

Stakeholder Engagement for Sustainability:
A Mixed Method Study of Corporate Strategies and Engagement Outcomes

by

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ABSTRACT

This dissertation contributes to our understanding of the strategies the companies use to engage external stakeholders, as well as the processes and outcomes of engagement. The first essay proposes a framework for evaluating a firm's stakeholder engagement strategy, comprised of eight dimensions that vary on a spectrum from least to most advanced. This essay also proposes six kinds of engagement outcomes: three involving learning and relationship building, and three involving tangible changes. The essay concludes with preliminary findings about engagement outcomes at the two case companies.

The second essay uses the first essay's strategy framework to develop and validate scales for measuring each strategy dimension, and test which of these vary together to comprise a higher-order strategy. This type of analysis has not yet been done in the research on stakeholder engagement, which instead relies on descriptive typologies comprised of elements that are assumed, but not proven, to cluster together. The analysis in this paper generated six first-order factors, five of which combined to form a Strategy factor. This was used to score companies in the oil and gas, electric power, and automotive industries. Together, the first and second essays represent a first step towards more precisely defining and measuring the level of sophistication of a firm's stakeholder engagement strategy.

The third essay is a fine-grained social psychological analysis of how negotiation frames, interpersonal trust, and issue characteristics interacted in one long-term engagement between a power company and environmental non-governmental stakeholders. The question motivating the analysis is: What prevented the participants from realizing the possibility they envisioned for engagement? I argue that a combination of issue characteristics and relational ambivalence—the simultaneous presence of interpersonal trust and distrust—motivated the company to engage in “quasi-cooperation” with stakeholders. Quasi-cooperation is the simultaneous deployment of cooperative and competitive tactics. The discovery by stakeholders of the company's quasi-cooperation triggered a conflict spiral that led to the destruction of the parties' working relationships, ending their engagement. Theoretical implications and practical lessons drawn from this case expand our knowledge of how practitioners might approach long-term engagements differently in the future.

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Overview of dissertation topic and proposed contributions

This three-essay dissertation examines the phenomenon of company-stakeholder sustainability engagement from several different theoretical perspectives and levels of analysis. Stakeholder engagement is a broad term that refers to any form of two-way interaction between companies and stakeholders. Engagement, per se, is not a new phenomenon; business success has always depended on successful relationships with stakeholders. What is new is the quantity and speed of information flow about corporate social and environmental performance, and the power that stakeholders now wield to compel performance improvements. For companies, engaging with stakeholders on sustainability issues is increasingly not only part of good corporate citizenship but also good business practice. However, these kinds of engagements are a relatively new experience for many companies, which have not been studied extensively, and remain largely at a theoretical stage of development.

Taken together, the three essays shed light on a foundational assumption of the "stakeholder theory" of the firm—that managers should seek to create as much value as possible for all a firm's stakeholders without resorting to trade-offs. The stakeholder theory literature assumes that a key factor affecting a firm's capacity to generate shared value is its willingness to accept responsibility and exert leadership on issues of stakeholder concern. Some companies assume a reactive or defensive posture towards stakeholders and their interests; others are willing to accommodate, or even proactively seek out stakeholder input and incorporate their concerns into firm decision-making (Clarkson, 1995).

However, the literature does not adequately specify what a corporate stakeholder engagement strategy consists of and how it might vary across firms. Some researchers use high-level typologies to characterize firm-level engagement strategies, which leaves significant room for interpretation and presents challenges for replicating and generalizing findings. Other scholars have developed strategy frameworks that lump together clusters of variables that are assumed to constitute a higher-order strategy. Among these efforts, there is little cross-referencing or overlap to generate a shared understanding about what elements should in fact be thought of as constitutive of strategy, and hardly any empirical testing to determine whether proposed clusters of elements do, in fact, vary together.

Another weakness of the stakeholder theory literature is how to evaluate outcomes of engagement between firms and stakeholders. Existing research focuses primarily on whether firms and stakeholders can achieve outcomes that advance each party's separate interests or objectives. Shared value creation for all a firm's stakeholders is espoused by stakeholder theory as an ideal, but whether and how this occurs in practice is an open question that has not been extensively studied. In addition, the literature displays a narrow focus on end results, but says little about the role of social psychological results like

learning and relationship building, which are considered important means and ends outcomes by researchers who study related phenomena such as work teams, negotiation and conflict, dialogue, and organizational learning.

The first essay of this dissertation seeks to address the gaps in the literature on firm-level stakeholder engagement strategies and engagement outcomes. This paper combines empirical data from a 12-month field study of stakeholder engagement at two companies with a synthesis of existing literature to develop a framework for evaluating corporate engagement strategies. The paper also generates an expanded and more nuanced understanding of what *kind* of value can be created for firms and stakeholders through engagement.

The second essay uses the firm-level strategy framework that was developed in the first essay to develop a survey instrument and collect data from two types of stakeholders: environmental non-governmental organizations (ENGOS) and investor stakeholders about their experiences engaging with companies in the automotive, electric power, and oil and gas industries. As a first step to developing a method for accurately characterizing firm-level engagement strategies, this paper aims to measure individual strategy elements, and identify which vary together to comprise a higher-order strategy.

The third essay contributes a fine-grained empirical study to the literature not just on stakeholder engagement but also to research on trust and negotiation, and aims to make specific contributions to each domain. The paper is a process-based investigation of a concerted attempt by one firm that is using an advanced engagement strategy and environmental non-governmental organization (ENGO) stakeholders to create shared value. The company and stakeholders enjoyed a five-year period of relative success in engagement, followed by a seemingly irreconcilable disagreement on a high-stakes issue: proposed Environmental Protection Agency (EPA) regulations that would limit air pollutant emissions from power plants. Despite the hopes of individuals on both sides for finding a mutually agreeable solution, and their beliefs that such an agreement could be more productive than separate attempts at influencing the regulatory agency, the parties failed to find common ground, and in the process destroyed their working relationships. The question that this paper seeks to answer is: What prevented the participants from realizing the possibility they envisioned for engagement?

This essay draws on theories of trust, negotiation, and conflict resolution, and builds on the outcome framework that was developed in the first essay to show how the firm and stakeholders sought to reconcile several outcomes identified in the first essay: influencing other parties in the engagement; building and maintaining relationships; changing the company; and creating shared value.

Essay #1

Company-Stakeholder Sustainability Engagements: Corporate Engagement Strategies and Engagement Outcomes

INTRODUCTION

The focus of this research is voluntary engagement between companies and external stakeholders around social and environmental issues. Although the notion of “stakeholder engagement” has come into fashion in recent years, it is hardly a new phenomenon. Business success has always depended on successful relationships with stakeholders—groups who can affect or are affected by a company’s operations (Freeman, Harrison, & Wicks, 2007).

The ability of companies to create and sustain financial value is intertwined with the interests of key stakeholders such as customers, employees, investors, and suppliers, and requires firm managers to be attentive to their concerns (Benson & Davidson, 2010; Berman, Wicks, Kotha, & Jones, 1999; Greenley & Foxall, 2003; Hillman & Keim, 2001; Omran, Atrill, & Pointon, 2002). For their part, stakeholder groups have long advocated that companies account for their interests. As early as the mid 19th century U.S. labor unions were pushing for corporate “social responsibility” in the form of better working conditions. Activist investors inaugurated the proxy process for corporate governance reform 70 years ago, in 1943 (Gillan & Starks, 1998).

Although company-stakeholder engagement is not a new phenomenon, its nature and scope have changed significantly over time. The numbers and types of stakeholders that companies engage have expanded to include groups who wield newly acquired power and voice. The kinds of topics addressed in engagement are broader in scope than ever before, and often supersede corporate boundaries, for instance climate change and global labor standards. The forms of engagement have expanded to include many kinds of direct, informal, two-way, and voluntary (not mandated or required) interactions between companies and stakeholders.

Despite the time, energy, and resources that stakeholders and companies devote to engaging one another, and the substantial body of practical knowledge that they now possess, modern forms of voluntary, two-way engagement have not been extensively studied, and overall, research on engagement remains largely at a theoretical stage of development (Laplume, Sonpar, & Litz, 2008).

This research is motivated by two gaps in the literature on stakeholder engagement: the absence of a comprehensive, detailed framework for characterizing the strategy that a company uses to engage

stakeholders, and the lack of a rigorous approach to evaluating the outcomes of engagement. In this study I combine empirical research on engagement between companies and two kinds of stakeholders: environmental nongovernmental organizations (ENGOS) and investors, with a synthesis of existing literature to identify corporate engagement strategy elements and types of engagement outcomes. The research also identifies how companies and stakeholders value different types of outcomes at various points in the engagement life cycle.

LITERATURE REVIEW

Stakeholder Theory

In recent years, the prevailing shareholder theory of the firm has come under assault. Shareholder theory holds that the sole responsibility of firm managers is to maximize returns for investors (Jensen & Meckling, 1976). The theory defines the nature and purpose of a company in economic terms, and defines and measures success in those terms. Stakeholder theory criticizes shareholder theory for an over-emphasis on creating economic returns for one class of stakeholder—investors—and proposes an alternative: managers should weigh the concerns of all of a company's significant stakeholders in decision-making, without automatically privileging investor interests, in order to create value for all stakeholders (Freeman, 1984). Broadly defined, a stakeholder is any group or individual who can affect or is affected by the activities of an organization (*Ibid.*). The following description nicely summarizes the stakeholder concept and the core arguments of stakeholder theory:

The basic idea is quite simple. Business can be understood as a set of relationships among groups that have a stake in the activities that make up the business. Business is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, and so on), communities, and managers interact and create value. To understand a business is to know how these relationships work...If we understand capitalism as how business really works (rather than how theorists want us to believe it works) it will become obvious that this has always been true.

Building and leading a great company has always been about managing for stakeholders. The idea that we need to pay attention to only one of these groups, the people that supply the capital (stockholders or financiers), if we want to build and sustain a successful business is deeply flawed. The very nature of capitalism itself is putting together a deal, a contract, or a set of relationships among stakeholders so that all can win continuously over a long period of time. (Freeman et al., 2007, pp. 3–4)

In stakeholder theory, the goal and the ultimate purpose of the firm is different from that prescribed by shareholder theory.¹ While shareholder theory privileges investor interests and wealth creation over all other interests, stakeholder theory sets the objective of creating as much value as possible for all of a firm's stakeholders, without resorting to trade-offs. That is, "Where stakeholder interests conflict, the executive should find a way to rethink the problems so that these interests can go together, so that even more value can be created for each. If trade-offs have to be made, as often happens in the real world then the executive must figure out how to make the trade-offs, and immediately begin improving the trade-offs for all sides" (Freeman, 2010). Or, in another formulation, "Companies must take the lead in bringing business and society back together.... The principle of shared value involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges" (Porter & Kramer, 2011). The former CEO of Whole Foods, John Mackey, puts it this way:

The Conscious Business (CB) understands that the six major stakeholders (customers, employees, suppliers, investors, society, and environment) are interdependent and the business is managed in such a way as to optimize value creation for all of them. While the CB is aware there can sometimes be conflicts and tradeoffs between the major stakeholders, it finds that these are relatively rare and they can often create win-win-win solutions to eliminate the conflicts. What is far more normal in business is a "harmony of interests" between the interdependent stakeholders. Employees, investors, and suppliers cooperate together voluntarily (without external coercion) to create value for customers, and they share in the value created through their volunteer exchanges. The leadership of the CB is usually skilled in "systems thinking" and understands the relationships that exist between all of the interdependent stakeholders. Leadership of the CB seeks to create win-win-win-win-win business strategies. This is fundamentally a more sophisticated and complex way of thinking about business that transcends the limitations of the analytical mind, which focuses on differences, conflicts, and tradeoffs. (Mackey, 2011, pp. 84–85)

¹ A fuller treatment of the core questions addressed by stakeholder theory is contained in Appendix A.

Stakeholder theory thus challenges the neoclassical assumption that a firm's sole purpose is to maximize shareholder wealth. If companies are responsible to stakeholders other than investors, and their purpose involves more than maximizing shareholder earnings, the way they respond to stakeholder concerns becomes both strategically important and practically germane. This then opens up a broad new space for theory development and empirical research on how companies engage with stakeholders to address their concerns and create shared value.

Research on Stakeholder Engagement

Major topics of research on stakeholder engagement include: defining the stakeholder concept and classifying stakeholders into categories of salience; stakeholder actions and strategies; firm actions and responses; engagement outcomes and effectiveness; and the relationship between stakeholder management and firm performance (Andriof & Waddock, 2002; Laplume et al., 2008). The present study addresses two of these domains: firm actions and responses; and engagement outcomes and effectiveness.

A. Corporate stakeholder engagement strategies

Table 1 contains a summary of high-level, generic frameworks that have been proposed to characterize companies' stakeholder engagement strategies. Table 2 summarizes research on specific variables constitutive of strategy from 23 studies, of which 15 had an empirical component.

Table 1: High-level corporate stakeholder engagement strategies

- | |
|---|
| <ul style="list-style-type: none">• Swing/Change the Rules; Offensive, Defensive; Hold (Freeman et al., 2007; Freeman, 1984; Polonsky & Scott, 2005)• Collaborate; Involve; Defend; Monitor (Savage, Nix, Whitehead, & Blair, 1991)• Reactive, Defensive, Accommodative, Proactive (Clarkson, 1995; Jawahar & McLaughlin, 2001)• Protectionist/defensive; Concessionary/compromise; Opportunism/opportunistic; Competition/elimination (Friedman & Miles, 2002)• Compromiser, Commander, Subordinate, Solitarian (Rowley, 1997)• Pressure driven engagement; systematic engagement; integrated strategic engagement (Partridge, Jackson, Wheeler, & Zohar, 2005)• Comply, volunteer, partner, integrate, re-engineer (SustainAbility, 2004) |
|---|

Table 2: Dimensions Comprising a Corporate Stakeholder Engagement Strategy

Concept	Variables
Engagement & communication style & structure	<ul style="list-style-type: none"> • Inform stakeholders about favorable corporate CSR decisions and actions; demonstrate to stakeholders how the company integrates their concerns; invite and establish frequent, systematic and pro-active dialogue with stakeholders (Morsing & Schultz, 2006) • Public information, one-way communication; two-way asymmetric communication; two-way symmetric communication (<i>Ibid.</i>) • Sensegiving, sensemaking leads to sensegiving, sensemaking & sensegiving operate in iterative progressive processes (<i>Ibid.</i>) • Monologic versus dialogic communication (Crane & Livesey, 2003) • Communication interactivenss; Communication resource adequacy (Starik, 1991) • Communications via one-way channels; Consultation and dialogue via interactive channels; Partnerships (Partridge et al., 2005) • One way versus two-way communication (Bowen, Newenham-Kahindi, & Herremans, 2008) • Inward-oriented (focused on monitoring, informing, and managing stakeholders) versus outward-oriented (focused on collaboration and joint learning) (Sloan, 2009) • Communication and feedback mechanisms for report-users to provide/send comments to reporter (Ceres-ACCA, 2007) • Surveys/polls, Focus groups/interviews, Meetings/workshops, Dialogue fora, Committees/panels, Collaboration/partnerships, Multi-stakeholder initiatives, Board (non executive directors) (Spitzeck & Hansen, 2010) • Surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures (GRI, 2000) • Communication proactiveness (Starik, 1991)
Corporate attitude/ character	<ul style="list-style-type: none"> • Cynical, neutral, trusting (Friedman & Miles, 2002) • Communication genuineness (Starik, 1991) • Amoral; Limited Morality (Corporate Egoist, Instrumentalist); Broadly Moral (Moralist; Altruist) (Jones, Felps, & Bigley, 2007) • Mismatch, cure stakeholders of ignorance and preconceived beliefs (Friedman & Miles, 2002)
Proactiveness/ leadership	<ul style="list-style-type: none"> • Design appealing concept message; identify relevant stakeholders, build relationships (Morsing & Schultz, 2006) • The company strives to develop new contacts with all the stakeholders (Plaza-Úbeda et al., 2010)
Scope of engagement	<ul style="list-style-type: none"> • Setting or reviewing strategic objectives; Setting the content of the sustainability report (Manetti, 2011) • Operational (specific issues, e.g. health & safety); Managerial (e.g. sustainability strategy); Strategic (General business strategy) (Spitzeck & Hansen, 2010)

Table 2 (CONT.): Dimensions Comprising a Corporate Stakeholder Engagement Strategy

<p>Stakeholder roles & involvement in decision-making</p>	<ul style="list-style-type: none"> • Stakeholder control; Delegated power; Partnership; Collaboration; Involvement; Negotiation; Consultation; Placation; Explaining; Informing; Therapy; Manipulation (Friedman & Miles, 2006) • Non-participation, tokenism, stakeholder involvement, stakeholder power (Friedman & Miles, 2002) • Educate stakeholders, listen to stakeholders, stakeholders provide conditional support (Friedman & Miles, 2002) • Informative participation; consultative participation; decisional participation (Green & Hunton-Clarke, 2003) • Information/communication; Consulting; Involvement; Collaborate; Empower (Spitzeck & Hansen, 2010) • Transactional, Transitional, Transformational roles (Bowen et al., 2008) • Firm or Shared (Bowen et al., 2008) • Unilateral; interactive, mutual influence, partnership alliance; multi-organization (Mirvis & Googins, 2006) • Individualistic; relational; collectivistic (Brickson, 2007) • Decided by top management; decided by management and investigated in feedback via opinion polls; dialogue; networks and partnerships; negotiated concurrently in interaction with stakeholders (Morsing & Schultz, 2006) • Knowledge about decisions, being heard before a decision, having an influence on decisions, forming or agreeing to decisions (Friedman & Miles, 2006) • Unnecessary for third party endorsement; integrated element of surveys, rankings, and opinion polls; stakeholders are themselves involved in corporate CSR messages (Morsing & Schultz, 2006) • Remain passive; Monitor, Inform, Transact, Consult, Involve, Collaborate, Empower (Partridge et al., 2005) • The company consults the stakeholders and asks them for information before taking decisions; stakeholders participate in the company’s decision-taking process (Plaza-Úbeda, de Burgos-Jiménez, & Carmona-Moreno, 2010) • Joint decision-making power, minority representation in decision-making, majority representation in decision-making (Friedman & Miles, 2002)
<p>Knowledge/familiarity with stakeholders</p>	<ul style="list-style-type: none"> • Familiarization comprehensiveness (Starik, 1991) • Stakeholder Knowledge (measured with 5 variables) (Plaza-Úbeda et al., 2010) • List of stakeholder groups engaged by the organization; Basis for identification and selection of stakeholders with whom to engage (GRI, 2000)

With the exception of Clarkson (1995) the frameworks listed in Table 1 describe stakeholder engagement strategies in a generic and high-level manner, and contain little detail about how to precisely measure different strategies. This “top-down,” generic approach to describing strategy leaves significant room for interpretation, and presents challenges for accurately assessing and evaluating what strategy a company is using.

