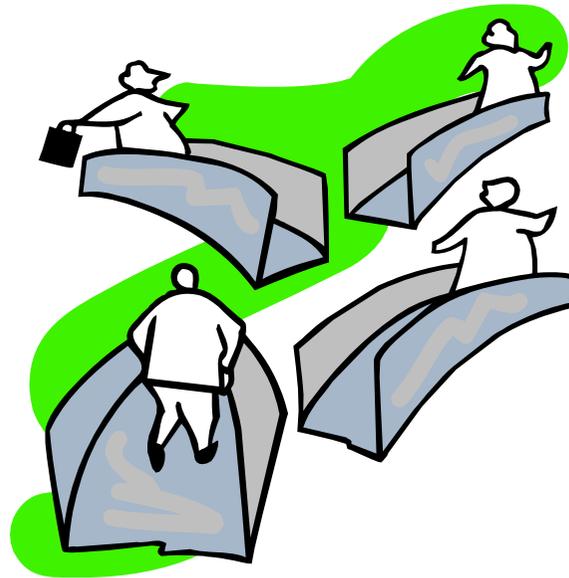


Corporate Social Performance through Cognitive Alignment: Insights from RESPONSE Project



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RESPONSE

- 1.1 M euros EU funding over 3 years + 320K euros private
- 19 companies, 427 interviews (210 senior managers, 217 stakeholders)
- 1,000 managers surveyed in 9 companies, 8 pending
- 93 managers in 4 CSR learning experiments
- 21 academics, 5 Ph.D. students and 5 RAs in 5 European Business Schools: INSEAD (FR), Copenhagen Business School (DK), Bocconi (Italy), Kozminski Institute (Poland)



