the difference between the averages in the ratings given by stakeholders and managers. Managers often, but not necessarily, evaluate their companies' social performance more highly than do stakeholders. A negative number thus means that stakeholders gave a worse assessment of the company, compared to the managers. A negative number is a ‘negative’ indication of managers’ cognition, since it means that they over-value their company’s social performance in comparison to their stakeholders’ perceptions. A positive number means that external stakeholders rank the social performance of the company higher than do its managers – in other words, stakeholders may overestimate the company’s performance – or managers may undervalue it. While the sign of this gap has meaning, we recognise that it is the absolute value of the gap – i.e. the extent to which managers ‘overshoot’ or ‘undershoot’ - that may be more important as a measure of cognitive alignment. Hence, we use the absolute value of this gap in our subsequent analysis (with the exception of Section 4.3, in which we show and discuss the magnitude of the different cognitive gaps across each of the 19 companies).

3.5 Cross-Pair Comparison Analysis

Once the analysis of each company has been performed following the structured protocol developed (see Exhibits 2 and 3), the intra-pair/triad comparative analysis is conducted to identify the factors that appear to differ across companies within the same pair or triad. It then moves towards identifying the factors that appear to be consistently different across pairs/triads. “Consistently” means the factor is deemed a potentially important dimension if (a) the companies score differently on that factor in a large number of pairs/triads, and (b) the differences are in the same “direction” vis-à-vis social performance. For example, if there are differences within several pairs with respect to the degree of integration of CSR in business strategy, we can identify that factor as a potential explanation for the variation in CSP only if the firm with higher CSP in each pair is associated with the higher extent of integration. If, however, there is no consistency among the pairs on matching ‘high CSR integration in strategic processes and high CSP’, then the factor cannot be considered a meaningful one to understand the variation of CSP.

This procedure allowed us to achieve two important objectives. First, we could assess the magnitude and type of impact of cognitive alignment on CSP, thereby testing the relevance of the core concept in our study for a broader model of social performance (Research Objective 1b). Second, we could identify the factors that might be potential explanations for the degree of cognitive alignment among those that show the highest relevance for an overall model of CSP. These are the factors that we have thus used as potential explanations for the degree of cognitive alignment (Research Objectives 2 and 3).

3.6 Explanatory Factors of Cognitive Alignment

The last step of the analytical journey was to study the link between a selected number of potential explanations and the magnitude of cognitive alignment. The potential explanations (or correlates, since causality could not be ascertained through the research design adopted in this study) have been identified through the cross-pair comparison analysis described above in 4.5. For each factor, the companies have been clustered in two groups, with a rough split at the median value. The averages of the four measures of cognitive alignment (cognitive gaps) have been then computed and juxtaposed to assess (a) whether there is a difference between the average cognitive gaps in the two groups of companies, and (b) whether the differences are consistent across the four measures of cognitive alignment.

If the differences were sufficiently large and stable across the four measures, the factor is considered potentially important to explain why certain companies exhibit higher levels of cognitive alignment with their stakeholders than others.

4 Findings: Managers' understandings of CSR (Objective 1)

4.1 Introduction

Following Chapter 2 (theoretical framework) and Chapter 3 (methodology), the following three chapters present the results of the analysis of the data collected. Each chapter deals in detail with the analysis of one objective. Chapter 4 deals with the analysis of SMART Objective 1, Chapter 5 with the analysis of SMART Objective 2, and Chapter 6 with the analysis of SMART Objective 3.

The next section draws on the 427 interviews with managers and stakeholders to describe how managers think about the responsibility of their firms, and the extent to which that differs from the way stakeholders conceptualise it. As a guiding tool to categorise the responses, we utilise two frameworks developed from the analysis of a subset of the data.

Section 5.3 presents results of analysis to establish the *magnitude* of each company's cognitive gaps for each of the companies analysed, that is, the level of cognitive alignment between the understandings of managers and stakeholders. It thus addresses research Objective 1. The magnitude of the four types of cognitive gap introduced in Ch. 2 are thus presented, broken down by company and by stakeholder type.

Section 5.4 explains each company's Corporate Social Performance (CSP) in relation to the five types of cognitive gap (Objective 1b). Companies are grouped into matched industry pairs/triads in order to identify sector influences.

4.2 Managers' understandings of CSR

The objective of this section is to offer a summary of how managers conceive of their company's social responsibility, and of how this differs from the stakeholders' conception. An aggregate set of interviews, conducted across all companies and stakeholders, forms the basis of this investigation. In all these cases, the research protocol calls for answers to the question: "what is company X's social responsibility?" This question generated open-ended responses that were then analysed to develop two organising frameworks: one was used to identify the typology of issues raised by managers and stakeholder representatives, and the other enabled us to study the differences in the cognitive framing of the concept of CSR.

4.2.1 Dimensions of CSR issues

The first framework is an 'issue' matrix that categorises the issues raised on two dimensions that appear relevant (see table 8):

1. Product/Process. The distinction between the responsibility related to the output of the company activities (its products or services) versus the process through which the output is produced or delivered (process-based).
2. Do no harm/Do good. The distinction between issues related to the avoidance of harmful consequences versus those related to the proactive attempt to 'do good', that is to improve the wellbeing of the relevant constituencies.

Table 8. : Dimensions of CSR issues

	Product focus	Process focus
'Do no harm'	Product impact ▪ Ethical value of product ▪ Impact on user's well-being ▪ Consequences of incorrect use	Process impact ▪ Environment ▪ Supply chain ▪ HR/human rights abuses ▪ Lobbying, bribing ▪ Anti-competitive behaviour.
'Do good'	Product access ▪ For survival (food) ▪ Health (medicine) ▪ Poverty (finance) ▪ Education (ICT)	Process engagement ▪ Defend human rights ▪ Community support ▪ Regional development ▪ Human development

The following quotes provide some examples of CSR issues raised by both Managers and Stakeholders and might help clarify how they have been classified according to the proposed conceptual framework.

<u>'Do no harm' / Product</u>

> *"We are in a business which acknowledges and has to acknowledge that if you misuse our product and if you don't consume it responsibly, then there are consequences for the individual and there are consequences for society, and therefore part of our responsibility, which is at the heart of your question, is to those societies based on how we market and sell our brands." (Manager, food)*

> *"Compliance, obeying the rules, transparency, traceability. Companies should provide the goods that they themselves want to consume. Products which should be made in a sustainable way. Environmentally friendly, good to all, including the producers as well. Companies must inform consumers how products are made. All companies have the same responsibilities. They have to label from the very beginning of the product to the end." (Stakeholder, food)*

<u>'Do good' / Product</u>

> *"… access to drugs in the developing world. We're there to put our knowledge and competency at their disposal, distribute drugs to them, within certain limits. We're not an NGO or a government." (Manager, pharmaceuticals)*

> *"A technology company can use its intellectual property to help many people from young school children to elderly people… We had one programme where we actually went in and taught the elderly, to use a computer because most of them had never had any experience of it… All of a sudden a whole new world opens up to them and things that they never dreamed about that they couldn't do before, things they could find information on became so easy and particularly for a lot of them who aren't as mobile, they can't drive, they can't go places and so this opens up a whole new world. It is just another example of things that you can do." (Manager, high tech)*

"If you buy something, you have no idea how much energy it uses. So if you could label these kinds of products, as a consumer then you could make a choice like, "Hey, this product is much [better]" (…) So I think that companies should just take more of a leadership role in developing these kinds of products." (Stakeholder, industrials)

'Do no harm' / Process

"Being a responsible energy company implies being able to satisfy your customer demands in optimum conditions of price and quality of the service, and with the minimum impact to the environment." (Manager, energy)

"CSR encompasses all the "normal" things like labour conditions and safe manufacturing practice, I.e. pharma manufacturing should pose no harm to employees and environment. Need to be open & honest and not try to hide unfavourable data. Companies have an obligation." (Stakeholder, pharma)

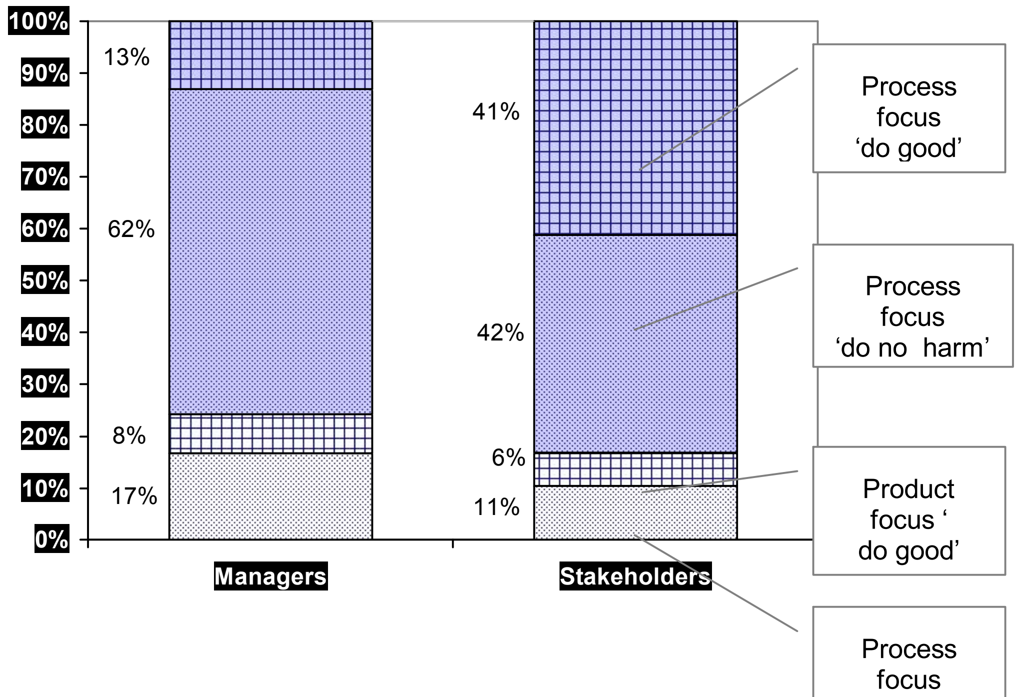
'Do good' / Process

"It means things like, in Africa we provide for healthcare to our employees and their families so we extend it to their families, nobody obliges us to do that and it's not because we are missionaries, but it's also because if you want to keep a good workforce, you know they are also depending on their families and so you have to see that in the global context." (Manager, food)

"Companies responsibility is being competitive and dynamic; in other words, doing their business well. At the same time they have to comply with rules and ethical standards accepted in the society (which can change in time). However, CSR goes beyond these first responsibilities, because being socially responsible means doing something more than that. So our vision considers the competitive aspect as well the social one; there must be a synergy between them: the latter must not be to the detriment of the former." (Stakeholder, industrials)

The analysis and categorisation of the answers to the Question 2 from the interview protocol "what is the social responsibility of multinational corporations?" revealed the following frequency distribution along the two dimensions:

Figure 5: Frequency of CSR Issues in Managers and Stakeholders Interviews



The comparison of the two datasets yields the following table showing the differences between issues reported by managers and those reported by stakeholders:

Table 9. Gap in the Frequency of CSR Issues between Managers and Stakeholders

	Product focus	Process focus	Total
'Do no harm'	6,3%	20,6%	26.9%
'Do good'	1.2%	(28.3%)	(26.9%)
Total	**7,6%**	**(7.6%)**	0,0%

From the analysis of the differences in the frequencies of CSR issues reported by managers and stakeholders, three main findings emerge:

a. Both Managers and Stakeholders clearly prioritise process issues to product issues (75.7 vs. 83.3%), even if Managers pay greater attention to product issues;

b. Managers tend to adopt a relatively passive view of their duties toward society, with an overwhelming share given to "do no harm" types of issues (4 to 1 ratio vs. the "do good" type of issues)

c. Stakeholders see CSR issues as more equally split between refraining from harmful behaviours and improving the well-being of the relevant constituencies (52.5% vs. 47.5%).

4.2.2 Framing the Concept of CSR

The second organising framework attempts to capture the way managers and stakeholders frame the concept of CSR along two dimensions:

1. The 'scope of the firm", that is the implicit understanding of what is a corporation (a multinational corporation, in particular). This dimension is constituted by three 'views' with increasing levels of scope in the definition of corporate identity:
    - The 'firm view', defines the identity of the corporation in its narrowest sense with its legal boundaries, and thus focuses exclusively on managers' discretionary choices of action driven by their perception of the constraints to their behaviour (legal, reputational, ethical). This is similar to the Carroll (1979) model of CSR.
    - The 'stakeholder view', which expands the scope of the identity of the corporation to a network of different types of actors (employees, customers, suppliers, etc.), each with different types of ties to the others, which are thus central to the conceptualisation of CSR. The firm as a network of stakeholders is closest to Freeman's (1984) original formulation of the concept of CSR.
    - The 'world' view broadens the identity concept still further beyond the boundaries of the firm and its stakeholders towards a notion of "global corporate citizen", a (corporate) citizen of the world, which is thus responsible to help fix the maladies of the globe: environmental emergencies, poverty, health, education, etc. This view can be connected most directly to the more recent contributions to the theoretical debate made by Margolis and Walsh (2003) and to the formulation of the Millennium Development Goals.
2. The 'depth' of social consciousness. The second dimension considers the (possibly wide) diversity in the conceptualisation of CSR within each of the three broad categories defined by the three "Views" above. For each of them, respondents vary along a dimension that ranges from a more narrow or superficial understanding of the issues involved to broader and deeper ones.
    - In the Firm view, perceptions of CSR proceed from narrower concerns with legal and regulative boundaries, to those connected to social norms (violating which causes reputational damage) to even more subtle moral obligations that contribute to societal development and respect its ethical norms.
    - In the Stakeholder-based view, perceptions vary from the fundamental types of stakeholders (shareholders, employees and customers) to increasingly broad and sophisticated notions of stakeholders such as suppliers, partners, governments and communities.
    - In the 'World view', perceptions can be simply conveyed as a concern towards the protection of the environment, or towards narrowly defined industry-specific issues (health for food and pharma companies; education for ICT; poverty for banks, and so on). A broader conceptualisation of the corporation as a "citizen of the world" includes all of the above, irrespective of the industry-specific responsibilities, as well as the reduction of social maladies such as human rights violation, corruption, issues of social justice, and so on.

Table 10 captures the proposed framework for the analysis of the cognitive framing of corporate social responsibility that is proposed.

Table 10. Scope of Firms' Social Consciousness

Depth	Firm View	Stakeholder View (Extended Enterprise)	World View
Narrow	Compliance and risk management	Shareholders, employees, customers	Industry-specific global issues (e.g. health for pharma)
Broad	Moral duty (give back to society), ethical boundaries	Suppliers, partners, communities, local government	Proactive reduction of global maladies, MDGs

The following quotes show how Managers and Stakeholders frame their concept of CSR along the two dimensions of the 'scope of corporate identity" and the 'depth' of social consciousness.

Firm view

Narrow

> *"Fair player in society, towards employees, towards environment. Meet the law." (Manager, chemicals)*

> *"Rewards of being socially responsible, or having such a reputation, are that people will want to work for you, be your clients, clients will be more faithful, authorities will also give you permission easier and communities will accept you better."(Manager, energy)*

> *"In Europe there is a stronger sense of accountability, for example to labour, whereas in the US we don't have that. Companies are often beneficiaries of tax incentives and public funding, so they have to be accountable to society." (Stakeholder, high tech)*

Broad

> *"Companies take up a lot of space and use a lot of resources. Need to operate in a responsible way. Relates to environmental impact/footprint. Also relates to how companies treat people. Corporations need to consciously look at ways to give back - not to take resources but to create resources - give back. Corporations have a lot of privileges - need to give back." (Manager, natural resources)*

> *"Let's say, if you want to be a decent company, I think that it is not right word but, if you would like to excel and go beyond the competition, then you have to have your act together and CSR is a part of it." (Manager, chemicals)*

> *"To build sustainable business over time. Sustainability is the key objective of any business. Sustainability towards business, the communities and the environment. They are responsible for getting an active role in society by participating in the national, regional and global debates. To run business in a proper way. Not to be an Enron. To be ethical according to internal and external measures." (Stakeholder, high tech)*

Stakeholder view

Narrow

> *"CSR is not corporate philanthropy. CSR is doing well one's own business, having in mind the stakeholders. In other words, CSR is generating sustainable profit in the long term; so the creation of value for shareholders is accompanied by customer satisfaction, employee*

motivation and satisfaction, positive relationship with communities. Therefore for a manager CSR means achieving value for shareholders in a sustainable way (meeting stakeholders' expectations)." (Manager, banking)

"I think we have a very holistic view regarding sustainability. So, I guess I would say the responsibility of a company is to create value for a large amount of stakeholders. And in creating the value, they should take into consideration the long-term views. I guess that just about sums it up." (Stakeholder, industrials)

<u>Broad</u>

While the narrow stakeholder view is limited to classical stakeholders, the broader perspective includes stakeholders outside the inner circle such as NGOs that essentially intermediate between inner-circle stakeholders and the company or control additional sources of resources.

"I think it is important for companies at least to – and that's the minimum – to behave as good citizens and what that means is that you obey to the local rules, of the community you live in, that you obey to, let's say, environmental requirements, so the first thing I'd say is to obey to. To basically pay the taxes which are due to the State, to make sure that people can work in the place which is at least not dangerous for their health. (...) and I think where CSR comes in is to make sure that the other stakeholders, like the other people or parts of the society we belong to that implicitly or explicitly help you to satisfy the shareholders' needs are being upheld as well. So what I mean is, well maybe it's not an example of [company], but it's relatively easy to fish all the fish and take all the fish out of the ocean and do what the crocodiles do... but in 20-30-40 years from now we will have a dramatically different nature so I see it as our social responsibility that we take measures that will balance this. Another part is ... remaining close to our own internal vital personnel, that these people, obviously with their families, and the societies they participate in get an income out of the company." (Manager, food)

"The most essential responsibility of any business is to do business. It's economic responsibility and this one cannot be discussed and it's general for every business. Definitely a company has responsibility to the community around it. When you speak of your community in the global society, you speak of your team. So a company has a responsibility towards that. But we are not to be run by stakeholders. By being transparent in this and setting, you know, the limitations, so as. And the responsibilities of it we have at each access you can, you can work at it in quite effective way, but you have to say as a company I'm going that far and no further. That I'm the one in charge. I'm the captain on the boat for this one." (Manager, pharma)

"Corporations have responsibilities to communities where they operate, to their shareholders, to their employees and to the public in general in terms of product responsibility. They need to provide their employees healthy and safe workplaces, products should be safe and not provide dangers to consumers. Companies also have the responsibility to provide information to their stakeholders" (Stakeholder, natural resources)

World view

<u>Narrow</u>

"Energy preservation - and natural resources." (Manager, natural resources)

"To meet the demands of present customers in a way to meet the needs of future generations. Take all aspects of triple bottom line." (Stakeholder, chemicals)

<u>Broad</u>

"This is a very personal answer. I think today's debate is who is responsible and capable to address the main problems of society (Nowadays there are big challenges, access to health and education in poor countries. The gap is very big between rich and poor countries). The response is not clear yet. As companies, we pay a lot of taxes to government to actually give a solution to these issues, but...the reality is that it is not working, so what do we do? Keep watching TV?" (Manager, high tech)

"We joined this company because we wanted to change the world, that is what we do and what we will \keep on doing. That is our responsibility, to put all our knowledge and skills for

the improvement of human life. We want to impact the world for the better." (Manager, high tech)

"I don't come to work to sell [my company's] products, I come every morning to make an impact on the way in which the members of society relate and connect." (Manager, high tech)

"I believe that as a company, we can contribute to society, we create tremendous amount of jobs, we reduce poverty in the world by creating jobs by training people, we can, for instance, you can take a framework like the UN Millennium Development Goals coming from that NGO Worlds, I see what major contributions we have to train people, to create new jobs, to complete projects that serve society. Yes, we have a big responsibility to protect the environment, (…), to protect ecosystems. It's true we manage our risks, but, we also have a big responsibility and a big challenge to contribute to society and that's what we are doing." (Manager, chemicals)

"Creating programs to help communities in education, health care and environmental protection." (Stakeholder, pharma)

"It's very broad and varies from country to country and according to local requirements. The corporate sector has responsibilities for local development. Efficient competition works for poverty reduction." (Stakeholder, high tech)

"Corporations need to position themselves as responsible corporate citizens on the world stage – even at the risk of taking positions that are not widely shared in the business community." (Stakeholder, natural resources)

The framework was applied to categorise the responses to the question on the social performance of multinational firms in both managers and stakeholder interviews. The results are conveyed in Figure 6 and Table 11 below.

Figure 6: Scope of Firms' Social Consciousness in Managers' and Stakeholders' Interviews

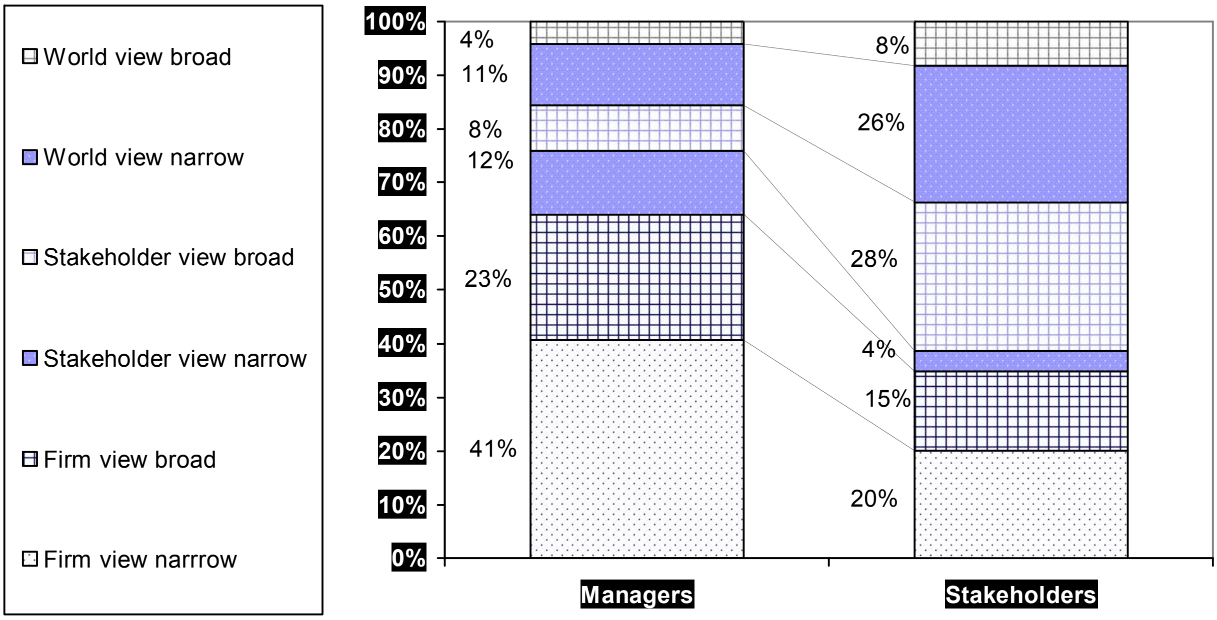


Table 11. Variation between Managers and Stakeholders in Framing CSR

	The Firm View	The Stakeholder View (Extended Enterprise)	The World View (Global Citizen)	Total
Narrow	20.6%	8.2%	(14.1%)	**14.7%**
Broad	8.7%	(19.3%)	(4%)	**(14.6%)**
Total	**29.3%**	**(11.1%)**	**(18.1%)**	**0%**

The analysis shows a significant difference between managers and stakeholder representatives in the way they frame the concept of CSR, along both the dimensions taken into consideration:

a. Along the first dimension, managers have a much more firm-focused conceptualisation of CSR (almost twice the frequency, 64% vs. 34%) , and consequently a more infrequent framing through a stakeholder (20% vs. 31%) and, even more, a "world" view (15.6% vs. 33.7%).

