Corporate responsibility: Are companies responding to social demands?

Only one manager in about six is likely to view her company as a global corporate citizen with a responsibility to help solve social problems, as opposed to one stakeholder in three. This is one of the key findings of RESPONSE: Understanding and Responding to Social Demands on Corporate Responsibility, a study created and funded by the European Commission to study the gap in perceptions of social responsibility among companies and stakeholders.

Managers and stakeholders - including non-governmental organisations (NGOs), shareholders, employees, customers, suppliers, and local government - were also found to have divergent perceptions of what it means to be socially responsible, with an overwhelming majority of some 80 per cent of managers viewing the issues from a passive ‘do no harm’ perspective, as opposed to an proactive ‘do good’ approach. Conversely, stakeholders were evenly divided between the two views of corporate social responsibility (CSR). As the authors note, this lack of ‘cognitive alignment’ means that even though managers and stakeholders may use the same terminology – such as ‘social responsibility’ and ‘sustainable development’ – they may attribute different meanings to these terms.

Mind the gap

Alignment is important because “only when all parties frame their thinking about society’s problems in similar ways can a mechanism for cooperation develop,” the report says. Without this alignment, it is difficult to agree on priorities and a plan of action.

This gap between how companies and stakeholders view the social responsibilities of firms in turn has an impact on how a firm’s actual social performance is perceived; in cases where the gap is narrower, stakeholders are more likely to perceive the firm as doing greater social good.

The project stands out from other CSR research because of its sheer size in terms of funding – some 1.4 million euros – and the amount of data collected. Indeed, more than 300 managers in 20 multinational companies headquartered in Europe and North America took part in the study, as well as representatives of 180 stakeholder organisations. In addition, over 1,000 managers globally completed web-based questionnaires for the project. Maurizio Zollo, formerly INSEAD Associate Professor of Strategy and now Bocconi Dean's Chaired Professor of Strategy and Corporate Responsibility, led the research team, while several other INSEAD professors and PhD students also took part, including professors Susan Schneider, Lourdes Casanova and Reinhard Angelmar, as well as doctoral student Donal Crilly.

“RESPONSE represents a new way to conduct large-scale research, in which companies are involved throughout the project, from the conceptual development to the tool validation, from the recruitment of participants to the analysis of the data and the dissemination of the results,” says Zollo. “The results are very encouraging: the data that we analysed shows clear evidence that the top priority in corporate responsibility is not stakeholder engagement, as is usually assumed and portrayed. CSR is fundamentally an internal change management problem.”

“A very interesting feature was to interview both the executives and the stakeholders. We had both the inside and the outside view of CSR issues,” Casanova adds.

The research team found a range of factors – both external and internal to the firms – which help explain why some companies are much more on a par with their stakeholders, when it comes to perceptions about CSR.

Key external factors:

1. The dynamism of the industry in which the firm operates.

It's in the high-tech and banking sectors that the views of managers and stakeholders on social responsibility are most aligned. While both industries are new to the social responsibility debate, their emphasis on product innovation and customisation means they have the highest degree of dynamic change in their competitive and social environments. On the other hand, the energy and chemicals industries, with low environmental dynamism and a low level of product innovation and customisation, have the lowest levels of alignment.

2. The regional context in which the firms are headquartered.

Companies in Anglo-Saxon countries exhibit higher levels of cognitive alignment than those in many other parts of Europe. While this may be due to lower expectations among Anglo-Saxon stakeholders, it may in part be because Anglo-Saxon companies are better able to understand and adapt to the rapid pace of change in the external environment than their European counterparts.

3. The amount of stakeholder pressure/activism.

You're more likely to find higher levels of alignment between managers and stakeholders in their views on social performance among companies which face greater pressure from external stakeholders. This pressure can, therefore, play an important role in the development of managerial awareness of the social implications of their decisions and actions.

Key internal factors:

1. Business strategy.

Companies competing on the basis of differentiation rather than cost efficiency are more likely to see greater alignment between managers and stakeholders on CSR.

2. Integration of CSR principles in business operations.

The more companies integrate CSR into business operations- whether it be allocation of resources, or hiring personnel, or sales and marketing- the higher the cognitive alignment. This factor is one of the strongest predictors of social performance, and the authors stress the importance of this, vis-à-vis the absence of any impact from efforts to communicate and engage with external stakeholders.

3. Motivation for CSR: the innovation-based business case.

In line with the point about differentiation versus cost efficiency, companies in which managers articulate the business case for CSR in terms of the expected enhancement of new product development processes have higher levels of cognitive alignment than companies that motivate on the basis of risk minimisation, cost efficiency or sales.

Training to ‘do good’

The RESPONSE project studied also the effectiveness of different training approaches on the development of social consciousness inmanagers. It found, somewhat unexpectedly, traditional executive education to be ineffective in nurturing socially responsible behaviour.

Conversely, meditation-based coaching, using Woman in business suit doing yoga - INSEAD Knowledgeyoga techniques to try and develop values conducive to socially responsible behaviour, but without the explicit awareness of doing so - in fact with no discussion of CSR - was found to influence the development of social consciousness in managers, making them more likely to strive to ‘do good’, rather than merely ‘do no harm.’

Managers participating in these coaching interventions tended to give social and environmental impacts a higher priority in their day-to-day decision-making. They also base their decisions to adopt socially-responsible initiatives less on ‘self-interest’ – factors such as a firm’s profitability and reputation – and more on emotional and ethical ones, to show caring and compassion, and not breach the implicit social contract.

In order to close the gap in the perceptions of managers and stakeholders regarding social performance, the authors stress that businesses need to frame CSR as a challenge to find the most appropriate ways and means to contribute to the economic and social development – at least – of the communities in which they operate, and to perceive their multinational organisation as a global citizen. To do so, the key is to view CSR as a challenge related to internal business process change, rather than one linked to external stakeholder engagement. With internal changes being key, the report says stakeholders also need to consider their responsibility to learn and understand corporate processes, so they may play a credible role in influencing the company’s change agenda.

INSEAD led a consortium of business schools in the RESPONSE project, including Copenhagen Business School, Bocconi University (Italy) and the Leon Kozminski Academy (Poland), in addition to Impact, an Austrian training company. The project was also actively supported by the European Academy of Business In Society (EABiS), a network of business schools and large multinational companies launched at INSEAD in 2002, as well as founding business partners IBM, Johnson & Johnson, Microsoft, Shell and Unilever.

http://executive.education.insead.edu/social-entrepreneurship
INSEAD Social Entrepreneurship Programme

Find article at
https://knowledge.insead.edu/responsibility/corporate-responsibility-are-companies-responding-social-demands

Download the free Knowledge App