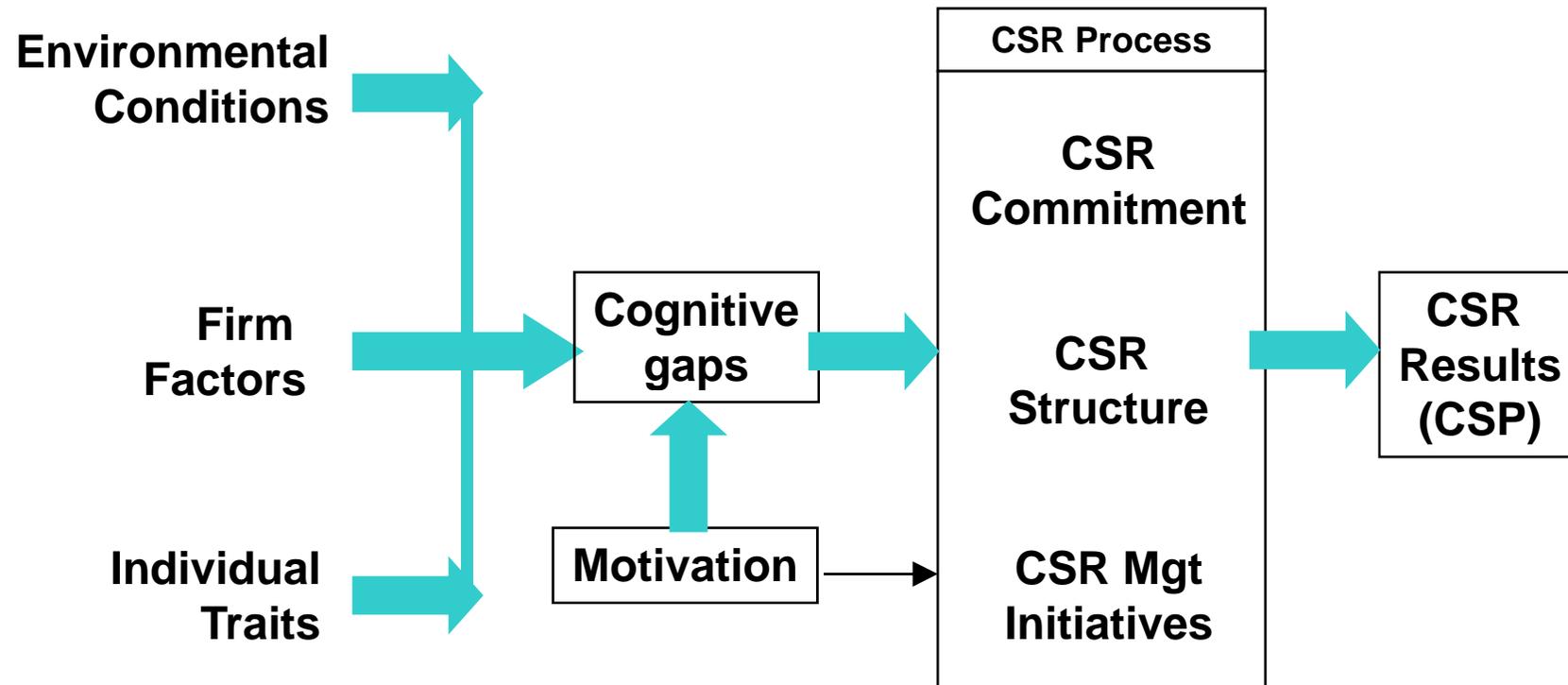
Research Questions

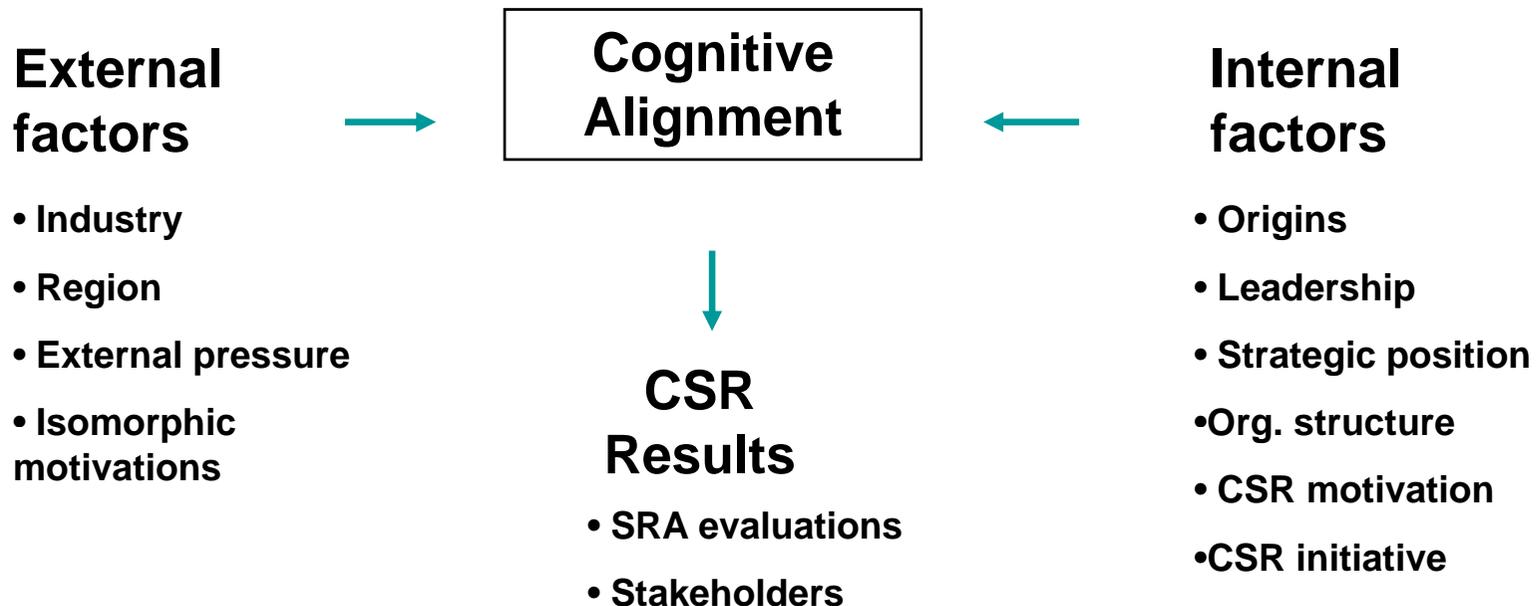
1. What do MNC managers understand as their responsibilities towards society?
2. How does that differ from what their stakeholders believe these responsibilities *should* be?
3. What factors explain why certain companies understand their stakeholders' expectations better than others?
4. At the individual level, what factors explain socially responsible behavior (SRB) in managers?
5. ... and how effective are different types of training approaches to develop social consciousness and stimulate the occurrence of SRB?

Seven Key Findings

1. Alignment matters
2. Mind the Gap
3. Moving Targets, Sharpen Aim
4. Corporate Social Innovation
5. From the inside-out
6. Reinventing Stakeholder Engagement
7. Developing Responsible Managers

The RESPONSE Research Model





- **Measure the degree of cognitive alignment between managers and their stakeholders across a range of CSR questions**
- **Understand how alignment is related to social performance**
- **Identify the explanatory factors of alignment**

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Alignment of Mindsets

“when managers and their stakeholders frame their thinking about corporate social responsibility in similar ways”

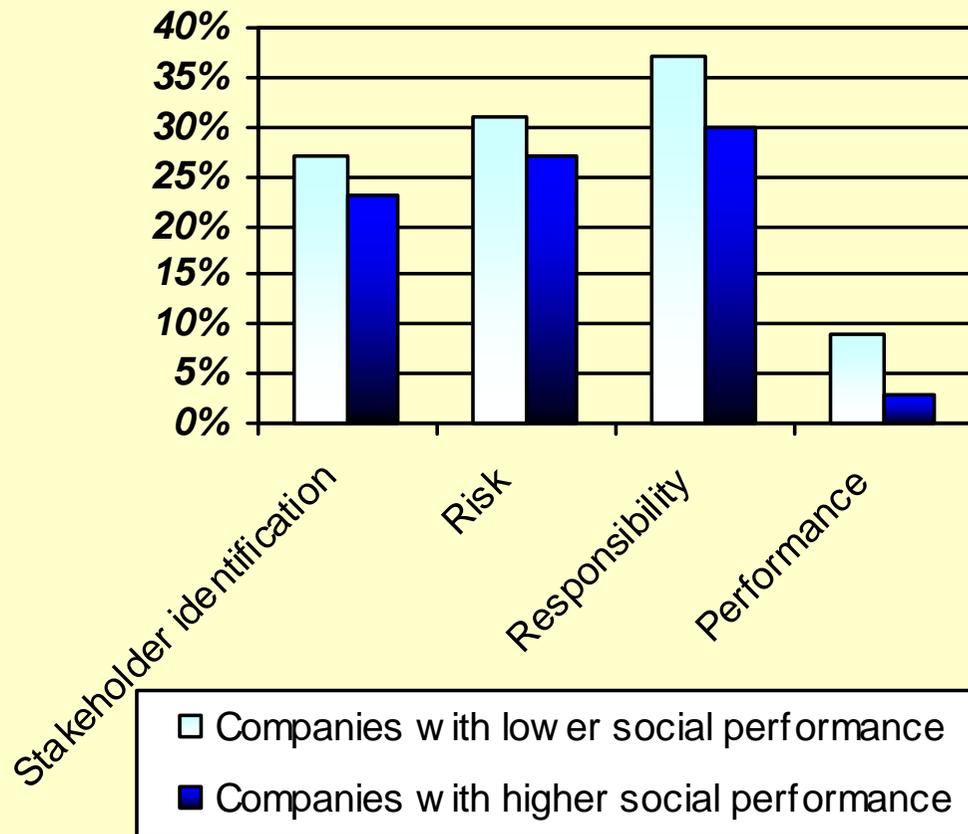
Hypothesis: The greater the alignment between a firm’s managers and its stakeholders, the greater its social performance