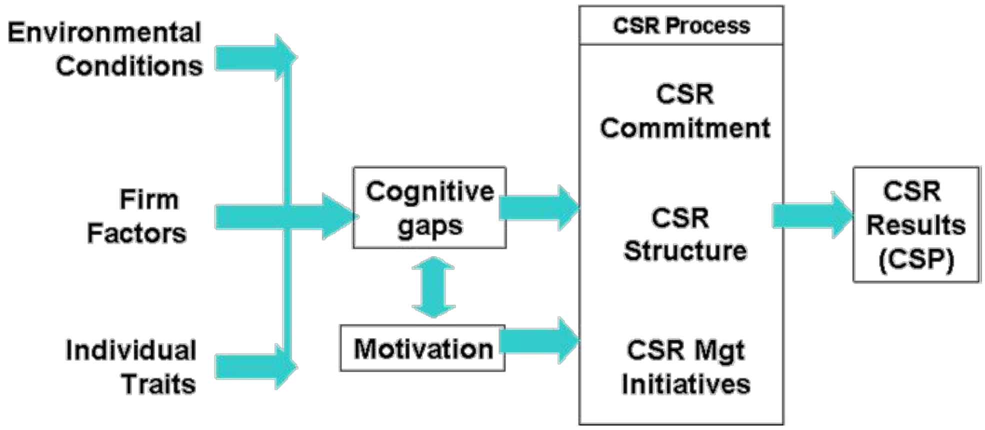
b. Along the second dimension ("depth" of the concept, within a given view), managers show a significant gap vs. their stakeholders in that their responses tend to be more narrowly focused compared to those provided by stakeholders (diff. about 15%).

This result can be interpreted to mean that the misalignment between managers and stakeholders is fundamentally rooted in a different perspective as to the "raison d'etre" of the corporation and its role vis-à-vis society. Stakeholders have a much broader frame of reference about the purpose of the corporation, which they tend to view as a global (corporate) citizen, with its rights and duties, whereas two thirds of the managers interviewed reveal a narrower conceptualisation the corporation, limited to its legal and operational boundaries. Equally important, stakeholders seem to be more advanced in a hypothetical "evolutionary" process of their conceptualisation of CSR, showing a deeper understanding of the concept relative to managers, particularly in the "world view" framing.

4.3 Magnitude of cognitive gaps (Objective 1)

This section presents quantitative findings on the cognitive alignment between managers and stakeholders at each company. It thus opens the 'black box' related to 'cognition' in the RESPONSE model as indicated in Figure 7 below. Alignment is measured in terms of four types of cognitive gap. The results of this section address research Objective 1.

Figure 7: RESPONSE model



4.3.1 Cognitive gaps by company

The following table provides an overview of the magnitude of the four cognitive gaps for each of the 19 companies. These represent the four dimensions of cognitive alignment that we described in Section 4.2.2.

Table 12. Four dimensions of cognitive gaps by company

Company	Sequentiality	Stakeholder impact on company (risk ranking)	Company impact on stakeholder (responsibility ranking)	Firm social performance
	Gap 1	Gap 2	Gap 3	Gap 4
High Tech 1	14%	16%	21%	10%
High Tech 2	33%	29%	41%	-6%
Food 1	41%	59%	-	-
Food 2	13%	14%	-	-9%
Chemicals 1	20%	32%	-	-3%
Chemicals 2	26%	48%	-	-8%
Chemicals 3	30%	38%	33%	-22%
Pharma 1	24%	22%	35%	-2%
Pharma 2	27%	27%	60%	-3%
Pharma 3	29%	36%	50%	15%
Bank 1	28%	25%	23%	-6%
Bank 2	25%	19%	23%	-7%
Energy 1	29%	27%	-	-
Energy 2	30%	32%	32%	-4%
Industrials 1	17%	25%	-	-9%
Industrials 2	43%	-	-	9%
Nat. Resources 1	16%	11%	16%	2%
Nat. Resources 2	22%	27%	22%	1%
Nat. Resources 3	17%	30%	-	-38%
AVERAGE	25%	29%	32%	-6%
MIN	13%	11%	16%	-38%
1st Quartile	19%	23%	23%	-8%
MEDIAN	26%	27%	32%	-4%
3rd Quartile	29%	32%	38%	-1%
MAX	43%	59%	60%	15%

Observations from the analysis of the data in Table 12.

1. The magnitude of cognitive gaps varies considerably across companies even in the same industry and the same geographic region. This is particularly salient in the case of gap 4. This can be interpreted as a preliminary indication that cognition is a relevant dimension in the RESPONSE model.
2. The Sequentiality and the Risk Ranking gaps seem to correlate (in high tech, chemicals, pharma and banking), reflecting the fact that managers instinctively respond

to the question "which ones are the key stakeholder to your company" with an implicit ranking of their importance for (i.e. impact on) the company. Even if they talk about responsibility, which is inherently a notion of "impacting others", what they have in mind is really "salience" (that is the stakeholder's impact on the company).

3. Three companies – Natural Resources 1, Natural Resources 2, and High Tech 1 – stand out as having very low cognitive gaps. Their managers also undervalue their performance vis-à-vis their stakeholders. This may imply that they have a very good appreciation of what good social performance means.

4.4 Cognitive alignment and Corporate Social Performance (CSP, Objective 1b)

An important part of the study of cognitive gaps relates to their impact on perceptions of social performance. In a way, the question to address is: do cognitive gaps actually explain at least part of the difference between high and low social performers?

This section presents quantitative findings on the relationship between cognitive alignment and corporate social performance in each sector. Analysis is carried out by matched pair or triad for each of eight industries. The results of this section address research Objective 1b.

4.4.1 Discussion of results for cognitive alignment and CSP

A fundamental premise of this study is that, only when managers and stakeholders frame their thinking about firms' social responsibilities, can a mechanism for cooperation develop. The alignment of managers' and stakeholders' thinking implies the optimal identification of CSR strategies. We are therefore interested to assess whether cognitive alignment between firms' executives and their stakeholders actually matters for social performance. Whilst awareness does not necessarily lead to action, behaviour is influenced by how individuals perceive and evaluate their environment (Axelrod, 1976). Early research on the cognition-behaviour relationship focused on attitudes, finding that attitude-behaviour consistency is higher where attitudes are formed from direct experience and where a person's attitude reflects vested interest (Fiske and Taylor, 1991). Some attitudes may drive ideal or socially desirable responses, while competing attitudes may guide behaviour (Kahn and Corsby, 1987). However, the cognitive components of attitudes predict goal-driven behaviour better than the affective components of attitudes (Millar and Tesser, 1986). To the extent that alignment allows managers to choose and implement suitable practices in the pursuit of organisational goals, we expect a positive relationship between alignment and social performance. To the extent that alignment allows managers to choose and implement suitable practices, we expect a positive relationship between alignment and social performance. This leads to the following hypothesis.

The greater the cognitive alignment between a firm's executives and its stakeholders, the higher the firm's CSP.

This hypothesis is proposed in order to explain the relationship between corporate social performance and each of the four types of cognitive gap:

1. *Sequentiality:* The Sequentiality gap in higher CSP companies is expected to be *smaller* than in lower CSP companies. The reason being that managers in companies that have lower cognitive gaps are expected to give similar priorities to the interests of their stakeholders as stakeholders themselves do, increasing the chance of having a stronger CSP.

2. *Risk and Responsibility Ranking:* similarly, companies with lower Risk/Responsibility Ranking gaps are expected to be rewarded with larger CSP by their stakeholders because they show more cognitive alignment vis-à-vis the prioritisation of stakeholders with that of stakeholders themselves give.

3. *Social Performance:* companies with higher CSP are expected to have a smaller deviation in their managers' perceptions of the company's CSR performance (vis-à-vis the perceptions of stakeholders) compared to lower CSP companies. Having different conceptions of the company's CSP, whether larger or smaller than those of stakeholders, means that managers are not really aware of what stakeholders perceive to be the company's strengths and weaknesses in meeting their interests.

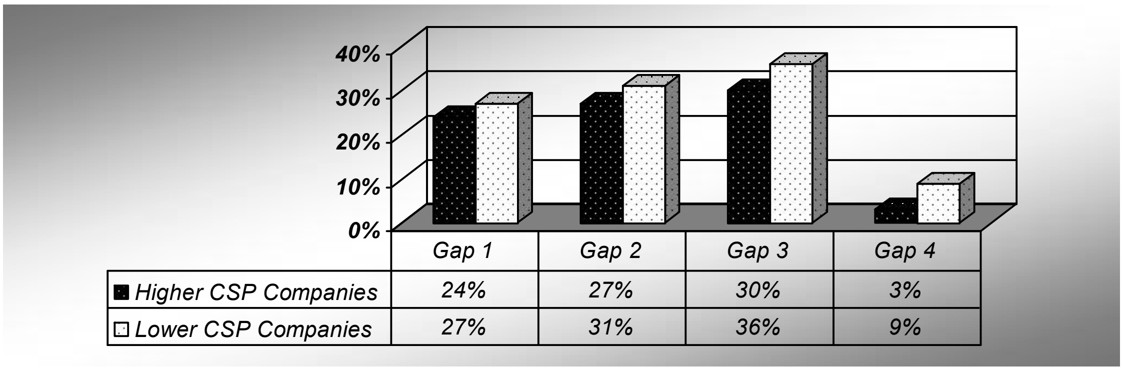
Table 13. Matched pair analysis by industry and CSP

	Gap 1: sequentiality	Gap 2: stakeholder impact on company	Gap 3: company impact on stakeholders	Gap 4: social performance
The higher social performance firm has a narrower gap than lower social performance firm	High tech Food Pharma Chemicals	High tech Pharma Energy Nat. Resources	High tech Nat. Resources Pharma Banking	Natural resources High tech Food Pharma Banking Chemicals
The lower social performance firm has a narrower gap than higher social performance firm	Banking Energy Nat. Resources	Food Banking		

The above table shows the industry matched pairs (or triads) that support each of the four hypotheses, and those that refute it. In all the 4 approaches taken to assess cognitive alignment, the number of industries in which the higher CSP firm scores smaller cognitive gaps (and thus higher cognitive alignment) than lower CSP firms, is consistently larger than the number of industries in which this does not happen. In Gaps 3 and 4, in particular, all the industries in which we had systematic and reliable data support the hypothesised ordering of the firms vis-à-vis their CSP.

Further evidence of the link between cognitive alignment and CSP can be gathered by comparing the average values of cognitive gaps among companies with high CSP vs. the same values in companies with lower CSP.

Table 14. Average Cognitive Gaps in higher vs. lower CSP companies



As expected, the average gaps are smaller in higher social performance companies than in lower CSP companies across *all the four dimensions of cognitive alignment.* This provides support for hypothesis developed above.

Overall, the data collected provide evidence that cognitive alignment, measured in several different ways, is correlated with CSP.

Having found evidence of the "relevance" of cognitive alignment for the explanation of variance in CSP, it will be interesting to identify the factors that might explain why certain companies have wider gaps than others. That is what we are aiming to do in Chapters 5 and 6.

5 Findings: External factors and cognitive alignment (Objective 2)

5.1 Introduction

This Chapter presents quantitative and qualitative findings on the impact of external factors on cognitive alignment in each company. Four types of external factors are examined – industry characteristics, overall cultural and institutional characteristics (geographic region where the companies are headquartered), the extent of pressure from external stakeholders and the degree to which institutional motivations play a role in justifying the company's commitment to CSR activities.

The results of this section thus examine the *external causes of cognitive alignment* and, in doing so, address research Objective 2.

5.2 Discussion of results for impact of stakeholder pressure

We consider social risk as an important stimulus to learn about stakeholders' demands. Organisations are influenced by those actors who have control over critical resources and gain the attention of managers (Pfeffer and Salancik, 1978). The degree of pressure that companies feel from social actors is a key determinant of social risk. Besides the legitimacy of their claims, the power and urgency with which stakeholders make these claims also matters (Mitchell, Agle and Wood, 1997). As Mitchell et al (ibid.) argue, stakeholder salience will be high when at least two of the three stakeholder attributes – legitimacy, power, and urgency – are present. In particular, powerful stakeholders who make urgent claims but lack legitimacy are 'dangerous' (p. 877) to the organisation as they may try to use coercion to block the focal firm's activities. This salience potentially affects how managers frame their understanding of their company's response to societal demands. We therefore expect that higher levels of stakeholder pressure on the company result in lower cognitive gaps.

Prima facie, the hypothesis is:

> ***Greater pressure from external stakeholders results in greater cognitive alignment. External pressure serves as a stimulus for managers to engage with stakeholders in order to gauge their expectations.***

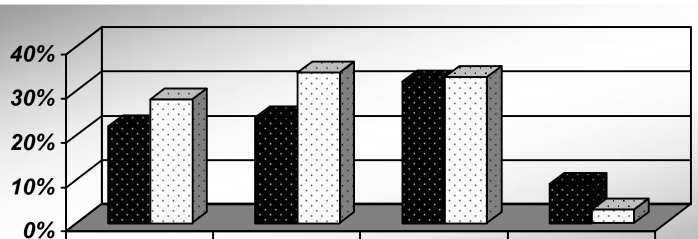
However, external stakeholder pressure can also be the result of poor cognitive alignment between managers' and stakeholders' understanding of the problem. Indeed, the failure to identify potentially dangerous stakeholders at an early stage can result in fewer opportunities for interaction and accommodation, and thus heightened pressure, at a later stage (Mitchell et al., ibid.). In this case, one would expect higher stakeholder pressure to be associated with larger cognitive gaps.

An alternative hypothesis, therefore, is that:

> ***Greater pressure from external stakeholders is the result of poor cognitive alignment, and is therefore associated with larger cognitive gaps.***

Table 15 (below) shows the magnitude of average cognitive gaps for firms with high levels of external stakeholder pressure (ESP) compared to those with low levels of ESP (split around the approximate median).

Table 15. Impact of External Stakeholder Pressure (ESP) on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
■ Higher ESP Companies	22%	24%	32%	9%
□ Lower ESP Companies	28%	34%	33%	3%

The results in the table above support the first hypothesis in the case of cognitive gaps 1 – the sequential order of stakeholders - and 2 - the stakeholders' impact on the company. That is, firms that experience more external pressure have closer understandings between stakeholders and managers on the issue of how stakeholders impact on the company. This may suggest that, under conditions of high external stakeholder pressure, the stakeholders who exert most impact are especially visible.

However, other results are mixed. The measurement of gap 3 shows no sizeable difference and the Performance Gap (4) supports in fact the alternative hypothesis as the result (*i.e. a larger gap* for firms that experience higher external stakeholder pressure) indicates that firms with less stakeholder pressure have a *better* understanding of the way their stakeholders judge their company's behaviour.

Overall, the data analysed point towards a *positive* role of external stakeholder pressure in that it seems to be associated with higher levels of cognitive alignment between managers and stakeholders. However, since one of the measures of alignment adopted in this study indicates a different pattern, the link between external stakeholder pressure and cognitive alignment deserves further study.

Some of the qualitative evidence supports the notion that strong stakeholder pressure is a consequence of poor previous performance. For example, the representative of one campaign group explained that the organisation was founded precisely because of the concern about the effects of extractive companies on local communities. However, rather than campaigning against whole companies, which are often diversified, his organisation focuses on specifically those local operations against which it finds fault. In this case, poor perceived performance is a cause of stakeholder initiatives. Moreover, the lack of dialogue between such campaign groups and commercial companies seems to intensify the cognitive gap. One manager remarked that activist groups adopted a moral stand without having to face the consequences of their actions if, for example, they ended up delaying operations on a specific site. Of course, much stakeholder pressure is exerted by transactional stakeholders and their representatives. The pressure from workers' representatives on another participating company has increased in recent years owing to job losses and a perceived deterioration in working conditions.

5.3 The impact of institutional norms as motivation for CSR

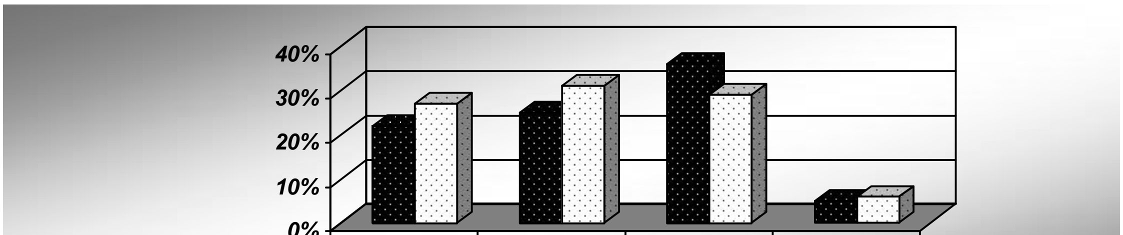
Institutional motivation reflects a desire to conform to the prevailing 'way of doing things', whether based on industry or other norms. It therefore implies greater reliance on general norms than specific stakeholder feedback, thereby increasing the expected level of cognitive gaps.

The institutional environment comprises the values of a society or a subset of society. Multinational organisations are often subject to a multiplicity of conflicting institutional demands. The companies are pulled in different directions, and efforts to mitigate the risk associated with one set of institutional demands can trigger new complaints by another set of advocacy groups concerned with other institutional values. Importantly, institutional theory predicts that firms become isomorphic. Isomorphism can occur through regulatory or normative pressure, but in the face of uncertainty mimetic processes are common as firms copy the activities of competitors (DiMaggio and Powell, 1983). The industry can serve as a source of recipes, i.e. shared patterns of belief that aid managers in dealing with uncertainty (Spender, 1989). Where there is such a prevailing way of doing things, managers may be less disposed to obtain specific feedback from stakeholders. Consequently, where institutional norms are largely responsible for driving CSR compliance, firms may be moved to copy competitors' actions rather than make sense of their own stakeholders' demands. This leads to the following hypothesis:

> ***The greater the importance of institutional factors in motivating CSR, the wider the cognitive gaps (i.e. there will be lower levels of cognitive alignment observed).***

Table 16 below shows the magnitude of average cognitive gaps for firms whose CSR activities are motivated to a significant degree by institutional norms compared with those with a low level of institutional motivation (split around the approximate median).

Table 16. Impact of institutional motivation (IM) on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
HIGHER IM	22%	25%	36%	5%
LOWER IM	27%	31%	29%	6%

As can be seen, the evidence is inconclusive. Only gap 3 clearly supports the hypothesis. That is, cognitive alignment is greater for firms with lower levels of institutional motivation on this criterion alone. Gaps 1 and 2, however, point in the opposite direction and gap 4 is too narrow to draw meaningful conclusions from.

Overall, the evidence is mixed along the different types of cognitive gaps analysed. No clear association can thus be found in the data between the degree to which the company invests in CSR as a consequence of external norms and pressures, and the magnitude of cognitive alignment.

The complicated nature of the institutional case is perhaps best highlighted in the natural resources sector. The International Council on Mining and Minerals (ICMM), which is comprised of the world's largest mining and metals companies, has its own Sustainable Development Framework. All members are required to implement this. As such, it represents a clear case of coercive isomorphism – i.e. large firms become similar in their behavior without necessarily selecting optimal practices. However, a closer look at the ICMM suggests that sustainability guidelines are developed in co-operation with members (and representatives from relevant interest groups). It may even be argued that membership allows firms insight into best practice. Voluntary industry codes were also mentioned by managers in the food sector; managers believed that some difficult problems could only be tackled by several industry players in unison. In short, where the institutional motive for CSR is taken to mean that firms implement practice uncritically or as window dressing, cognitive alignment between managers and stakeholders may be low. On the other hand, where it means that firms have shared understandings about suitable ways to implement sustainable development, alignment may be high if firms are able to tap into expert knowledge and the experience of competitors.

5.4 The impact of industry on cognitive gaps

We are also interested in how cognitive alignment differs across industries. A naïve hypothesis may be that rapid change in the environment impedes learning, and that more stable industries would be characterised by higher alignment. Recently, however, evolutionary theory has recognised that cognition offers adaptive value in dynamic and complex environments (Godfrey-Smith, 1996). In simple terms, "the function of cognition is to enable the agent to deal with environmental complexity" (p. 3), where complexity refers to the diversity of states that the environment can assume. On the other hand, firms in stable environments potentially stand to gain less from scanning their environments, and efficiency requirements may lead managers in such firms to pay less attention to potential environmental threats (Winter, 2004). Some industries are characterised by rapid and frequent discontinuous change, while others are marked by stability. In addition, some industries require companies to invest in tailoring their products or services to the needs of their customers, another important source of complexity, whereas others are characterised by much higher levels of standardisation in the products and services offered.

We thus submit the following two explanations for the variance in cognitive gaps across industry boundaries to empirical validation:

- Firms in industries characterised by rapid change are likely to show greater cognitive alignment between executives and stakeholders than firms in industries characterised by slower rates of change.
- Firms in industries characterised by higher levels of customisation of products and services offered are likely to show greater cognitive alignment between executives and stakeholders than firms in industries characterised by higher levels of standardisation.