Clarkson's approach does not suffer from these limitations, and it is the best developed empirically of the studies reviewed herein, having been refined over three decades and used in over 70 corporate case studies. The data collection framework is organized by stakeholder group: employees, shareholders, customers, suppliers, public stakeholders, and competitors. Clarkson's method directs researchers to examine a company's policies and associated performance data on a range of issues for every major stakeholder group, and infer a company's overall posture, or strategy, towards managing specific stakeholders and social issues. Corporate postures (or strategies) are classified as one of four types: Reactive, Defensive, Accommodative, or Proactive.

The advantage of Clarkson's framework is that it uses a rich, data-driven method to determine a company's overall strategy. However, the approach focuses on characterizing a company's *performance* on issues of concern to stakeholders, but contains little guidance for measuring the ways in which a company actually *engages* with stakeholders. Of 42 specific issues across six stakeholder groups, only four: employee communication; shareholder advocacy; customer complaints; and community relations pertain to direct engagement between companies and stakeholders.

Regarding the literature that does propose specific variables, cited in Table 2, the limitations are twofold. One, researchers typically lump together sets of mutually exclusive variables to describe high-level engagement typologies. It is assumed that the variables within a specific strategy vary together, but this has not been subject to empirical testing. For instance, Morsing and Schultz (2006) combine the following variables to describe three different types of CSR communication strategies: communication ideal; stakeholder role; who is responsible for identifying the focus of communications; corporate strategic communication task; corporate communication department task; and third-party endorsement of CSR initiatives. These are very different concepts that may or may not vary together to describe a higher order strategy. Many of the other researchers cited in Table 2 follow the same pattern but with different variables.

The second limitation of this literature is that there is considerable concept proliferation, with hardly any cross-referencing or overlap. Researchers have multiplied rather than built on one another's efforts, so there is little shared agreement about the phenomenon under study—what a stakeholder engagement entails, and how, precisely, it might vary. The many, competing frameworks and variables describing strategy are ripe for consolidation and empirical validation, which is what I aim to do in this paper.

B. Engagement outcomes

The second part of this study aims to address the question: How can engagement outcomes be evaluated? Because engagements cover a large range of issues, take many diverse forms, and are driven by many different motivations, defining outcome measures is not a straightforward matter. Outcomes are a function of the unique goals and objectives of each party, and are not entirely reducible to generic categories. There are, however, two patterns that characterize how the existing stakeholder engagement literature describes the possible outcomes of engagement.

One, existing literature focuses on achieving strategic outcomes that advance each party's separate interests or objectives. The literature written from a stakeholder point of view focuses predominantly on the degree to which companies are responsive to stakeholder interests. Zadek and Raynard (2002) propose that the quality of engagement outcomes be measured in terms of tangible evidence of policies and practices adopted by managers in line with stakeholder engagement or evidence of stakeholder satisfaction. Spitzack and Hansen (2010) define an outcome measure as the "level of impact on company decisions," ranging from none to high. Plaza- Úbeda et al. (2010) suggested several behaviors of corporate "adaptation" that could be evaluated in response to stakeholder concerns. Starik (1991) uses the term "planning integrativeness" to describe the extent to which interests of stakeholder groups were included in company strategic plans. Stakeholders, in these frameworks, are presumed to advocate corporate change in order to advance the interests that they represent. The outcome measures reflect that assumption.

The literature written for a corporate audience does the same thing but from the firm point of view of value creation. Partridge et al. (2005) encourage companies to clarify their overall reasons for stakeholder engagement and how they relate to broader strategic business objectives. Building on Freeman (1984) and Savage (1991), Polonsky and Scott (2005) identify a number of strategies (and therefore possible outcome measures) that companies use in engaging with stakeholders: Change formal rules by which stakeholders operate; Refocus stakeholders' objectives; Reinforce stakeholders' beliefs in regard to the firm; Modify stakeholders' beliefs about the firm; Link stakeholders to the firm's wider objectives; and Use the stakeholder group to modify stakeholders' or other group's beliefs. Stakeholder theory holds that the value that firms create from engagement should accrue not just to the firm but to all stakeholders. However, the locus of responsibility in much of the literature written from the company perspective remains with firm managers to decide what "value" means, for whom, and how it will be shared.

To summarize, the literature on engagement that is written from a stakeholder point of view assumes that outcomes should be measured in terms of the changes that stakeholders seek to achieve at companies to advance their interests for a corporate audience. Likewise, literature written from a managerial point of view assumes that outcomes should be measured in terms of corporate objectives (which ideally would include stakeholder interests). In both of these models, the firm is assumed to be the locus of power that can decide to implement change, or resist it, to incorporate stakeholder interests into decisions, or exclude them.

Neither of these perspectives, which dominate existing literatures, addresses the kind of change in which firms and stakeholders co-create mutually beneficial outcomes. This would require a shift away from the thinking that currently prevails around corporate strategy, in which firms are viewed as “solitary units confronted by faceless environments,” that “act on their own behalf, pursuing localized interests” to instead further the joint goal of the organizational collectives in which they are immersed (Andriof & Waddock, 2002). The logical implication of this perspective is that companies and stakeholders would view themselves as part of a collective or system in which neither can define or pursue value unilaterally, and must instead co-create the definition of value and seek to implement solutions in a joint manner (*Ibid.*)

However, this paradigm of shared value creation, which is advocated by leading stakeholder theorists like Freeman (2010), is far less developed both theoretically and empirically than the perspective that emphasizes individual gains. There are whispers of this new paradigm, for instance, Bowen et al. (2008) identify a kind of engagement called “transformational” engagement marked by joint problem solving, decision-making, learning, and sensemaking. In this approach benefits accrue not separately to firms and communities but jointly. Partridge et al. (2006) describe a “collaborative” mode of engagement in which companies work with stakeholders to implement solutions to shared challenges. Similarly, Sloan (2009) compares a “risk management” strategy, in which companies manage stakeholders for the purpose of anticipating and dealing with risks with a “generating opportunities” strategy. However, Sloan does not indicate whether opportunities are identified jointly, or intended to benefit firms and stakeholders jointly.

The other pattern that characterizes the engagement literature is the emphasis on achieving strategic end goals like changes in the other party’s thinking or their behavior. There is almost no theory or empirical work around possible moderating or mediating factors such as developing better understanding and improving relationships. A few studies are beginning to take a relational perspective on outcome measurement. For instance, Rondinelli and London (2003) identify the development of trust

as one of three sets of mutual responsibilities in corporate-ENGO relationships. Brickson (2007) promotes the theory that organizations have different “identity orientations,” ranging from individualistic to relational to collectivistic, although she does not use this framework to identify outcomes of company-stakeholder interactions.

These characteristics of the engagement literature—the emphasis on each party’s power to define and achieve separate objectives, and the focus on strategic end goals rather than intermediate outcomes such as trust and relationship development—raise several questions. Do engagement participants think about creating shared value through engagement as well as what the literature predominantly emphasizes—achieving individual strategic outcomes? Are there other engagement outcomes, in addition to strategic end goals, that people consider to be important?

METHODS

Research design

This study employs a qualitative interview and case-based approach for data collection and analysis. This method was chosen in order to generate new theory around the dimensions of corporate engagement strategies and engagement outcomes. I used a grounded theory approach for data collection and analysis, which does not start with testable hypotheses, but rather allows conceptual categories and original theory to emerge from the data (Charmaz, 2006). The strength of the grounded theory approach is that it enables researchers to take a fresh look at social processes, and to create novel categories and concepts without (necessarily) having to rely on stock disciplinary concepts and theories.

Throughout the study, I focused on interactions between companies and two kinds of stakeholders: environmental non-governmental organizations (ENGOs) and investors. Investors in this study can be further subdivided into two types: socially responsible investors (SRI), who use social and environmental factors as primary decision-making criteria in guiding investment decisions, and mainstream state public pension fund investors, who represent much larger organizations that are embracing social and environmental considerations to varying degrees as part of their portfolio investment strategies.

These two types of stakeholders were selected because of the research emphasis on voluntary engagements around sustainability issues. Both kinds of stakeholders engage with companies through a range of different methods, and many have well-established, long-term engagements with a variety of companies. ENGOs and SRI investors share a common status as secondary, rather than primary, stakeholders of a firm (Freeman, 2010). That is, they are not central to the survival of a firm, but they

have the power to influence other stakeholders that are: employees, mainstream financiers, customers, suppliers, and communities.

NGOs and investors also differ in important respects. Most saliently, investors have a vested interest in a firm's financial performance, and therefore frame sustainability concerns in the language of business and finance—around financial risk and return. Activist SRI investors write letters and sometimes launch shareholder resolutions to press for change at the company level, but their activism is motivated by the expressed purpose of reducing a company's risk and improving financial returns. Though they may be sympathetic to a company's profit imperative, NGOs do not share a financial interest with the companies they engage. Compared to SRI investors, their engagement style can be more confrontational. NGOs sue companies, testify against them at regulatory hearings, and sometimes launch public advocacy and media campaigns.

Despite these differences, in the engagements I studied, investors and NGO stakeholders played similar roles in interacting with the companies, were concerned with the same kinds of issues, and were even in the same room together representing to companies the "stakeholder" point of view. In the data collection and analysis, I rely on equally data from both NGO and investors equally.

Phase 1 Data Collection. The research proceeded in two phases. In the first phase, I conducted preliminary interviews with company representatives and stakeholders to gather data on their experiences with engagement. Both company and stakeholder interviewees were selected based on personal contacts and the criterion that they had substantial experience doing engagement.

I completed a total of 23 open-ended exploratory interviews in this phase: seven with NGO representatives, eight with SRI representatives, and eight with company representatives. Interviews were focused on people's motivations to engage, forms and processes of engagement, and impacts or outcomes of engagement. All interviews were conducted by phone. Interviews were not taped, but were captured nearly verbatim in typed notes.

Phase 2 Data Collection. In the second phase of data collection, I sought to gain access to at least two companies to study stakeholder engagement in situ. I used theoretical sampling (Yin, 2008) to select companies based on two criteria. One, they had to have multiple, active, voluntary engagements with NGO and investors around sustainability issues. The existence of such engagements meant that the companies represented best practice cases for stakeholder engagement. The second criterion was that the companies had to agree to grant access not only to conduct interviews and provide supporting archival material, but also to observe engagements directly. Given the confidential nature of engagements, permitting outsider access is a delicate issue.

Based on these criteria and on personal contacts, I developed an initial list of 12 companies and invited them to participate in the research. Of these, I contracted with two—a large electric power company (Power Co.) and an auto company (Auto Co.)—to study the “effectiveness” of stakeholder engagement over a 12-month period.

Data collection

Types of engagements studied. The focus of this research is voluntary engagements, in which stakeholders and companies interact outside of formal channels—those that constitute an official, mandated, regulated, or legal process. Both companies had both kinds of engagements: voluntary engagements, and formal, mandated engagements that were part of regulatory, legal, and legislative processes. For instance, the electric power company was being sued by some of the same organizations that were engaged with the company on a voluntary basis. It also encountered ENGO groups at state-level electricity rate hearings. Both companies were targets of public activism campaigns by stakeholders during the period of research. Information emerged during the course of the research about all of these engagements, but I focused the interviews and observations on voluntary engagements—those that companies chose to take part in without being coerced to do so.

I studied three types of voluntary engagements at Power Co. and four at Auto Co. Structured engagements ranged in length from 90 minutes to 1-½ days. Unstructured engagements were ad hoc and ongoing. These are summarized in Table 3.

At both companies, a primary engagement channel was a process designed and run by a nonprofit advocacy group, which I call Envirocare. Envirocare specializes in convening engagements between companies and its extensive network of environmentally-oriented state- and national-level stakeholder organizations. The companies coordinated with Envirocare to invite stakeholders from the Envirocare network to engagement. Invitees included representatives of environmental ENGOs, socially-oriented investment funds, and labor unions.

One structural aspect of the Envirocare engagements remained consistent over time: engagements always addressed the content of the company’s annual sustainability report, in which the company disclosed its policies, impacts, and activities on environmental and social issues. The company and stakeholders used the report as an artifact to organize and structure the engagement content, track changes resulting from engagement, and monitor the company’s progress on environmental issues.

In addition to designing the engagement agenda and selecting stakeholder participants, Envirocare also held pre-meeting conversations with stakeholder participants to prepare them for the engagement

and generate alignment around a common stakeholder agenda. At the engagements themselves, Envirocare representatives served multiple roles: they facilitated the engagements; took the official record of minutes and action items; and also served as advocates for the stakeholder point of view.

At Power Co., the Envirocare engagement was attended by staff from the company's sustainability office, along with senior leaders of the company, including the CEO, COO, CFO, and the Vice Presidents of the company's major business functions. The Envirocare group had been meeting for five years with a more or less stable membership. I observed two meetings of this group in person, and one that occurred by phone. Several of the stakeholders in this group interacted with senior company representatives in between structured engagements if there was a specific reason to do so. I gathered data on these ad hoc, ongoing interactions through interviews. I also studied a stakeholder group that Power Co. convened once per year to advise the company on its approach to energy efficiency. This group had been in existence for three years. It was attended by operational people from the company and staff from the company's sustainability office.

At Auto Co. I observed two kinds of engagements directly, and gathered data on the Envirocare engagement indirectly using archival sources. The Envirocare engagement was attended by members of the company's sustainability group, one of whom is a senior Vice President who reports directly to the CEO. This group had been meeting twice annually for the past four years. Stakeholder membership had changed recently, with the addition of several new stakeholders during the study period. Several of the stakeholders in this group interacted frequently on an ad hoc basis with representatives from the company's sustainability group and occasionally with members of the company's senior leadership. I gathered data on these ad hoc, ongoing interactions through interviews.

I also studied two different kinds of engagements between Auto Co. and groups of SRI investors. One group met only a few times on an ad hoc basis to discuss water issues. One representative from the company's sustainability office and two stakeholders attended this engagement. The other, larger, group met once per quarter with one or more representatives from the company's sustainability group to discuss a broader range of topics related to water, human rights, and the company's business strategy.

Interviews. During the data collection period, I completed semi-structured interviews with 70 company representatives, investors, and ENGOs who were associated with the engagements just described. The portion of the interview protocol that is relevant to the topics of corporate engagement strategies and engagement outcomes is contained in Appendix B. Interview questions were targeted towards understanding different aspects of corporate engagement strategy and engagement outcomes from the perspective of both company people and stakeholders.

Interviews ranged in length from thirty minutes to two hours. Most interviews lasted approximately one hour. Several people were interviewed more than once. Whenever possible, interviews were done in person; when that was not feasible they were done by telephone. All interviews were taped and transcribed, with the exception of one interviewee who did not consent to being taped. I typed her responses while she spoke.

My purpose was twofold in interviewing a sample of stakeholders who were involved with two companies. One was access. Through the companies, I could identify stakeholders who were actively doing corporate engagement. The companies supported the research effort, made connections to their stakeholders, and encouraged them to do interviews with me.

Second, the engagements provided a context of experience that I asked stakeholders to draw on in the interviews. At the beginning of the interview, I invited people to tell specific stories about what it was like to engage with the auto company or the electric power company. In so doing, I bounded the initial scope of the interviews to a specific case that we both knew. This enabled me to establish rapport with the interviewee while gathering concrete data on their experiences with engagement (as opposed to their theories). As the interviews proceeded, I invited the interviewee to describe their experiences with other companies and with engagement more generally, as well to articulate theories and explanations about engagement, to build on the concrete data from earlier in the interview.

In order to gather data on corporate stakeholder engagement strategies, I asked both company people and stakeholders specific questions about the two companies' behavior in engagement. I asked stakeholders how specific experiences with the two companies compared with their experiences at other companies, and if they could describe those differences, in order to develop an idea of the range of corporate behavior in engagement. I asked all interviewees what kinds of outcomes represented success in engagement. Finally, I invited people to share their theories and mental models of different kinds of corporate strategies and engagement outcomes.

Both companies were best practice cases of stakeholder engagement, in that they had voluntarily created multiple channels for engaging with ENGO and SRI stakeholders, and were identified by external stakeholders as best practice cases. However, the aim of this study was not to characterize "best practice" in stakeholder engagement, but rather understand what stakeholder engagement strategies look like across a spectrum. With one exception, the stakeholders I interviewed had extensive experience engaging other companies and were able to offer meaningful comparisons between the two case study companies and others they had engaged. The analysis in this study is not, therefore, derived

from stakeholders' interactions with two best practice companies; rather, it is informed by the diverse experiences that stakeholders have had with many companies.

Archival data. I was given access to a variety of confidential, internal company documents at both companies, many of which were shared with me during interviews. These pertained both to stakeholder engagement and the companies' business strategies and operations. I also reviewed a variety of publicly available materials relevant to engagement at the two companies, specifically the companies' sustainability reports and materials published by third parties on both companies. Table 3 summarizes all the sources that were used in Phase II data collection.