Dimensions of Alignment

Cognitive gap type	Measurement	Meaning
Gap 1: Stakeholder identification	Order in which interviewees mention stakeholders	Salience of stakeholders
Gap 2: Risk ranking	Ranking of stakeholders based on their perceived impact on the company	Perceived 'risk' posed by stakeholders
Gap 3: Responsibility ranking	Ranking of stakeholders based on the perceived impact the company has on them	Perceived responsibility toward stakeholders
Gap 4: Perceptions of Corporate Social Performance (CSP)	Level of social performance as judged by interviewees	Perceptions of CSP

Alignment Matters for Social Performance!

Manager-stakeholder average gaps



Across all dimensions, the highest social performers have greater cognitive alignment (i.e. smaller gaps) with their stakeholders.

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Cognitive Framing of CSR Issues

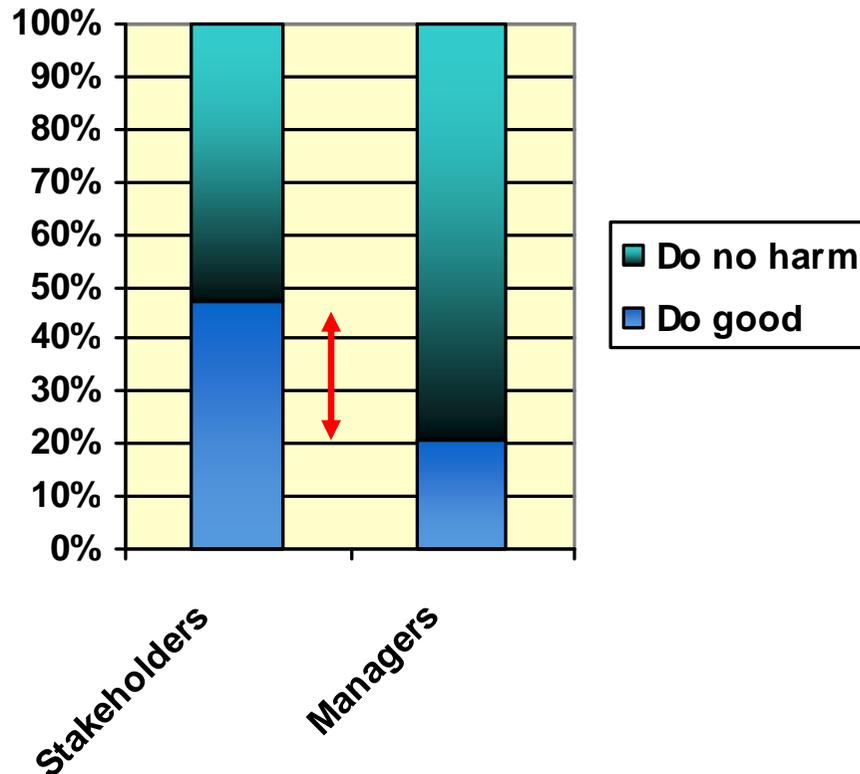
What is the social responsibility of corporations?

	Product focus	Process focus
'Do no harm'	Product impact <ul style="list-style-type: none"> Ethical value of product Impact on user's well-being Consequences of incorrect use <p>17% 11%</p>	Process impact <ul style="list-style-type: none"> Environment Supply chain HR/human rights abuses Lobbying, bribing, tax elusion Anti-competitive behaviour <p>63% 42%</p>
'Do good'	Product access <ul style="list-style-type: none"> For survival (food) Health (medicine) Poverty (banking) Education (ICT) <p>7% 6%</p>	Process engagement <ul style="list-style-type: none"> Advancement of human rights Community support Regional development Human development <p>13% 41%</p>

Frequency of CSR issues in managers' responses

Frequency of CSR issues in stakeholders' responses

Cognitive Gap



Prevalent managerial understanding of CSR is avoiding harm.

Stakeholders are more likely to define CSR in terms of doing good.