We show below the magnitude of the four gaps across seven industries; the Industrial Products sector was omitted because of a poor match of the companies in that pair.

Table 17. Cognitive gaps by industry

Industry	Gap 1: sequential order of stakeholders	Gap 2: stakeholder impact on company	Gap 3: company impact on stakeholders	Gap 4: firm social performance
Food	27%	37%	-	9%
Pharma	26%	29%	48%	3%
Nat. Res.	18%	23%	19%	11%
Energy	29%	29%	32%	4%
Banking	27%	22%	23%	6%
Chemicals	25%	39%	33%	11%
High tech	24%	22%	31%	2%

The data show a significant amount of variation among industry contexts along the various dimensions of cognitive alignment. The following patterns can be detected:

1. Together with natural resources, an industry that has a long history of engagement in environmental and social responsibility, it came somewhat as a surprise to see that the high tech and banking industries show the lowest average gaps. This might be due to the rapid change and the degree of customisation required to compete in these industries, thus supporting the hypotheses. An additional explanation has to do with the innovation- and differentiation-driven strategic logic that might push managers to be more open (and invest more) towards understanding the external environments that they are facing (see the related hypothesis on the link with strategic orientation). This explanation would be consistent also with the hypothesis developed for the link between business strategy and cognitive alignment (see 7.2.2).
2. Chemicals, Energy and Food have the highest gaps (lowest alignment) along these dimensions. One trait that these industries have in common is a relatively low level of environmental change in terms of new product introductions, underlying supply and demand characteristics, etc. as well as the low customisation to client demand required for their products and services.

A preliminary analysis, therefore, seems to indicate a role for the degree of environmental complexity (given by high levels of market dynamism as well as customer requirements for differentiated and tailored products/services) as potential factors to explain the cross-industry variation detected along the various measures of cognitive alignment.

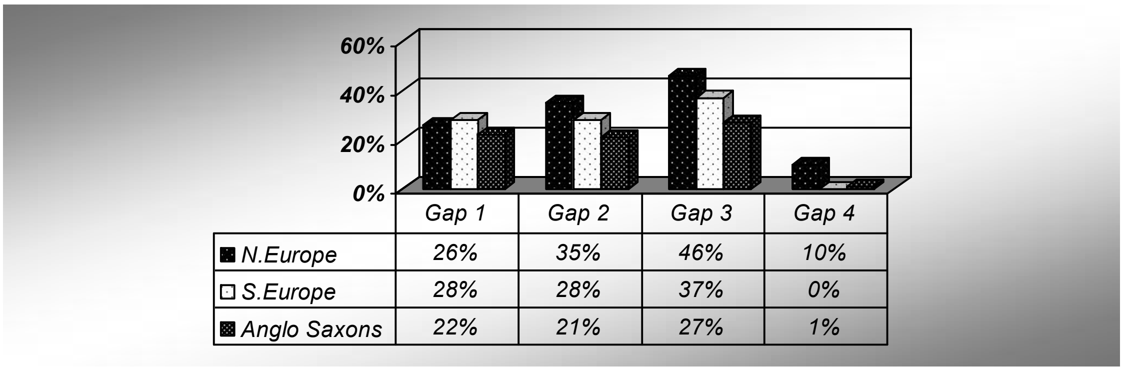
5.5 The impact of geography on the size of cognitive gaps

The impact of the geographic location a company's headquarters could influence the magnitude of cognitive gaps for different reasons. On the one hand, the amount of pressure by stakeholders, and their degree of sophistication, can vary depending on the cultural traits, social norms and legal boundaries present in a given region. In more advanced regions, such as Northern Europe[12] one would expect lower gaps because of the longer history of interaction between the companies and their stakeholders. At the same time, though, stakeholder demand itself might evolve more rapidly in the most advanced regions making it harder for managers to maintain a high level of cognitive alignment.

A starting hypothesis, therefore, would be that Northern Europe would exhibit lower gaps than Southern Europe, and that European companies would have lower gaps than Anglo Saxon countries, based on the higher levels of sophistications of companies in that region. However, if the stakeholder sophistication effect is prevalent, i.e. stakeholders demonstrate more sophisticated demands in advanced regions, then the sequence of the three regions would be the opposite: Anglo Saxon countries would have smaller gaps than Europe, since stakeholders there might be even less sophisticated or complex to manage than in Europe.

The average gaps across all the companies in each of the three regions is presented in Table 18.

Table 18. Cognitive gaps by geography (all companies)



	Gap 1	Gap 2	Gap 3	Gap 4
N.Europe	26%	35%	46%	10%
S.Europe	28%	28%	37%	0%
Anglo Saxons	22%	21%	27%	1%

The evidence suggests a series of somewhat unexpected findings:

1. Managers in Anglo-Saxon companies exhibit the lowest Sequential, Risk Ranking and Responsibility Ranking gaps, and therefore the larger degree of alignment, compared to Southern European companies and even more compared to Northern European companies.
2. Northern European companies also seem to misjudge (specifically, overstate) their own social performance more than Southern European and Anglo-Saxon companies, which are essentially on target vis-à-vis their stakeholders' assessments.

It appears that the effect related to the sophistication of stakeholders is stronger than that of the corporate managers, thereby penalising apparently experienced companies based in Northern Europe. However, the fact that Northern European companies also overstate their estimates of social performance confirms that there might also be an excessive amount of praise for the northern European companies, compared to those headquartered in Anglo-Saxon countries and Southern Europe.

A further explanation for the surprising finding may be related to our hypothesis that dynamic industries are characterised by higher alignment than stable industries. In the same way, firms in regions marked by faster economic change (e.g. North America and the UK) are associated with

[12] Northern European countries typically score the highest in terms of CSP of their companies (CITE Responsible Competitiveness study by Accountability)

greater cognitive alignment between executives and stakeholders than firms in regions marked by slower economic change (e.g. southern Europe). While all regions demonstrate economic and structural change, liberal economies such as North America and the United Kingdom are characterised by more radical innovation than the social democratic countries of Northern Europe (Hall and Soskice, 2001). The central and northern European economies, in contrast, are distinguished by more incremental innovation. This may lead to more routinised behaviour (and an acceptance of the status quo) and less active scanning of the environment.

However, when we distinguish high CSP ('great') companies from lower CSP ('good') companies, we notice a different pattern in the data. Whereas, the high performing Anglo-Saxon companies confirm the greatest alignment across most gaps, the lower CSR Anglo-Saxon companies actually show the reverse, a lower alignment across some gaps than their peers in continental Europe. This suggests a high within-region variation across the social performance dimension, especially in Anglo-Saxon regions, and varying degrees of correlation between regional features and cognitive alignment in different CSP segments of the population of companies.

Table 19. Cognitive gaps by geography (high CSP companies)

Geography	Gap 1: sequential order of stakeholders	Gap 2: stakeholder impact on company	Gap 3: company impact on stakeholders	Gap 4: firm social performance
N.Europe	26%	36%	60%	5%
S.Europe	28%	25%	23%	6%
Anglo Saxons	19%	19%	24%	0%
AVERAGE	24%	27%	36%	4%

Table 20. Cognitive gaps by geography (lower CSP companies)

Geography	Gap 1: sequential order of stakeholders	Gap 2: stakeholder impact on company	Gap 3: company impact on stakeholders	Gap 4: firm social performance
N.Europe	26%	33%	33%	14%
S.Europe	28%	29%	35%	2%
Anglo Saxons	33%	29%	41%	6%
AVERAGE	29%	30%	36%	6%

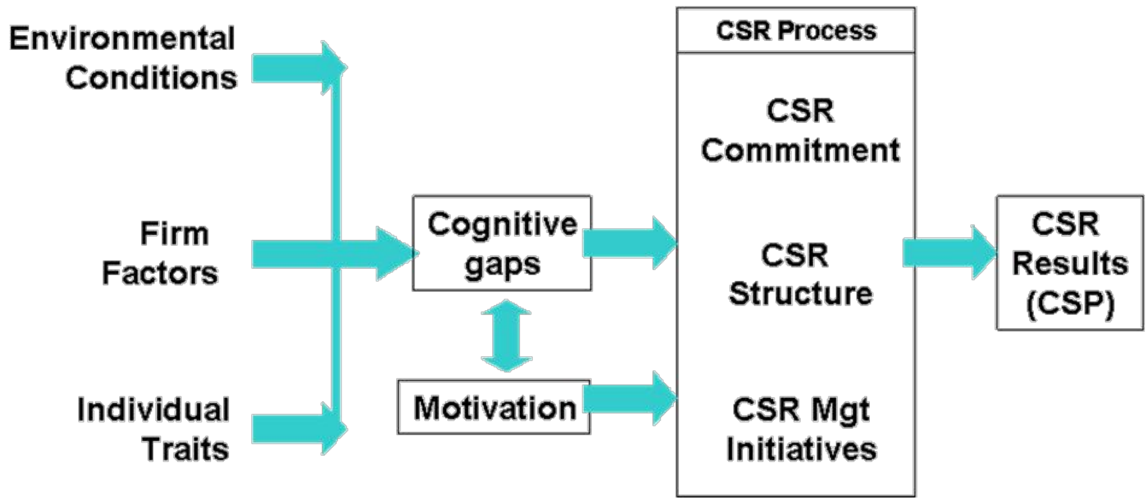
Two additional points arose from the interviews. First, whilst where the company is headquartered plays a role, managers stressed the need to adapt policies and behaviour to the local context. As one American manager stated, *"You have to live by the basics of what it is to do business in all those different countries. You first of all have to honour their laws, their rules, their regulations, their policies and their procedures, even though it'll be vastly different from country to country to country… I came here 18 months ago and I found the laws, the rules and the regulations quite different in the various countries of Europe than what we have in the United States."* Finally, the generally poor reputation of southern European versus northern European firms is not borne out by our findings. Though this may be partly explained by the small sample of southern European firms, an analyst at one of the social rating agencies mentioned a clear distinction in the quantity of publicly available information provided by northern and southern European firms. Additionally, northern European firms are more likely to have codes and formal procedures in place. The question remains: does the availability of public information necessarily result in the implementation of higher standards?

6 Findings: Internal factors and cognitive alignment (Objective 3)

6.1 Introduction

This Chapter presents quantitative and qualitative findings on the relationship between cognitive alignment and a number of potential explanatory factors internal to the firm. The results of this section thus examine a number of potential *internal* explanations of cognitive alignment and address research Objective 3.

Figure 8: RESPONSE model



The internal factors that can potentially explain why certain companies have wider gaps than others can be found either in the characteristics of the CSR process, or in general firm factors. In this chapter, we will focus on the following ones:

- General firm factors
    - Firm origins (6.2.1)
    - Firm strategy (6.2.2)
    - Knowledge management (6.2.3)
- CSR process
    - Stakeholder engagement (6.3.1)
    - Integration of CSR into business processes (6.3.2)
    - Innovation as motivation for CSR (6.3.3)

We also provide information on the relationship between cognitive alignment and other variables, such as 1) leadership commitment, 2) organisational structure, 3) organisational values and 4) the strength of influence of the CSR department within the organisation, in Exhibit 4.

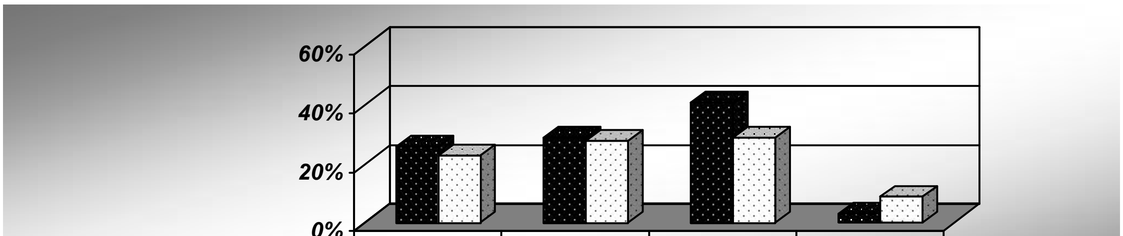
6.2 General Firm Factors

6.2.1 The impact of firm origins

As company founders differ in their sensitivity to social issues, the values expressed by founders are a first candidate in explaining the variation in cognitive alignment. Some features of organisations persist over time. In particular, the choices of an organisation's founder and its early entrepreneurs often have an indelible effect on the evolution of the organisation's behaviour (Boeker, 1989; Bettis and Prahalad, 1995). Founders that were sensitive to social issues are likely to have established a set of principles and procedures (including HR recruitment and promotion criteria) that influence corporate culture many years later. Where early values are reified in operating principles and procedures, they will continue to have an influence on corporate culture. Our hypothesis is:

> ***Strong CSR values on the part of founders will produce closer cognitive alignment between managers and stakeholders.***

Table 21. Impact of firm origins on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
Resp Origin	26%	29%	41%	3%
No Resp Origins	23%	28%	29%	9%

The results in table 21 above show support for the hypothesis only in gap 4, regarding appraisals of CSP. Gaps 1, 2 and 3 point in the opposite direction, and the responsibility gap (gap 3) is especially large. This implies that responsible origins may become a liability for some organisations if it means that those with an embedded CSR history have less ability or incentive to learn and to adapt.

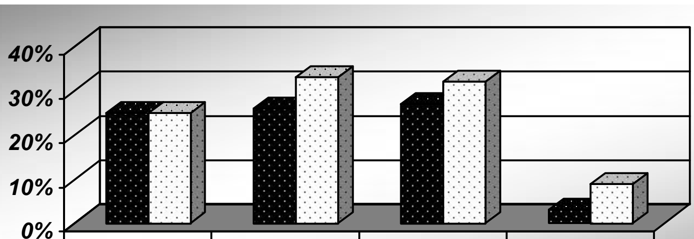
However, an embedded history of CSR and a strong founder profile do not have to inhibit learning. While long established values are an important motivation for one high tech company's managers to operate responsibly, the company launched a project, engaging tens of thousands of employees worldwide, to redefine its values. This initiative came from the recognition that the company's structure and activities had changed massively from its foundation. Moreover, this redefinition of values occurred internally without the intervention of external consultants. Yet, while those companies that have been around for some time are able to reformulate their values and keep them meaningful to new staff, under no circumstances is this an easy endeavour. It is, as one manager remarked, "(a) cultural transformation, a process transformation, a structural transformation."

6.2.2 The impact of firm strategy

The strategic positioning of the focal firm is a further internal factor likely to influence alignment. Competitive advantage exists when a firm creates higher value for its customers than the cost of creating it. Porter (1980) posits that firms with advantages based on cost leadership or differentiation can outperform competitors. The core component of cost leadership is efficiency, i.e. the favourable relationship between units of input and output (Hambrick, 1983). Components of a differentiation strategy include premium pricing, advertising intensity, research and development, novelty and exclusive distribution networks (Hambrick, ibid.; Prescott, 1986). The question we address empirically is whether either generic strategy consistently leads to greater cognitive alignment. We expect that a strategic posture that prioritises differentiation (high margin, tailored product) over cost minimisation (high volumes, standardised product) should lead to greater sensitivity towards stakeholder interests and more openness in the search for solutions that prioritise their satisfaction. The hypothesis is:

> ***Differentiation strategies improve the cognitive alignment between managers and stakeholders (narrower cognitive gaps).***

Table 22. Impact of corporate strategy on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
■ *Differentiation*	*25%*	*26%*	*27%*	*3%*
□ *Cost efficiency*	*25%*	*33%*	*32%*	*9%*

Table 22 above shows support for the hypothesis in three of the four gaps, with only gap 1, Sequentiality, showing no difference between the two groups of companies. The data therefore provide evidence for our hypothesis of a positive correlation between differentiation strategies and cognitive alignment.

Although the energy industry is commonly associated with the provision of commodity products and services, one of the participating energy companies has set an objective to be a global leader in sustainability and renewable energies. Interestingly, this renewable energy focus has had a concrete impact on the firm's strategic content, especially its recent M&A activity. Why, however, does this lead to greater cognitive alignment? Its strategy has encouraged the firm to detect the needs of various stakeholders and set targets towards achieving progress. The very act of detecting needs and working towards fulfilling them results in a greater appreciation of stakeholder interests.

6.2.3 The impact of knowledge management

One part of the organisational response to this problem of correctly interpreting social demands might lie in the correct use of knowledge management systems directed towards capturing and analysing external events. The quality of the "sensors", organisations have, to understand environmental changes has not been studied as an antecedent of strategic response behaviour, and, even less so, of responses to societal pressures. We propose that the existence of advanced learning processes[13] within the organisation could be important to explain the magnitude of cognitive gaps because it should facilitate the development of capabilities specific to the management of stakeholder interactions, including an improved understanding of stakeholder interests and a better scanning of the environment for emerging issues.

The hypothesis is therefore:

> ***More developed knowledge management practices correlate with enhanced cognitive alignment (narrower cognitive gaps).***

Table 23 below shows the magnitude of average cognitive gaps for firms with high levels of ability in knowledge management compared with those with low levels (split around the approximate median).

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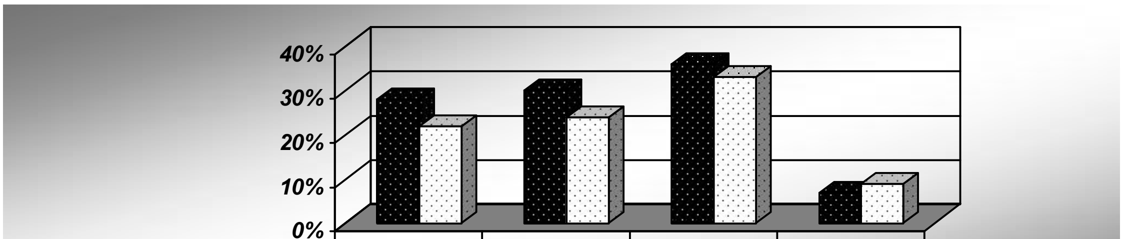
[13] established procedures to facilitate the generation of novel ideas, and the improvement of existing practices, e.g. suggestion boxes, brainstorming, debriefing practices, etc.

Table 23. Impact of knowledge management (KM) on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
HIGHER KM	28%	30%	36%	7%
LOWER KM	22%	24%	33%	9%

Only one of the cognitive gap measures is in the hypothesised direction, so the data collected does not show support for a role of knowledge management processes in the development of cognitive alignment. This result might be in part explained by major difficulties encountered in measuring this particular variable, since the managers in several companies found it difficult to describe the knowledge management practices in use in their organisation.

Our research revealed that many multinationals have structured processes to identify stakeholders and monitor their needs. One bank, for example, has implemented a global customer satisfaction index and, like many of the participating firms, conducts regular employee surveys. A natural resources company has used its database of several thousand stakeholders to conduct stakeholder surveys. The low stakeholder response rate to such broadly distributed surveys (in the natural resources case, the response rate has not exceeded 5%) suggests the limited effectiveness of some formal procedures to scan the environment.

6.3 Factors related to the CSR process

6.3.1 The impact of stakeholder engagement

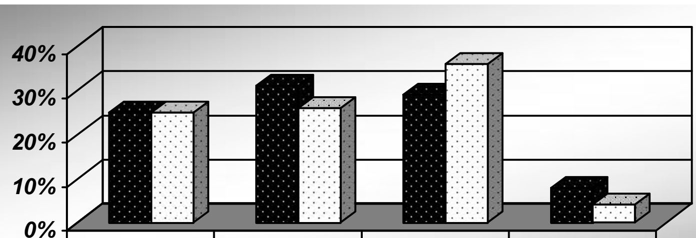
Stakeholder engagement processes act as a sensing mechanism to capture information about the interests and expectations of societal counterparts. As such, they can be considered a pre-requisite for cognitive alignment. At the same time, a higher level of cognitive alignment vis-à-vis stakeholders should facilitate the development of stakeholder engagement practices.

The hypothesis is therefore:

> ***Higher levels of stakeholder engagement are associated with greater cognitive alignment (narrower cognitive gaps).***

Table 24 below shows the magnitude of average cognitive gaps for firms with high levels of stakeholder engagement compared with those with low levels (split around the approximate median).

Table 24. Impact of stakeholder engagement on cognitive alignment



	Gap 1	Gap 2	Gap 3	Gap 4
■ HIGHER SE	25%	31%	29%	8%
□ LOWER SE	25%	26%	36%	4%

The results of the analysis are not in favour of the hypothesised positive link between stakeholder engagement and cognitive alignment. Of the four measures, only Gap 3 shows a narrower gap for companies with more developed stakeholder engagement practices. Gaps 2 and 4 go in the opposite direction, and Gap 1 is non-conclusive. Overall, the evidence does not support the hypothesis.

Our surprising finding should not be taken to mean that all stakeholder engagement is negative for cognitive alignment between managers and stakeholders, or for social performance. For example, one of the high tech companies introduced a project for elderly users of technology in cooperation with a large number of NGOs and specialised developers. This led to information exchange between managers and external stakeholders as well as benefits to the wider public. Likewise, one of the food companies partners with external organisations in areas where their core competencies complement those of the organisation e.g. partnerships with NGOs on a range of issues from child health and nutrition education and cooperation national governments on health issues such as obesity. One bank has developed consulting committees to understand the evolution of local communities' economies, their specific needs and to share guidelines to foster their development. Interviewees emphasised that these committees do not engage in philanthropy. Rather, they aim at fostering local investments and development projects. The members of the consulting committees are local entrepreneurs, professionals, etc., and the committees are thus able to mediate different requests and expectations, because they are perceived as "third parties".

On the other hand, one stakeholder in the high tech sector observed that successful engagement required a "partnership orientation" from companies. This could be hampered by a commercial orientation (e.g. subtle pressure on the stakeholder to support the company's products) and by frequent personnel changes, which inhibited ongoing dialogue between the firm and stakeholder. Some external stakeholders in the natural resources and pharmaceutical sectors emphasised a reluctance to engage with companies if this meant having to 'rubber stamp' their products.

In sum, the nature of the engagement (with which stakeholder, for which purpose) and the quality of interaction may be decisive in determining the impact on alignment.