Table 3: Phase II Data Sources

	Power Co.	Auto Co.
Interviews	<ul style="list-style-type: none"> • Company reps: 16 • Investors: 12 • ENGO reps: 12 	<ul style="list-style-type: none"> • Company reps: 11 • Investors: 10 • ENGO representatives: 9
Engagements studied	<ul style="list-style-type: none"> • <u>Envirocare engagement</u>: Observed two engagements in person (1 ½ day and ½ day), and one by phone (2 hours). Interviewed nearly all stakeholders who participated. • <u>Energy efficiency ENGO advisory group</u>: Observed one engagement in person (1 day engagement). Interviewed some stakeholders who participated. • <u>Informal, ad hoc one-to-one ENGO engagements</u>: Collected data through interviews. 	<ul style="list-style-type: none"> • <u>Envirocare</u>: No direct observations; had access to notes from previous 2 years of meetings. Interviewed nearly all stakeholders who participated. • <u>Water investor advisory group</u>: Observed two engagements, each lasting 90 minutes. Interviewed all stakeholders who participated. • <u>Broad scope investor advisory group</u>: Observed one engagement in person (1 day). Interviewed nearly all stakeholders who participated. • <u>Informal, ad hoc one-to-one ENGO engagements</u>: Collected data through interviews.
Archival information	Confidential internal company documents pertaining to corporate strategy and stakeholder engagement. Publicly available sources: sustainability reports and third party reports on the companies' sustainability performance.	

Data analysis

The goal of data analysis was to generate theoretical categories for defining elements of corporate engagement strategies and evaluating engagement outcomes. I began by coding the interview data, rather than the archival or observation data, because the interviews contained explicit information about companies' engagement strategies. Interview transcripts were coded in two stages using Atlas.ti.

In the first stage, I separated the data into five major groups pertaining to: 1) corporate engagement motivations and strategies, 2) stakeholder motivations and strategies; 3) process variables such as how the engagements were designed and run; 4) engagement outcomes, and 5) details on specific issues that were addressed in the engagements.

I used data from the first category to identify corporate strategies, and data from the second through fifth categories as inputs to the outcome framework. I performed a more fine-grained coding within each of these categories in order to identify strategy and outcome constructs. I generated initial codes, and then refined and consolidated the coding categories as I proceeded to arrive at draft constructs.

In coding the data for engagement strategies, I aimed to identify the major components that interviewees said were salient to a company's approach towards engaging a particular stakeholder group, representing the ends of two poles: least and most advanced. In coding the data for outcomes, I aimed to identify factors that people used to identify a successful engagement, as well those that indicated an unsuccessful engagement.

After the initial coding was complete, I consulted the literature on engagement strategies and engagement outcomes, which is summarized in Tables 1 and 2. I organized the literature into categories of variables, and compared those categories with the empirical categories from my data. I consolidated some of the empirical categories, renamed others, and recoded some of the data to fit the revised categories. I performed several of these iterations, refining my empirical categories, and also refining the literature categorization to arrive at the final constructs.

In reporting the findings, I relied on observational data and archival information for supporting evidence and to flesh out the descriptions of each construct. However, the analysis was not driven by these data, but rather by the interview data. Findings are reported in two parts: 1) Dimensions of corporate engagement strategies, and 2) Engagement Outcomes.

PART I: EMERGING DIMENSIONS OF CORPORATE ENGAGEMENT STRATEGIES

A. Corporate Engagement Strategies

I identified eight dimensions that together constitute the strategy that a company adopts towards a particular stakeholder group. Each dimension can vary independently and may cluster together in different ways to form a coherent engagement strategy. Strategies may vary by stakeholder type, issue, and a variety of company attributes such as size and industry. The topic of the second paper of this dissertation is to examine whether and how these dimensions cluster together to comprise a higher-order engagement strategy. Each strategy dimension is described here with supporting empirical data, followed by a discussion of existing literature on that dimension.

- 1. Extent of voluntarily created, interactive forms of engagement**
- 2. Stakeholder involvement in decision-making and decision implementation**
- 3. Control over the engagement process**
- 4. Scope and scale of issues addressed in engagement**
- 5. Company posture towards engagement**
- 6. Company character in engagement**
- 7. Timing of stakeholder involvement**
- 8. Involvement of senior company leaders in engagement**

1. Extent of voluntarily created, interactive forms of engagement

In both the preliminary interview phase and the company case studies, company representatives and stakeholders identified interactive forms of engagement, involving two-way communication and dialogue, as a hallmark of a mature or advanced corporate stakeholder engagement strategy. The two companies in the research were selected precisely because of the existence of one or more of these kinds of engagements. Interactive engagement forms exist in addition to the typical, or required channels of stakeholder engagement, for instance quarterly earnings calls, annual meetings, or legal or regulatory hearings. All seven of the engagements at the two companies I studied, and several other engagements that I learned about, were voluntarily created by the companies, and explicitly interactive in both structure and intent.

Both company and stakeholder interviewees reported that they value the opportunities for meaningful communication and mutual learning offered by interactive engagement forums. These stand

in contrast to interactions that are more scripted, or involve one-way information flows. As a company person said, “Engagement doesn’t mean we’re going to get to a point of agreement, many times we’ll get to a point where we agree to disagree, but we at least talk through it—real people talking to one another—as opposed to throwing legal jargon across email traffic.”

Speaking to this difference between interactive engagements and a litigation, a stakeholder said, “On a litigated proceeding, the company would put forward a plan, they would file testimony supporting it, and if we have problems with it, we would file testimony and then we would all brief it and then the commission would make their decision based on what everybody said. Versus figuring out all the stuff beforehand, like letting the company know what our issues are before they file something. We could save a lot of time and actually probably get a better result by going through these issues informally before they have to file something.”

Literature

There is a substantial weight of opinion supporting the idea that as companies mature in their engagement strategies, they incorporate two-way, interactive forms of communication in their strategies (Crane & Livesey, 2003; Freeman et al., 2007; Morsing & Schultz, 2006; Partridge et al., 2005). By voluntarily creating these forms of engagement, a company is indicating that it values stakeholder input, and is willing to open the possibility for dialogue, reflection, and learning, not just in informing stakeholders about its activities, or engaging with them only if required through a legal or regulatory process. It is not clear whether companies follow a progressive developmental sequence, from one-way to two-way forms of interaction, as the literature would seem to suggest. But there appears to be general agreement that a more advanced engagement approach is characterized by interactive engagements, while a less advanced one strategy might comprise only one-way forms of communication, from the company to stakeholders.

2. Stakeholder involvement in decision-making and decision implementation

Related to but distinct from the topic of interactive engagement forums is the degree to which stakeholders participate in decision-making and decision implementation around engagement topics. I propose that this component of corporate stakeholder engagement strategy should be defined as: *the degree to which companies enable stakeholders to participate in decision-making and/or implementation*. This implies what it intends—that companies have power to decide whom to include in decisions and to what extent. Stakeholders have power too, and they can exert pressure on companies

to force them to include stakeholder concerns the decision processes. However, evidence of such pressure does not indicate what kind of strategy a *company* is using. As one ENGO stakeholder put it, “Stakeholder engagement is something we get invited to, not something we initiate ourselves” (Partridge et al., 2005). What does pertain to strategy is the degree to which companies invite stakeholders to share decision power.

I propose that this dimension of strategy can be evaluated by using empirical evidence in combination with existing literature to characterize the *roles* that stakeholders play in their engagements with companies vis-à-vis decision-making. These are presented in Table 4, ordered by how much decision-making power the company grants to stakeholders. A stakeholder operating as an Enforcer (third from bottom) may have influence over company decisions, but not because the company has invited it. But a stakeholder that operates as a Partner with the company would presumably have a much greater degree of influence over decision-making and implementation, because the company invited this kind of relationship.

The data in this section are drawn from both company and stakeholder interviewees to describe different roles that stakeholders play. The roles overlap conceptually with a one-way versus an interactive style of communication described in the first point, but are distinct in that they refer to decision power rather than communication style.

Table 4: Stakeholder Roles and decision power

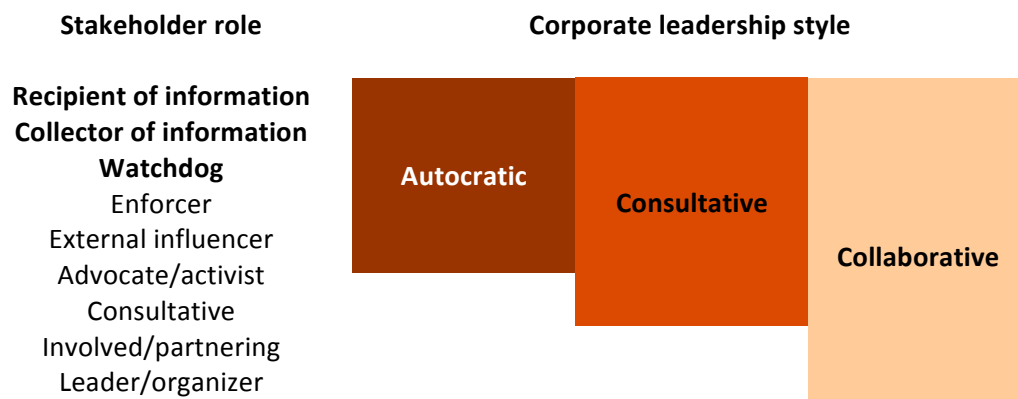
Stakeholder decision power*	Stakeholder Role	Sample stakeholder quotes/actions
High	Involved/Partnering: partner with the company on projects and/or making and implementing decisions	<i>“If the company is perceived as willing to think about the issues, to collaborate, to partner, then the relationship with stakeholders is wholly different than if they are closed and defensive.”</i>
High	Leader/Organizer: play a leadership role in an initiative the company is involved in	Some stakeholders organize and lead initiatives in which companies participated, for instance annual conferences and multi-stakeholder initiatives like the US Climate Action Partnership
Low to medium	Consultative: provide knowledge, data, advice, and opinions (with or without being paid)	<i>“I think [Auto Co. rep] is interested in getting different perspectives and being very open to having people laying new things on the table.”</i>
None	Recipient of information: informed or educated about the company's strategy, policy, & activities (related to one-way communication forums)	<i>“We talked to their CEO and he delivered a long monologue and then took questions...”</i>
None	Collector of information: gathered data and information from the company for one's own or one's organization's purposes	<i>“Engagement helps us as investors because we do know what the leading edge issues are for industries and try to identify what the better companies are.”</i>
None	Watchdog: monitored and spread the word about the company's actions and performance	Several environmental ENGOs gather and publish information or performance data about company activities.
None	Enforcer: sought to hold the company accountable for legal and regulatory obligations	Several environmental ENGOs use a strategy of suing companies or intervening in regulatory proceedings.
None	External influencer: influenced other important stakeholders, regulators, and/or policymakers on issues relevant to the company	<i>“Stakeholders have the ear of the EPA and can potentially move them.”</i>
None implied/not explicitly granted	Advocate/activist: advocated and/or exerted activism on specific issues (could be one-way or interactive)	<i>“We've talked to them on these high level points, I think they are quite clear what we want them to do, because we've been repeating it to them year after year after year.”</i>

* Refers to the decision-making power granted by a company to stakeholders, either directly or by virtue of agreeing to participate in an initiative that a stakeholder has organized.

These stakeholder roles can be mapped onto the Vroom-Yetton-Jago leadership strategies (Vroom & Jago, 1978; Vroom & Yetton, 1973), as shown in Figure 1. This model identifies three styles of leadership and five different processes of decision-making. In the *Autocratic* leadership style, leaders make the decision and inform others of it. In the *Consultative* style, leaders gather information from their teams and then make a decision. In the *Collaborative* style, the leader and team work together to reach a consensus. Decision processes within these three styles vary by how, when, and how much others are consulted.

If a company is using an **Autocratic** style, stakeholders may operate in a number of different roles in relation to a company, but not in consultative, involved/partnering, or leader/organizer roles because these assume greater stakeholder decision power. If a company is using a **Consultative** style, there will be evidence of stakeholders operating in a consultative role, in addition to the other roles they may choose to occupy. Only a **Collaborative** leadership style would involve stakeholders in involved/partnering and leader/organizer roles.

Figure 1: Stakeholder Roles and Company Leadership Style



Literature

Of all the variables that characterize differences in corporate stakeholder engagement strategies, it is the nature of the stakeholder-company relationship that has gained the most attention. Eleven of 23 studies reviewed contained a classification framework pertaining to how companies involve stakeholders in decisions (e.g., Friedman & Miles, 2006; Green & Hunton-Clarke, 2003; Mirvis & Googins, 2006; Partridge et al., 2005; Spitzbeck & Hansen, 2010).

The problem with these frameworks is that they encompass a broad range of concepts in addition to decision rights, e.g. the directionality of communication; forms of engagement; engagement behaviors, and the intent or objective of stakeholder engagement. Some typologies, for instance Friedman and Miles (2006) and Mirvis and Googins (2006) create confusion rather than clarity by mixing and matching different constructs—e.g. corporate intentions, engagement forms, and decision rights—within a single ordered framework. Overall, this area of the stakeholder engagement strategy literature could benefit from definitional and conceptual clarity, which I propose could be created by specifying stakeholder decision power as the main variable of interest, measured by high, medium, and low, and zero levels of power.

3. Control over the engagement process

This dimension of engagement strategy involves who controls the design and process of the engagement. This is related to, but conceptually distinct from, stakeholder decision power, described in the previous point, which assumes that a company holds decision power around the *content* of engagement, which it can grant or withhold to stakeholders. Control over the *process* of engagement, however, is not necessarily under the default control of the company. Stakeholders have power to influence the terms of engagement independent of the company's willingness to grant them that power.

Aspects of the engagement process that can be influenced by both company and stakeholder participants include: which stakeholders engage with the company; the objectives of engagement; what issues are addressed; the design of engagement (its length, location, and agenda); who facilitates or runs the engagement; and who monitors the implementation of decisions.

Each of these dimensions varied within and between the two companies I studied. For instance, the design of a full day Envirocare engagement at Power Co. was largely controlled by one stakeholder group, which selected and invited other stakeholders, prepared the engagement agenda (with input from the company), designed the process, and facilitated the day-long engagement. Responsibility for monitoring decisions was shared by the company and the stakeholders.

This engagement differs from another at Power Co., in which the company, rather than stakeholders, controlled all aspects of the design and facilitation of the meeting. However, in this engagement stakeholders shared more power for making and implementing decisions on the issues. In this engagement, the company paired a collaborative decision style, which shared decision power with stakeholders, with control over the engagement design and facilitation. This evidences the importance

of distinguishing the power to make decisions about engagement *content* (dimension #2 in this framework) from control over the engagement *process*.

Literature

The literature on stakeholder engagement has surprisingly little to say about control over the engagement process, or the relationship between process control and decision power. The research that does address this topic is on dialogue, negotiation, and conflict transformation. Researchers studying these phenomena emphasize that the way an engagement is created can affect the process and the outcomes. As Straus (1999, p. 137) writes about consensus building, “Stakeholders need a way to jointly plan a consensus building process that is appropriate to their situation, so that they ‘own’ the process and feel comfortable participating in it.”

Pruitt and Thomas (2009, p. 79) point out the disadvantages of one party controlling the engagement design, “if the process is designed and implemented unilaterally there is a significant risk of dissatisfaction with it—for example, because there is no sense of ownership among key constituencies, or because the design itself is ill-conceived as a result of limited input.” A co-designed process, in contrast, offers the following benefits:

- a stronger sense of ownership of and responsibility for the process—a basis for satisfaction on the psychological dimension
- a design that is informed by multiple perspectives and concerns—a basis for satisfaction on the substantive dimension
- clarity among the actors about the process and its underlying logic—a basis for satisfaction on the process dimension.

Another literature, on public participation, also addresses the question of who has control over engagement. Research in this field rests on the fundamental assumption that decisions can be seen as legitimate only to the extent that individuals subject to them have the right, capacity, or opportunity to participate in deliberation (Cohen, 1989). Abelson (2003) argues that *representation*—the legitimacy and fairness of the participant selection process; and *procedural rules*—the degree of citizen control/input into agenda setting, establishing rules, and selecting experts and information are two factors that should guide the evaluation of public participation processes. Similarly, Rowe & Frewer (2000) propose a framework that includes representativeness and early involvement of stakeholders as evaluation criteria.

The degree to which companies and stakeholders share control over the engagement process arguably influences engagement outcomes and participant satisfaction. For this reason, control over the engagement process should be evaluated as part of company's engagement strategy, as distinct from decision power on engagement content (dimension #2).

4. Scope and scale of issues addressed in engagement

Scope and scale of issues refer to the content of what is covered during engagement. **Scope** describes how central or peripheral issues are in relation to a company's strategy and survival. **Scale** refers to the breadth of a company's responsibility around issues that are covered in engagements. Scale can range from narrow to broad—narrow if the engagement is focused on the company's performance and operations, and broadening to include social and environmental responsibility with regard to a company's value chain, its industry, and the wider economic and policy context in which it is situated.

In the six structured engagements that I studied at the two companies, and in other engagements that I heard about in interviews, engagement topics ranged widely in **scope** from detailed discussions about disclosure of company performance, for instance measuring and disclosing natural resource usage and pollution, all the way to very core issues related to the companies' core business models. What was striking was that both companies in this study were willing to engage in serious discussions with stakeholders about issues core to their strategy and business models.

For instance, before this research project began, Auto Co. had developed a far-reaching plan in partnership with stakeholders to reduce its auto fleet emissions, in line with what it believed was the company's responsibility to address global climate change. This required the company to institute widespread changes in its technology, engineering, and sales and marketing. This plan was a centerpiece of ongoing conversations with stakeholders during the research period around the company's carbon emissions.