Scope of CSR

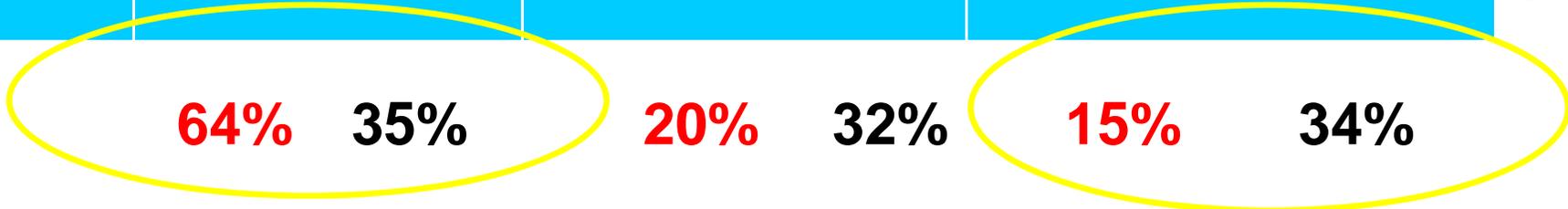


Narrow, firm-centric scope of responsibility

Broader, societal scope of responsibility

Scope and Depth of CSR Perspectives

	Firm View	Stakeholder View	World View	
Shallow	Compliance and risk management (reputation)	Shareholders, employees, customers	Industry-specific global issues (e.g. health for pharma)	64%
				49%
Deep	Moral duty (give back to society), ethical boundaries	Suppliers, partners, government, communities, NGOs, unions, SRAs, media	MDGs, climate change, hunger, health, poverty, education, human rights	35%
				51%



Frequency of CSR issues in managers' responses
Frequency of CSR issues in stakeholders' responses

Insights

Managers are more likely to frame their social responsibility in terms of compliance.

Stakeholders frame corporate social responsibility in terms of making a positive contribution to society.

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Alignment and Environmental Dynamism

Alignment is associated with

- **Stakeholders** actively pursuing new demands;
- **Industries** characterised by high levels of change;
- **Regions** marked by faster economic change;
- **Corporate responsibility initiatives** motivated by an innovation-driven business case; and
- **Business strategies** focused on differentiation and meeting complex customer requirements.

Insights

Alignment is higher in dynamic business environments.

However we also have to look *inside* the company to understand alignment.

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Motivation (Interview data)

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

Reducing Risk

For our industry certain illegal practices were part of the culture. Everybody did it. When the government caught up ***I actually went to prison for 3 months.*** [What I have learned is,] that is the minimum that we should definitely follow, are the rules and regulations that we have.

Risk 5, Efficiency 3, Sales 1, Innovation 1

The fact that we are giving more importance to [CSR] reduces the risk of ***accidents***. Also taking a proactive stance to the responsible use of our products reduces the risk that we get ***legal restrictions***.

Risk 6, Efficiency 2, Sales 2, Innovation 0

Increasing Efficiency

Efficiency is where you get an immediate pay back if you do the right thing. We have saved a few millions in waste cost. **That's a no-brainer.**

Risk 4, Efficiency 5, Sales 0, Innovation 1

For me efficiency is so important because waste and energy management is crucial for our business. For example the new plant we've put in place in [Africa] has given us an **incredible cost advantage.**

Risk 2, Efficiency 4, Sales 1, Innovation 3

Increase Sales and Premium

The pay off in our company is particularly concentrated on our main brand. A premium brand can be sustained if you create a responsible position towards your consumers and **that is the pay off**, the brand position.

Risk 3, Efficiency 0, Sales 5, Innovation 2

You also need to deliver on things beyond the product itself such as being responsible. For example we need to make products meeting green requirements. A few years ago that would not appear on the front page of what you tell about a product, but now **it has credibly moved up**.