6.3.1 The impact of integration of CSR in business processes

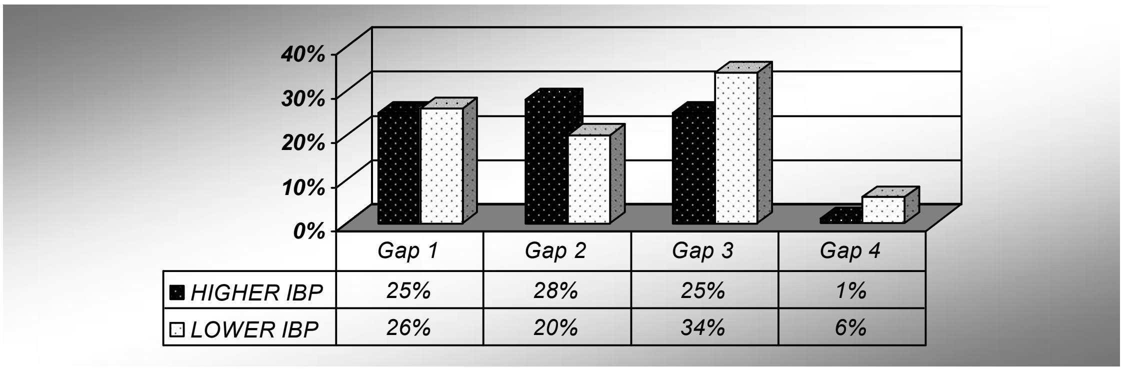
Another consequence of cognitive alignment (and possibly an antecedent as well) is the degree to which CSR practices are integrated into business processes. Companies can respond to societal demands in an organisationally integrated or decoupled fashion (Weaver, Trevino and Cochran, 1999). While decoupled practices are disconnected from ongoing activities and operations, integrated practices imply that principles of CSR inform everyday decisions and their social impact is routinely taken into consideration. The achievement of this latter type of change in business processes (e.g. investment criteria, incentive systems, sales practices, etc.) requires and produces an enhanced understanding of stakeholders' interests and priorities. Furthermore, as daily operations regulate the attention of managers (Ocasio and Joseph, 2005), the integration of CSR practices may also produce a deeper understanding of stakeholders' interests.

Therefore the hypothesis is:

> ***The greater the cognitive alignment between managers and stakeholders (narrower cognitive gaps), the greater the integration of CSR practices into business processes.***

Table 25 below shows the magnitude of average cognitive gaps for firms with CSR integrated into business processes to a significant degree, compared to those with less integration (split around the approximate median).

Table 25. Impact of integration into business processes (IBP)



	Gap 1	Gap 2	Gap 3	Gap 4
HIGHER IBP	25%	28%	25%	1%
LOWER IBP	26%	20%	34%	6%

The results in the table above provide support for the proposition. Gaps 3 and 4 show higher levels of cognitive alignment (narrower gaps) in firms with higher levels of integration. Gap 1 goes in the same direction, although by a narrow margin. Gap 2 is the only measure that goes against the hypothesis.

Overall, the results, therefore, suggest that cognitive alignment is positively associated with the diffusion of CSR into business practices.

As noted in the model (figure 7), the direction of causality of this association cannot be ascertained with the data. Firms that integrate CSR into business processes may develop better cognitive alignment as a result, and firms with greater cognitive alignment may be more inclined to integrate CSR into business processes. A relevant question is therefore: does the achievement of this type of change in business processes (e.g. investment criteria, incentive systems, sales practices, etc.) require or produce an enhanced understanding of stakeholders' interests and priorities?

One of the participating natural resource companies is distinguished by its success in integrating sustainable practices into its procurement approach. This supports consideration of environmental, social and other business issues in the supply chain, at the time of purchase, in use and at end of life, which is a natural reinforcing aspect of sustainability. In this way, managers with operational responsibilities are sensitised to the potential impacts of their operations. Additionally, the inclusion of environment, health and safety in its management system has led to the establishment of indicators in all business units, sectors and groups. Thus, performance can be tracked and benchmarked, and improvements can be implemented based on best practice. Within the natural resources sector generally, stakeholders observe that the extent of integration of CSR in business practices differs across sites. Legacy issues inhibit the introduction of best practice to older sites.

Prominent mechanisms to integrate CSR include incentives and product development/investment processes. The inclusion of CSR in managers' evaluation and compensation – as occurs in several of the participating companies with high cognitive alignment – seems to channel the attention of senior decision makers to their social responsibilities. In the pharmaceutical industry, one company altered its whole drug discovery process because it wanted to launch a life-saving drug. This subsequently became a new internal benchmark to which all other (non-CSR related) routines adhere.

6.3.2 The impact of new market opportunity as motivation for CSR

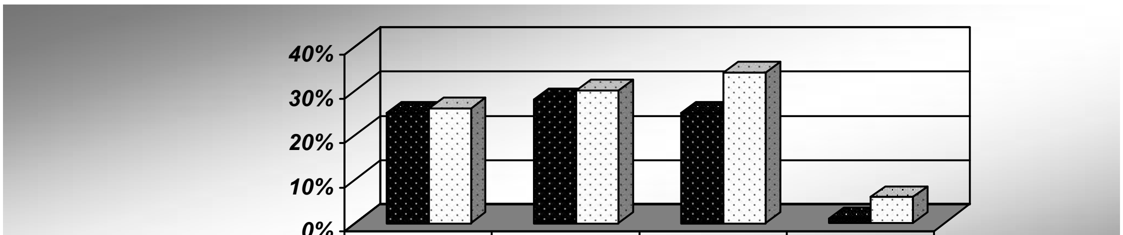
This section examines the responses of firms in which managers explain the rationale of engaging in CSR practices with a specific emphasis on the opportunity to direct innovation and new product development. Managers must perceive and make sense of issues that emerge in the environment. Categorisation describes the process by which objects are recognised, differentiated and understood. While external environments can be perceived along various dimensions, the most widely investigated environmental categorisation is that of threats versus opportunities (Dutton and Jackson, 1987; Gilbert, 2005). This is of consequence for our understanding of how motivation influences cognitive alignment. Many companies are motivated in their commitment to CSR by the business case. In some firms, managers explain the rationale of engaging in CSR practices with a specific emphasis on the opportunity to direct innovation and new product development. In others, the rationale is the avoidance of risk. Dutton and Jackson (1987) argue that the categorisation of an issue as an opportunity leads to organisational responses that are constructed around the *external* environment. This implies extensive interaction with external stakeholders. Consequently, an approach to CSR centred on innovation may involve higher degrees of openness to, and understanding of, external interests and priorities. Thus, it should be associated with higher levels of cognitive alignment. On the other hand, where issues are labelled as threats, organisational attention is focused on the adaptation of *internal* processes (Dutton and Jackson ibid.) and leads to a rigid definition of the problem (Gilbert, 2005). We expect that a lower emphasis on new market opportunity (for example, a risk motivation) is associated with less cognitive alignment.

The hypothesis is:

> ***Firms that emphasise new market opportunities will exhibit positive cognitive alignment with their stakeholders.***

Table 26 below shows the magnitude of average cognitive gaps for firms whose CSR activities are motivated to a significant degree by the opportunity to identify new markets (split around the approximate median).

Table 26. Relation of cognitive alignment with market opportunity motivation (NMO)



	Gap 1	Gap 2	Gap 3	Gap 4
■ HIGHER NMO	25%	28%	25%	1%
□ LOWER NMO	26%	30%	34%	6%

The data shows strong evidence in support of the theoretical proposition. Companies motivated by new market opportunities seem to have a greater average cognitive alignment across gaps 3 and 4. Again, this causality could be reversed in that positive cognitive alignment encourages the firm to explore new market opportunities.

One of the high tech companies has recently stressed the linkage between innovation and its social responsibility. From a narrow perspective, innovation affords opportunities for the company (e.g. creating value for clients), but the company's managers understand that their innovation can also help to solve societal problems. This awareness that innovation creates value for the world has led the company to share its intellectual capital, serving as an example of how the framing of an opportunity seems to encourage responses that are centred around the external environment rather than on narrow internal processes. That opportunity is closely allied with the identification of needs is illustrated by the case of a firm in the industrials sector. It has combined its drive to meet the urgent needs of people in developing countries with the development and launch of water purification solutions, a woodstove that uses much less wood than conventional stoves, and digital connectivity and sustainable lighting for areas with unreliable power supply. This same company has managed to achieve almost 10% of its worldwide turnover through the sales of advanced ecological products.

6.4 Other internal factors

In the appendix, we also show the results of analysis of organisational structure, corporate leadership, the internal influence of the CSR department and the impact of organisational values on cognitive alignment (Exhibit 5).

PART II: SOCIALLY RESPONSIBLE BEHAVIOUR

7 A Model of Social Consciousness and Socially Responsible Behavior

7.1 Modelling Socially Responsible Behaviour

7.1.1 Objectives of experimental study

Having established the causes and impacts of cognitive alignment (Objectives 1-3), attention turns to the identification of strategies for the enhancement of cognitive alignment (closing of cognitive gaps). In particular, what we intended to study in this part of the project is the relative effectiveness of different types of training interventions aimed at improving managers' capacity to understand and synthesise the expectations of stakeholders in their working routines. This section of the study addresses this objective, as stated in Objective 4 of the proposal:

> "Test the degree to which training techniques of different types can develop managers' social consciousness in order to produce socially responsible behaviour and decision making."

The underlying assumption of this study is that common organisational practices aimed at 'injecting CSR' within the corporation, such as the development of codes of ethics, of socially driven mission statements and measurement systems are, at best, capable of raising awareness and, at worst, met with scepticism and indifference. In either case, the expectation is that these initiatives, although well targeted and implemented, might result in little measurable change in managerial behaviour unless supported by specific interventions at the individual level.

How can more socially conscious behaviour be developed through training to encourage changes in individuals' values and psychological traits? To answer this question it is necessary to understand the factors that explain people's sensitivity to the social impacts of their decisions and actions.

RESPONSE conducted an experimental study to test the outcomes of alternative training approaches designed to cultivate Socially Responsible Behaviour (SRB). These interventions were instrumentally focused to elicit significant change in psychological attitudes and moral values in managers. The experiments follow established research design procedures in medical science and leverage a range of approaches from purely cognitive to deeply introspective practices, including novel techniques such as self-reflection and meditation (see Methodology, Chapter 8).

This part of the RESPONSE study thus extends the investigation of cognitive alignment to the level of individual values and psychological traits (see the RESPONSE Model in figure 2 in Ch. 2). As described above in part 1, the alignment of *both* motivation and cognition is necessary in order to build trust in the relationship between business and society. The success of cooperative processes between business corporations and their societal counterparts requires behavioural and internal change at the level of *both* the organisation and the individual.

7.1.2 Definition of Socially Responsible Behaviour

Schneider et al (2005)[14] define socially responsible behaviour (SRB) as:

> "…discretionary decisions and actions taken by individuals in organisations to enhance *societal* well-being" (pp.10)

From this definition, a simple model is proposed to link behavioural output ('doing') with the psychological attributes required ('being') in order to sustain that behaviour, namely *social consciousness*. The model therefore allows us to test the impact of training techniques on the development of social consciousness and its consequent influence on SRB.

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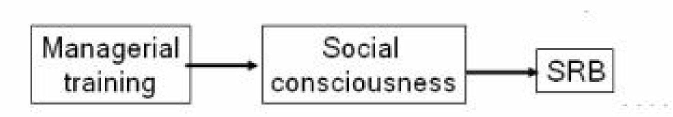
[14] Schneider, Oppengaard, Zollo, Huy (2005) "Socially responsible behavior: developing virtue in organisations" (INSEAD working paper).

Figure 9: Impact of training on SRB



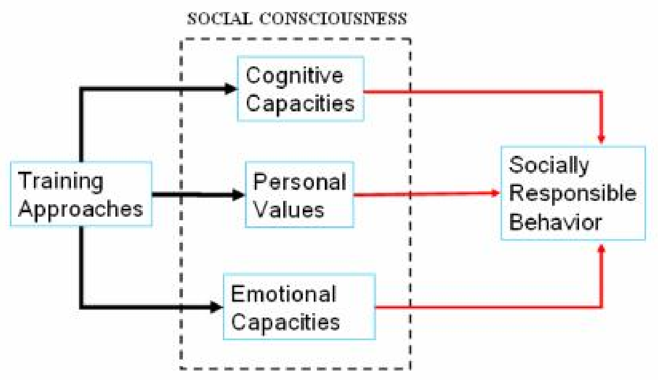
From Schneider et al (2005) the achievement of high levels of social consciousness requires that individuals do more than demonstrate good intentions but are able take decisions, assume responsibility and direct their actions appropriately. Attributes thus include, first of all, the cognitive ability to take into account situational constraints, ambiguities, interdependencies, and multiple demands of stakeholders. Secondly, social consciousness is founded on intrinsic values rather than external rewards or threats. Thirdly, it demands a sense of personal responsibility and understanding of the consequences that stem from decisions and actions.

This study defines social consciousness as a stable, albeit not fixed, set of psychological attributes:

- Cognitive capacities are manifest in patterns of moral reasoning and identity, decision-making and actions.
- Personal values are the states that motivate choices, attitudes and behaviours. The most prominent dimension, for the purpose of this study is self-transcendence. According to Schwartz (1992, 1996, 2006), self-transcendence implies the recognition of the self's interdependence, striving for self improvement, and the degree of openness to change.
- Emotional dispositions are apparent in expressions of care, sympathy and positive effect (a disposition to pleasant feelings), as well as in 'moral emotions' such as guilt and shame.

The above definition of social consciousness is combined with training interventions and SRB outcomes in the dynamic model below (figure 10).

Figure 10: Developing Social Consciousness and SRB

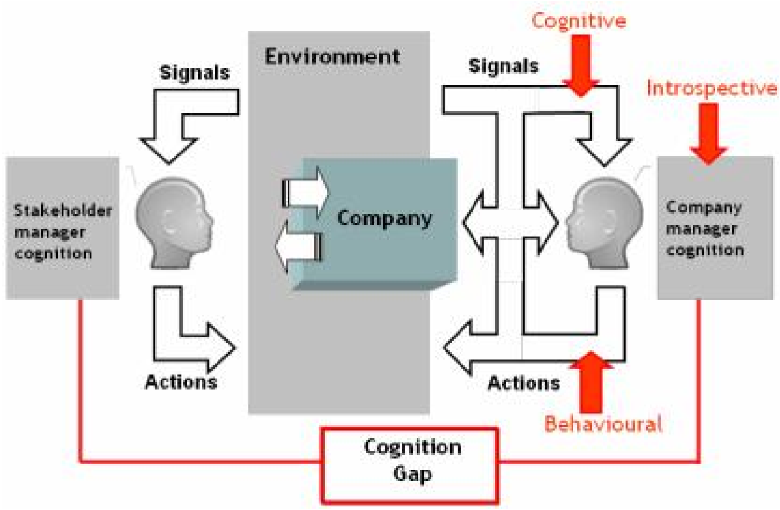


7.1.3 Training interventions and social consciousness

To understand how attributes of social consciousness can be deliberately modified and enhanced, different training approaches were proposed, ranging from standard knowledge transfer (classroom experience) to deeply introspective practices (see Methodology, Chapter 8). These approaches were designed to test different types of interventions on changes in levels of social consciousness.

Figure 11 below shows how these learning interventions might impact the cognition of managers and ultimately the magnitude of cognitive gaps between managers and stakeholders, as described above.

Figure 11: Impact of learning interventions on cognitive alignment



Training can thus impact the degree of cognitive alignment between the managers' and the stakeholders' perceptions on the interdependencies between the company and its environment in three ways.

a. *Cognitive training* (typical classroom experience) affects the manager's processing of 'signals' from the company and from the external environment. Such training is usually delivered through standard pedagogical approaches in the context of management development programs, and relies on a wide variety of techniques ranging from reading and lecturing (at one extreme of lower engagement levels) to case analyses, group discussions, games and computer simulations (at the other extreme).

b. *Behavioural training* is based on the manager's direct experience of the consequences of a given situation, in this case it could be the impact of company behaviour on society, through (for example) community involvement programmes.

c. Thirdly, training based on *introspective and meditative practice* can affect the way the manager perceives herself (her own personal values, her virtues and limitations) and her interdependencies with the environment, including the way she perceives the impact of her decisions and actions on the social context in which her company operates.

7.1.4 Hypotheses for the experiment

The following hypotheses were advanced for empirical validation:

1. The three dimensions of social consciousness - cognitive capacities, personal values, and emotional dispositions - influence the likelihood of observing Socially Responsible Behaviour in managers.

2. Among the different training approaches that can positively influence the development of social consciousness in managers, we expect the introspective/meditative one to be the most effective in producing the required changes in the psychological factors influencing socially responsible behaviour.

Whereas the theoretical development in support of #1 is already fairly advanced (see Schneider et al. 2005), it might be worth elaborating on the second hypothesis, since it is rather novel in the management literature. The argument is based on a series of observations:

1. Consciousness is fundamentally different from awareness, even though the two terms are often used inter-changeably in normal parlance. Awareness arises from deliberate

knowledge transfer and translates into behaviour through deliberate action. Consciousness, on the other hand, is triggered primarily by external stimuli and produces behavioural outcomes without necessarily the intercession of will and deliberation. Therefore, one can expect awareness of the answers to questions like "what is CSR?" and "why is it important?" to raise via a classic classroom experience, but the development of social consciousness requires a lot more than the understanding of the answers to what, why and how questions. It requires changes in deeply rooted psychological mechanisms: emotional attitudes (care, trust, altruism, courage, etc.), tacit decision-making heuristics (what criteria do I instinctively apply when I have to make a difficult trade-off), personal values (e.g. what matters most to me as a guiding principle in my life), etc.

2. These type of deep personal changes are, in principle, achievable through the development of self-knowledge (understanding of one's own traits, strengths and limitations) and of a profound commitment to think and feel differently in given situations or subject to specific stimuli. This is at the basis of clinical psychology and psychotherapy. But introspection also has its limits, since it is essentially a cognitive effort that is supposed to counter deeply rooted cognitive routines. It is cognition against cognition.

3. These limitations might not apply, in theory, to meditative practices. In its traditional form, meditation is designed to reach a state of mental silence where cognitive activity is actually significantly reduced, with supposedly positive benefits for psycho-physical health and personal growth (Neki, 1975). In that particular consciousness state, a meta-cognitive shift is typically described by practitioners where thoughts, feelings and actions, rather than occupying the person's full attention, can be observed from a detached witnessing awareness from which they can be dealt with in a more efficient manner. When this state is routinized and integrated with normal mental and physical activity, not only a deep understanding of one's own emotional traits, cognitive biases and subjective beliefs is apparently reachable, but significant and lasting changes to those traits might be possible (Rael Cahn and Polich, 2006)

4. Evidence in high quality academic medical and neuro-science journals has been produced to show that (selected) meditation techniques influence specific psychological, physiological and pathological states (for a very recent review, see Rael Cahn and Polich, 2006). Perhaps the most interesting evidence relates to recent advances in our understanding of neuro-plasticity, the capacity of the brain to redesign its own neural circuitry consequent to wilful attention and practice (Schwartz and Bailey, 2003). Lazar et al. (2005), for example, show neuroplasticity effects in long-term Buddhist meditators. The mechanisms through which these changes occur are seem to relate to the activation of the limbic system, the same responsible for activities connected to the notion of "emotional intelligence", as well as specific systems connected to higher consciousness functions (anterior cingulate cortex and dorsolateral prefrontal areas).

5. In addition to the neuro-plasticity effect, certain types of meditative practice appear to produce long-term effects on the practitioner's psycho-emotional stability (lower positive and negative mood swings), together with higher dispositions for positive emotions such as compassion and care. Aftanas and Golosheikin (2003), for example, show that experienced meditators (compared to novices) exhibit stronger "long-distance" links between different areas of the brain connected with the production of positive emotions, even before they started meditating. This might be due to the development of specific capacities to produce positive emotional states and coherently positive behaviour. [15]

6. Finally, there are reasons to believe that meditation practice might influence the likelihood of socially responsible behaviour through its positive effects on occupational

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[15] see Aftanas and Golocheikine (2000, 2001, 2003, 2005) for a series of studies on the neural correlates of a specific type of yoga meditation, similar to the one utilized in our experiments

stress (Van der Klint, 2001). Why is occupational stress important to the development of social consciousness in business managers? A number of reasons:

a. A high level of occupational stress strengthens the prevalence of short-term orientation as a criterion for decision-making, since subjects perceive the long-term implications of their behaviour less relevant than the satisfaction of their immediate needs.

b. High levels of occupational stress also reduce the breadth of search for solutions to problems and orients the search towards known territory, therefore reducing the likelihood to identify truly innovative solutions. This is particularly serious in the context of ethical dilemmas or decisional trade-offs, where the willingness to explore paths different from normal habits is crucial to the successful handling of these situations.

c. Occupational stress reduces the relevance of other's interests in one's own decision-making priorities, since the focus is increasingly placed on the immediate satisfaction of one's own needs. This is, in a way, the essence of the psychological disposition to behave in a socially responsible manner. If a manager does not give relevance to societal counterparts with which there is no direct interaction and/or interest, no amount of codes of conduct, corporate value statements or training programs will suffice in affecting the type of debisions and behaviours enacted. This is especially true for the pro-active type of socially responsible behaviour, aimed at "doing good" for societal counterparts, rather than simply "avoiding harm".

The combination of short-term orientation, localized search for solutions and self-interest seeking can produce a "tunnel" vision in the decision-maker, with negative implications for the likelihood of engaging in socially responsible behaviour.

All together, the considerations made above appear to offer sufficient support for the hypothesis that we are interested in testing through appropriate experimental designs. In the next chapter, we describe the research experiements we conducted to test the hypothesized effect and assess its robustness vis-à-vis other training interventions.

8 Methodology

8.1 Introduction

Four in-company field experiments were designed and executed to assess the effectiveness of different training approaches on the development of social consciousness and Socially Responsible Behaviour (SRB) in individual managers. In this chapter, we present the measurements conducted before and after each training intervention, the characteristics of the settings and of the interventions identified, and the design executed in each setting.

8.2 Measurements

The assessment of the effectiveness of the training interventions was carried out via a web-based questionnaire, which assembled several existing scales (in part or in total) dedicated to the empirical evaluation of each of the theoretical variables in the model described above in Chapter 7.

Table 27 summarizes the scales utilized and the theoretical constructs operationalized. The 63 item survey took about 30 minutes to complete[16].