At Power Co., during the research period and for some years prior to it, executives and managers were involved in ongoing conversations with stakeholders about a new revenue model. Stakeholders were advocating that the company adopt this model because of its potential to stimulate energy efficiency and reduce pollution. If implemented, this would require a wholesale revolution in the company's core strategy and revenue model. A stakeholder acknowledged the gravity of this change for the company, "It is truly transformative, and you do not make a decision like that off the cuff." Another stakeholder said, "It's a big and important issue and one that we think could be somewhat of a

bellwether. So we keep hammering them on that and you know maybe some day....”

For its part, Power Co. organized a dialogue in 2011 specifically on this topic, but to date, they have not moved forward with stakeholders’ recommendations. In one engagement I observed, company representatives addressed the issue in only a cursory manner when one stakeholder brought it up. When I asked the stakeholder what he thought of the company’s response he said, “It’s just a cloud of dust being thrown up.” He continued, “The conversation always starts in a really muddled place. It’s almost like they’re trying to throw sand up and create a cloud of confusion before we even jump into the issues at all. I don’t know their motives, really. Every time we try to ask them why, it’s something different.” However, even though this stakeholder is frustrated with the company’s response to what he is advocating, it is the case that the company continues to provide engagement forums where stakeholders have the opportunity to broach the topic with senior company leaders.

What is evident is that these issues—Auto Co.’s fleet fuel economy plan and Power Co.’s stakeholder engagements around its revenue model—strike at the heart of the companies’ business models. These issues are more central, or core, to the companies’ success than others like sustainability reporting and operational improvements like water and energy use, which were also topics of discussion in engagement.

Engagement issues can also vary in **scale**, from those that are limited to the company’s operational footprint to those that involve supply chains, influence on industry initiatives, and state and national public policy debates. Both companies were involved in dialogues on issues that varied widely on this dimension. Some pertained directly to the company’s performance and operations, while others focused on the company’s positions on proposed regulations and legislation, and their influence on supply chains and industry norms and standards. Power Co., for example, ran an engagement for its coal supply chain to improve industry practices, while Auto Co. engaged stakeholders in an assessment of water usage in its entire value chain. Both companies had ongoing dialogue and debate with stakeholders about their positions and influence in shaping federal environmental regulations.

I argue that both scope and scale are relevant dimensions of a company’s stakeholder engagement strategy because it is ultimately companies who exert primary control over the content of the issues they are willing to discuss with stakeholders. Stakeholders may raise issues but it is up to companies to decide how and whether they will respond.

Literature

The scope and scale dimensions of strategy are not widely discussed in the literature on stakeholder engagement; however there are a few sources that address it. Regarding engagement scope, a study of 174 corporate sustainability reports identified two different kinds of scopes for stakeholder engagement: setting or reviewing strategic objectives and setting the content of the sustainability report (Manetti, 2011). In a more developed framework, Spitzack and Hansen (2010) propose the following taxonomy for the scope of engagement:

- *Operational issues*: related to selected, sometimes local, issues (e.g. local community engagement) where stakeholders are usually engaged to mitigate (local) problems that are consequences of overarching strategic decisions.
- *Managerial issues*: a broader scope where stakeholders have influence on the development of policies and on some strategies (e.g. areas of the CR strategy).
- *Strategic issues*: an area of influence where stakeholders are engaged to shape the overarching corporate strategy. In this ultimate stage, stakeholders have influence on the development of product and services (portfolios).

The scale dimension of strategy was not discussed in the literature on stakeholder engagement that was reviewed here. It does, however, appear as a dimension in stage models of corporate social responsibility, in that companies typically begin by addressing their immediate operations, and then at more involved stages of CSR seek to exert influence on issues and problems that lie beyond their immediate control (Kolk & Mauser, 2001; Mirvis & Googins, 2006; SustainAbility, 2004). In other words, the scale of responsibility that companies assume for social and environmental issues expands as companies develop more sophisticated CSR strategies. As such, issue scale in the context of stakeholder engagement is as much a function of the company's approach to corporate social responsibility as it is the company's stakeholder engagement strategy.

5. Company posture towards engagement

I borrow the term "posture" from Clarkson (1995), who characterized corporate stakeholder performance on stakeholder issues as one of four *postures*: Reactive, Defensive, Accommodative, and Proactive. Clarkson never defines posture directly, but his coding scheme indicates that posture refers to

two related ideas: **willingness to accept responsibility** on issues of concern to stakeholders, and the degree of **proactiveness or leadership** on these issues (or lack thereof).

I adapted Clarkson's categories, which were originally intended to classify a company's policies and performance data, to categorize companies' levels of responsibility and proactiveness with regard to stakeholder engagement. Table 5 displays interview data that pertain to a company's stakeholder engagement posture.

Table 5: Engagement Posture

Posture	Supporting Data
<p>Reactive: Deny responsibility/ Fight all the way</p>	<ul style="list-style-type: none"> • <i>Historically, our industry was pretty much characterized as we'd say no to anything, make excuses, whatever, we can't do it. (Company)</i> • <i>In the first part of the decade [Auto Co.] did not want to work with the shareholder resolutions, even at all. (Company)</i> • <i>The utility that is doing the worst job on doing energy efficiency brings about 15 lawyers in black suits to their collaborative meetings just to try to intimidate everybody (Stakeholder)</i>
<p>Defensive: Admit responsibility but fight it/ Do only what is required</p>	<ul style="list-style-type: none"> • <i>We have come to the conclusion that [another company] is a force-type company. They need to be hit for them to act. Collaboration is not going to work with them. For them to talk to you, for them to take you seriously, you need to make trouble for them, and then they will reluctantly get involved and work with you. (Stakeholder)</i> • <i>There are companies that engage because they have to. They do it grudgingly, but minimize the influence of these outsiders in their corporation. (Stakeholder)</i> • <i>The folks from [another company] didn't really know what to expect, they didn't really want to have the conservation, I think they had to because of some resolution that had gotten a certain vote, so they were kind of uncomfortable, they didn't want to agree to anything. They just wanted to get through the meeting, and get out and get home. (Stakeholder)</i>
<p>Accommodative: Accept responsibility/ Be progressive</p>	<ul style="list-style-type: none"> • <i>They were cautiously welcoming...although it took five months to get a date, to get to a meeting. So in terms of that kind of a company, you have to give them a couple of years to try to get them comfortable with working with people outside the company. (Stakeholder)</i>
<p>Proactive: Anticipate responsibility/ Lead the industry</p>	<ul style="list-style-type: none"> • <i>The [Auto Co.] wanted to reach out to different stakeholders, different shareholders, and get the feeling or the pulse of what is going on in the world of water. That is a great sign. (Stakeholder)</i> • <i>The [Power Co.] went from what I call the traditional utility policy focus which is to make concessions at the last minute and not really be at the table, to engaging strongly to say "okay we're going to take an active hand trying to do what we want and we'll be pretty clear about our support when we get what we want. (Stakeholder)</i> • <i>Power Co. has really proactive leadership in identifying stakeholders and reaching out at the highest level of the company. (Stakeholder)</i>

6. Company character in engagement

I use the term “character” to refer to the behavior of company representatives in engagement. People referred most often to two components of character in evaluate differences in behavior: **Openness** and a combination of traits that include **Honesty, Integrity, and Authenticity**. Quotes supporting each of these are summarized here.

Openness

- *There aren't many companies like Power Co. that make time in their day for you to be able to go to them and give them that kind of honest advice, and they did a very good job of listening and interacting. (Stakeholder)*
- *It is important for stakeholders to see that we are receptive to what they're saying (Company)*
- *I did end up talking to the folks from that other car company, including in a private confidential meeting, but those meetings reinforced that that company's approach is to tell people what they're supposed to know. (negative dimension) (Stakeholder)*

Honesty/Integrity/Authenticity (stakeholder quotes)

- *The individuals that I have been dealing with have not been misleading,*
- *They have been relatively transparent and by relatively transparent I mean they share information with us that's consistent with their need to protect confidential information.*
- *I don't get the sense that they are consciously hiding information or making an effort to obscure what they see the real issues as being.*
- *There is a sense that they are doing this for the right reasons. They are struggling with it. They may not come out with the answer that you like but it is not going behind closed doors saying [about the environmental groups], "These guys are wacky."*
- *I believe that [Auto Co.] is being authentic in this area. They are being authentic in terms of figuring out the right kind of policy that they're genuinely committed to this issue of climate change and they genuinely are trying to figure out what the right policy is for their company.*
- *I personally think that there had been a lot of value in this engagement and it has changed my*

perspective about the company quite a bit. That relationship and my respect for them, my sense that they're being genuine, I think goes a long way.

Literature

The concept of “character” refers to the personal qualities of an individual, assessed through self-reports or through third party evaluations (Peterson & Seligman, 2004). Character is also related to the idea of “interactional” justice in the organizational justice literature, or the way that people treat one another (Bies & Moag, 1986). This involves whether people treat others with courtesy, dignity, honesty, and respect, or rudely and dismissively. The engagement literature puts little emphasis on the character dimension of company representatives’ behavior in engagement. The handful of studies that do address character propose the following dimensions: Cynical, neutral, trusting; and strategies that seek to mislead, manipulate, or cure stakeholders of ignorance and preconceived beliefs (Friedman & Miles, 2002) ; Communication genuineness (Starik, 1991); and Moral orientation: self versus other regarding (Jones et al., 2007).

I do not know whether the two dimensions of character identified in this study encompass all the relevant or important dimensions of corporate behavior in the engagement process. However, they are likely to impact communication quality and trust, and as such represent at least a few of what might be a larger set of character traits that are important. I describe here how the psychology literature defines these character traits. Measuring character at a company level could involve asking people to evaluate their interactions with company representatives or to rate the behavior of the company as a whole. The definitions herein provide a starting point for thinking about how to evaluate company-level character.

Openness. The concept of openness refers to how willing company people are to listen to and consider stakeholders input. This concept is related to the idea of open-mindedness—the willingness to search actively for evidence against one’s favored beliefs, plans, or goals and to weigh such evidence fairly when it is available (Peterson & Seligman, 2004).

Individuals who are open-minded would probably endorse statements such as the following:

- Abandoning a previous belief is a sign of strong character.
- People should always take into consideration evidence that goes against their beliefs.
- Beliefs should always be revised in response to new evidence.

Open-minded individuals would disagree with statements such as these:

- Changing your mind is a sign of weakness.
- Intuition is the best guide in making decisions.

- It is important to persevere in your beliefs even when evidence is brought to bear against them.
- One should disregard evidence that conflicts with one's established beliefs.

Honesty, Integrity, and Authenticity. Honesty, integrity, and authenticity are a related set of concepts that refer to people being true to themselves, accurately representing—privately and publicly—their internal states, intentions, and commitments (Peterson & Seligman, 2004). *Honesty* refers to factual truthfulness and interpersonal sincerity; *authenticity* refers to emotional genuineness and also psychological depth; and *integrity* refers to moral probity and self-unity, or a consistency of action with espoused values—practicing what one preaches. Existing research and measurement scales bifurcate the trait into two components: authenticity and honesty/integrity. The kind of authenticity that people described in this project relate more to the definition of honesty as “interpersonal sincerity,” and less to “emotional genuineness and psychological depth” that defines authenticity in the psychological literature.

7. Timing of stakeholder involvement

To my knowledge, existing literature on stakeholder engagement does not address the timing of stakeholder involvement. Yet it does vary, and it is relevant to stakeholders in their interactions with companies. This comment from one stakeholder in an interview following an engagement with Power Co. raised the importance of *when* a company decides to engage with stakeholders. “One of the things that was annoying about this meeting, was I found out that the sustainability report was literally going to their board of directors I think 24 or 48 hours after that meeting. So I had spent all this time reading the report doing line edits thinking that as in years past, they really were interested in getting our input into how they're thinking about and talking about environmental issues. And it was very clear that at least for this year they weren't really taking it.”

As another stakeholder said of the importance of timing, “a company has a responsibility in the engagement other than saying, here's what we do...and please give this a rubber stamp approval.” Ideally, from stakeholders' perspective, companies would involve them sooner rather than later in the decision process, when there is more opportunity to exert influence. Here is what one stakeholder said in praise of Power Co., “They're not just calling after they've decided to do something and asking for support, which is the normal process. They've gotten us involved very early on.”

8. Involvement of senior company leaders in engagement

Existing literature on engagement does not speak to the level of seniority of company representatives involved in engagement. Stakeholders value the involvement of senior company leaders, which to them signals the company's level of seriousness or commitment to stakeholder engagement. As two stakeholders said about their engagement with Power Co., "[the company has] demonstrated that they've got leadership that's interested in actually having a serious conversation with a group like us," and "I think that the level of [company] executive participation and its duration is extraordinary."

Stakeholders also value senior leadership participation because it gives them the opportunity to exert influence with people who have the power to lead change. One said, "What I found helpful and important is having access at the highest levels as you can with the company to bringing issues to them." Another said, "[This engagement] allows us access to the people who kind of actually make a decision. And those are the people you want to make your case to." A third appreciated the role of a particular engagement in gaining access to more senior decision-makers, "If it weren't for the engagement we would have not as extensive conversations with senior management...most of it would have been at the operating company level."

Company evaluations

Based on data from interviews and observation I developed a classification of the two case study companies in this research, shown in Table 6.

Table 6: Power Co. and Auto Co. ENGAGEMENT STRATEGY ELEMENTS

Strategy Elements	Range	Power Co.	Auto Co.
1. Extent of voluntarily created, interactive forms of engagement	None; never Some; occasional Multiple; frequent	Multiple, frequent	Multiple, frequent
2. Stakeholder involvement in decision-making and decision implementation	Low to high	Varied low to high, depending on issue & stakeholder type	Varied low to high, depending on issue & stakeholder type
3. Control over the engagement process	One-party controlled to joint control	All engagements except one were jointly controlled	All engagements were jointly controlled
4. Scope and scale of issues addressed in engagement	Scope: peripheral to core Scale: narrow to broad	Scope: Both peripheral and core issues Scale: Broad	Scope: Both peripheral and core issues Scale: Broad
5. Company posture towards engagement	Reactive Defensive Accommodative Proactive	Initially stakeholder data points to <i>Accommodative</i> to <i>Proactive</i> . Given recent events, some ENGO stakeholders would point to a <i>Reactive</i> or <i>Defensive</i> classification (see Section C).	Accommodative to Proactive
6. Company character in engagement (as judged by stakeholders)	Low to high on two dimensions: Openness and Honesty/integrity/authenticity	Openness: High Honesty/integrity/authenticity: High initially; some ENGOs changed that opinion to low	Openness: High Honesty/integrity/authenticity: High
7. Timing of stakeholder involvement	Late to early	Early involvement on many issues; occasional late involvement	Early involvement
8. Involvement of senior company leaders in engagement	Not involved to highly involved	Many highly involved	Some highly involved

PART II: EMERGING DIMENSIONS OF ENGAGEMENT OUTCOMES

As previously noted, measuring engagement outcomes is not a straightforward matter because engagements cover a large range of issues; have long timeframes for producing results; and are driven by widely differing goals and objectives of the engagement parties. One solution to measuring outcomes is to develop a set of fine-grained measures for each unique engagement episode, based on the objectives of each engagement participant. This approach would be appropriate for researchers and practitioners who wish to evaluate the specific organizational returns of engagement.

The goal of analysis in this section is somewhat different: to identify the general patterns or categories for outcome measurement. As in Part I, I combine empirical data with existing literature to define a framework for evaluating the outcomes of engagement.

Defining outcomes

Participants in this study described engagement outcomes in two different ways. The first was forward looking, involving the *purpose* or *motivation* for engaging, e.g., “One of the objectives of a process like this, as I understand it, is...” This speaks to a conscious goal or objective for engagement, a theory about why the participant and his or her organization is investing time and resources for what result. The second way that participants spoke about engagement outcomes was to describe the outcomes they had achieved, e.g., “We’ve got relationships that we wouldn’t have otherwise...”

I draw equally on both of these types of data in developing the outcome framework in this section. Both provide information about the outcomes that people value. Later in the section I describe findings around *how much* different people value different kinds outcomes.

Outcome categories

I identified six types of motivations and associated outcomes for both companies and stakeholders. These are summarized in Table 7, and described in the subsequent sections.

Table 7: Engagement outcome dimensions

	Category	Motivation	Associated Outcomes	Outcome type	Level of analysis
1	Learning & relationship building	Learn by scouting	Own learning & informed decision-making	Learning	Individual & organizational
2		Build relationships	Relational capital: Personal knowing, liking, respect, & trust	Relational outcomes	Relational
3		Inform & educate	Perspective taking; changes in others' awareness and knowledge about issues relevant to one's own situation	Learning & Relational outcomes	Individual & organizational
4	Influencing and producing tangible change	Influence the influencers	Changes in others' priorities, commitments, or actions	Learning & Tangible outcomes	Individual & organizational
5		Change the company	Tangible changes in company strategy, policy, or operations	Tangible outcomes	Organizational
6		Create shared value	Tangible progress on common goals and objectives	Tangible outcomes	Organizational

Engagement outcomes can be grouped into two primary categories: A) those that pertain to learning and relationship building, and B) those that involve more tangible outcomes such as influencing people and organizations that are important to one's success, and producing tangible change.

A) Learning and relationship building

1. Learn by scouting

Stakeholders and company people both engaged with one another for the purpose of learning new information about the external context. The term “scouting” (Ancona & Caldwell, 1992) refers to an externally oriented team-level activity involving scanning for ideas, gathering information, and mapping or constructing a picture of the external environment. The term is apt to describe the kind of activities that both companies and stakeholders described in this research.

For company people, scouting was linked to their ability to make better business decisions, while for stakeholders, scouting was linked both to making better organizational decisions and to understanding how to advocate more effectively for change. The benefit or outcome of such activities is (for companies) a greater awareness of issues that could affect their businesses, and (for stakeholders)

learning around industry-relevant issues in order to better inform their change agenda. Table 8 contains sample quotes from both companies and stakeholders about learning by scouting.