Risk 1, Efficiency 1, Sales 5, Innovation 3

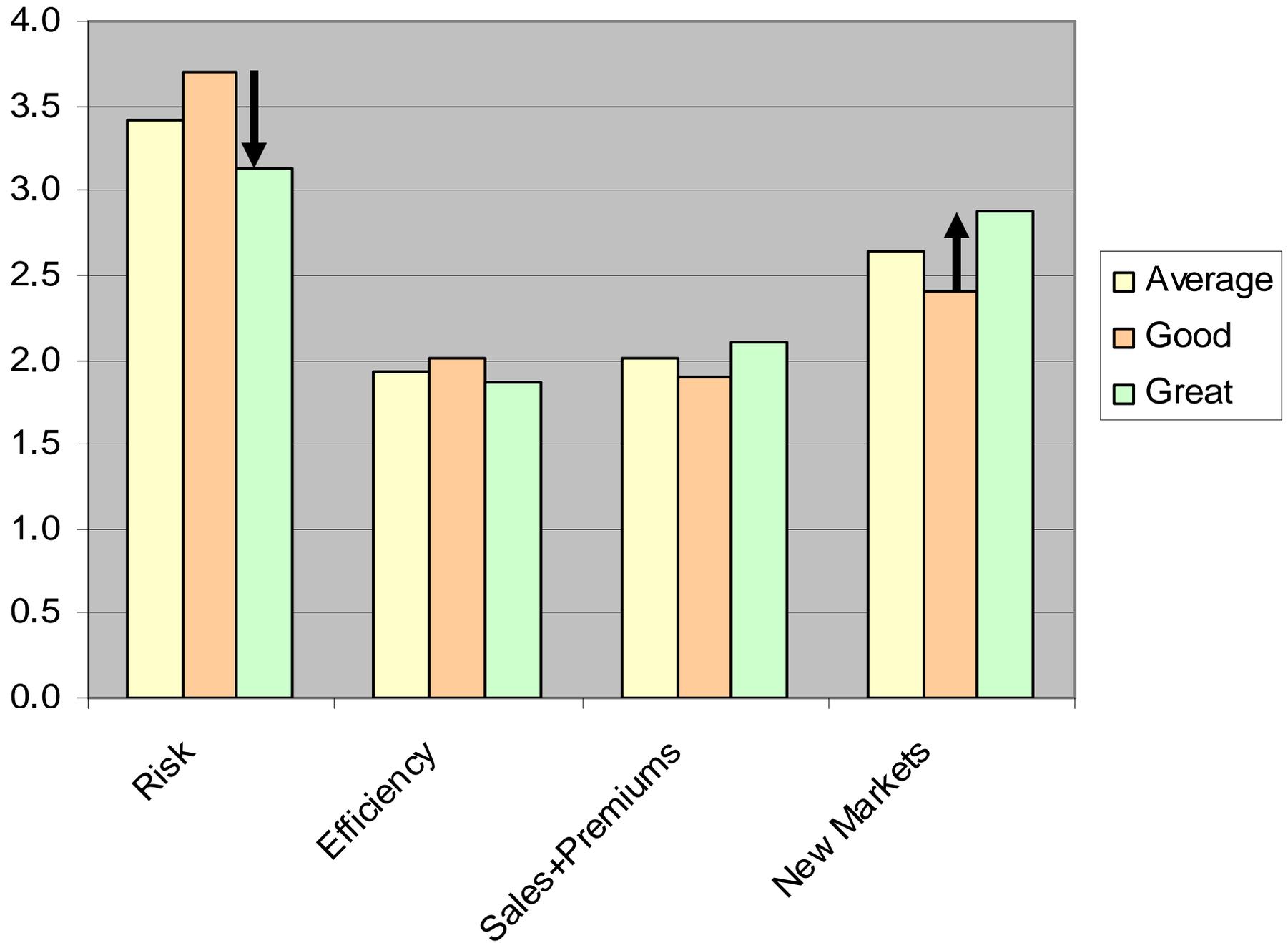
Create New Market Opportunities

Responsible behaviour for me is: Are you capable and are you truly interfacing with the stakeholders? And that might open up new markets. **That is where we really spend time** with our top leaders to explore the needs of the society and what we can do: "Okay, what is it that we can do to enter that market with some of our new products?"

Risk 4, Efficiency 0, Sales 2, Innovation 4

I'm more for the opportunity side. Look for example at the potential of emerging markets. We need to develop products and services that meet the needs of those markets. I think they are **incredible win-win's** to be made.

Risk 1, Efficiency 2, Sales 3, Innovation 4



Insights

- Firms with a lower cognitive gap tend to be more focused on new market opportunities
- Firms with a higher social performance
 - are less motivated by risk management
 - And see more opportunities in new markets

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To what extent is CSR really integrated in business operations?

- CBS administered web-based survey randomly among selected 400+ managers in 8 companies
 - Organization level: replicate interview protocol across levels/contexts
 - Individual level: study socially responsible behavior and managers' psychological traits and values
- Answers from app. 1100 managers
- Scale 1-5, with 1= Strongly disagree

Survey questions

- Responsibilities toward society
- Reasons for CSR
- Knowledge and CSR
- CSR Practices
- Reporting, rewards and recognition
- Benchmarking CSR performance
- Experiences and expectations
- Various background variables: Age, tenure, nationality, gender, position, education, etc.