Table 27. Measurements of Social Consciousness and Socially Responsible Behaviour

Construct	Components	Test	Psychological scales
Socially Responsible Behavior		- Decision dilemma scenarios - 'split the pie' dilemma, with 3rd player w/o veto right - Change in behavior for critical incidence	- Multidimentional Ethics Scale (Reidenbach & Robin, 1991) - Ultimatum game, 3 player version - Critical Incidence Experienced
Social consciousness	Cognitive rationales	- Rationales for choice on decision dilemmas - Moral identity and reasoning - Perceptions of quality of decision-making in organisational culture	- Inglehard et al. (1990) - M.E.S. (above) - Moral identify scalee, Aguino - Org. culture scale
	Personal values	- Self-transcendence - Benevolence and universalism; - Openness to change vs conservatism	- Schwartz (1992)'s scale on personal values[17]
	Emotional dispositions	- Affect - Empathy/sympathy	- Positive Affect / Negative Affect Scale (PANAS) by Watson & Clark, 1994) - Davies
Control		- Anxiety and stress levels - age, gender, religion, culture, job, previous training, company culture, geography	- State Trait Anxiety Inventory (STAI)[18]

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[16] The questionnaire itself is available for consultation. Please send a request to Maurizio.zollo@insead.edu

[17] Schwartz, S.H. 1992, The universal content and structure of values: Theoretical advances and empirical tests in 20 countries. Advances in experimental social psychology, 25, 1-65.

[18] Spielberger, C.D et al., 1970, STAI manual for the State–Trait Anxiety Inventory, Consulting Psychologists Press, Palo Alto, CA (1970).

8.3 Experiment Settings

Four companies from three sectors - natural resources, information technology and pharmaceuticals - participated in different, independent, experimental designs. Three of the companies were also participants in the study on cognitive alignment (Part 1), whereas a fourth joined the study specifically to participate in the experiments.

Employees in each setting were first introduced to the project and the terms of involvement. Participation in the experiment was voluntary and those who opted to participate were asked to commit to a six-week training programme. The group assignment (intervention or control groups) was randomised to control for individual differences and attenuate self-selection biases. Each company was supplied with aggregate results of the tests; individual results were strictly confidential and not disclosed to the company.

8.4 Experiment Protocols

Each experiment was conducted under a controlled but different design in order to test for various conditions, such as cultural differences and the professional background of participants, and to accommodate the particular circumstances of each company.

8.4.1 Pharma and IT#1

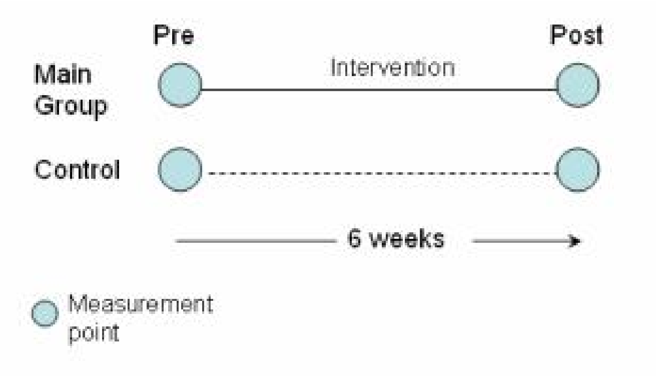
A 'one-shot' design was used at both the pharma and IT #1 companies. Participants were randomly allocated into one of two groups, of which the main group completed a programme of meditation coaching over a period of six weeks. The six-week coaching programme was based on a "mental silence"-based mediation technique called Sahaja Yoga, adapted for corporate environment[19]. The program called for 2 weekly sessions of 45 minutes at the office, for a total of 9 contact hours, plus recommended daily home practice.

The sessions aimed at the development of psychological characteristics and personal values conducive to socially responsible behaviour, but without explicit, cognitive awareness of doing so. In fact, *no discussion of CSR was allowed* in the intervention group. The second group was put on a "waiting list", asked nonetheless to complete the pre- and the post-intervention measurements, and thus acted as a "passive" control group.

Participants from the pharma company were based in one country but came from different professional backgrounds and underwent the intervention as a group. Participants from the IT#1 company were based in six countries worldwide (Brasil, Costa Rica, Malaysia, Romania, Belgium, France) and attended the yoga coaching programme either as individuals or in small groups of 2 or 3 individuals. The IT#1 participants were all CSR professionals.

Figure 12: 'One shot' experimental design (pharma and IT#1 companies)

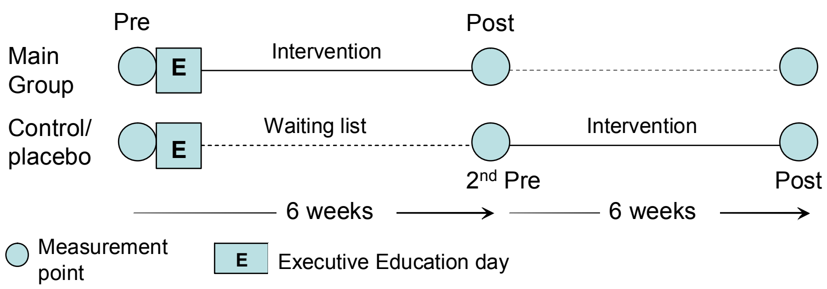
[19] These specialised trainings were developed and delivered by Impact (www.impact-training.at) , one of the consortium member of the RESPONSE research project.



8.4.2 IT#2

Participants from the IT #2 company were based in 10 countries in Europe and represented a uniform occupational profile in that all were internal coaches to managers in this large multinational company. Each location was randomly allocated into one of two groups. The first group went through the coaching intervention first while the second acted as the passive control. When the intervention in Group 1 ended, and a second round of measurement took place for both groups, the design called for the second group to undergo the intervention. (see figure 13). At the end of the intervention in the second group, a final round of measurement took place for both groups. Each participant, thus, completed three measurement surveys.

Figure 13: "Cross-over" Experiment Design (IT#2 company)



To act as the control for the regular type of executive development training, both groups attended a one-day CSR training session presented in the form of a discussion and lecture provided by one of the most reputed executive education instructors in the CSR field in Europe. Participants to the first group then completed the same type of meditation coaching programme described for the first experiment design (see above).

The second group initially acted as the control. These participants completed the pre-intervention web survey before the training day and then six weeks later completed the post-intervention web survey even though no training intervention occurred. The experimental design thus controls for the differential impact of the meditation coaching vis-à-vis a regular executive education training day.

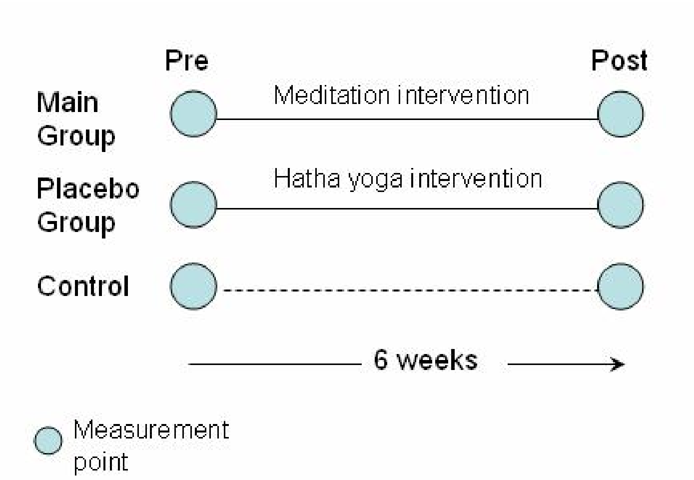
8.4.3 Natural resources

Participants from the company in the natural resources sector were drawn from a uniform professional profile of young managers who had attended the company's internal management development programme within the previous two years, which included a whole day session on CSR/Sustainable Development. These 31 managers were all based in the same country. Participants were randomly allocated to one of three groups: The first group attended the same mental silence-based meditation coaching programme, like in the other experiments. The second group attended a parallel coaching programme of Hatha yoga, which focused on relaxation and stress-release techniques. This group functioned as the "active control", an optimal way to control for "placebo" (or "Hawthorne") effects, since the two "yoga" programs were non-distinguishable from the participant's point of view and produced the same perception of being part of a scientific study aimed at developing social consciousness, and observed in their behaviour. A third group acted as the standard (weighting list, passive) control and provided a baseline measure of pre- and post-experiment tests without experiencing any intervention[20].

This three arm, randomised, controlled design with both a passive and a (credible) active control is considered to be capable of generating the highest quality of scientific evidence of change in human subjects, since it acts as a control for any type of intervention effects.

In addition to the web-survey, the measurement in this experiment also included a bio-feedback test that involved measurements of Heart Rate Variability and skin temperature. This was introduced to gain objective measures of physiological arousal in sympathetic activation, which is expected to decline more in deeper meditative states, compared to relaxation states.

Figure 14: Three-Arm, Randomized, Double Control Experiment Design (Oil company)



The second intervention followed an identical format as for the main group but with Hatha yoga replacing mediation as the intervention technique. This group thus maintained comparable conditions with the main group while controlling for general feelings of well-being due to relaxation, as well as for "placebo" effects given by the knowledge of being part of an experiment aimed at studying social responsibility. The Hatha yoga training was delivered by the president of the national association of specialised instructors.

The following table summarizes the characteristics of the four settings, the logic of each design and the number of participants that completed both the pre- and post-intervention measurements.

[20] This group was given the opportunity to attend the mediation training after their post-intervention test in order to fulfil the obligation to the volunteers to provide a six-week training programme.

Table 28. Rationale and scope of the four experimental settings

Industry	**Type of Intervention**	**Scope of Intervention**	**Objective**	**No of participants**
Pharma	1 shot controlled	1 country: managers across all functions	Pilot: control for cultural characteristics and test for different functional background	10
IT #1	1 shot controlled	6 countries: all CSR professionals, one-to-one coaching	Pilot: control for professional background and test for cultural differences.	8
IT #2	2 samples, 2 step (Crossover) bet. them	10 European countries: Learning professionals	Control for professional profile; test for cultural differences and different coaching group size	44
Natural Resources	3 samples, 1 shot. Passive & active control	1 country: young, 'high-potential", managers	Control for country; all alumni of company training on CSR; Control for active relaxation coaching (hatha yoga)	31
Total				**93**

9 Findings: Developing Social Consciousness and SRB in Managers (Objective 4)

9.1 Introduction

The previous two chapters set out the theoretical basis and methodology for the experimental designs. This chapter presents results of experimental interventions designed to help managers develop their sensitivity towards the social impact of their decisions and actions (Social Consciousness) and thus enact more frequently Socially Responsible Behaviour (SRB). At the aggregate level, and in connection to the analysis in Part 1, the development of Social Consciousness is expected to enhance the Cognitive Alignment between the organization and its stakeholders, and the enactment of Socially Responsible Behaviour by managers is expected to improve the organizational response to stakeholders' demands and thus enhance Corporate Social Performance.

The next section presents the analysis of how higher levels of Social Consciousness affect Socially Responsible Behaviour. Then, the results of the experiments will discuss the extent to which managerial training techniques can influence Social Consciousness levels, thus completing the study of the causal chain that goes from Managerial Training to Social Consciousness development and from Social Consciousness development to Socially Responsible Behaviour (see Figure 10 in Chapter 7).

9.2 Impact of Social Consciousness on Socially Responsible Behaviour

In the web-survey developed for the experimental portion of the study SRB is measured according to participants' responses to four ethical dilemmas as described below.

1. Product safety – whether to withdraw a product from the market to conduct sufficient safety testing
2. Labour conditions - trade-off between low cost production and quality of working conditions in a decision about a plant closure
3. Product access - trade-off between economic profit and access to medicine for the world's poor
4. Community development – trade off between labour productivity and allowing staff to volunteer for community development projects

A factor analysis was applied to the responses[21] to the four dilemmas described above, which resulted in an interesting distinction between two dimensions of Socially Responsible Behaviour (SRB):

1. the first two scenarios described above, related to product safety and labour condition issues, loaded on one factor, which we labelled 'do no harm' SRB.
2. The third and fourth scenarios load on a different factor, related to product access and community development, loaded on a separate factor, which we labelled "do good" SRB.

In and of itself, this is an important finding that corroborates the theoretical framework developed for the analysis of the responses to the interview protocol (see the first framework described in section 5.2).

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[21] Since this exercise is aimed at providing a baseline evaluation of the link between social consciousness and SRB, we broadened the analysis to a random sample of 266 managers in two large companies (also participating companies in the case analysis study), selected among all managers in level 2 to 4 across all countries. These managers participated (with a 35% response rate) in a large scale web-survey which included the same items used in the measurement survey for the experiment. This allows us to validate Hypothesis 1 with a larger population of managers and with broader representation of the global management population, given the randomization process to select the sample of invitees.

An additional dimension aimed at the level of integration of CSR in the day-to-day work of the respondent was also selected (the level of participants' agreement with the statement 'I integrate CSR into my work') for this analysis, in order to obtain a more direct assessment of the degree to which the manager's psychological profile might influence the way he/she makes decisions and acts in the day-to-day activity.

The next step was to distil from the psychological scales adopted, the factors related to the three variables that form the social consciousness construct: cognitive capacities, emotional capacities and personal values. That was accomplished through an exploratory factor analysis of the web-survey response for each explanatory variable. The factors identified were then included in an OLS regression model aiming at explaining the variation among managers in their answer to the three types of socially responsible behaviour analysed: "do good", "do no harm" and "I integrate CSR into my work". Table 29 summarises the results of this analysis.

Table 29. Results of OLS regression of SRB types on social consciousness measures

Type of SRB	Dimension of Social Consciousness	Positive influence	Negative influence
'Do good'	Cognition	Moral decision criteria	Economic/legal decision criteria
	Personal values	Social justice	Hedonism
	Emotions	Guilt & shame	
'Do no harm'	Cognition	Moral decision criteria	
	Personal values	Achievement, Hedonism (not expected)	
	Emotions	-	-
'I integrate CSR into my work'	Cognition	Moral decision criteria	
	Personal values	Universal values	
	Emotions		Neurotic emotions

The models tested yielded a stronger explanatory power for pro-active, 'do good' SRB (adjusted R^2 = 35%) than for 'do no harm' SRB (adjusted R^2 = 15%), which is itself an interesting finding. It shows that (a) predicting pro-active SRB is very different from predicting passive, risk-avoidance, type of SRB., and (b) that social consciousness in managers exerts a particularly strong influence on pro-active "do good" SRB, compared to its influence on "do no harm" type of SRB.

Importantly, these results confirm that all three dimensions of social consciousness which are part of the model of Socially Responsible Behaviour (cognition, emotions and personal values) are significant factors in explaining the variance in socially responsible behaviour, particularly when this is focused towards pro-active enhancement of societal well-being (as per the definition of SRB adopted).

The next sections discuss findings regarding the impact of training on each of the constituents of SRB - cognitive reasoning, personal values and emotional traits.

9.3 Impact of mental silence meditation training on decision-making

The second hypothesis that we were interested to test calls for the study of the impact of training interventions on the development of social consciousness in managers. To do so, we will proceed in three steps:

1. Effectiveness of the meditation coaching program. Since this is the novel training approach that this study has for the first time evaluated, the first order of priority is to assess whether its adoption produces statistically significant pre-post intervention differences in SRB and social consciousness. To this end, the analysis leverages the observations made in all the four experiments pulled together, a total of 51 participating managers
2. Comparison between the standard executive education and the novel meditation training intervention. To this end, the focus is on the experiment conducted in "High-Tech2", where both training approaches were utilized in a "cross-over" design. A mean comparison test

between the pre-post differences among the two interventions has been run. 23 managers participated in the meditation coaching and 21 attended only the executive education training.

3. Robustness checks to "placebo" effects. One of the most difficult issues to deal with in experimental designs is to rule out the possibility that pre-post changes in the responses are due to the fact that participants know that they have been measured, and that the training is "supposed" to have certain effects. The way we do so is to compare pre-post variations in the meditation training with those of a "hatha yoga" training program, which is perceived in a similar way, despite the fact that it is supposed to yield little or no impact on participants' psychological traits and behaviour. It is similar to the "sugar pill" in pharmaceutical testing processes. The "oil" company setting allows us to compare managers that went through the meditation training program with those who attended the hatha yoga program, using the appropriate non-parametric tests given the small sample size (11 vs. 10).

9.3.1 Impact on SRB and cognition (motives)

The first step, therefore, is to assess the magnitude of changes before and after the introduction of meditation- and introspection-based coaching programs across the four settings. To this end, we ran statistical (t) tests to understand whether the pre-post difference of each survey item is significantly different from zero[22]. In reviewing these results, it might be worth to remind that no discussion about CSR was allowed to take place during the entire coaching program.

The following are the key results of the analysis regarding the measures of behaviour (the decision scenarios) and the rationale for those decisions, one aspect of cognitive factors that might potentially explain managers' socially responsible behaviour:

- Decision Dilemmas. All the pre-post variations for the four dilemmas tested go in the expected direction, with reductions in the likelihood of making the decision in "do no harm" scenario, and increased likelihood to make the decision in "do good" scenarios. In particular, the increase in the "do good (process)" scenario related to the choice of a social volunteering program for employees vs. productivity increases reaches statistical significance (96% confidence level that the variation is larger than zero)
- Motives for decision dilemmas. For each decision dilemma, the survey asked respondents to answer also the question "why" they would do as they said they would, and offers scores for different possible motivations. The following pre-post changes were observed in the sample of 51 managers who attended the introspection/meditation coaching:
    - "because it is morally right" remained at the same level
    - "because it is culturally acceptable" had a minor increase
    - "because it serves my interests" had a minor decrease
    - "because it meets legal requirements" had a minor decrease
    - "because it enhances and protects the company economic results" ***decreased*** in a statistically significant way (95% confidence level)
    - "because it violates an unwritten contract" increased, although it did not reach statistical significance
    - "because it enhances and protects corporate reputation", decreased, without reaching statistical significance
    - "because it shows compassion and caring" ***increased*** in a statistically significant way (97% confidence level)

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[22] When statistical significance is reached, the "level of confidence" in the fact that the variation is either higher or lower than zero (rather than being randomly generated) is indicated. Normally, confidence levels larger than 95% are considered "strong results", larger than 90% are considered significant but weaker results", larger than 80% are considered trends (to be validated by further studies)

Another way to test for changes in the way managers make decisions during their normal work routines used a series of bipolar contrasts, forcing respondents to prioritize along a trade-off dimension. Here are the results of the statistical analysis of the pre-post training variation for each item:

- "Social welfare vs. economic profit", a statistically significant shift towards social welfare as a decision-making criterion (93% confidence level)
- "Internal vs. external audiences", a significant shift towards external audiences (90%)
- "Productivity vs. protection of natural environment", a trend towards protection of the natural environment (83%)
- Other trade-offs, such as "Stakeholders vs. Shareholders", "Long-term vs. short-term" and "economic profits vs. ethics" did not show any significant shift

9.3.2 Impact on Emotions

According to the model of social consciousness proposed in Chapter 7 (Schneider et al. 2005), in addition to decision-making (cognitive) capacities, a specific set of emotions - such as expressions of care, sympathy, positive effect and 'moral emotions' such as guilt and shame – should be enhanced, in frequency and strength, through mental silence-based meditation coaching programmes. To this end, participants score a list of 28 emotions (listed in the PANAS standardised scale) on the basis of the extent to which each emotion has been experienced during the previous 3 weeks.

The key results of T tests for statistical significance of the difference from zero of the pre-post average variation for the group of managers who went through the meditation-based coaching intervention are the following:

- Sadness: decreased in a strongly significant, way (99.9%)
- Fatigue (feeling tired): decreased in a strongly significant, way (99.9%)
- Feeling upset: decreased in a strongly significant, way (99.7%)
- Inspiration (feeling inspired): increased significantly (90%)
- Feeling nervous: decreased in a strongly significant, way (99.1%)
- Happiness: increased in a strongly significant way (99.2%)
- Anger: decreased in a strongly significant, way (99.7%)
- Fearlessness (courage): increased in a strongly significant way (98.4%)
- Lack of Authenticity (feeling disguised): decreased significantly (91%)
- Dissatisfaction with self: decreased significantly (90%)

Finally, the overall index for Stress and Anxiety levels (STAI) registered a strongly significant reduction (97% confidence level), which supports the hypothesized effect of the introspection and meditation program.

9.3.3 Impact on Personal Values

Finally, we wanted to test for potential shifts caused by the training intervention in the personal values of managers, despite the fact that both the time horizon (six weeks) and the impact of the intervention (total 9 contact hours) were very limited for these types of deep personal change processes to occur.

The managers were asked to assess the degree to which a series of 32 statements, such as gratification of desires, personal wealth, social justice, meaning in life and so on, were considered as 'guiding principles in my life'.

The key results from this analysis are the following:

- Inner harmony: increased significantly (90%)
- Unity with nature: increased in a strongly significant way (97%)
- Wisdom: increased significantly (92%)
- A world of beauty: increased in a strongly significant way (99.1%)
- Preserve my public image (lack of detachment, superficiality): decreased significantly (95%)
- Forgiving: increased in a strongly significant way (99.9%)
- Responsible: increased, close to statistical significance (89%)

All these variations were in a direction that was supportive of the hypothesized type of growth towards self-transcendence (Schwartz, 1992), that is towards the identification with a broader and more evolved sense of self.

We also found, however, a few changes that were harder to explain with the Schwartz model of personal values, and thus surprised us:

- Influential: increased in a strongly significant way (99.9%)
- Social power: increased significantly (90%)
- Self-indulgence: Increased significantly (90%)

Further studies will be necessary to probe these findings and eventually to adjust our understanding of the process of personal growth.

9.4 Comparing Meditation Coaching vs. Executive Education Training

The next step in the analysis consists of the comparison of the two training approaches that have been adopted in the "cross-over" design implemented in "High-Tech 2" company. The impact of the 1-day, full immersion, executive education program on CSR was assessed with the same methodology that has been used in section 9.3 above to assess the impact of the coaching intervention. Then a series of T-tests were run comparing the means of the two groups, trying to see whether the pre-post variations of one were, on average, significantly different (superior or inferior) from those of the other group.

One important word of caution is that the samples in this one experiment were restricted to 23 managers attending the meditation coaching (either on the first or on the second round) and 21 managers attending the executive education training only (in the first round), for a total N of 44[23]. This means that the experiment, the first of its kind, has the value of an exploratory foray and will require future probing to draw any definitive conclusions on the relative effectiveness of the two approaches to CSR education.