Table 8: Learning outcomes

Description	Sample Quotes
<p>Company: Take information in: listen/receive and/or actively scan for external information in order to understand what’s “out there” in the business environment— stakeholder concerns, potential problems with a company’s planned or proposed course of action; business opportunities and risks; and emerging trends. Also involves seeking to understanding how the company is perceived by outsiders.</p>	<ul style="list-style-type: none"> • Stakeholders inform us of key issues that affect people who are important to us. • Be prepared so if there’s going to be strong opposition, we know where it’s going to come from and why it’s going to happen. • Engagement gives us insights into points of view that we may not have considered. • Engagement helps us understand how we are perceived on the outside. • I think the purpose is to listen and understand other viewpoints so that you have a broader view and you can make more informed decisions. And that directly affects your business strategy and your profitability. • To make these things worth people’s while everybody has to listen and you have to speak your mind, and you can’t get upset, whatever one says. • It’s really easy to get defensive about ‘why do you do this’ or ‘what’s the problem with that.’ We really try to understand what [stakeholders] are driving at, what they’re saying. • The more we communicated, the more we understood each other’s position. We may not agree with it but we understand them.
<p>Stakeholder: Learn about companies’ current and future interests, activities, and strategies. For investors, direct engagement helps them understand industry issues, and invest more wisely in individual companies. For ENGOS, engagement helps them understand how to better advance their change agendas.</p>	<ul style="list-style-type: none"> • I think the primary benefit is just being able to push companies on these issues and then learn maybe why they’re not doing these things and understand the challenges a little bit better from their perspective. [Investor] • Part of it is learning for our own benefit, in terms of our own analysis and research and understanding. [Investor] • Engagement helps us as investors because we do know what the leading edge issues are for industries, and we try to identify what the better companies are. [Investor] • It’s nice to be able to engage because of what we potentially learn in the connections we are making. [ENGO] • One of the tools that I believe is important to use in pushing a social change agenda is to understand the point of the view of those who are resisting change, understand why they are resisting, and see if you can eliminate the unnecessary obstacles. [ENGO]

2. Build relationships

The concept of “relational capital,” a term used by negotiation researchers, is useful in thinking about what precisely is generated when a relationship is developed. Relational capital includes assets of mutual liking, knowledge, trust, and commitment to continuing the relationship (Gelfand, Major, Raver, Nishii, & O’Brien, 2006).

For purposes of this analysis, I deconstruct the concept of relational capital into two components. One involves a *relationship*, including personal knowing, mutual liking, respect, and trust.² The other involves *mutual knowledge*—the development of perspective-taking capacity and the accumulation of knowledge about others’ positions on issues as well as their interests—the underlying needs, desires, concerns, hopes, or fears that are driving the positions (Fisher, Ury, & Patton, 1981; SFCG, 2003). Mutual knowledge, which comes about through efforts by each side to inform and educate the other, is addressed in Section 3.

Table 9 contains sample quotations for the development of relational capital in engagement. The majority of the quotations represent the positive dimension of the variable. Those that represent the negative dimension are marked accordingly. These variables are different from but related to attributions of character, described in the previous section on Strategy. Satisfaction with the quality of interactions is a measure of a collective interaction *process*, rather than an evaluation of the character of company representatives.

² The third paper of this dissertation further deconstructs the concept of trust into two components—integrity-based trust and benevolence-based trust—and demonstrates the multiplex nature of trust within relationships. Two parties can simultaneously trust and mistrust one another within the context of personal relationship that involves respect and mutual liking.

Table 9: Relational outcomes

Description	Sample Quotes
<p>Company: Developing relationships is viewed as an end in itself, and also as a means to serve other purposes. Relationships involve personal knowing, mutual liking, respect, and trust.</p>	<ul style="list-style-type: none"> • <i>For engagement to be effective there has to be trust. You need to be able to feel that you can share some information openly and that information is not going to be used against you.</i> • <i>Concentrating on the hard problems is easier to do when you have a relationship with the key individuals at [stakeholder] institutions that is based on some degree of trust, and the more the better.</i> • <i>A lot of [engagement] is about building relationships with these folks and [understanding] they are real people, we're real people, we're not this cold corporate mechanism that is saying no to everything.</i> • <i>I had a relationship with all of them that was more than just working together, it was trust and friendship and I truly understood and liked them...I respect them and I like them and we have things in common.</i> • <i>I don't ever get a sense that they get that we really aren't evil. (negative dimension)</i> • <i>When I talk to people at [stakeholder organization] now, I'm absolutely confident that the individual I'm going to speak with is going to be professional and courteous.</i>
<p>Stakeholder: Same</p>	<ul style="list-style-type: none"> • <i>A part of effective advocacy as far as I am concerned is exploring whether it's possible to develop a relationship with the key players. [ENGO]</i> • <i>At the end of the day things happens because people understand each other individually and trust each other individually. That's how things get done. [ENGO]</i> • <i>For me, success is ultimately derived out of some sense of personal relationships, sense of trust, some sense that when I do have a problem I know who to call, there is someone to call. [ENGO]</i> • <i>The relationship and my respect for them, my sense that they're being genuine, I think goes a long way in terms of trying to wade through this current [issue]. [ENGO]</i> • <i>The company worked really hard not to be defensive, they worked really hard not to be snarky. I think the stakeholders returned that respect in turn, and there wasn't a whole lot of speechifying on our part or snarky comments. So it was a good adult conversation. [ENGO]</i> • <i>The parties all have to respect one another and what they need to get out of the partnership. [Investor]</i>

3. Inform and educate

Through engagement, stakeholders and companies sought to inform and educate the other side about their perspectives on the issues covered in engagement, both their positions and the deeper interests underlying those positions. The outcome of one side's efforts to inform the other is a relationally

embedded capacity for perspective taking, and the accumulation of knowledge about the other side’s concerns and interests. Table 10 contains sample quotes.

Table 10: Learning and perspective taking outcomes

Description	Sample Quotes
<p>Company: Communicating information about the company’s intentions and actions around strategy, public policy, business operations, and other activities. This is driven by many different motivations, including: ensuring that stakeholders know how company addressing issues of stakeholder concern; preventing misunderstandings; and proactively shaping the company’s image and reputation.</p>	<ul style="list-style-type: none"> • <i>I hope that they’ve learned from us some of the challenges and complexities of what we’re trying to accomplish in running an electric system and being in compliance and trying to anticipate future requirements.</i> • <i>I’d like them to have a sense of the business realities are going to require us to deliver that [environmental] target and still have a viable business.</i> • <i>We wanted to make them aware of the kinds of issues that we deal with on a regular basis that affect them and affect the cost of electricity and the things that we see on the horizon.</i> • <i>If I teach them how to speak “auto,” then I can help them understand that some of the change they aspire us to make are actually being made.</i> • <i>We’ve got relationships that we wouldn’t have otherwise that help us understand why they take the stand they’re taking and they can understand why we’re taking ours.</i> • <i>Are we talking to each other, or are we talking across each other? (negative dimension)</i>
<p>Stakeholder: Raising companies’ awareness around important business-relevant issues and stakeholder concerns.</p>	<ul style="list-style-type: none"> • <i>[We are] learning a great deal from the companies, and what they’re doing and their constraints and what the possibilities are, and then feeding to them a perspective that they would not otherwise have—I think that is what we really bring to the table. [Investor]</i> • <i>We go in and start to raise ‘Well, how will this affect this society of people?’ Oftentimes, that is not something that is thought of especially if it is an indirect impact. [Investor]</i> • <i>Some of the first shareholder questions on greenhouse gas emissions and climate change were back in the early 1990’s when there was still quite the debate going on about scientific proof back and forth. [Investor]</i> • <i>The company needs the direct feedback from their stakeholders to get the perspective that they aren’t necessarily going to get from themselves from an insular management. [Investor]</i> • <i>Is what we say really penetrating [the company’s] thinking? Last week at the annual shareholder meeting, Power Co. was still talking about the train wreck of the [environmental] legislation, no I don’t think [what we said] really did penetrate. (negative dimension)</i>

B) Influencing & tangible change

4. Influence the influencers

Both company people and stakeholders engaged for the purpose of influencing people who affect their organizations' ability to succeed. This is related to, but somewhat different from informing and educating, in that the explicit intention is not only to raise others' awareness but also to generate shifts in the priorities, commitments, or actions of influential individuals and organizations, which translate into other kinds of tangible changes.

Company people believed that some stakeholders they engaged with had significant power to influence how the company conducted its business, and sought to influence stakeholders on these issues. Stakeholders make use of legislative, regulatory, and legal channels to address their concerns. Whether it is through influencing environmental or market regulations, lawsuits on specific infrastructure projects, shareholder resolutions, or public activism campaigns, stakeholders find ways to translate their interests into tangible impacts on companies.

Stakeholders wanted to create change at companies not only because they want to see improvement at individual companies, but also because changing one company holds the potential to inspire others to follow. Stakeholders' theory of change is that if they can convince an influential company to adopt a leadership stance on an issue or in its industry, this will create ripple effects throughout the rest of the industry and with other key decision-makers. As one stakeholder described, "If you can get a leader in an industry to do something that is not being done, more likely than not that is going to have the trickle-down effect and have it pretty quickly."

Table 11: Influence outcomes

Description	Sample quotes
<p>Company: Influence stakeholders who have direct or indirect power to affect the company. Influencing is driven by many different motivations, including shaping decisions to be favorable to the company’s interests; generating new business opportunities and solutions to problems; and mitigating risks of negative stakeholder actions.</p>	<ul style="list-style-type: none"> • <i>We call it reseeding the clouds. [Stakeholders] may not be writing the legislation, they may not be doing these studies but they’re reseeding the thoughts that lead to legislation and the studies.</i> • <i>Stakeholders have the ear of the EPA and can potentially move them in different directions.</i> • <i>[Stakeholders] are going to be ambassadors for us as they move forward.</i>
<p>Stakeholder: Depending on a company’s readiness and industry influence, stakeholders advocate that the company exert leadership within its industry sector or on a specific issue, in order to shift the industry and other key decision-makers.</p>	<ul style="list-style-type: none"> • <i>If you can get a leader in an industry [like Auto Co.] to do something that is not being done, more likely than not that is going to have the trickle-down effect and have it pretty quickly. [Investor]</i> • <i>Given the fact that [people at Power Co.] see themselves as a leader in the utility sector, we want them to leverage this position of leadership...by them moving towards sustainability, they will take the entire industry along with them. [ENGO]</i> • <i>[Power Co.] is a very important player because they are fully implementing [our issue agenda]. They are doing a good job and we need to trumpet that in order to (1) get other utilities to follow their lead and (2) to give [state officials] evidence that the law is working. [ENGO]</i> • <i>Every engagement we do, it’s always about what is the leadership opportunity for this company, for this sector. Sometimes we hold back because we know that there’s just no appetite for it, and sometimes we go much harder, because we think that there is an opportunity to get a really substantive change of a company. [ENGO]</i>

5. Change the company

For both stakeholders and company people, creating tangible changes at the company level were important outcomes of engagement. For company people, making changes in the company’s strategy and operations was a tangible benefit from engagement, as one company person put it, “Having an outside group push you does allow you to achieve goals maybe beyond what you would have achieved on your own.”

Stakeholders advocated that companies implement various kinds of changes—around their operations, reporting, supply chain policies, business model, policy positions, and stakeholder engagement practices. Stakeholders presented their arguments, opinions, and recommendations, and the company was responsible for making changes. “We push them to set goals and monitor their performance,” as one put it. This kind of change involves decisions that are within the domain of company control, as compared to collaborative change efforts, described in Point 6.

Table 12: Company change outcomes

Description	Sample Quotes
<p>Company: Create change at the company level that both makes good business sense and responds to stakeholder questions, input, and advocacy. The company retains decision power to make changes, or not.</p>	<ul style="list-style-type: none"> • <i>There is no doubt that stakeholders pushing constructively has changed who we are.</i> • <i>Stakeholders challenge us continually to improve our performance and hold us accountable for our actions and impacts.</i> • <i>We learn and question ourselves about when can things be done and some Holy Grails about ‘we can’t do this, we can’t do that.’ You begin to question it. So [engagement] has some value.</i> • <i>A lot of people internally at the company will say, ‘We do not need anybody pushing us.’ But...leaving it to our own conviction, would we push the envelope as far as an external source would? As a spokesperson for the company, would I say, ‘We need an external group pushing us.’? Not really. But I think it is human nature that having an outside group push you does allow you to achieve goals maybe beyond what you would have achieved on your own.</i> • <i>We’re listening and we tell stakeholders that we’re listening. There’s a lot that we can’t do, but if we ever find ourselves in the position where we can, we will. If it makes sense, we will.</i>
<p>Stakeholders: Create incremental as well as fundamental changes at all levels of corporate function, including: strategy; ethics and values; operations; sustainability performance; public policy; and disclosure/reporting. For ENGOs, change helps them advance their core social and environmental agendas. For investors, corporate change helps them manage portfolio risk.</p>	<ul style="list-style-type: none"> • <i>I’m prodding them to move ahead, prodding them to support public policies that will help them move ahead...and I’m trying to get [Power Co.] to think about transforming the revenue side of their business model. [Investor]</i> • <i>The company is one that we hold and they have manifested some generic problems that we see we can help them fix. [Investor]</i> • <i>We’re looking at long-term environmental issues and how they’re going to affect the company and how can they be ahead of regulations, how can they be looking at products they have to address these issues. [Investor]</i> • <i>If you want them to start thinking in new ways other than, “Oh, we need more capacity. Let’s build a new coal plant,” you need to start planting that seed, and bring it up all the time and keep watering it until they can see that it is going to turn into something that they like. [Investor]</i> • <i>We want them to shift their whole business model—focus less on building generation and selling electricity to helping their customers use less energy, and providing more services to the customers. [ENGO]</i> • <i>I am not a believer in dialogue for dialogue’s sake. I think that we can get stuck in that. What’s important is our ability to actually change the way the company operates and I think having the company understand that that’s our goal is important. [ENGO]</i>

6. Create shared value

Creating shared value involves engagement outcomes that benefit both parties. By definition, these are jointly defined and jointly created, and require all parties to participate in their implementation.

Collaborating on common ground relates to the idea of integrative negotiation (Putnam, 1990), or enlarging the pie, (De Dreu, Koole, & Steinel, 2000; De Dreu, Weingart, & Kwon, 2000) in order to create shared value.

Table 13: Shared value outcomes

Description	Sample quotes
<p>Company: Discovering areas of potential common ground and mutually beneficial value, and partnering to make progress on common ground and shared goals.</p>	<ul style="list-style-type: none"> • <i>I started to have discussions around common ground about the same time that we are changing our strategy. So I had some credibility in terms of “hey, maybe there is a common ground that we can go after.”</i> • <i>Engagement opens up opportunity for collaboration and innovation.</i> • <i>We have common goals [with stakeholders]; we want to be seen as a company that recognizes the goals and is working towards those goals.</i> • <i>Stakeholders work with us to find common ground and collaborate on common objectives.</i> • <i>One of the objectives of a process like this as I understand it is, to see if you can find common ground in certain areas and work together to find solutions.</i>
<p>Stakeholder: Same</p>	<ul style="list-style-type: none"> • <i>You’ll get back [responses from companies that range from]: We’ve received your letter, yes that issue is very important to us, we very much welcome an opportunity to sit down and talk to you, and then you have the meeting and they’re really, really willing to work with you find the common ground...to nothing [no response]. [Investor]</i> • <i>They [Power Co.] have the power not only to block legislation, they certainly have power to get legislation shaped differently than we might want it to be shaped, unless we can come to some form of an agreement with them about the shape of legislation. [ENGO]</i> • <i>[We] want to reach the same goal, which is profitable companies who really are looking out for the best interest of others.</i>

Literature on outcomes

As described in the literature review section, the engagement literature focuses primarily on generating the fourth and fifth kinds of outcomes identified in this paper: influencing others and changing the company. Creating shared value is held out as an ideal of engagement, but has not been the subject of much empirical research. Other kinds of outcomes such as learning and relational outcomes have been relatively ignored by the engagement literature.

Because the engagement literature is still at an early stage in developing outcome measures, I consulted several related areas of research in order to compare the outcomes that emerged from this study to what has been proposed elsewhere. I reviewed the following literatures that address phenomena that contain features that are similar to stakeholder engagement: team effectiveness; organizational justice; organizational learning; dialogue; negotiation; and conflict resolution. The outcome measures from these literatures can be organized into four different types of outcomes, which are shown in Table 14 as they relate to each of the outcome variables identified in this study. A full summary of outcome variables proposed by other literatures is contained in Appendix C.

Table 14: Outcome variables from empirical results and literature

Literature	Empirical results	
Outcomes	Motivations	Outcomes
Learning at the individual & organizational levels	1. Learn by scouting 3. Inform & educate	Own learning and informed decision-making Perspective taking; changes in others' awareness and knowledge about issues relevant to one's own situation
Relational outcomes	2. Build relationships	Relational capital: personal knowing, liking, respect, and trust
Tangible outcomes at the individual and organizational levels	4. Influence the influencers 5. Change the company 6. Create shared value	Changes in others' priorities, commitments, or actions Tangible changes in company strategy, policy, or operations Tangible progress on common goals and objectives
Process-related quality or fairness outcomes	---	

1) Learning at the individual and organizational levels

Several different literatures, on dialogue, empathy, and organizational and group learning, identify learning as one possible outcome of collective processes. These literatures could be instructive in operationalizing measures of learning at both the individual and organizational levels.

Dialogue. Research on dialogue has also produced possible outcome measures involving affective and cognitive individual-level learning and change. Dialogue is a form of group conversation in which participants are encouraged to listen, respect one another's points of view, suspend their own assumptions, believe in the authenticity of all participants, speak from experience, and be open to possibilities (Cissna & Anderson, 2002; Dessel, Rogge, & Garlington, 2006; Isaacs, 1999). Dialogue can be used for a variety of purposes, for instance information sharing/relationship building; agenda setting; brainstorming and problem solving; and consensus building (Susskind, Fuller, Ferenz, & Fairman, 2003). Some of the individual-level dialogue outcomes include stereotype and prejudice reduction and increased complexity of thinking and perspective taking (Dessel & Rogge, 2009).