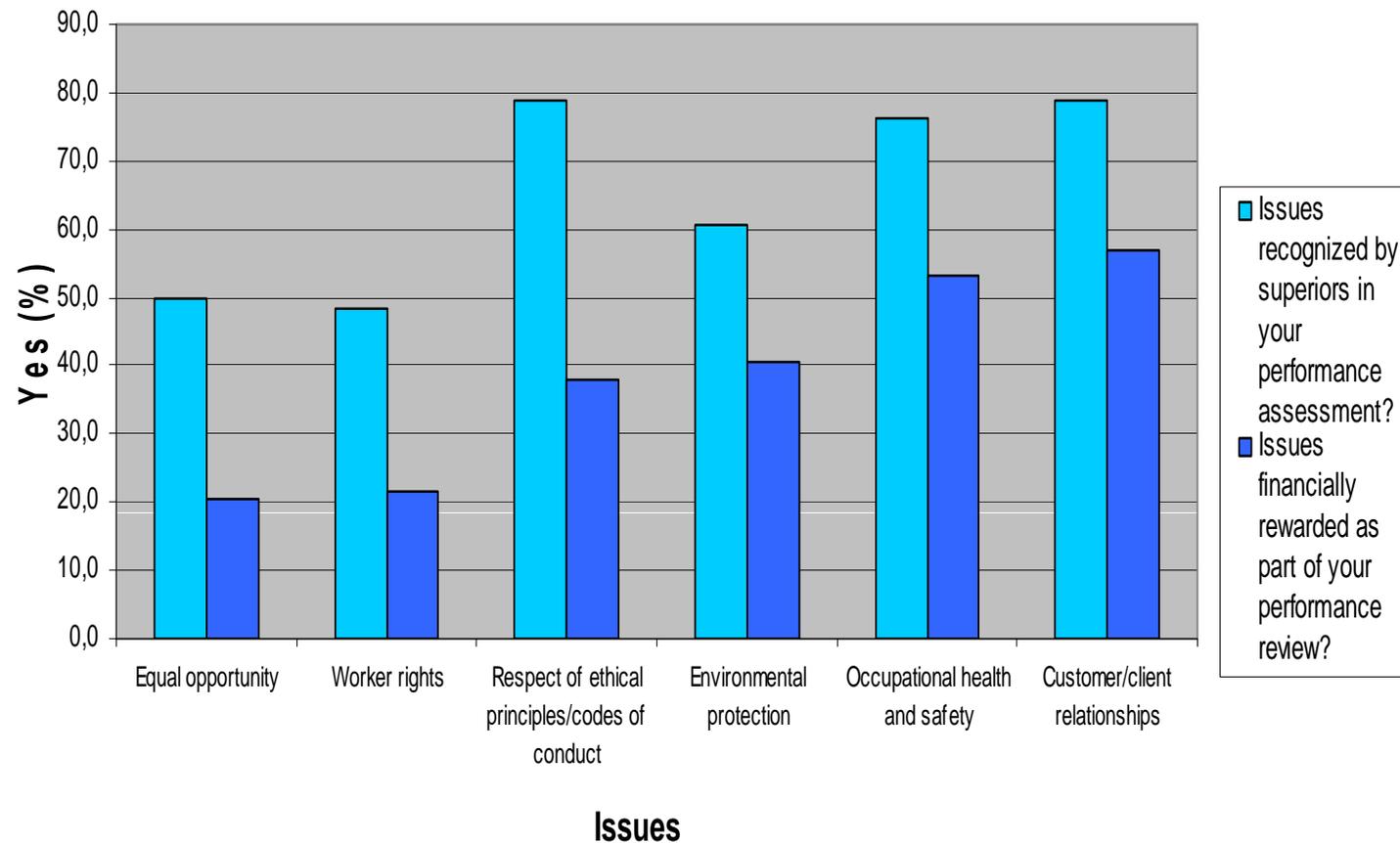
About the survey

Company	Number of responses	Response rate
Nat. resources #3	127	32%
Food #1	139	43%
Chemical #1	42	77%
Industrial #2	151	77%
Chemical #3	199	28%
Pharma #2	114	25%
Energy #1	187	64%
Nat.Resources #1	149	43%

Very Low Integration of CSR in Business Processes

- Low degree of recognition of CSR in managers' performance appraisal
- Low degree of integration in managers' rewards systems
- Limited role of training programs as sources of knowledge on CSR

Recognition and Rewards



Peter Neergaard, CBS

Recognition and Rewards

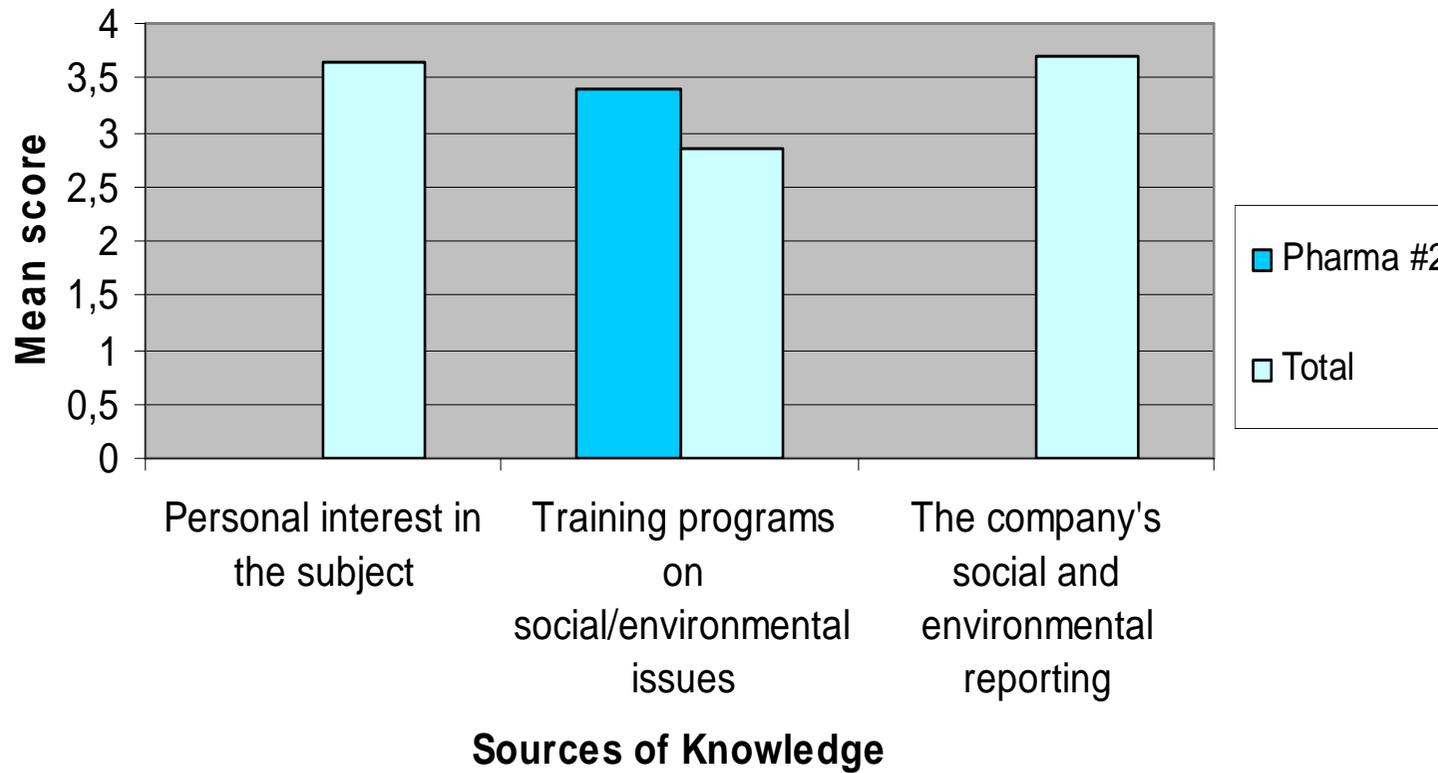
- Large gap between what is *recognized* and what is *rewarded* e.g.