9.4.1 Impact on SRB

The first order of priority was to look at the pre-post variations of SRB in the executive education training sample. Here we found the first surprises, since the data shows an opposite trend vis-à-vis the "virtuous" one observed in section 9.3. There was actually an increase in the likelihood of enacting decisions violating "Do no harm" principles. In both the product liability (selling not completely tested products) and the process liability (outsourcing decision) scenarios, the pre-post variation was a statistical trend, with an 81% confidence level. For the "do good" scenarios, the situation is slightly better, but the product scenario (selling unprofitable drugs to Africa) shows a negative trend and the process scenario (volunteering vs. productivity) is only marginally positive[24].

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[23] We also replicated the analysis with non-parametric tests (Mann-Whitney) that would be more appropriate in case of non-normal distribution of the variables or of small sample size. The results are very similar, with minor variations in significance levels, to those reported.

[24] Recall that the meditation-based coaching program had a positive and strongly significant impact on the "Do good (process)" scenario (volunteering), at a 96% confidence level

Given this surprising result, the comparison of the two types of training intervention on the basis of their impact on antecedents to SRB (motives, emotions, values, etc.) looses most of its meaning. This would only matter in the case that we expected would be easily verified, that the two interventions had a similarly positive impact on socially responsible behaviour, at least as measured by the variations in the responses to the four adopted scenarios. Since that is not the case, a formal comparison on the basis of the impacts that the two training approaches produce on the managers' psychological traits seems a bit void of practical relevance.

The indication coming from the data analyzed is that (a) further probing of the actual impact of executive education on the development of socially responsible behaviour is necessary and urgent, and (b) different approaches to the problem of developing social consciousness in practicing managers need to be explored and comparatively assessed in their behavioural and psychological implications. Please, see sections 10.3 and 11.3 for further elaborations and recommendations drawn from this set of results.

9.5 Controlling for "Placebo" effects: comparing meditation vs. hatha yoga training

The last step in the analysis protocol of the data aims to control the robustness of the results described in section 9.3 to the so-called "placebo" effect. This is an important issue in the conduct of experimental designs in social science, since the participants to the interventions are conscious of the fact that they are being observed and that there are expectations about certain type of effects to occur as a consequence of the intervention (a training program, in our case). The way this is normally done in natural science is to provide the "sugar pill" together with the "real" pill and test whether the latter has an effect over and above that produced by the "sugar pill".

In the "oil company" experiment, we attempted for the first time to execute an experimental design of this kind. Our initial assumption is that a "Hatha Yoga" training program could represent an adequate "placebo" to the meditation-based coaching, since it has a similar name to the mediation technique used (Sahaja Yoga) and is likely to be perceived similarly to the "real" intervention. At the same time, though, the expectation was that the Hatha Yoga training, since it is based only on postures and relaxation exercises rather than deeper introspection and meditation practices, would not produce deeper changes in emotional traits, personal values and decision-making patterns that we intend to study.

The evidence emerging from the data is a little different[25]. Most of the effects described in Section 9.3 are still valid and maintain statistical significance even with a much smaller sample (11 managers participating in the meditation program vs. 10 managers in the hatha yoga program)[26] and in terms of difference vis-à-vis the pre-post variation of the hatha-yoga training. This is the case, for example, for the results related to the impact on emotional traits, such as lower sadness (92% confidence level), higher happiness (99.4%), stronger inspiration (98%) and courage (93%). Interestingly, an empathy test also results in a stronger impact of the meditation training compared on the hatha yoga training.

In terms of (cognitive) decision-making processes, the data shows that managers who went through the meditation program report a significantly larger improvement (99.5%) in the extent to which they "make decisions easily", compared to the same pre-post variation in the hatha yoga group. Also, the reliance on "ethics vs. economic profit" (91%), as well as on "protecting the environment vs. productivity" (85%) increases to a larger extent in the yoga meditation group.

In terms of shifts in personal values, the importance of "mature love" as a guiding principle increases in a significant way (90%) in the meditation group, compared to the same variation in the hatha yoga group.

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[25] It is worth noting that the Hatha Yoga training intervention does pass the test of having a positive impact on SRB. The pre-post variation for the Hatha Yoga group is negative with respect to "Do no harm" behaviour (especially strong in the process one, related to the outsourcing decision), and positive on the "do good" decision scenarios (although not as strong as the meditation training group).

[26] We again replicated the analysis with non-parametric tests (Mann-Whitney) that is here required due to small sample size. The confidence levels reported are those related to non-parametric tests.

Finally, the data shows that the socially responsible behaviour measured by the "lottery game" changes in the expected direction (e.g. splitting a 10,000 euros gain more in favour of the other players, particularly the one without any veto right on the proposed distribution) significantly more in the meditation group than in the hatha yoga group (97%).

However, to our surprise, there are also pre-post shifts in the behaviour and some its antecedents (primarily personal values) recorded by the hatha yoga group which are significantly larger than those reported by the meditation group. Here are the most important ones:

- SRB: the likelihood of a "do no harm (process)" decision (outsourcing) reduces more strongly in the hatha yoga group (95% confidence level)
- Motives for SRB decisions: the motive "it is morally right" increases more in the hatha yoga group (92%)
- Personal values: "social justice" (95%) and "protection of the environment" (89%) increase in salience as guiding principles for managers in the hatha yoga group more so than in the meditation group.

The first conclusion that one might draw from this evidence is that both forms of "non-orthodox" training interventions exhibit a significant influence on both SRB and on psychological traits that impact on SRB. This might be due to the fact that both rely on a common stress-management pattern which reduces the "tunnel vision" problem discussed in Chapter 7. An important implication is, therefore, to consider both interventions as effective CSR training strategies, although with some important differences in the types of impacts they have on behaviour and psychological traits. This conclusion is particularly striking in the comparison of both yoga training approaches with the standard executive education one.

Overall, however, the meditation-based coaching intervention shows evidence of more significant and diverse impacts on different dimensions of SRB and of its psychological antecedents, even in comparison with the hatha yoga training group[27]. This supports our initial hypothesis about the influence of deep consciousness development processes, such as introspective and meditative techniques. The important qualification to our initial assumptions is that the other yoga training, which we thought was simply a "placebo" effect, actually shows its own potency. The data clearly suggests that the "sugar pill" does have its healing power. The implications from this body of first-time evidence are drawn in Section 10.3 and 11.3.

[27] Note that many more dimensions of SRB and of psychological factors show a significant difference in favour of the yoga meditation intervention, compared to the dimensions on which hatha yoga seems to prevail

PART III: CONCLUSIONS AND RECOMMENDATIONS

10 Conclusions from study findings

After a fairly detailed explanation of the theoretical, methodological and analytical characteristics of the work, this chapter intends to summarise what we believe are the most important contributions of the project.

10.1 Assessing the Cognitive Alignment among Managers and Stakeholders

The concept of Cognitive Alignment, the extent to which managers and stakeholders converge (or diverge) in framing the concept and the issues related to the company's responsibility towards society, has been central to the work in the RESPONSE project. The first preoccupation, and the first contribution, of this project was in developing a methodology to both qualitatively and quantitatively assess the concept in its multiple dimensions.

So, how does managers' and stakeholders' framing of the concept and of the issues related to CSR differ from each other? According to the analysis of the 427 interviews made, the two differ in three main ways:

1. **Passive/Active Role.** Managers frame the issues in the majority (4 out of 5) as a "Do No Harm", rather than a "Do Good" problem, whereas stakeholders show an even distribution (roughly 50/50) between the two ways to frame the problem. This is important because it implies that companies and societal counterparts will not be able to cooperate and coordinate their actions, even if they use the same "language" (CSR, sustainable development, stakeholder engagement, etc.). The data that we have analysed, in fact, shows that the meaning attributed to those words typically differs to a large extent.
2. **The different "Views" of CSR.** The majority of managers, 2 out of 3, view the role of the firm in society as fundamentally disconnected from the well-being of both the global community as well as of its stakeholders. Only 20% of them appear to maintain a stakeholder view of their company, considering it as a network of interdependent stakeholders, and even less (15%) see their firm as a global corporate citizen, carrying its responsibilities to help solving the maladies of society. Again, this compares with an even distribution of the three "views" on the role of the multination corporation among stakeholders, roughly one third each for the "firm-centric", "stakeholder-centric" and "world-centric" view.
3. **The Scope of the Problem.** Even when they hold the same "view" about the role of the firm in society, managers and stakeholders appear to articulate it with significantly different levels of sophistication, or scope of the issue. So, for example, when managers articulate a "stakeholder view" of the firm, they most often (8 out of 10) refer only to the fundamental three stakeholders (shareholders, employees and customers), whereas stakeholders (9 out of 10 of them) have a much more diverse list of stakeholders in mind, including communities, suppliers, NGOs, etc.
4. **Salience is not Responsibility.** Finally, the analysis of the interviews indicate that when managers are asked to list their stakeholders, they automatically sequence them vis-à-vis their "salience", the importance of their impact on the company. That is they implicitly view stakeholders for what "they can do to us", rather than "what we do to them". This points to a fundamental, but subtle, mis-alignment related to the very notion of responsibility. Obviously, one is responsible for the impact of his/her actions on others' well-being. In the same way, CSR is about the impact of the company's decisions and actions on its stakeholders' well-being, rather than the opposite. Stakeholders, of course, tend to reason in terms of responsibility, rather than salience, which creates a subtle, implicit, gap of which managers are rarely aware.

10.2 Explaining the Cognitive (Mis-)Alignment among Managers and Stakeholders on the Concept of CSR

Having characterised the "gaps" in the way managers and stakeholders view the role of business in society, the challenge is twofold: first, to assess whether the magnitude of these gaps actually matter, that is if they really influence the perception of social performance that companies generate among their stakeholders, and, second, (if so) to identify the factors that are associated with the size of these gaps.

On the first question, the data analysed is very clear: cognitive alignment matters a lot in explaining the variation in perceptions of social performance, particularly the difference between good and great social performance. This is true across all the different measures adopted to assess the magnitude of cognitive gaps: the average magnitude for "great" social performers is always smaller than the average magnitude for "good" social performers.

So, the question becomes: *why is it that certain firms seem to have a much higher level of cognitive alignment (smaller gaps) with their stakeholders, than others? What explains the size of these cognitive gaps?*

The answer to this question is, obviously, quite complex, and we believe this study has only began to "break the ice" in what feels like a fairly large iceberg, most of which, of course, is still under the water. Nonetheless, we believe we have made considerable progress from where we started several years ago and we certainly have a much clearer view of what needs to be done to crack the remaining part of the code.

In Part 2 of this report, we broke down the explanations in two categories: external factors, having to do with the environment in which companies act, and internal factors, related to characteristics of their own organisations.

The external factors that we found are most clearly associated with the degree of cognitive alignment between managers and stakeholders (Research Objective 2) are:

1. **The industry in which they operate.** In particular, the data indicates that the degree of dynamism (the speed of change) in the industry, not only the magnitude of its social impact, might have a positive effect on the level of cognitive alignment. Beyond the natural resources sector, where environmental impacts and sustainability issues have always been paramount, the industries with highest alignment (narrowest gaps) are the high-tech and the banking industries, two sectors which are relatively new to the CSR debate, but where the degree of dynamic change in the competitive and social environment is among the fastest across all sectors. Also, ICT and banking are the sectors among those studied that have the strongest emphasis on product innovation and customisation. The sectors with the lowest alignment (largest gaps) are energy and chemicals, which are characterised by low environmental dynamism and low level of product innovation and customisation. Alignment between managers' and stakeholders' ways of characterising the problem might therefore be influenced by the formers' ability to understand and adapt to a rapid pace of change in their environment, as well as to innovate and tailor their products to the variations in demand and expectations.
2. **The regional context in which firms are headquartered.** Contrary to expectations, we find that Anglo-Saxon companies exhibit lower cognitive gaps (higher levels of alignment) than both Southern and Northern European companies. This might be in part due to lower levels of expectations on the part of Anglo-Saxon stakeholders, but might also (at least in part) be explained by the same factor identified above: the ability to understand and adapt to a rapid pace of change in the external environment may be much more diffused in Anglo-Saxon companies than in their European counterparts.
3. **The amount of stakeholder pressure/activism.** The data also shows that the amount of pressure exercised on a given company by its external stakeholders is positively correlated with the degree of cognitive alignment between managers and stakeholders. This points to a positive role played by external pressures in the development of managerial awareness of the social implications of their decisions and actions. Put another way, the magnitude of external pressure can act as a powerful stimulus to managers' efforts to understand stakeholders' expectations.

The internal factors that we found are most clearly associated with the degree of cognitive alignment between managers and stakeholders are:

1. **Business strategy.** The data shows that companies competing on the basis of differentiation strategies exhibit systematically lower gaps (higher cognitive alignment) compared to those competing on cost efficiency.

2. **Integration of CSR principles in business operations.** A clear association was found between the degree to which companies have integrated CSR principles in business operations and the degree of cognitive alignment between managers and stakeholders. The higher the integration, the higher the alignment (the smaller the gaps). The causality between these two factors awaits further investigation, though, since it could potentially go both ways: cognitive alignment causing higher levels of CSR integration, and vice versa.
3. **Motivation for CSR: innovation-based business case.** We also find that the way managers motivate the engagement of their company in CSR explains the degree of cognitive alignment. In particular, companies in which managers articulate the business case in terms of the expected enhancement of new product development processes have higher levels of cognitive alignment, compared to companies that rely on risk minimisation, cost efficiency or even sales.. This is consistent with the result on the impact of industry dynamics, as well as with that on the impact of business strategy reported above.
4. **Non-Findings**. Finally, in addition to the results identified above, two "non-findings" are particularly important to highlight.
    a. **Founding conditions**. We find that companies that were created by entrepreneurs with strong social sensitivities and commitments to social development do *not* exhibit higher levels of cognitive alignment, and in fact, the level of cognitive alignment according to some of the measures adopted might actually be lower (on average) than the (average) level in the group of companies that did not have these type of conditions at founding. This is a puzzling result, which will need to be probed in future research, since it seems to point to a "liability", rather than an advantage, of founding conditions. Possible explanations include (a) the fact that this study is focusing on "good" and 'great" social performers, it might very well be that founding conditions might help in transitioning towards "good" social performance level but do not suffice to achieve top level status, and (b) the level of internalisation of social responsibility at founding might in fact deter managers from investing in continuous learning and the adaptation of their understanding and behavior to the dynamics of societal expectations, because the issue might become "taken for granted" as part of the identity and shared values of the organisation.
    b. **Stakeholder engagement.** There is no association in the data between the degree to which companies have developed solid stakeholder engagement practices and the magnitude of cognitive alignment. This is surprising because one would expect that stakeholder engagement could be one of the principal ways in which cognitive alignment is actually achieved. A potentially important explanation points to the fact that cognitive alignment is to be viewed as the result of actual changes in day-to-day behavior (see the result on the integration of CSR in business processes), rather than simply in communication efforts with external stakeholders. In fact, it might very well be that companies that have invested heavily in external communication processes might have (inadvertedly) done so at the expense of focusing on internal change processes, which are more powerful means to achieve the desired degree of cognitive alignment, and, consequently, of social performance.

10.3 Developing Socially Responsible Behaviour in Managers

Research Objective 4 required the development and testing of a model of changes in Socially Responsible Behaviour by managers consequent to their achievement of higher levels of social consciousness through specific training interventions. The focus of this part of the study was specifically on the hypothesis that the development of social consciousness in managers might not happen effectively via standard executive training interaction approaches. However, it might necessitate a (non-cognitive) pedagogical approach based on introspective and meditative practice, paradoxically, without the need to communicate or discuss specific knowledge about the subject matter.

The experimental part of the RESPONSE project starts with the empirical validation of the impact of social consciousness (in its emotional, cognitive and value-based components) on socially responsible behaviour. The data we studied confirms that all three components of social consciousness play an important role in explaining individual variation in socially responsible behaviour, empirically validating our theoretical development efforts (Schneider et al. 2005).

Then the question becomes, how effective are the different training approaches to the development of social consciousness in managers. The evidence emerging from the four experiments conducted with as many multinational companies reveal that:

1. Meditation-based coaching. The interventions based on meditation-based coaching show statistically significant pre-post changes in dimensions of Socially Responsible Behaviour (SRB) as well as in all the three factors that, according to our theoretical model (Schneider et al. 2005), should influence the development of social consciousness in managers:
    a. "Do good" type of behaviour, particularly of "process", rather than product-based nature, such as the choice of investing in a social volunteering program for employees, is especially stimulated
    b. Decision-making criteria adopted to justify socially-responsible initiatives shift from broadly self-interest minded (firm profit, reputation, personal interests) towards emotional ("shows caring and compassion") and ethical ("breach of an implicit social contract") stands
    c. More general decision-making criteria related to trade-offs made in day-to-day work shift towards higher priority given to higher social and environmental impacts:
        i. from economic profit to social welfare
        ii. from internal audiences towards external audiences' interests
        iii. from productivity towards the impact on the natural environment
    d. Emotions. Managers in the intervention groups experienced changes in a long list of feelings during the coaching period, related to:
        i. Positive emotional states (happiness increased, anger, dissatisfaction with self and sadness decreased)
        ii. Physical and mental well-being (feeling tired and nervous decreased)
        iii. Self-confidence increased
        iv. Inspiration increased (somewhat unexpected)
        v. Autenticity increased (feeling less "disguised" at work)
        vi. Most importantly, the overall stress and anxiety level (as measured by the STAI index) decreased
    e. Personal values. Managers in the intervention groups also reported significant changes in several factors as a "guiding principle in my life", generally related to the enhancement of "self-transcendence" (Schwartz, 1992), that is the development of a broader sense of self ("wisdom", "forgiving", "inner harmony", "unity with nature", "a world of beauty"). Also important was a significant reduction in the importance attributed to "preserve my public image". Finally, given the content matter of this study, it was nice to find that being "responsible" as a guiding principle in managers' life increased in salience.[28]
2. Executive Education. The executive education intervention was ineffective in producing shifts towards higher likelihoods of socially responsible behaviour across the tested

[28] Unexpected changes in personal values such as "being successful", "social power" and "self-indulgence" which are not in the direction of enhanced self-transcendence require further probing in future research

scenarios. In fact, the changes we observed went in the opposite direction, with trends towards the reduction of likelihood of "do no harm" behaviour. The implication for our analysis is that a comparison between the two interventions on the basis of the psychological antecedents to socially responsible behaviour makes little logical sense. Future probing of the actual pre-post impacts of executive education intervention on the development of social consciousness and the enactment of socially responsible behaviour needs to be carefully assessed in future research.

3. "Placebo" training intervention? The conclusion regarding executive education interventions is further strengthened by the findings that even the presumed "placebo" intervention, based on "hatha yoga" training (postures, relaxation) shows important positive impacts on the likelihood of enacting socially responsible behaviour, particularly of the "do no harm" kind. The comparison of the pre-post changes in both behaviours and psychological traits is quite interesting in that both "non-orthodox" interventions seem to exhibit potency in different dimensions of decision-making criteria and in personal values. Overall, however, the meditation-based coaching intervention maintains a more powerful influence across the board, and especially on changes in emotional traits.

11 Recommendations

This final chapter of the report intends to build on the findings summarised above, as well as on the vast amount of direct observations accumulated during the course of three years of work with the 21 participant companies. The objective, of course, is to point to some implications and consequent recommendations for action aimed at helping the key stakeholders for which RESPONSE was designed and executed, develop their own position and plan their future course of action on this complex set of issues.

11.1 Recommendations for business

For corporate leaders and business managers (with P&L responsibility):

1. **Reframing CSR.** This study has surfaced a significant amount of mis-alignment between managers and stakeholders about how the concept of CSR, and its related issues, are framed in people's mind. To bridge this gap, and consequently improve the social performance of their company, corporate leaders and business managers need to reframe the problem in a significant way and along many dimensions:

    a. From "Do No Harm" to "Do Good". Stop considering (implicitly or explicitly) CSR simply as an issue of refraining from causing harm to society, and start framing it more clearly and forcefully as a challenge to find the most appropriate ways and means to *help society develop* to the fullest possible extent, and in the best possible way

    b. From a Firm-centric to a World-centric view of the role of their organisation. Managers who intend to enhance the degree of alignment with the way their stakeholders think about the problem need to perceive their organisation as a truly *global citizen*. This requires moving beyond the narrow focus on the legal, reputational or ethical logics that define its boundaries, and accept the rights and duties connected to the impact it has on the environments in which it operates.

    c. Broaden up. Even within their current "View", there is a lot they can do to expand the implicit framing of the problem. For example, if they maintain a stakeholder-centric view of CSR, then at the very least they might consider expanding the scope of "responsibility" to include all the audiences for which their company matters, that is, on which their company has a significant impact.

    d. Finally, but fundamentally, they might consider reframing their thinking about CSR from "what they can do to us" to "what we can do to them". For example, the prioritisation of the company's stakeholders need not be made on the basis of how salient they are for the company's well-being (Mitchell, Agle and Wood, 1997), but on *how salient your company is for their well-being*. It is subtle but fundamental.

2. **Reframing "Why CSR"**. One of the key findings of this study is that the way companies justify their commitment to CSR influences the degree of cognitive alignment with their counterparts, as well as the perception of social performance formed by stakeholders and civil society in general. In particular, our findings suggest that expressing the commitment to CSR through a "business case" based on the value that CSR brings to your company's innovation and change processes is particularly conducive of higher cognitive alignment with stakeholders' way to thing about the issue. Innovation could thus represent the compromise solution, or even the "win-win" upon which both business managers and stakeholders can find common ground and a solid basis for cooperation.