Empathy and perspective taking. Research on empathy in social relationships—which is related to the first three outcomes in Table 13—is quite well developed, involving the complex cognitive, affective, and neurobiological correlates associated with taking the perspective of others in the context of social relationship. Research on empathy, its psychological benefits, and its effects on other social outcomes can be found in a diversity of fields, primarily in counseling psychology, psychotherapy, developmental psychology, and social psychology, and also in communications, dialogue, negotiation, and cognitive neuroscience (Davis, 1994). In the organizational domain, researchers have focused on perspective taking, or the cognitive dimension of empathy, and its impact on various aspects of organizational performance (Boland & Tenkasi, 1995; Parker & Axtell, 2001; Williams & Xia, 2008).

Empathy has been shown to generate helping behaviors (Batson, Duncan, Ackerman, Buckley, & Birch, 1981; Underwood & Moore, 1982), generate greater tolerance for outgroups (Sheehan, Lennon, & McDevitt, 1989), inhibit aggressiveness (Miller & Eisenberg, 1988) correspond with good communication (Feffer & Gourevitch, 1960) and produce attributions about another person's behavior that are more like one's own, in that they are focused on situational factors (e.g., she was under stress at work) rather than the other person's disposition (e.g., she is an angry person) (Regan & Totten, 1975).

Organizational and group learning. The literature on organizational and group learning can also help conceptualize how to define and measure collective learning. This literature makes two distinctions that are relevant for this study. One involves the basic process/outcome dichotomy in Simon's (1969)

original conception of organizational learning. Is learning a process that involves “growing insights,” which affect an organization’s or individual’s interpretation of events, and influence the development of shared understanding, conceptual schemes or mental models among members of the organization (Daft & Weick, 1984; Hedberg, 1981; Klimoski & Mohammed, 1994)? Or does learning show up in the “structural elements and outcomes” of an organization—changes in responses or actions that are based on those interpretations (Argyris & Schön, 1999; Daft & Weick, 1984)?

Fiol and Lyles (1985) call the first kind of learning *cognition* development and the second *behavior* development. Along similar lines, Argyris & Schön (1999) distinguish the process of productive organizational learning, which is defined as changes in an organization’s theories-in-use, from tangible organizational outcomes. This distinction is important in measuring engagement outcomes. Engagement participants, especially stakeholders who want to make tangible progress on environmental and social issues, value cognition development differently from behavior development, as described in the subsequent section: *Engagement outcomes: Key qualitative findings*.

The second salient topic in the organizational learning literature addresses the locus of learning, or the level of aggregation at which learning occurs. The literature is characterized by two major streams of research: one that is concerned with learning at the organizational level and the other with learning in groups and teams.

At the organizational level, it is generally recognized that learning is more than the sum of individual learning (Dodgson, 1993). For example, Argyris & Schön (1999) identify three loci of organizational learning: interpersonal inquiry, interactions among organizational subunits, and the patterns of action and learning characteristics of whole organizations. They argue that these levels are interrelated; the higher-level phenomena of organizational learning cannot be accounted for without referring to individual and interpersonal levels of inquiry.

Work at the team or group level typically focuses on internal group processes, and provides models for how information and knowledge are generated, stored, retrieved, shared, and combined (Argote, Gruenfeld, Naquin, Charles, & M.E. Turner, 1990). Some of these models include: information sharing, transactive memory, group learning, cognitive consensus, team mental models (Mohammed & Dumville, 2001). Learning can also occur at the individual level as a measure for team effectiveness. Hackman’s three criteria for assessing work teams are perhaps the most widely cited measures for evaluating team effectiveness in the field of social psychology (Hackman, 1983). Along with relational and tangible product outcomes, Hackman proposes that an outcome of team effectiveness should be the team’s

contribution to members' *learning* and personal well-being. This criterion is widely cited and used in groups research (Edmondson, 1999, 2003)

2) Relational outcomes

Good working relationships between firms and stakeholders are taken as axiomatic in stakeholder theory because interactions are repeated and long-range, based on trust, shared values, norms, and inter-personal affiliation and respect (Andriof & Waddock, 2002; Lawrence, 2002; Rondinelli & London, 2003). I assume for purposes of this research that relationships refer to those that exist between individuals, rather than organizational relationships. Research in the areas of teams, negotiation, and organizational justice offer some insight into measuring relational outcomes.

In the social psychology literature on teams, one of three main criteria for assessing the effectiveness of work teams is whether the social processes the team uses in carrying out the work enhance members' capability to work together interdependently in the future. Teams are effective to the degree that they are more capable as performing units when a piece of work is finished than they were when it was begun (Wageman, Hackman, & Lehman, 2005)

The fields of negotiation and conflict transformation have highlighted relational outcomes as a particularly critical, and central to achieving success (Curle, 1971; Fisher et al., 1981; Lederach, 1997, 2003; Saunders, 2001). Fisher et al. (1991) establish three outcome criteria for negotiation success, one of which is that outcomes should "improve or at least does not damage the relationship between the parties." Relationships are at the heart of the conflict transformation school of thought, in which peace is defined as a continuously evolving and developing quality of relationship (Lederach & Maiese, 2003). The transformation of relationships, and therefore the establishment of peace "represents intentional intervention to minimize poorly functioning communication and maximize mutual understanding" (*Ibid.*)

Mitchell (2002) criticizes this work for its vagueness about the central concept of relationship, and difficulty in ascertaining what aspects of relationship should be measured and how widespread or sustainable the results should be in order to say that change has occurred. One framework that aims to achieve greater specificity is that of Saunders (2005), which advocates using relationship as the primary unit of analysis in conflict, and proposes five elements of relationship: Identity; Needs and Interests; Power; Perceptions, misperceptions, & stereotypes; and Processes and patterns of interaction, or ways of relating.

Since the 1980s, the dominant research perspective on negotiation has been driven by behavioral decision research (Bazerman, Curhan, & Moore, 2002), which has emphasized economic and tangible

outcomes (Mestdagh & Buelens, 2003; Thompson, 1990). In recent years, researchers have focused on other kinds of social psychological negotiation outcomes such as the development of relational capital, which refers to qualities of interpersonal relationship, including mutual liking, trust, and a commitment to the relationship (Curhan, Elfenbein, & Xu, 2006; Gelfand et al., 2006).

Organizational justice research has identified a kind of justice called *interactional* or *interpersonal* justice, or the way that people treat one another (Bies & Moag, 1986), whether with courtesy, dignity, and respect, or rudely and dismissively. Interactional justice arises when people appropriately share information and avoid rude or cruel remarks (Cropanzano, Bowen, & Gilliland, 2007). This idea has been picked up by negotiation research, in which new measures have been proposed to measure people’s feelings about their relationships in negotiation (Curhan et al., 2006).

3) Tangible outcomes

Literature on the outcomes of collective processes identify tangible outcomes as one of two different types: those that maximize self-gain without (necessarily) providing benefits for other parties, and those that maximize joint gain and generate shared value for all parties. These correspond to what the negotiation field would describe as distributive and integrative negotiation outcomes.

Walton and McKersie (1965) originated the concepts of distributive versus integrative bargaining processes, which have emerged as dominant, distinct, and usually competing paradigms in the negotiation field (Lewicki, Weiss, & Lewin, 2006). Distributive bargaining is grounded in a quasi-economic perspective on negotiating behavior, in which bargainers seek to maximize gains and minimize losses in competitive win-lose settings. This model is individualistic and oriented towards self-gain. Integrative bargaining, in contrast, involves enlarging the pie to achieve joint gains. It aims to reconcile the interests of both parties, reach joint benefits, or attain ‘win-win’ goals through open information exchange and joint decision making (Putnam, 1990). Figure 2 summarizes these two models.

Figure 2: Distributive and integrative negotiation goals

Distributive	Integrative
Maximize self gain Win while the other side loses Individualistic: self	Maximize joint gain Achieve common goals Holistic: self and other

Adapted from Putnam (1990)

Although stakeholder theory places great emphasis on shared value creation as the goal of the firm-stakeholder engagement, the concept is not well developed in the literature. As already described, engagement literature that is written for a corporate audience assumes that companies should measure outcomes in terms of corporate objectives (which ideally would include stakeholder interests). Likewise, literature written from a stakeholder point of view assumes that outcomes should be measured in terms of the changes that stakeholders seek to achieve at companies to advance their interests. Neither of these approaches addresses the kind of change in which firms and stakeholders co-create mutually beneficial outcomes. A number of frameworks identify collaborative modes of engagement in which stakeholders and firms share decision power. However, the nature of the *value* that is created from these engagements is only beginning to receive attention (Andriof & Waddock, 2002; Bowen et al., 2008; Sloan, 2009).

Research on negotiation and multi-stakeholder dialogue offer criteria for evaluating outcomes that meet the individual interests of the parties and generate shared value. According to Fisher et al. (1981), an effective negotiation is one that: a) produces a “wise” agreement—one that meets the legitimate interests of each side to the extent possible, resolves conflicting interests fairly, is durable, and takes community interests into account. Susskind and Cruikshank (1987) propose a similar criterion for evaluating multi-stakeholder dialogue outcomes: “wise” outcomes withstand the scrutiny of technically qualified, independent analysts as well as stakeholders, i.e., the best or at least a reasonable set of proposals given the knowledge available at the time.

4) Process related outcomes

The literature that was reviewed for this paper identified another kind of outcome that did not emerge from the empirical research findings—that of the quality of interactions or the process of engagement. Dialogue studies point to evaluations of dialogue quality, including two kinds of process-related outcomes: 1) Fairness: specifically the fairness of the process by which the outcome was achieved. Aspects of the dialogue process that can be evaluated for fairness include access, initiative, debate, and decision (Dessel & Rogge, 2009). Dialogue processes can also be evaluated for efficiency, or how well the dialogue achieves its purpose and that the benefits should outweigh the costs (Susskind et al., 2003).

Research in the fields of negotiation and organizational justice indicates that people place a value on the fairness or justness of the decision-making process (Leventhal, Karuza, & Fry, 1980; Lind & Tyler, 1988). This is known as *procedural* justice. In the workplace, procedural justice refers to the desire

employees have for their employer to ask for their opinions and to seriously consider their opinions. They want decision-making processes to be consistent, based on accurate information, and free from personal biases of the decision maker. They also want decision processes that allow for the correction of bad decisions and that conform to prevailing standards of ethics or morality (Bosse, Phillips, & Harrison, 2008). In recent work, Luo (2007, 2008) has developed survey instruments to measure distributive, procedural, and interactional justice in strategic business alliances, which could be used in future engagement research.

Engagement outcomes: Preliminary qualitative findings

This study produced three preliminary findings with regard to the six engagement outcomes that were identified herein. One, in evaluating whether engagements are successful, stakeholders weigh the importance of influencing and generating tangible outcomes more heavily than company people do. Two, company people were unhappy with a perceived imbalance in engagement, in that they believed engagement placed demands on them that were not concomitantly placed on stakeholders. Three, there is a temporal dimension of engagement in that collaborative goals become both possible and more desirable at later stages in the engagement life cycle.

1) Stakeholders weigh the importance of influencing and generating tangible outcomes more heavily than company people do

The data from both companies indicated that stakeholders uniformly believed that engagement should produce tangible change. In contrast, company people were more inclined to think of learning and relationship building as sufficient to define engagement success (see Figure 3).

For instance, one person from Power Co. said, "I think there was no expectation we would all come together in these issues but we would come away with a better understanding." Another Power Co. representative said, "Many times we'll get to a point where we agree to disagree, but we at least talk through it, real people talking to one another, as opposed to throwing legal jargon across email traffic." A third commented along the same lines, "I think that engagement's initial value was around conversation and disclosure and that maybe it's most important contribution." For these speakers, the first three outcomes in Figure 3: Learning by scouting, building relational capital, and informing and educating, were sufficient for them to be satisfied with engagement.

Consistent with the interview findings, people at the two companies in this study were less explicit than stakeholders about measuring tangible outcomes from engagement. With the exception two of the

focused engagements at Auto Co., the companies did not articulate tangible change as an explicit goal of engagement. Influencing stakeholders was articulated as a possible engagement outcome, e.g.,

“Stakeholders have the ear of the EPA and can move them in different directions.”


However, the companies did not track outcomes or progress against this goal, or state this as a request of stakeholders during the engagement process itself. They were often vague or unsure in interviews as to what, precisely, they wanted to gain from engagement. One person from Auto Co. reflected that the interview for this research project had actually caused him to think more about what outcomes he was getting (or not getting) from stakeholder engagement, “You’re opening my eyes to...making decisions on where I spend my time. If I had a better template for that in terms of who are the biggest most impactful stakeholders...I guess I don’t have a very clear reason for why I ignore some, and spend lots of time with others.”

In contrast, stakeholders were uniformly adamant that, sooner or later, engagement must generate tangible progress on issues of concern to them in order to be satisfying and worthwhile. As one ENGO stakeholder said, “I am not a believer in dialogue for dialogue’s sake. I think that we can get stuck in that. What’s important is our ability to actually change the way the company operates and I think having the company understand that that’s our goal is important.”

Another ENGO stakeholder explained that they deliberately calculated the investment to potential outcome ratio each year order to determine whether it was worthwhile continuing to engage with companies, “We went through an annual process of evaluating whether our engagement (which involved a considerable amount of time and staff resources) led to measurable change, and only proposed further engagement where we felt that we continued to have traction. We were looking to work with the company on both accountability related issues (e.g., governance, stakeholder engagement, and disclosure) as well as measurable performance changes.”

Figure 3 summarizes the point of this section that stakeholders consider influencing others and producing tangible change as necessary engagement outcomes, while company participants think of two-way learning and relationship building as sufficient.

Figure 3: Necessary versus sufficient engagement outcomes

Category	Motivations	Outcomes	Outcome satisfaction
Learning & relationship building	Learn by scouting, Build relationships Inform & educate	<ul style="list-style-type: none"> • Learning (self) • Informed decision-making (self) • Relational capital • Perspective taking (other) 	<p>Sufficient for company participants; but not for stakeholders</p>  <p>Necessary in the long term for stakeholder engagement satisfaction</p>
Influencing & producing tangible change	Influence influencers Change the company Create shared value	<ul style="list-style-type: none"> • Changes in others • Tangible change at the company • Progress on common goals and objectives 	

Discussion

The differences between company and stakeholder views on engagement outcomes are consistent with the core purpose of each kind of organization. Companies can achieve strategic planning and operational benefits solely from learning and relationship building, even if the engagement never produces any additional outcomes. For instance, an ongoing relationship with stakeholders that gives companies insight into potential business risks and opportunities could well be worth an ongoing investment of time and resources.

ENGO and investor stakeholders, on the other hand, are motivated to improve environmental and social performance of companies as part of their core organizational purpose. ENGOs do so as part of the imperative to protect and enhance environmental and social health; investors in order to manage investment risk and also to advance their broader social and environmental agenda. Both kinds of stakeholders view engagement as a way to advance their change agendas.

They appear to think of learning and relationship building not as ends in themselves but as inputs to creating more tangible kinds of changes. For instance, one ENGO stakeholder said, “One of the tools that I believe is important to use in pushing a social change agenda is to *understand the point of the view* of those who are resisting change, understand why they are resisting, and see if you can eliminate the unnecessary obstacles.” This quote reveals the importance of learning and perspective taking as a means to promote social change.

There is some recognition among company people of the stakeholder change imperative. A Power Co. person said, “If they get the impression that we are just listening to them just for the heck of trying to be their friends, that just does not work and eventually they stop coming.”

2) Company people believe engagements are tilted towards company learning and change

During the research period, people at both companies were growing unhappy with engagement in one regard: they believed that engagement was a one-way rather than the two-way street vis-à-vis learning and change. They believed that many of the stakeholders they engaged with were heavily advocacy-oriented, and not as open to changing as they believed they themselves were. (The exception was a set of relationships between Auto Co. and social responsible faith-based investors, which involved evenly balanced mutual learning, education, and influence.) The questions that were being raised by company people are summarized in Table 14.

Table 14: Company questions about stakeholder outcomes

	Motivation	Description	Company questions
3	Inform & educate	Perspective taking; changes in others’ awareness and knowledge about issues relevant to one’s own situation	Do stakeholders also learn?
4	Influence the influencers	Changes in influential others’ priorities, commitments, or actions	Are stakeholders really being influenced?
5	Change the company	Tangible changes in the company’s strategy, policy, or operations	Do stakeholders also change?

For instance, someone at Power Co. said, “This whole approach, it cannot sustain itself on a one-way relationship. It just can’t...nothing can be done one-way. It’s like a marriage or a relationship; it’s always two-way. If you operate that way with your partner—that you’re always right and they’re always wrong—that’s not going to work.” As another Power Co. person said, “We’ve become educated about some things that we haven’t thought about, some perspectives we haven’t considered. But if the environmental stakeholders are not affected by the dialogue we’re providing, then how long do you continue the dialogue? Because it is very time consuming.”

In the first meeting I had at Auto Co. with the stakeholder engagement group, people raised several questions that they hoped the research could answer. One was whether stakeholders were also learning and changing their beliefs through engagement, as they believed they were being asked to do. Company

people wondered “Are they just still entrenched in their perspective and they’re ‘A-ha, another victory at [Auto Co.]?’ Or do they ever have moments where they say, ‘Okay, maybe that is reasonable?’”

Discussion

It is difficult to determine whether the perception by company people that stakeholders were heavily advocacy oriented is due to inherent stakeholder characteristics or to the design of the engagement process and the expectations surrounding it. There is evidence from the third paper of this dissertation that some stakeholders held strong and possibly rigid beliefs. But it is also likely that the explicitly advocacy-based design of engagements at the two companies in the study also played a role in creating and reinforcing all participants’ expectations that it was companies that were expected to change.