Respect of ethical principles/Code of Conduct

App. 80% recognition, less than 40% rewarded

- Traditional issues, such as customer /client, rewarded most frequently
- Percentage of managers actually rewarded on CSR issues is not high

CSR Knowledge



CSR Knowledge

- Main sources of knowledge are
 - External communication
 - Personal interest in the subject
- Training programs not perceived to be very important.
 - 1 exception is Pharma #2
 - Influence of e-learning program

Key Insights

Integration of CSR in business processes is important to the alignment of mindsets between managers and stakeholders...

- However, the current level of integration in motivation systems is low even in advanced companies...
- ... and training does not seem to help diffuse CSR knowledge throughout the company

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Insights

- Stakeholder engagement crucial to achieve cognitive alignment but not enough to achieve excellence in CSR
- Need to shift to more collaborative model geared towards internal change
- Collaboration needs to benefit both company and stakeholder
- Process of mutual education
- Stakeholders have a responsibility to:
 - Understand companies better
 - Help them (CSR group) drive internal change process

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Explaining Alignment of Mindsets

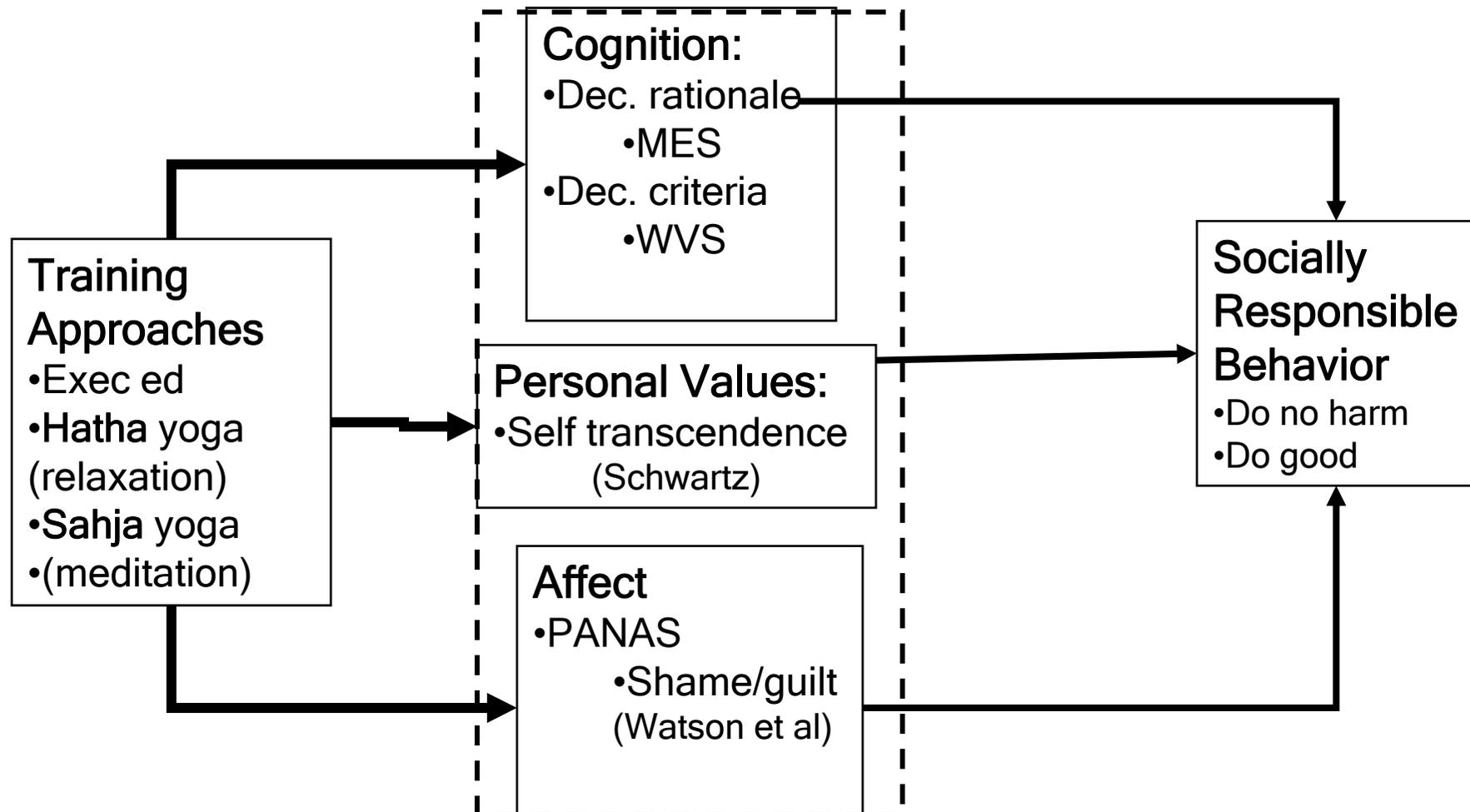
Possible factors	Strong evidence	Some evidence	No clear link
Innovation business case			
Differentiation strategy			
Integration of corporate responsibility			
External pressure ***			
Market dynamism ***			
Influential CSR department			
Strong industry norms ***			
Stakeholder engagement			
Leadership commitment			
Strong organisational values			
Value-based firm origins			