3. **Bridging the "gap"**. What can be done, then, to bridge the "gap" and enhance the cognitive alignment between the company and its societal counterparts? This study points to the role of two factors that are particularly important and potentially "actionable" for any corporate leader who intends to invest in improving the alignment with its societal counterpart, and thus the company's social performance:

a. **Business Strategy**. The link between the competitive strategy adopted by the corporation and the degree of cognitive alignment was one of the most interesting, and somewhat unexpected, results of this study. Taken its implications further, this result suggests that corporate leaders of companies competing on cost efficiency, and on large volumes with lower margins, might consider changing the way the it competes towards a competitive posture that prioritises differentiation, innovation and customisation of its products/services, and consequently aiming towards higher margins. Of course, this is easier said than done, and there are many other factors that would need to be considered before a strategic shift of this sort could be designed and implemented. The results of our analyses, however, speak clearly about the advantage that this strategic choice would bring in terms of reducing the discrepancies and thus enhancing the social cohesion among stakeholders, with positive expected implications for both economic and social performance. This recommendation is further informed by the findings that the superior alignment of companies in highly dynamic, innovation and customisation-driven sectors, vis-à-vis more stable and efficiency-driven ones.

b. **Integration of CSR principles in Business Processes**. This factor has emerged in our analysis as one of the strongest predictors of social performance. The implication for corporate leaders is clearly pointing to the need to invest in deep internal change processes aimed at the adaptation of operating and strategic processes towards the integration of social responsibility principles. This means, in concrete terms, that all the fundamental processes that make the organisation "work", from the way resources are allocated to the way people are hired and motivated, from the procurement of resources to the marketing and sales of products; each functional activity should be adapted to fully embed the consideration of its potential social impact. This is a hugely tall order, of course, particularly considering the peripheral role played by "CSR experts" in most of the large business corporations today. The power and the responsibility to make this happen rests primarily on the corporate leaders' and senior executives' shoulders, those with P&L responsibility, which typically comes with the control of adequate resources and the endowment of sufficient internal power to affect the evolution of business activities. We recommend this be *the real litmus test* to assess progress in your company's efforts to become an effective and recognised corporate citizen.

For managers responsible for CSR related activities:

1. **Reframe the problem: from external engagement to internal change.** Our data and observations show that the key factor explaining the difference between "good" and "great" social performance is ***not*** the quality of the company's stakeholder engagement, but the degree to which CSR is integrated within business operations and, even more importantly, the strategic decision-making process. In fact, in some cases, we have observed subtle disadvantages in over-investing in external communication processes, due to the consequent draining of attention and resources from the necessity to *drive internal change* processes. We thus recommend CSR managers refocus their attention and their time/resource commitment away from handling external communication processes (beyond a minimum requirement, of course) and focus on the complexities of championing internal change initiatives aimed at mainstreaming CSR in all relevant business and strategic processes.

2. **Redefine Your Role.** In some of the companies we have studied the "CSR function" has been undergoing rapid change in both its position within the organisational structure and in the nature of its mandate. In general, the changes have been towards an increasingly central role in the strategic debate within the firm, and a higher level of integration with business functions. The movement from the organisational "periphery" towards the centre is welcome, of course, but the road ahead seems to be still long and uphill, particularly in light of the changing nature of the "challenge" (see above #1). If CSR specialists are to assume a role

of champions (or at least "co-champions") of internal change, then they will need to obtain a much stronger "voice" and a more central position with respect to the organisational power structure, to have a real chance to succeed.

3. **Rethink the Role of External Audiences: from Counterparts to Partners in Driving Internal Change.** The combination of point #1 and #2 above magnify the challenge in your hands by an order of magnitude. One way to handle the challenge is to rethink the role of the external audiences you deal with on a regular basis as potential partners in the "uphill battle" that the CSR "champions" are fighting to gain internal legitimacy and drive the internal change agenda. By showing concrete and pro-active support from external stakeholders to the internal change agenda, the CSR structure will certainly improve their chances of success in initiating as well as executing change. To do so, however, requires not only a shift in the way the problem is framed, but also the rethinking of the whole CSR strategy and consequent action plan. A new type of engagement seems to be in fact necessary with the stakeholders, moving beyond the "listening" and "telling" (production of information) and towards active collaboration in changing the way things are done inside the organisation. Much more concrete, much more effective in bridging the cognitive gap, but also much more demanding of managers' and stakeholders', efforts and resources.

11.2 Recommendations for stakeholders

The findings of the study, as well as the interactions we have had with more than 100 stakeholders over the course of the project, have produced a number of important implications for the wide variety of counterparts to business corporations. We summarise them below by general category of stakeholder type:

1. Social Rating Agencies (SRAs). SRAs have offered an invaluable help and support throughout the project, from sample selection to stakeholder data collection. In a spirit of constructive feedback we have also engaged with some of them in a series of discussions aimed at identifying some of the key lessons from the RESPONSE project that might help them improve the quality of their services to the community of investors, corporations and stakeholders that look at the results of their work from their specific perspective. Here are some of the recommendations that can be made as a result of the frequent exchanges we had:

    a. **Understanding the Internal Operations of Corporations**. Interview data and the frequent interactions show that SRAs focus most of their energy analysing the external communication patterns of the companies they evaluate, either coming from Internet sources or from the company itself, but very little in analysing the way companies try to integrate CSR into their ordinary business activities. Overall, they seem to have, in fact, a limited understanding of what actually happens inside the company (how they compete, motivate, allocate resources, organise, strategise, manage learning and change, etc.). Based on our findings, this approach seems to be increasingly out of sync with what is needed. To maintain and expand their role as evaluators of corporate activities in this space and advisors to investors, SRAs need to move considerably beyond the analysis of external communication and towards a thorough assessment of internal change processes. This recommendation, taken seriously, calls for a significant retooling of the evaluation methodology, and the redesign of their organisational and operational arrangements.

    b. **Mind the Gap.** It might appear obvious, at this point, that a direct assessment of the cognitive alignment between managers and stakeholders is an important factor to assess when evaluating a company's position in this area over and above the statements made and initiatives undertaken. What makes it particularly challenging from an SRA perspective is that this means developing processes and metrics aimed at soliciting standardised inputs from the stakeholders of the company evaluated, which can then be juxtaposed with the input from internal corporate sources. This is another significant departure from the current standard practice.

2. NGOs. There are also a few important take-aways from the work we have done for the representatives of the wide variety of NGOs that interact with business corporations in so many different ways, on so many different topics and with sometimes divergent approaches to engagement (from the most confrontational to entirely cooperative ones).
    a. **Understand the Business.** The interviews conducted for this project reveal that NGOs typically possess, compared to SRAs, an even more limited level of understanding about what actually happens inside corporations. This is problematic because the potential to influence corporate behaviour is clearly dependent on the credibility as a valid counterpart in relevant initiatives aimed at the joint impact on economic and social performance. If NGOs want to have a chance to play a role in the change process that companies need to go through to become a more responsible actor in society, they need to substantially upgrade their understanding of corporate processes and their skills in coordinating and cooperating on the internal change agenda. Unless and until business corporations complete this internal change process, it is hardly reasonable to expect that they will play their full role in tackling the global issues.
    b. **Be Sceptical of "Engaging" Corporations**. The fact that the degree of development of stakeholder engagement practices in business corporations does not necessarily lead to a better understanding of stakeholders' interests and mindsets, as one would expect, rings an alarm bell for NGOs who receive offers to engage in stakeholder dialogues or other external initiatives. There is nothing bad about engaging with corporations, of course, but NGOs should learn to discriminate when these offers come with motivations tied to boosting external reputations from the, much more rare but at the same time appealing, case in which the genuine motivation is to enact profound internal changes in the way the company operates.
3. **"Inner Circle" Stakeholders.** SRAs and NGOs (including consumer associations, industry associations, and issue-specific pressure groups) can be considered intermediaries or mediators of the interests of "inner circle" stakeholders: customers, suppliers/partners, shareholders, employees and communities (including local and national government authorities) (Freeman, 1984; Preston, Post and Sachs, 2002). The message offered to managers about the refocusing of their attention and resources from the external engagement activities to internal change processes is of particular relevance for the "inner circle" stakeholders. The implication is, in fact, that they become (or return to be) the central focus of both the attention and the rhetoric of the corporations they are dealing with. In turn, this means an increasing responsibility to help those corporations enact the internal changes necessary to fully integrate the social impact of their decisions and activities in their operating and strategic processes. Given the magnitude of the internal change challenge, and given the peripheral position of the "CSR experts" in most business corporations, it seems an obvious conclusion that the key to the puzzle really lies in the hands of the "inner stakeholders": the shift towards a truly responsible enterprise can only happen if customers, suppliers/partners, employees, shareholders and communities move beyond signaling and towards active collaboration in driving the internal change agenda.

11.3 Recommendations for management education

The experimental part of RESPONSE was designed specifically to assess the relative effectiveness of the current approaches to executive education on Corporate Social Responsibility. In particular, the experiments focused on the challenge of helping managers and corporate leaders develop the psychological attributes and personal values that can support the integration of principles of social responsibility in the day-to-day operations of business corporations.

The results summarised above point to the need to rethink the approach to CSR education in several different ways:

1. Limit the existing classroom approaches based on cognitive engagement through case discussion and knowledge sharing to when the priority is to build awareness among managers and employees of the many issues related to CSR.
2. If, however, the objective is to develop social consciousness in managers and corporate leaders, one should recognise that this is a very different learning objective, which needs to be addressed with different pedagogical approaches and tools. It is about working on the fundamental antecedents to individual behaviour, rather than directly on the behaviour itself. Cognitive engagement through class discussions might have little or no impact on deeply rooted factors such as personal values, emotional dispositions and (cognitive) decision-making biases.
3. We recommend that business schools and corporate universities experiment with different pedagogical approaches based on experiential learning as well as personalised coaching designed to elicit a profound reflection on personal values and psychological traits. The aim is to develop not only self-knowledge, but “meta-knowledge”, the ability to constantly witness ones’ thoughts, emotions and actions and the strength to uphold ones’ values and principles. To this end, the data we analyzed seems to suggest, words might actually get in the way and (mental) silence might be the most appropriate learning milieu.

11.4 Recommendations for future academic research

At the end of such a large and complex research project, one is tempted to dwell on all the various findings and insights developed from the analysis of the massive amount of data collected and analysed. The truth of the matter, of course, is that the questions that have been left unanswered, are much more numerous than the questions to which we feel we have been able to give at least an initial answer.

Below we develop a list of pointers to future scholars engaged in this fascinating and rapidly evolving field of work, broken down between content and process issues for future research projects:

For what concerns the *content* of future research the key indications can be summarized as follows:

1. **CSR Cognition**. The results show for the first time how important cognition is in explaining the characteristics of the CSR process as well as the quality of its outcomes. Future research could build on these initial findings to further understand (a) how managerial and stakeholders’ understanding about corporate responsibility can be measured and validated, (b) how it evolves over time, (c) how it shapes the way firms behave and (d) what outcomes it generates in terms of social and financial performance.
2. **CSR Integration**. The integration of CSR principles and processes within operating routines and strategic decision-making is another area in which the RESPONSE data suggests future research should study more in depth. How is that integration really happening within business organizations? What are the barriers and the enabling factors for its successful realization? What are the outcomes to expect in terms of social and financial performance and what factors might influence the quality of the outcomes?
3. **The Individual Level.** RESPONSE has also highlighted in both theoretical and empirical terms the need to study CSR not only as an organizational process but as an individual behaviour. We trust future scholars will build on these initial insights to further our understanding of the factors explaining socially responsible behaviour in managers, as well as of the outcomes for the organization and for its social counterparts.
4. **Learning CSR**. The last area where we feel RESPONSE has broken new ground for future scholarship to advance is the assessment of learning processes at both the individual and organizational levels of analysis. Whereas the learning experiments have shown the feasibility and the importance of studying different approaches to the problem of developing social consciousness in managers, this study has not been able to evaluate with the desired precision the impact of knowledge development and diffusion processes at the organizational level. We trust future scholars will be willing

and able to make new inroads on this crucial quest to explain how firms develop competencies specific to the management of their social responsibilities.

The implications of our experience for the design of future projects in this domain are, in our view, equally important:

1. **Matched-Pair Sampling**. We consider the matched-pair design implemented in RESPONSE one of the strengths of the study. Empirical research in the Business & Society domain has been characterized so far by the study of a small number of companies, typically selected in an ad-hoc way on the basis of prior relationships. We have tried to go beyond that limited design and have paid the price of a much more complex and uncertain recruitment process. The fact that we have been able to complete the study, in all its limitations, with a solid sampling method should be an encouraging sign for future scholars in this field of work.

2. **Experimental Design**. The other innovative design successfully implemented in this study is the use of randomized controlled trials to measure the effect of training interventions on the psychological profile and behaviour of managers. Conducting this rather intrusive design with practicing managers in their own normal working environment (i.e. outside of the standard laboratory conditions) on a sensitive subject such as CSR and with some non-orthodox intervention techniques (such as meditation practices) gives comfort in the possibility to run cutting edge research designs and develop the highest quality of knowledge (comparable to that published in top natural science journals) also in this area of social science research.

3. **Research Co-Development with Businesses and Stakeholders**. One of the most important explanations for the successful implementation of both the matched pair sampling as well as the experimental designs lies in the presence of multiple established relationships and cooperative agreement that the research team has been able to leverage with corporations, especially the founding partners of the European Academy of Business In Society (EABIS), and with some of the key stakeholders (leading social rating agencies, NGOs, etc.). This new model of social science research, based on the active collaboration with the “subjects” of the research throughout all the phases of the process, from the initial formulation of the questions to pursue all the way to the dissemination of results, offers important indications, in our opinion, for future scholars in this area on how to maximize their chances of success in complex, and politically charged, field of study (see below for some related recommendations for policy-making and research funding institutions).

11.5 Recommendations for policy and standards

The final set of recommendations that we would like to offer are aimed at the readers who are responsible for the development of public policy or international standards related to the interaction between business organisations and their societal counterparts.

1. **Selective and Purposeful Stakeholder Engagement**. The combination of the findings related to the impact of business strategy and internal change processes on the degree of cognitive alignment between business managers and stakeholder, together with the “non-finding” about the impact of stakeholder engagement processes, need to be carefully evaluated. We believe that drawing the conclusion that stakeholder engagement is not influential or is ineffective would be misleading for a number of reasons:

    a. Necessary but not sufficient condition. The set of companies studied is made up of either “good” or “great” social performers; thus, it might very well be that stakeholder engagement could represent an important necessary condition to reach “good” status from a lower level of perceived performance, although it might not be sufficient to join the best in class.

    b. “Catch up” strategy. One of the possible reasons why stakeholder engagement might not be sufficient to enhance cognitive alignment is that companies investing in these activities are primarily aiming at closing in on the more advanced companies through visible external initiatives. Thus, these initiatives might not result in narrowing the cognitive gaps with stakeholders, since that is not the purpose, but might be helpful as a preliminary step towards increasing levels of understanding of their counterparts' expectations.

c. Broadening the "firm view". More generally, engaging with stakeholders in external initiatives might be an important step in the process of reframing the view of CSR from "firm-centric" to "stakeholder centric". So, even if it might not translate immediately into higher cognitive alignment, engaging in dialogues with stakeholders might still serve the purpose of helping managers open up to new possible ways to interact with the external environment.

However, the indication that we draw from the results of this study for policy-makers who intend to facilitate the dialogue between business corporations and their stakeholders is one of *selective and purposeful engagement*. Business corporations should be invited to engage in stakeholder dialogue only to the extent it is aimed at a concrete and measurable set of outcomes. The answer to the question: "*engagement to do what, exactly?"* should be provided in clear and concrete terms, and should be centred on the enhancement of the well-being of a plurality of **inner-circle** stakeholders: employees, customers, suppliers and business partners, shareholders and communities. Relying on intermediaries or mediators of the interests of these stakeholders (social pressure groups, media, industry and customer associations, social rating agencies, etc.) might be an imperfect alternative to the direct dialogue with the components of the "extended enterprise".

2. **Focus on Internal Change Processes.** The results of our analysis indicate that the companies with a more advanced degree of integration of social responsibility principles in their operating and strategy-making processes are characterised by higher (average) degrees of cognitive alignment. Their managers seem to prioritise stakeholders and assess their company's social performance more in line with what their stakeholders do. The implication we would draw from a policy standpoint is that the initiation and completion of this major internal change process needs to become a priority in the indications to companies on how to meet their responsibilities towards their societal counterparts. CSR is thus to be re-framed as a massive internal change challenge, which is the direct, but so far under-appreciated, consequence of the definition itself of the phenomenon offered by the EU Commission: *"CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis"*. The litmus test to discriminate the reality from the rhetoric of CSR[29], therefore, seems to lie in the "integration in business operations" part of the definition and should thus be emphasised as such, with its logical consequences, in all the future policy interventions. In other words, it is hardly possible to expect that companies can meaningfully and truthfully change the way they interact with their stakeholders unless and until they have at least initiated a serious and deep effort to change the way they design, organise and manage their own operating and strategic processes.

3. **Strategy front and centre**. Another important, and somewhat unexpected, result from the analysis refers to the influence the way companies decide to compete on the degree of cognitive alignment between their managers and their stakeholders. Those companies that compete on differentiation and customisation of their products and services present higher levels of alignment (on average) than those competing on cost efficiency. The implication from a policy perspective cannot be to request companies to change their competitive strategy approach, of course. Too many other considerations need to be part of that crucial choice. However, the results of the RESPONSE study indicate that one of those considerations ought to be the ability of the corporation to understand and meet the expectations of its stakeholders. Even more importantly, it is the *process* through which the corporate leaders craft and adapt the strategy of their organisation, the strategic planning process, and more generally the way the key decisions that affect the competitive position of the company (market entry and exit, pricing strategy, growth strategies through M&A and partnerships, R&D strategies,

[29] See to this end the results of the RARE project funded by the EU Commission within the context of the 6th Framework Program

resource allocation and investments, etc.) are made that ought to be adapted to integrate in an explicit and concrete way the assessment of the impact of those decisions on the stakeholders of the company and the societal context in general. The first step in this process of focusing the CSR debate on the challenges of internal corporate change could be to simply edit the definition of CSR proposed by the EU Commission as follows:

*"CSR is a concept whereby companies integrate social and environmental concerns **in their strategic decision-making processes,** in their business operations and in their interaction with their stakeholders on a voluntary basis"*

4. **A New Way to Conduct Research on Business & Society.** Moving from the implications of the results of RESPONSE to those derived from our experience in managing the research process, we believe that there are some important lessons to learn about the model of research that might be conducive to best results in this particular field of social science research. RESPONSE has been characterized by a stable cooperation between corporations, global stakeholders and scholars through all the phases of the research, from the formulation of the questions to pursue to the development of the design and of the research tools, to the recruitment of other participant companies all the way to the sense-making of the results of the analysis and the dissemination of the output. The results, despite the increased coordination costs, seem to be valuable particularly in terms of achieving a real balance between academic rigor and managerial relevance in the output of the research. We see this as the possible foundations of a new model to conduct academic research in this area, and suggest policy-makers and research funding agencies to take this experience into account as they search for ways to enhance the quality of future research endeavours. The existence and pursuit of a stable relationship and commitment to cooperation between research centre(s), business corporations and key stakeholders might be viewed as a necessary condition, and recognized as such, for the development of research plans that can aspire to real breakthrough results with both academic as well as managerial audiences.
5. **A New Role for the Partnership between Business and Society.** The observations offered above can be integrated into one final recommendation on how to give content and purpose to the recent initiative by the EU Commission towards the establishment of a partnership between business and society (including academia) to enhance the quality of their mutual understanding, of their multiple interactions and of their development and growth. Our suggestion is to articulate and focus the concrete outcomes of the "partnership" on the facilitation of a profound change process inside both business corporations as well as their societal counterparts. The change process can be characterised in the following way:
    a. Establish the partnership. Even though the results of this study point to the fact that stakeholder dialogue might not be enough to effectively align managers and stakeholders' understanding, for many corporations this might still be the first order of priority since the standard way to operate is to decide/act first, and communicate later. This is the logical first step for the establishment of any partnership.
    b. Partner for internal change, first. The enactment of any partnership, however, cannot rely solely on open and trust-based dialogue. It has to be supported by joint activities producing concrete output which improves the position of the "extended enterprise" (including all the "inner ring" stakeholders), thus creating a self-reinforcing cycle of results, commitment and adaptation (Doz and Hamel, 1998). The content of these activities could be distinguished between externally focused (aimed at improving global societal issues, in the spirit of a "world-view") vs. internally focused (aimed at changing the way business corporations and their social partners operate and function to integrate broader social responsibility principles). The core results of the RESPONSE project suggest that the priority among these two types of change initiatives ought to be given to internal change processes. In addition to the production of concrete output, such as for example innovative products with lower or better environmental or social impact, the advantage of this type of prioritisation

seems to be that it produces the type of cognitive alignment among managers and stakeholders that dialogue by itself fails to produce. In other words, the first concrete thing that business corporations and their counterparts (SRAs, NGOs, etc.) can do to have a positive impact on global problems is to collaborate to help each other *change themselves* towards (a) integrating social responsibility principles in their day to day work (business organisations) and (b) upgrade their competencies to evaluate corporate behaviour and offer constructive support in their internal change efforts (stakeholders, particularly the intermediaries, such as NGOs and SRAs).

c. Then, partner for external change. Only once the collaboration for internal change is at least launched and the first fruits are generated, can the “partners” start investing in joint external change projects. At that point, the two partners of the “alliance” will have established the credibility, the mutual respect and the inter-organisational routines (Zollo et al. 2002) necessary to scale up the perspective and ambitions of their collaboration. For example, addressing the global issue of climate change should pass first through active business & society collaboration in changing the ways in which corporations are organised and work to produce their products and services to minimise the environmental impact of processes and outputs. Only once that is, at least in good part, accomplished, corporations and their “alliance partners” will have developed the joint understanding (cognitive alignment), the external credibility, the internal commitment and the collaborative routines that will allow them to tackle the broader and more challenging issues of solving the global problems beyond the boundaries of their extended enterprises.

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Annexes

Exhibit 1 . Desk Research and Field Visit Protocol

Exhibit 2. Interview protocol (managers)

Exhibit 3. Methodology for the calculation of cognitive gaps

Exhibit 4. Other results from the analysis of the factors explaining cognitive alignment

Exhibit 1. Desk Research and Field Visit Protocol

The information gathered during the desk research covers two areas two parts:

1. A description of the company, which is based on publicly available information (i.e. desk research). In the "Research model", this part is related to the Environmental and many of the Corporate level factors eventually explaining the magnitude of cognitive gaps and of motivation to act responsibly.
2. A description of the company's CSR work, which is based on data collection at the company (i.e. the fact finding day). In the "Research model", this corresponds to the description of the CSR process, and of the cognitive gaps and of motivations they have. The fact finding day, though, can provide precious information of explanatory factors as well, such as the founding conditions and the evolution of the company, its history of environmental and social accidents and the way they were managed, etc.