Both companies initially worked with a nonprofit advocacy group called Envirocare to design and facilitate their stakeholder engagement processes. These engagements occupied a central place in both companies’ portfolios of engagement activities. Envirocare suggested stakeholders for the engagement, largely drove the engagement agenda, and held pre-meeting conversations with stakeholder participants to generate alignment around a common agenda and set of “asks.” As part of this process, stakeholders tracked whether and how the companies responded to their input, and then reviewed progress at each engagement meeting.

Company people were accustomed to being on the receiving end of this stakeholder advocacy. Their role in the Envirocare engagements was to listen to stakeholder concerns and input and then make changes in response. In the Envirocare format, the companies were not used to thinking of stakeholder engagement as a way to advance their own strategic agendas beyond making internal company change.

3) The life cycle of engagement: from advocacy to partnering

People from both Power Co. and the stakeholder groups noted that there is a life cycle to the engagement process, in that early engagements are characterized by an advocacy mode of engagement, while opportunities to partner and collaborate come later, once trust and relationships have been established. At both companies in this study, people were agitating to shift engagement from a historically advocacy-based style where stakeholders pressed for change and the companies responded, to one where both the company and stakeholders would work together to address complex issues. This is related to the previous point about whether engagement was a one-way or a two-way street, depicted in Figure 4.

Figure 4: The life cycle of engagement

	Motivation	Engagement mode	Time
1	Learn by scouting	Both	
2	Build relationships		
3	Inform & educate	Advocacy 	
4	Influence the influencers		
5	Change the company		
6	Create shared value		

Both companies had been engaged for a period of several years with the advocacy-based Envirocare engagements, which were characterized by one-way flows of information, as stakeholders asked questions of the company and advocated their points of view, and the company answered the questions and advocated their points of view back to stakeholders. After several years of engagement, company people and stakeholders were starting to experience the limits of the advocacy model, and had begun to inquire as to whether more partnering might be possible.

For instance, a stakeholder of Power Co. described the cycle of engagement as follows, “The first year it was really good format...and I think by year 5—and this should have happened in year 3—we should have had specific working groups...geared towards working on a particular issue. The first two years it was about shifting company culture and getting leadership commitment. That was a kind of a stakeholder engagement that says we’re listening, we’re engaging. By year 4, year 5 stakeholders want to show progress, accountability and change.” Along similar lines, one of Power Co.’s main engagement organizers said:

We’re in our fifth year of this and it cannot feel like the same old meeting. I pushed back on [stakeholders] about what had to happen during this meeting, and it was not about them coming in and telling us what they wanted. It was about them coming in and sharing their concerns, and coming to the table with solutions and ideas and resources. ‘Don’t just come and tell me what you want, come and be ready to roll up your sleeves because that’s what we really need.’ These are very difficult and complex issues, and we don’t have all the answers. It’s easy to come say, ‘You need a water risk management strategy.’ What does that look like? Especially inside of a utility, what does that look like? So, bring some ideas. So some of them did, some of them didn’t. Some are willing to work with you, and some just want to keep telling you what they want.

People at Auto Co. had a similar point of view—that stakeholders sometimes offer ideas and opinions, but then leave the company to work out the solutions, “I think sometimes the outside groups feel that that is ours to worry about – ‘Well, you guys are smart people. Go figure out.’...I recognize their role in terms of pushing the envelope; I understand that. But I’d like them to have a sense of the business realities that are going to require us to deliver that target and still have a viable business.”

At both companies, the early advocacy modes of engagement did give rise in later years to engagements that were more tightly focused on specific issues, in which small groups of stakeholders and company representatives worked together to generate shared understanding of issues, share ideas, and develop collaborative solutions. Advocacy-based engagement was not supplanted, but was rather accompanied by partnering modes of engagement. This happened only once relationships and trust had been established. However, the comments from company people and stakeholders indicate that perhaps the advocacy model that was in use at the time had become stale, and needed to evolve or be paired with more partnering kinds of engagement.

Discussion

In Table 15 I propose a stylized model of the advocacy and partnering modes of engagement, which track closely to the distributive and integrative models of negotiation that were already discussed. It is not the case that one is better than the other, and they are not mutually exclusive. Both can coexist in parallel in the same engagement, and both are useful for achieving different kinds of objectives. They are, however, grounded in different premises.

TABLE 15: ADVOCACY AND PARTNERING MODES OF ENGAGEMENT

Advocacy	Partnering
<ul style="list-style-type: none"> • Desired goal: Maximize self-gain (distributive negotiation frame) • Desired changes: Changes in one party’s thinking or action that satisfy one’s own interests • Participant behavior: Each party advocates that the other make changes • Assumption of power: The interests of one party can be satisfied by unilateral changes or moves made by the other party • Corresponding engagement format: Large group meetings; formal presentations and Q&A forums; meetings that cover many topics at once 	<ul style="list-style-type: none"> • Desired goal: Maximize joint gain (integrative negotiation frame) • Desired changes: Progress on common ground goals that satisfy all interests • Participant behavior: Each party inquires and advocates for mutually beneficial action • Assumption of power: The interests of both parties can be satisfied by both parties’ participating in create change that satisfies all interests • Corresponding engagement format: Smaller, issue-focused working groups and one-one interactions; Informal communications; meetings in which one or a few issues are addressed

The advocacy mode of engagement involves one party attempting to bring about change in another party’s thinking or behavior. Others’ goals and interests are viewed as separate from one’s own, but may be aligned to a greater or lesser degree. Other parties have the power to either advance or block one’s own interests by convincing the other to exert its power and responsibility to implement changes. In advocacy-based engagement, people advocate on behalf of a predetermined single answer or think that “solving their problem is [only] their problem” (Fisher et al., 1981).

The partnering model of engagement, in contrast, assumes that companies and stakeholders share, and can discover, common goals and challenges and work together to create solutions. In this paradigm, the power to create mutually satisfactory changes is not unilateral; rather, power must be shared among all parties to create changes that satisfy the interests of all involved. This kind of change requires a different format than advocacy-based engagement—smaller working groups and direct communication that is focused on one or a small number of key issues.

The advocacy mode alone may be most appropriate for specific kinds of issues that have proven solutions, for companies that are just beginning to learn about sustainability, and for engagements that are just beginning. For instance, at the outset of engagement at Power Co., five years before the research began, both stakeholders and company representatives acknowledged that Power Co. was at an early stage of sophistication on sustainability. People at the company had much to learn, and were just beginning to shift the culture to a greater openness and transparency with stakeholders. Trust

needed to be established between the company and stakeholders.

Today, Power Co. takes its social and environmental responsibility seriously, and is exerting leadership on a number of social and environmental issues. What has also changed over time is the nature of the environmental challenges facing the company. These are growing more complex as technologies change, regulatory oversight increases, and regulated markets undergo restructuring. Advocacy alone may reach a limit of effectiveness when a company evolves past addressing the easy issues, when the problems on the table grow increasingly complex, and when engagement has been occurring for a long period of time. Partnering may be possible if the parties learn to focus on their deeper interests, which can open the possibility for expanding a fixed pie of options, and generating solutions that create shared value (Fisher et al., 1981; McKearnan & Fairman, 1999).

However, I wish to emphasize that partnering is not better than advocacy. Stakeholders need to maintain their independence and objectivity in order to push companies to evolve. Stakeholder pressure can be effective in stimulating change, provided it is done constructively and respectfully, e.g. as a company person said, "There is no doubt that their pushing constructively has changed who we are." Similarly, companies need to be able to retain their capacity for dispassionate, objective evaluations of stakeholders and development of the strategies for managing them.

Research on stakeholder engagement tends to organize types of engagements (and therefore outcomes) in a hierarchy, in which collaboration and partnership is at the top, representing the most advanced or more desirable form of engagement. However, these kinds of consensus efforts are not always appropriate, or feasible, depending on a number of factors. In the Consensus Building Handbook, Carpenter (1999) lists several factors that should be considered before initiating a consensus building effort:

1. **The Nature of the Issues:** Not all issues are appropriate for consensus. Consensus decisions are appropriate when the solution to a problem is not immediately clear to all affected parties or when people disagree on the best solution or decision.
2. **Parties' Willingness to Negotiate:** Sometimes parties in a negotiation believe that another strategy, such as a lawsuit or an administrative appeal, will better meet their interests. There are a variety of steps that a facilitator can take to encourage parties to negotiate; however if stakeholders do not agree to come to the table, the process should not go forward.
3. **Procedural Feasibility:** Is the timing amenable to developing a consensus-based solution? Do the different parties' responsibilities and obligations support or hinder a consensus process?

4. **Other Factors:** A variety of other factors should also be considered when evaluating the appropriateness of a consensus building process. These include social and cultural factors, the legal context in which consensus building might take place; political dynamics surrounding the issues at the center of negotiation; economic factors—individual participants’ needs and obligations as well as the state of the larger economy; historic factors related to the issues and the relationships between the parties.

It should not be assumed that a co-created or mutual gains outcome could, or should, emerge in all cases. Yet, sustained advocacy over a period of years without sufficient opportunities to partner may leave engagement participants unsatisfied. Perhaps companies and stakeholders could learn to skillfully blend advocacy and partnering in order to facilitate engagement effectiveness, similar to what has been proposed by Putnam (1990) in conceptualizing distributive and integrative models of negotiation that can operate simultaneously. As she conceives it, the interdependence model involves integrative and distributive processes intertwined in a symbiotic bonding, which creates an inescapable tension between the competitive moves for individual gain and cooperative behaviors necessary for coordinating mutual agreements. The balance between advocacy and partnering modes of engagement, and the potential risks and gains of each is the subject of the third paper of this dissertation.

CONCLUSIONS, STUDY LIMITATIONS AND IMPLICATIONS

Part I Conclusions

The stakeholder engagement literature lacks a comprehensive, fine-grained approach to evaluating corporate stakeholder engagement strategies and the outcomes of engagement. Based on empirical research and a synthesis of existing literature, this research clarifies and extends research about the elements that comprise a corporate stakeholder engagement strategy. The strategy framework developed in this study organizes a variety of competing, overlapping frameworks; adds definitional and conceptual clarity to existing ideas of corporate engagement strategies, and contributes two new dimensions to those that have been proposed in existing literature. Table 16 summarizes the new and existing constructs, as well as empirical criteria, where they exist.

TABLE 16: SUMMARY OF ENGAGEMENT STRATEGY RESEARCH CONTRIBUTIONS

New Empirical Constructs	Constructs in Existing Stakeholder Engagement Literature	Summary of Empirical Findings
1. Extent of voluntarily created, interactive forms of engagement	<ul style="list-style-type: none"> • Forms of engagement • Communication style & structure 	Interactive forms of engagement are markers for an advanced or mature engagement strategy. These kinds of engagement forums create opportunities for joint problem-solving that both companies and stakeholders value.
2. Stakeholder involvement in decision-making and decision implementation	<ul style="list-style-type: none"> • Stakeholder roles & relationship types • Communication style & structure 	I identified nine roles that stakeholders play in their interactions with companies, which map to different levels of decision power that companies grant to stakeholders: <ul style="list-style-type: none"> • Recipient of information • Collector of information • Consultative • Involved/Partnering • External influencer • Leader/Organizer • Advocate/activist • Enforcer • Watchdog
3. Control over the engagement process	<ul style="list-style-type: none"> • None 	Identified the following aspects of engagement, around which control can vary: <ul style="list-style-type: none"> • Which stakeholders have access to engage with the company • What issues are addressed • Design of engagement (its length, location, and agenda) • Who facilitates or runs the engagement • Who monitors decisions
4. Scope and scale of issues addressed in engagement	<ul style="list-style-type: none"> • Scope of engagement 	Company engagement strategies can vary along two dimensions: 1) Scope , which describes how central issues are to a company’s strategy and survival, and 2) Scale , which refers to the breadth of a company’s responsibility around issues that are covered in engagements.
5. Company posture towards engagement	<ul style="list-style-type: none"> • Proactiveness/ leadership 	Defined Clarkson (1995) concept of corporate performance posture as: willingness to accept responsibility on issues of concern to stakeholders, and the degree of proactiveness or leadership on these issues (or lack thereof). Clarkson’s four categories: Reactive, Defensive, Accommodative, and Proactive can also apply to stakeholder engagement.
6. Company character in engagement	<ul style="list-style-type: none"> • Corporate attitude/character 	Identified three components of character that people used to evaluate differences in companies’ behavior in engagement: Openness and Honesty/integrity/authenticity .

TABLE 16 (cont.): SUMMARY OF ENGAGEMENT STRATEGY RESEARCH CONTRIBUTIONS

New Empirical Constructs	Constructs in Existing Stakeholder Engagement Literature	Summary of Empirical Findings
7. Timing of stakeholder involvement	<ul style="list-style-type: none"> • None 	This is a salient strategy factor that can vary across companies.
8. Involvement of senior company leaders in engagement	<ul style="list-style-type: none"> • None 	Stakeholders value the involvement of senior company leaders because this signals the company’s level of seriousness or commitment to stakeholder engagement, and gives them the opportunity to exert influence with people who have the power to lead change.

Part II Conclusions

This study contributes to research on the outcomes of stakeholder engagement outcomes by proposing a framework for outcome evaluation, and expanding the definition of engagement outcomes to include learning and relational outcomes—in addition to the tangible outcomes that the literature currently emphasizes.

The research also generated three qualitative findings related to engagement outcomes. One, stakeholders and company participants value outcomes differently, with stakeholders believing uniformly that influencing and tangible change outcomes were necessary for engagement to be considered a success in the long run. In contrast, company participants were more apt to be satisfied with learning and relationship building outcomes. Two, the company people in this study believed that engagements were tilted too heavily towards company learning. They believed that many of the stakeholders they engaged with were heavily advocacy-oriented, and not as open to learning, and revising their beliefs as company people wished.

Three, there is a life cycle to engagement, in that earlier modes of engagement at the two case study companies were characterized by advocacy modes of interaction, in which stakeholders gave advice and advocated for change, while the company listened, learned, and took action. As engagement matured, trust was developed, and the company adopted an advanced stakeholder engagement strategy, more partnering modes began to develop. In this mode of engagement, both the company and

stakeholders shared concerns, ideas, and resources, and worked together to create and implement solutions.

In both cases, company people wanted more partnering kinds of opportunities. Although partnering forms of engagement may not be appropriate or feasible in all instances, it appears that if engagement does *not* evolve over time, and remains heavily dependent on the advocacy model, company participants can become dissatisfied with the engagement process.

Study limitations

The research findings on engagement strategy elements and engagement outcomes are based on interviews with a relatively small group of stakeholders, and on research at two case companies. As such, the findings should be viewed as tentative, and subject to further empirical validation. In addition, the research is based on a specific kind of engagement relationship—one that is long-term—and oriented towards environmental and social issues. Some or all of the findings may not generalize to other engagements depending on the intended length of engagement; types of stakeholders involved; and engagement topics that are covered.

The two companies involved in the study represented best practice cases that demonstrated what an advanced engagement strategy might involve. However, they may not represent the most advanced practice that exists. The characterization of the strategy elements on a spectrum from beginning to advanced (see Table 6) is based on interviews with stakeholders and existing literature, but not directly on data from companies using this strategy. The spectrum that characterizes each engagement strategy dimension is therefore tentative, and needs further empirical confirmation.

The objective of the research was to generate better understanding of how to evaluate engagement strategies and outcomes. This required aggregation of the opinions of individual interviewees, at the expense of preserving distinction among them. For instance, as was discussed in the report, ENGO and investor stakeholders differ on their motivations and definitions of success outcomes. What might look like an acceptable change to an investor might be less unsatisfactory to an ENGO stakeholder. However, the six high-level outcome categories proposed in this paper were similar across stakeholder types even if the specifics of desired outcomes might differ a great deal.

Moreover, the creation of general outcome categories was done at the expense of specificity. The outcome category of “tangible changes” and what constitutes “progress on common goals and objectives” is relatively broad, and could encompass an enormous range of desired changes. Some types

of change, such as revisions in the language of a sustainability report in response to stakeholder feedback, can be easily measured. Others, such as shifts in the thinking of stakeholder participants, are much more difficult. It is also sometimes difficult or impossible to evaluate the cause and effect of engagement. Did a company change its policies because of engagement, or in response to other factors? Such questions—both how to measure change and the impact of engagement on change—invite further exploration.

Implications for future research and practice

The taxonomies of corporate strategy elements and outcomes open up a number of future research opportunities. Chief among these is understanding which elements of the strategy framework vary together to constitute higher-order strategies. This is the topic of the second paper of the dissertation. Once a coherent strategy framework has been established, aggregated strategy ratings could then be used to test for relationships between other variables of interest, for instance corporate reputation, sustainability ratings, financial performance, or incidences of stakeholder actions like lawsuits, shareholder resolutions, and activist campaigns. Do companies with advanced stakeholder engagement strategies perform better on any of these dimensions than companies with beginner strategies?

On the engagement outcomes findings, more research is needed to understand the relationship of the six outcomes to one another. For instance, do learning, educating, and relationship building mediate engagement objectives and tangible change outcomes? The implicit assumption of this research is that corporate engagement strategies and engagement outcomes have some relationship. What is that relationship? What actions arise from different engagement strategies, and how do these impact engagement outcomes?

The research focused deliberately on corporate engagement strategies, while largely ignoring stakeholder strategies. There is much to be done to understand how stakeholder and company strategies interact with and influence one another. How do companies' strategies interact with stakeholder strategies?

The study raises other questions as well, including whether and how corporate engagement strategies vary by stakeholder type, company industry; company size, or other variables; and *why* a company adopts a certain strategy—for instance as a function of corporate leadership, industry type, stakeholder pressure, and previous experiences with stakeholders.

The preliminary qualitative findings around engagement outcomes make claims that need further empirical validation in order to be generalizable across different contexts. Is it typically the case that

stakeholders always value tangible change more than company people do? What kinds of outcomes are sufficient, and what are necessary, in order for participants to deem engagement a success? Does the “one-way” versus “two-way” street dynamic appear in other engagement contexts, as it did at the two cases in this research? At what point and under what conditions could engagement shift to include more partnering, and should it? What is the optimal balance between advocacy and partnering modes of engagement?