*** = External factors

Source: Avg. Cognitive Gaps in High vs. Low factor groups of 19 MNCs

What Explains Socially Responsible Behavior?

SOCIAL CONSCIOUSNESS



The Data

Industry	Type of Intervention	Scope of Intervention	Number of participants
High Tech1	- Exec. Ed. - Meditation	10 European countries: Learning “coaches”	44
Pharma	- Meditation - Control	1 country: managers across all functions	10
High Tech 2	- Meditation - Control	6 countries worldwide: CSR managers, individual coaching	8
Oil & Gas	- Meditation - Relaxation - Control	1 country: young managers w/recent Exec. Ed. experience	31
Total			93

Impact of Training Approaches on SRB

Exhibit 9: Impact of different education and coaching approaches on decision-making

	Product focus	Process focus
	<i>Product Safety</i>	<i>Outsourcing</i>
'Do no harm'	Executive Education x	Executive Education x
	Introspection ✓	Introspection ✓
	Relaxation ✓✓	Relaxation ✓
	<i>Access to drugs to Africa</i>	<i>Employee Volunteering</i>
'Do good'	Executive Education x	Executive Education ✓
	Introspection ✓	Introspection ✓✓
	Relaxation ✓	Relaxation ✓

x Negative change
 ✓ Marginally positive change
 ✓ Positive change
 ✓✓ Strong positive change

Learning experiments: Key insights.....

- **SRB** can be considered to reflect 2 different types of behavior: **do good and do no harm**.
- Doing good and doing no harm are driven by the same reasons but are not driven by the same values, nor emotions.
- **Meditation and relaxation training** can influence social consciousness and SRB, in different ways
- **Meditation** appears to have a stronger impact on emotions while relaxation has a stronger impact on values.
- **Meditation** might lead to more reflexive (intuitive) SRBs while relaxation might lead to more reflective SRBs.
- Need to consider **training approaches** which addresses emotions and values directly. Cognitive approaches may be limited.
- Implications for **integrating SRB/CSR** at the individual and organization level so that social responsibility becomes based in identity: “**who we are**” versus “what we do.”

Implications for Business Managers

- **Redefine the notion of CSR**
 - From “Do No Harm” to “Do Good”
 - From “Firm-centric” to “World-centric”
 - Broaden up the stakeholder/issue space
 - From “their impact on us” to “our impact on them”
- **Reframe “Why” CSR**
 - From risk/reputation to innovation
- **Rethink the CSR challenge:**
 - From external engagement to internal change
 - Shift competitive strategy towards differentiation
- **Redefine the role of:**
 - the CSR group as champion of internal change
 - stakeholder groups as co-drivers of internal change

Implications for Stakeholders

- Social Rating Agencies should:
 - assess CSR integration
 - evaluate the gap in mindsets
- NGOs might need to:
 - Learn about the companies' operations
 - Be skeptical about “engaging” companies
- “Inner ring” stakeholders: from counterparts to partners with CSR group to drive:
 - the internal change process to mainstream CSR
 - At a later stage, the external initiatives to enhance societal welfare

Implications for Future Research

- **Content of future research to focus on:**
 - Cognition, not just motivation, of CSR
 - CSR Integration and inner change
 - Individual responsibility
 - Learning CSR
- **And do so with creativity and courage:**
 - To enter deeply inside organizations
 - To execute field experimental designs
 - To leverage managers' wisdom throughout the research process (not just in data collection)

Implications for Management Development

- Measure change in behavior and attitudes, not just satisfaction
- “Horses for Courses”:
 - Classroom interaction for raising awareness
 - Experiential learning for skill development
 - Inner change coaching to develop social consciousness
- Experiment, experiment, experiment

Implications for Policy Development

- Support selective and purposeful stakeholder engagement
- “Redefine CSR as a:
 - Massive internal change challenge
 - Practice influencing how firms compete and how they decide that
- Facilitate innovative partnerships between:
 - Business and Academia on new models of conducting CSR research
 - Business and their stakeholders on driving change:
 - FIRST, Internal to their own organizations,
 - And THEN, external towards their environments