1) The company

a. Key Activities:
   - Products produced and/or services delivered
   - geographic markets covered
   - customer segments covered

b. Origins:
   - Original products/services
   - Founders' profile: the entrepreneurial idea, their level of sensitivity for social issues, their legacy within the company today
   - Vision and Mission: why was the company created? How was it supposed to be "useful for the world"?
   - Brief historical overview of how the company "philosophy" (vision, purpose, mission) evolved over time

c. Values/principles: (probe with HR and CSR manager)
   - Current articulation of what they believe are the core principles guiding their activity
   - Evolution of the espoused values

d. Strategy: (probe with strategy/marketing manager)
   - What is the current articulation of their competitive strategy? How do they think they can outcompete rivals?
   - Do they aim to be the most cost efficient competitors (low price)? Or are they aiming to distinguish themselves for the quality and uniqueness of their products (high price)?
   - What do they see as their competitive strengths and weaknesses? What can they do better than their competitors? What do they do worse than average?
   - What is their strategy-making process? Is it just a strategic planning exercise for budget allocation purpose or there are also full discussions of problems, alternative solutions, implementation priorities?
   - To what extent and is CSR brought within the picture? Probe for examples to see if there is a real integration of CSR in the strategy debate.
   - How did their strategy change over time? Through what process? Is the change through continuous marginal adjustments or with rare but radical shifts?
   - Why did the changes occur? What stimulated them? Anything to do with stakeholder responsibility?

e. Corporate Governance: (CSR Manager, or other senior manager)
   - Current rules of corporate governance:

- Ownership: diffusion/concentration of shareholders, floating capital (%), rules of voting in assembly (if different from the norm)
- Board members: number of insiders, responsibilities, types of committees formed, compensation, frequency of meetings, rules of conduct (formal/informal)
- Top management: compensation levels and structure, reporting lines, management style, level of autonomy left to individuals

- Evolution of corporate governance
- Why and How did it change over time?

f. Structure (HR manager and CSR manager)

- Current organizational structure:
  - By function? Business unit? Geography? Matrix (combination of them)?
- Degree of autonomy of BUs or countries: High/Low
  - what can single units or subsidiaries decide without central OK?
  - How much can they spend (roughly) without going to HQ?
- What does the corporate center do? How does it “add value”? What is it responsible for? Usual staff functions (strategy, control, legal, PR…) or also support for business functions:
  a. HR processes
  b. financial management,
  c. IT systems
  d. R&D
  e. operational advisory
  f. corp. development (specialized M&A/JVs units)
  g. knowledge management

g. Organizational Change and Knowledge management (CSR Manager, or other long tenured manager)

- What have been the major changes the organization has gone through over the last 10-15 years? How did they handle them?
- How are they organized to manage change processes in the company? Are there any established support structures (perhaps at Corp level)? Are there generally accepted (more or less formalized) “ways of managing change” in this company?
- How do they try to facilitate the constant improvement of their practices? Is it primarily top-down, or do they try to stimulated it bottom-up? Is there any process to stimulate improvement idea generation (suggestion boxes, rewards, etc.)? How do they select the best suggestions to pursue? How do they facilitate the diffusion of the selected new ideas to pursue? Is there a history in the company of big change management projects that aborted or failed because people just did not change their behaviour?

h. Performance:

- Key financial indicators over at least 10 years (as far back as you can go)

i. Industry factors (for the industry – and not the specific company). Normally, this part should be already prepared before we sign up the company.

- Competition
- Regulations
- Key stakeholders

- Relations to NGOs
- Industry-related CSR issues
- Typical CSR activities and initiatives in this industry

What to do – desk research

a. Assemble electronic copies of the last 5-10 years of annual reports, together with stock analysts reports.

How has the strategy, structure and performance of the company evolved over this period? Verify with the ethical indices/agencies whether the company is present in any of them, or if the company has ever been listed. Has it received any of their awards?

Check: FTSE4Good; Ethibel; Sustainability DowJones; Vigeo … others?

b. Assemble books, articles or historical treatments on the company.

Study the origins of the company: why was it founded? What was the vision/ mission of its founders? Corporate values? Big picture strategies? What has the company been particularly good/bad at? How did all this change over time?

c. Assemble electronic copies of all the Environmental/Social Reports produced.
How has the environmental/social responsibility practice evolved over time? What were the issues faced/reported? How were they faced? How are they organized to do so? What kind of results they have achieved?

d. Request CSR champion to send copies of questionnaire responses to social rating agencies, or any other internal document related to environmental/social issues.

This is highly confidential. Sign/fax confidentiality agreement beforehand. Study this documentation carefully. How does it differ from the public reports? What issues were not reported? What was under/mis-represented? What changes of emphasis, tone and "color" did you note?

e. Analyze the company report prepared by the rating agency.
Identify "hot issues" reported and how they differ from the company reports. What was missed/discounted by the company? What was missed/discounted by the SRA? For issues reported by both, any difference in emphasis, tone, "color"?

f. Analyze information from NGO website (CorpWatch, etc.).

Replicate, to the extent possible the analysis done with SRA reports.

g. Run a quick online / newspaper search to get up-to-date on major headlines.
This is not to replicate the rating but rather bring you up to speed on news before you go and talk to them.

2) The CSR WORK: Cognition, Motivation and the Process

There are four key areas for which you need to be able to construct the evolution of practice in the company:

1. Strategic commitment. Their claims, ambitions, strategic statements about CSR.
2. Structural arrangements. How they organize themselves to handle CSR issues.
3. Initiatives and change proposals. It is important to distinguish between the two. Philanthropic support is an initiative but not a change proposal. Make sure you understand the weight given by these two alternative "action modes".
4. Results. How the company has been perceived over time along all the dimensions of CSR performance.

1. Strategic Commitment

a. History of CSR: timeline of key events

b. CSR strategies, policies and goals

a. Evolution of CSR strategy

c. Links between business/CSR strategy

d. Internal processes for the development of CSR strategy (organisational structure, timeline for decisions, link to budgeting)

e. CSR issues at focus: the evolution of the issues faced and the way they have been dealt with, including examples

2. Structural Arrangements. Note: if no CSR group exist, describe how they are organized to handle CSR activities (if existent), wherever it is in the company

a. Who are the people responsible for the various areas of CR (including environment)?

b. How are they organized? Who reports to whom within the CSR domain? Who reports to whom outside the CSR area (other functions/levels)? Who did the structure evolve over time?

c. The CSR budget they control: how large? How is it allocated (PR vs. Phylantrophy vs. change processes)? How did it evolve over time? Who else outside the CSR group controls budget/resources related to CSR activities/initiatives?

d. What backgrounds they have? How are they recruited in the group?

3. Initiatives

a. What do they actually do about each of the CSR issues? Study their initiatives and the processes they might have put in place to handle each issue. Distinguish clearly between ad-hoc/one-time initiatives and proposals to change/create stable processes. It makes a huge difference in terms of embedding CSR in their operations.

b. Managements systems:

- do they have an investment approval system that includes social impact criteria? Is that reflected also in the IT systems?
- reward systems: how are people motivated to integrate CSR in their activities?
- employee training: how do people learn about CSR at this company?

c. Reporting on CSR: official standards (e.g. Global Compact, GRI, etc.), evolution of internal and external communication in content and format of information

d. Processes for engaging with stakeholders: how do they do that? How often? How do they motivate people to do that?

e. How are new issues formed and raised to the group’s attention? Split 10 points among:

- unexpected fire-drills
- the CSR group proactive search, internal (but not in the group)
- signals captured by the group,
- through stakeholder engagement processes
- others?

4. Results

a. Rating agencies reports

b. Consultants’ reports

c. Stakeholder responses

d. The most positive/negative CSR experiences: why did those occur? How were they handled? What would happen now?

e. Key CSR challenges over the next five years and the consequent expected evolution of the CSR strategy

In addition to the CSR process described above, we would like to collect data on the personal network of contacts maintained by the CSR manager(s). This is the answer to two simple questions (with potentially long answers, though):

1. Which other CSR managers in other companies do you regularly interact with?
2. Who, outside the CSR group, do you regularly interact with?

This is potentially useful information to test hypotheses related to the importance of the personal social networks of the CSR manager in determining the successful integration of CSR within operations (Andrew Shipilov).

What to do – fact finding

Should be arranged prior to a visit. Allow 1 full day (eventually 2) in the company.

a. Who to interview during the visit

Different members of the CSR unit might provide us with information on your CSR strategy. Consider bringing in some of the following people:

1. Head of CSR
2. Manager for CSR reporting/communication, community relations, IR
3. CSR manager within one Business Unit
4. CSR special project manager (external & internal)
5. CSR "historian" (i.e. someone who knows the history of CSR in your firm)

b. Suggested plan for the day

30 min agree on priorities and plan for the day

90 min standard internal interview

30 personal networks inquiry

60 min documents collection (missing items can be "ordered" during the day)

120 fact finding on the general evolution of the company (part 1)

180 fact finding on the evolution of the CSR practice (Part 2)

c. Documentation

Public and internal information may help us better understand your firm's research needs and thus better focus the RESPONSE research design. We would therefore welcome any information you could easily share with us on your organizational structure/strategies, the CSR policy and implementation:

1. Strategic corporate documents
   - ⇨ CSR Unit Strategy; Corporate CSR policies: code of ethics and gap analysis, etc.; Sustainable development strategy (if different)
   - ⇨ Core business strategy (corporate vision/mission statement, mid-term business planning, marketing plan, HR strategy, investor strategy, etc)
2. CSR related communication
   - ⇨ Internal CSR documents (intranet, magazines, PPT presentations etc.)
   - ⇨ External CSR documents (reports, PPT presentations, videos)
   - ⇨ Dossier for the participation on international CSR related awards
3. Survey
   - ⇨ Internal surveys (employees' satisfaction, image, etc.)
   - ⇨ External surveys (reputation, social image, consumers' reports)
   - ⇨ Profiles by Social Rating Agencies

4. Performance Measures
   - ⇨ CSR performance indicators or sustainability performance indicators
   - ⇨ Reward systems (in general and related to CSR)
   - ⇨ Management systems focused on CSR (e.g. environmental management systems and occupational health) and supporting internal documentation
   - ⇨ Official international standards (ISO 14 000; GRI; AA1000; SA8000; etc.)
   - ⇨ If available: Balanced Scorecard (BSC), Objectives from MBO
5. Others
   - ⇨ CSR Training Handbooks etc
   - ⇨ Consulting reports on CSR
   - ⇨ External CSR reports related to your firm (NGOs, labor unions)
   - ⇨ Press releases on good and bad corporate citizenship behavior
   - ⇨ Case studies on CSR and other publications documenting the CSR history

Exhibit 2. Interview Protocol

The Problem with Corporate Responsibility

1. Corporate responsibility has been the subject of debate all over the world. Multinationals companies, in particular, are subject to a growing amount of pressure from many different constituencies to change their behavior. How do you explain all this, why is this happening?

The Definition of Corporate Responsibility

2. What do you think the responsibilities of multinationals towards society are? *I would like to understand your personal view, not the "institutional" position at Company X.*

   Why do you think that is the case?

   When is good "good enough"?

   Are there universal limits? Who defines these limits?

The Relevance of Corporate Responsibility

3. How is corporate responsibility relevant for your day-to-day work, how important an issue is it for you? (*if he/she assigns any importance)* Please, provide examples of how you integrate corporate responsibility issues in your day-to-day work.
4. And for your organization, how relevant is it for the success of your company?

Benchmarking

5. What is the corporate responsibility of firms within your sector?
6. Who are your main competitors? On a scale from 1 to 10, how would you position your company social performance vis a vis your competitors?
7. Does corporate responsibility play any role in competing within this sector? Is it a "strategic factor" for success?

The Business Case for Corporate Responsibility

8. Some see responsible behavior as a pure cost factor. What do you think?
9. In such a case should your firm still engage in Corporate Responsibility?
10. (Name an example of responsible behavior that was to your competitive disadvantage).
11. Some see Corporate Responsibility as a source of competitive advantage. Can you name an example? If yes, please allocate 10 points in total between the following statements:

    Corporate Responsibility …

    … reduces firm risks

    … reduces costs and increases operating efficiency

    … helps our firm to sell more and at higher margins

    … is a source for new market opportunities
12. For which of the four categories can you give an example from your firm?

The Firm's Stakeholders

13. Name the most relevant stakeholders to whom you think your company or business unit is responsible.
14. Can you please draw a scheme of how you see the relationship between your company and these stakeholders?
15. How would you rank them on their impact on your company?
16. How would you rank them on your company's impact on their well-being?
17. Let's take them one at a time now: *(repeat for each stakeholder)*

b. What *do you think* your company's responsibility vis a vis stakeholder X is?

c. How does your company *try to meet* its responsibilities with X: which kind of initiatives have been taken or routine activities developed to do so?

d. What score (1-10) would stakeholder X give you to rate your performance?

The Evolution of Corporate Responsibility

18. How do you see the relation between your firm and its stakeholders have evolved over time? Explain the nature of the evolution and changes. (At what level: a. public relations, b. operations, c. values and principles).
19. How do you see this relationship evolving in the future?
20. How often do new social issues *emerge*? How does your firm identify them?

The Day-to-Day Management Processes

21. Are socially motivated decisions, actions or initiatives recognized in your performance evaluation or in any other way by your superiors?
22. If one of your managers failed to meet a financial performance target in favor of meeting stakeholder responsibilities, how would you reward/recognize/penalize this?
23. In your part of the organization, is there a requirement to include an evaluation of the social impact of investment plans in order to decide on project proposals and resource allocation?

Learning

24. How did you learn all that you know about corporate responsibility?
25. In your part of the organization, is there any system in place to help people learn about corporate responsibility?
26. What do you think your company needs to work on to learn and improve its behavior with stakeholders? (Let interviewee talk first, then if they do are not spontaneously discussed, probe the following areas)

    i. Developing corporate policies, codes, incentive systems,

    ii. Create specialized structures and functions

    iii. Raising awareness of the importance of CR

    iv. Building management skills to manage trade-offs, dilemmas.

    v. Developing social consciousness (integrating CR into personal values and beliefs).

Exhibit 3. Methodology for the calculation of the cognitive gaps

This Exhibit aims to explain the methodology utilized to compute the four measures of "Cognitive Gap" between managers' and stakeholders' understanding of a given Company's social responsibility. The four measures of cognitive distance are based on the answers to different questions in the interview protocol:

1. Sequentiality: what are the most important type of stakeholders of Company X? The (implicit) ranking is given by the order in which the stakeholder types are listed
2. Risk ranking: how would you rank them vis-à-vis the impact that they have on the company's interests?
3. Responsibility ranking: how would you rank them vis-à-vis the impact that the company has on their interests?
4. Social performance: on a 1-10 basis, how would you assess the degree of satisfaction that stakeholders have about Company X's behaviour?

The first three measures of cognitive distance need a fairly complex normalization process before the answers collected about the same company from all the managers and all the stakeholder representatives interviewed could be compared to each other and consolidated to yield a single measure identifying the degree of alignment in the response to the given question.

For the fourth Cognitive Gap (Social Performance) the calculations were simpler, since the only requirement was to average the 1-10 evaluations among managers and among stakeholders, and then compute the difference between the two averages.

We will thus focus on the general procedure that we developed to measure and aggregate the evaluations in the case of Gap 1, 2 and 3.

In each case, the rankings obtained from the responses to the relevant interview question have been normalized to allow for comparison and integration following these steps:

1. if N is the total number of stakeholders mentioned by the interviewee,
2. and X is the place in the ranking (1, 2, 3, 4)
3. Xn is the normalized ranking (1, ¾ , ½ , ¼), which can be computed with the following formula: **Xn = (N – X +1)/N**. Xn is a "pure" number, ranging between 0 and 1, and provides meaningful comparisons across individual respondents and, in its aggregate form, across companies
4. All the stakeholders not mentioned by the interviewee get 0 if they are mentioned by at least one other interviewee related to the same company. Otherwise they are not counted in the calculations for that particular company.

The following table explains the process to integrate the individual assessments from managers and stakeholders to obtain a single number for every company's perception gap.

Table 30. Step of the analysis calculations

	Action steps	Examples												
			Client	Empl.	Shareh.	Suppliers	Communities		Client	Empl	Shareh	Suppliers	Comm.
	Assign ranking order positions of stakeholder types from interview responsense	S1:	1	2	3	4	0	M1	1	2	5	3	4
		S2:	1	2	4	3	5	M2	2	1	3	0	4
	Standardization of the rankings (see formula above)	S1:	1	0,80	0,60	0,40	0	M1	1	0,80	0,20	0,60	0,40
		S2:	1	0,80	0,40	0,60	0,20	M2	0,80	1	0,60	0	0,40
	Average of the standardized rankings across interviewees (managers or stakeholders)	S	1	0,80	0,50	0,50	0,10	M	0,90	0,90	0,40	0,30	0,40
	Cognitive Gap assessed for each stakeholder type as the difference bet. Managers' and stakeholders' average ranking	S-M	0,10	0,10	0,10	0,20	0,30						
	Cognitive Gap for Company X: Average of cognitive gaps across all stakeholder types	Av. St 1-5	0,16										

In the example, we have 2 managers (M1 and M2) and 2 stakeholders (S1 and S2) interviewed for the same company (X). They list either 4 or 5 stakeholder types (in the columns). The ranking order, either implicit in the sequence of response (gap 1) or explicit in response to the ranking questions (gap 2 and 3) is also different among managers, among stakeholder and, more importantly for our purposes, between managers and stakeholders.

In the example, clients and employees are the top ranked stakeholder types mentioned by both managers and stakeholders. If we look at the gap we see that the perception of the first three stakeholders is very similar between managers and stakeholders (0,10) while for the last two (suppliers and communities) the gap is quite high (0,20, 0,30). The overall gap (0,16 or 16%) is not so high, compared to what it could be, because the perception of the majority of stakeholder types (3 on a range of 5) are not so different between managers and stakeholders.

Exhibit 4. Other results from the analysis of the factors explaining cognitive alignment

1. Firm leadership and cognitive alignment

A corporate leader with a credible reputation of personal commitment to CSR can be expected to have a positive influence on cognitive alignment. The effect will be apparent throughout the organization as managers will tend to adopt similar beliefs and behaviors and so respond to stakeholder interests and priorities. The hypothesis is:

- The greater the commitment of leadership to CSR, the greater will be the cognitive alignment between managers and stakeholders (narrower cognitive gaps).

Table A: Impact of leadership on cognitive alignment

	Gap 1: sequential order of stakeholders	**Gap 2: stakeholders impact on company**	**Gap 3: company impact on stakeholders**	**Gap 4: firm social performance**
Strong CSR leadership	28%	32%	34%	2%
Weak CSR leadership	23%	37%	32%	9%

Table A shows that results of the analysis. Cognitive gaps 2 and 4 supports the proposition, since managers in firms with strong CSR leadership tend to have a more aligned “risk” ranking of stakeholders and a more careful assessment of their company’s social performance. However, difference in averages for gaps 1 and 3 go in the opposite direction. In summary, the corporate leader’s personal commitment to CSR might be an important factor to explain inter-firm differences in the magnitude of cognitive alignment, but the evidence in support of this hypothesis is mixed. More work is needed on this factor to ascertain its impact on cognitive alignment.

2. Organisational structure and cognitive alignment

A centralised organisational structure allows for easier diffusion of homogeneous principles and beliefs supporting social responsible behaviour throughout the organization. However, a decentralised structure affords more flexibility and openness in engaging with the interests and priorities of local constituencies. Decentralisation also suggests the ability to tailor corporate behaviour for these local interests. A dual hypothesis can therefore be proposed for empirical inquiry:

- H1. A centralized organizational structure is associated with higher cognitive alignment (lower gaps).
- H2. A decentralized organizational structure is associated with higher cognitive alignment (lower gaps).

Table B: Impact of organisational structure on cognitive alignment

	Gap 1: sequential order of stakeholders	**Gap 2: stakeholders impact on company**	**Gap 3: company impact on stakeholders**	**Gap 4: firm social performance**
Centralised Org Structure	29%	27%	36%	1%
Decentralised org structure	23%	30%	25%	6%

Gaps 1 and 3 exhibit strong support for H2: companies with a decentralized structure are characterized by smaller average cognitive gaps (higher levels of alignment). However, Gaps 2 and 4 appear to go in the opposite direction, with a (slight) advantage enjoyed by companies with a centralized structure. Overall, therefore, the pattern is not clear and further empirical work is called upon to develop clearer empirical evidence.

3. Influence of CSR department and cognitive alignment

An influential CSR department in the power structure of the organization should help diffuse the sensitivity towards, and understanding of, stakeholder interests by managers. The hypothesis is:

- The greater influence of CSR departments and executives, the greater cognitive alignment will be observed (narrower cognitive gaps).

Table C below shows the magnitude of average cognitive gaps for firms with influential CSR departments compared with those with low levels of influence (split around the approximate median).

Table C: Impact of CSR department's influence on cognitive alignment

	Gap 1: Sequential order of stakeholders	**Gap 2: stakeholders impact on company**	**Gap 3: company impact on stakeholders**	**Gap 4: firm social performance**
HIGHER influence	25%	28%	25%	1%
LOWER influence	24%	26%	31%	7%

Gaps 3 and 4 show support for the hypothesis. Gaps 1 and 2 are too close to show a clear pattern. Overall, then, the data shows a modest support for the proposition, which is nonetheless offered to future studies for further probing.

4. Organisational values and cognitive alignment

Finally, managers in some companies motivate their company's investments in CSR practices with the adherence with well established organizational values. Those companies in which managers make a clear link between CSR and organisational values might be expected to have a positive cognitive alignment with their stakeholders, as shared beliefs of this kind produce a greater openness and understanding towards stakeholders' interests and priorities. The hypothesis is:

- Companies with managers citing organisational values as key rationale will exhibit greater cognitive alignment

Table D below shows the magnitude of average cognitive gaps for firms whose CSR activities are motivated to a significant degree by organisational values (split around the approximate median).

Table D: Relation of organisational values (OV) with cognitive alignment

	Gap 1: Sequential order of stakeholders	**Gap 2: stakeholders impact on company**	**Gap 3: company impact on stakeholders**	**Gap 4: firm social performance**
HIGHER OV	27%	28%	33%	4%
LOWER OV	22%	30%	31%	9%

The data shows no clear support for the proposition. Gaps 2 and 4 are supportive but Gap 1 and 3 go in the opposite direction. Future work is thus required to further probe this proposition.