The history of engagement is marked by ENGO and SRI stakeholders wresting concessions from powerful companies on social and environmental issues. Direct engagement between companies and stakeholders is a relatively recent phenomenon; given this, it is not surprising that the literature on engagement is at a theoretical stage of development, with concept proliferation around corporate engagement strategies and a narrow focus on concrete outcomes to the exclusion of other variables. This study expands and deepens the conceptualization of both corporate engagement strategies and outcomes, and raises a number of questions about both domains that invite future exploration.

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Appendix A: Background on Stakeholder Theory

The last three decades of research on the stakeholder view of the firm has stimulated inquiry around two core questions that involve both ethics and business: “to whom are managers responsible?” and “what is the purpose of the corporation?” (Freeman 2010).

To Whom are Managers Responsible? Investors have traditionally have been considered the primary stakeholders of a company. Stakeholder theory emphasizes that a firm’s success depends on many other kinds of stakeholders, shown in Figure 5.

Figure 5: Primary and secondary stakeholders of a firm



(Adapted from Freeman (2010))

Within stakeholder theory, a primary research objective has been to determine which groups in this wider constellation of stakeholders can claim a legitimate stake in a company (McGee, 1998). Some scholars maintain that stakeholders identify themselves by virtue of *their* interests in the company, regardless of whether the company has any interest in *them* (Donaldson & Preston, 1995). Stakeholders' interests have intrinsic value, and merit consideration even if they have no ability to help the company create economic value, or power to destroy it. Clarkson (1995) suggests a related definition: stakeholders are risk-bearers, who have some form of capital, either financial or human, at risk, and can stand to gain or lose depending on a firm's behavior.

On the other end of the spectrum are those who subscribe to the economic value creation purpose of the firm, and define stakeholders by virtue of their economic involvement. That is, stakeholders are stakeholders if they voluntarily or involuntarily contribute to a company's wealth creating capacity (Post, Preston, & Sachs, 2002).

Most researchers of stakeholder theory come down somewhere in between these two views, using the argument that some stakeholders are more important than others as a matter of company survival. Because time and attention are limited resources, managers cannot pay attention to all stakeholder interests simultaneously. They must make distinctions among stakeholders in terms of how they influence the company's survival and profitability.

Along these lines, Kochan and Rubenstein (2000) offer three criteria identifying significant stakeholders in a firm. They 1) Supply resources that are critical to the success of the enterprise; 2) Place something of value "at risk"; that is, their own welfare is directly "affected by the fate of the enterprise," and 3) Have "sufficient power" to affect the performance of the enterprise, either favorably or unfavorably.

Freeman et al. (2007) distinguish between *primary* and *secondary* stakeholders. Primary stakeholders are vital to the continued growth and survival of any business. They include customers, employees, suppliers, communities, and financiers. Secondary stakeholders are those who can affect the business relationships with primary stakeholders. They include: activists, governments, competitors, media, environmentalists, corporate critics, and special interest groups.

A number of studies within stakeholder theory address how firms do, or should, relate to stakeholders as a function of stakeholders' attributes. Attributes can include, for instance: how much power stakeholders have to influence a company (Carroll, 1991; Schwartz & Carroll, 2003); the degree to which they pose a competitive threat or offer cooperative potential ((Polonsky & Scott, 2005)); their relationship compatibility with a firm and whether they are internally or externally embedded in a firm's

social structure (Friedman & Miles, 2006); the density of their interconnectedness with other stakeholders and the firm's position, or centrality, within that stakeholder network (Rowley, 1997); the power, legitimacy, and urgency of their demands (R. K. Mitchell, Agle, & Wood, 1997); and their influence, impact, and alignment with a company (Harrison & John, 1996).

In this study I do not weigh in directly on the questions of who is a legitimate stakeholder, or which stakeholder attributes are most likely to capture the attention of managers. Rather, I develop a method to empirically measure a company's strategy towards engaging its stakeholders. This method could, however, be used in future research to measure how companies' engagement strategies vary according to which stakeholders they perceive as having a legitimate stake in their company.

What is the legitimate purpose of a firm? A variety of scholars are weighing in with questions and proposals about what the legitimate purpose of the firm should be. For instance, "Should companies behave solely to enhance shareholder wealth, or should they act to benefit other groups (both within and outside the firm) as well? What are the boundaries or limits of any individual company's responsibilities?" (Locke, 2003). "Should the firm have a single-valued objective, and 2) Should that objective be value maximization or something else (for example maintaining or improving the environment)" (Jensen, 2005). Stakeholder theory addresses the purpose of the firm through lenses that are 1) descriptive, 2) normative, 3) instrumental (connecting stakeholder management and corporate performance goals), and 4) managerial (recommending attitudes, structures, and practices that constitute stakeholder management) (Donaldson & Preston, 1995). The insight that a company's success is depends on productive relationships with stakeholders is hardly new. Business has always unfolded in the context of relationships with customers, investors, employees, and regulators. What is new are fundamental changes in the global business landscape and within stakeholder organizations that make stakeholder engagement more relevant, and necessary, for companies to maintain their social license to operate.

Appendix B: Interview protocol

A. About you

- I'd like to start off asking about you—what is your role in this organization? Tell me a little about what you do here.

B. History of the engagement

- Can you tell me when this engagement began? Tell me the story of how it came to be.

C. Strategy and outcome questions

- What is the goal of the engagement from your perspective?
- What is the product or outcome you want to produce? Are you succeeding in producing this? What is blocking or preventing this from happening?
- In general, how do you know an engagement is successful? What makes it worth the investment of your time and resources?
- Are there things that you are hoping to prevent or avoid through this engagement?
- In general how satisfied are you with how this engagement is going?
- What could be improved?
- What are your hopes and future vision for the engagement?
- What is X [stakeholder/company] like to engage with? What works? What doesn't?
- How is the engagement structured (*prompt with examples...who plays what roles, how are power and resources allocated, what kinds of agreements and commitments are made during and after the engagement, what allegiances do individual participants have to their home organizations, etc.*)
- How is the engagement itself designed (*prompt with examples...frequency and length of meetings, facilitated/not facilitated, location, rhythm & structure of meeting, etc*)?

D. Motivation and intention for engagement

- For companies: What are you hoping to accomplish by engaging with X stakeholder? Is there anything you are hoping to avoid by engaging with X stakeholder?
- For stakeholders: Why are you hoping to accomplish by engaging with this company? Are there particular companies you have targeted? If so, why, and why this company? What are your reasons for doing so? What is this company like compared to others you have engaged?

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Appendix C: Sample of relevant literature for measuring stakeholder engagement outcomes

Literature	Individual level	Inter-personal & group level	Process/procedure	Instrumental outcomes
Social psychology: Team effectiveness (Hackman, 2002)	<ul style="list-style-type: none"> • Team members' learning & personal well-being 	<ul style="list-style-type: none"> • Enhance members' capability to work together interdependently in the future 		<ul style="list-style-type: none"> • The productive output of the team
Negotiation (Curhan et al., 2006)	<ul style="list-style-type: none"> • Feelings about the self 	<ul style="list-style-type: none"> • Feelings about the relationship 	<ul style="list-style-type: none"> • Feelings about the process 	<ul style="list-style-type: none"> • Instrumental outcomes
Organizational justice (Luo, 2007)		<ul style="list-style-type: none"> • Interactional justice 	<ul style="list-style-type: none"> • Procedural justice 	<ul style="list-style-type: none"> • Distributive justice
Dialogue (Dessel & Rogge, 2009)	<p>Affective</p> <ul style="list-style-type: none"> • E.g., decrease in discomfort with racial/ethnically diverse peers <p>Cognitive</p> <ul style="list-style-type: none"> • Increased complexity of thinking • Learning • Increased perspective taking • Improvements in knowledge, skills, and abilities like leadership <p>Combination of affective & cognitive</p> <ul style="list-style-type: none"> • Increased motivation and commitment to social action • Increased self-efficacy and confidence to take action • Stereotype & prejudice reduction 	<p>Cognitive</p> <ul style="list-style-type: none"> • Perspective taking <p>Combination of affective & cognitive</p> <ul style="list-style-type: none"> • Stereotype & prejudice reduction • Improved relationships <p>Behavioral</p> <ul style="list-style-type: none"> • Development of personal relationships • Patterns of communication and information exchange • Group-level constructs • Cohesion • Common ground • Consensus 	<ul style="list-style-type: none"> • Overall evaluation of dialogue quality 	<ul style="list-style-type: none"> • Specific actions resulting from the dialogue • Specific policy changes and social impact measures • Evaluation of importance & helpfulness of dialogue in addressing issues • Overall satisfaction & willingness to participate in another dialogue

Literature	Individual level	Inter-personal & group level	Process/procedure	Instrumental outcomes
<p>Conflict resolution (Fisher et al., 1981; Susskind et al., 2003)</p>		<ul style="list-style-type: none"> • Improves or at least does not damage the relationship between the parties • Contributes to relationship transformation 	<ul style="list-style-type: none"> • Efficiency • Fairness: specifically the fairness of the process by which the outcome was achieved. Aspects of the dialogue process that can be evaluated for fairness include access, initiative, debate, and decision • 	<p>A “wise” agreement:</p> <ul style="list-style-type: none"> • meets the legitimate interests of each side to the extent possible • resolves conflicting interests fairly • is durable • takes community interests into account • withstands the scrutiny of technically qualified, independent analysts as well as stakeholders • is the best or at least a reasonable set of proposals given the knowledge available at the time

Essay #2

Company-Stakeholder Sustainability Engagements: Developing and Testing a Framework for Measuring Corporate Engagement Strategies

INTRODUCTION

Interactions between companies and stakeholders around social and environmental issues have increased dramatically in the last two decades. Two kinds of stakeholders, nongovernmental organizations (NGOs) and activist investors, dominate this space. This study asks NGO and investor stakeholders to assess their experiences with specific companies, and uses their responses to derive measures of corporate stakeholder engagement strategies, building on the framework developed in the first paper of this dissertation.

Existing Research on Companies' Stakeholder Engagement Strategies

As described in detail in the first paper of this dissertation, a number of researchers working under the umbrella of stakeholder theory have proposed conceptual frameworks for evaluating companies' stakeholder engagement strategies. One stream of research has focused on how engagement strategies vary depending on stakeholder type and attributes (Carroll, 1991; Freeman et al., 2007; Friedman & Miles, 2002; Harrison & John, 1996; R. K. Mitchell et al., 1997; Rowley, 1997). Another, larger, body of work has sought to identify differences across companies, assuming that stakeholder type is held constant (see Table 2 in the first dissertation paper). This body of research presumes that variation in engagement strategies is a function of unique within-company attributes.

However, researchers who study stakeholder engagement have little shared agreement about the phenomenon that they are studying. They have multiplied rather than built on each other's efforts, producing a proliferation of constructs and variables, many of which overlap but do not reference one another. At this point, research in the field is largely at a theoretical stage of development; of 23 frameworks on stakeholder engagement strategy reviewed for the first paper in this dissertation, the majority—fifteen—are theoretical, and have not been subjected to empirical tests. Most do not offer fine-grained, concrete measures that could be used to evaluate engagement strategies in practice. This literature is summarized in the first paper of this dissertation.

This study builds on the findings of the first paper of this dissertation, in which I combined empirical data with a review and synthesis of existing research to define the elements of a corporate stakeholder engagement strategy. In this paper, I develop this framework into a survey instrument, and test it with

data collected from NGO and investor stakeholders who have experience doing sustainability oriented engagements with companies in the automotive, electric power, and oil and gas industries. The goals of the analysis are to identify the elements that together comprise higher-order strategy, and to measure engagement strategies that are used by specific companies in their interactions with investor and NGO stakeholders.

METHODS

Research Design

Because of their firsthand experiences with engagement, NGO and investor stakeholders possess knowledge about how companies interact with stakeholders that is unavailable through other sources, for instance through information published by companies or third parties, or reputational surveys administered to the general public. This study draws on stakeholders' knowledge and opinions about companies as a source of data about how companies engage.

This study assumes that investor and NGO stakeholders belong to different sample populations. While NGOs and investors engage with companies on CSR issues, they differ in important respects. Investors have a vested interest in a firm's financial performance, and their activism is motivated by the expressed purpose of reducing a company's risk and improving financial returns. They share with companies the language and worldview of business, and their financial interests are aligned with those of the companies with which they engage.

NGOs, on the other hand, do not share a financial interest with companies, and they may or may not understand or sympathize with business concerns. They represent social and environmental concerns that are not infrequently at odds with the business profit imperative. Their motivations and tactics around engagement range widely, from collaboration to confrontational tactics such as suing companies, testifying against them at regulatory and legislative hearings, and launching public advocacy and media campaigns against them. Investor stakeholders also use confrontational tactics such as shareholder resolutions, but they do so with the espoused motivation of increasing the efficiency of financial markets and boosting companies' competitiveness, profitability, and their social license to operate.

In this study therefore I treat investor and NGO respondent data as separate survey samples, and I conduct all data analyses accordingly.

Survey Sample

There is no single public source that identifies NGO and investor representatives who engage with companies. I therefore built a unique database of organizations and individuals with a reputation for corporate activism and engagement on sustainability issues. I used many sources in developing the database, including: information from interviewees and informants during the qualitative research phases; recommendations from people whom I contacted while building the database; public records of previous engagement such as shareholder resolutions; information from stakeholder organizations' websites; lists of organizations who are active on particular social and environmental issues; NGO and investor membership organizations; and personal contacts.

Once an initial list was developed, I did extensive telephone outreach to make a personal contact at each organization if I did not already have one. If, when making a personal contact, I was told that the organization did not do engagement on sustainability issues, I removed them from the database. When completed, the database consisted of contacts at 618 organizations: 305 NGOs and 313 investor organizations.

In addition to contacting people in the database, I solicited potential survey respondents in two other ways. First, three investor membership organizations sent notice of the survey in their newsletter or via direct email communication to their members. I do not have data on the exact numbers that received notice of the survey, but the numbers are in the thousands. Second, I employed snowball sampling with the original database contacts, encouraging people to send the survey to other colleagues who might be interested. Because it was impossible to know neither the membership organization numbers nor the snowball sample numbers, neither is included in the response rate calculations.

The survey was administered in electronic form using Qualtrics survey software. Because the survey was anonymous and confidential, and because I used snowball sampling, it was necessary to use the same survey link for all respondents; i.e. respondents did not receive a unique survey link that could track responses or other personal information.

I emailed a letter of introduction containing the link to the survey to the individuals in the database. This letter is contained in Appendix A. I sent one reminder approximately two weeks after the initial notice of the survey, and a second reminder one week later. I did not offer any compensation for completing the survey, but I did offer to send pre-publication survey results to respondents who signed up on an electronic notification listserv. The listserv was kept separate from the survey to signal that respondents' answers would remain anonymous and not be linked to their contact information.

Company Sample

The survey asked people to provide feedback about their experiences with a list of 20 pre-selected companies in the automotive, electric power, and oil and gas industries. These industries were chosen because preliminary research indicated NGO and investor stakeholders frequently targeted them for engagement. Choosing industries that have a high incidence of engagement would presumably increase the probability that stakeholders receiving the survey would have experience with one or more of the companies on the list.

Companies were selected based on several comparable attributes. All companies on the list are among the largest in their industries, measured in terms of revenues. Not all are U.S. based, but all are public companies with stock that is traded on a U.S. stock exchange. This is important because publicly traded companies have specific requirements for financial performance and risk disclosure that investor stakeholders use to press for additional disclosure and performance improvements around sustainability issues. Stakeholders have little leverage of this sort with private companies. Furthermore, investor stakeholders use shareholder resolutions in the U.S. context as a tool to pressure companies. Resolutions are used differently in other countries, or not at all.

For electric power companies, an additional criterion was that they all have an electricity generation mix that is primarily comprised of fossil fuel, of which a significant percentage is coal. This was included as a criterion because coal generation raises specific environmental issues not found with other kinds of electricity generation, including air pollution, greenhouse gas emissions, coal ash storage, and coal strip mining. Stakeholders often specialize around particular environmental issues and many have targeted fossil fuel electricity generation, and specifically coal-fired generation, for their corporate engagement efforts. Restricting companies by using this criterion would, presumably, help to reduce a source of unintended variance by attracting survey respondents who have similar knowledge of the issues in the electric power industry. Based on these criteria, the list of companies used in the survey is shown in Table 1.

Table 1: Companies listed in the survey

Automotive	Electric Power	Oil & Gas
Ford	AEP	BP
GM	Dominion	Chevron
Honda	DTE	ConocoPhillips
Toyota	Duke-Progress	Exxon Mobil
	Edison	Occidental
	FirstEnergy	Shell
	NextEra	Total S.A.
	Southern	
	Xcel	

Company Evaluations

As they began the survey, respondents who indicated that they had experience with the companies on this list were asked to complete the survey for as many companies as they wished. If they had experience interacting with more than three companies, they were asked to evaluate *at least* three companies with which they were most familiar, in order to maximize the reliability of the answers they provided and avoid overly burdening any respondent.

Survey Responses

A total of 175 people clicked on the survey link, but many did not complete the survey beyond the first question, or did not complete the entire survey. This may have been due to the length of the survey—which had 10 parts and took most respondents 20 to 30 minutes to complete. A total of 59 respondents provided usable survey evaluations. Based on the original database of 618 contacts, this represents a response rate of 9.5%. Respondents completed 123 company evaluations in total. Fourteen of the respondents were from investor organizations. They provided 36 company evaluations, or an average of 2.6 companies per respondent. There were 45 NGO respondents, who provided 87 company evaluations, an average of 1.9 companies per respondent. Table 2 shows the numbers of company evaluations that were received from all respondents.

Table 2: Responses by company

Sector	Company	Investors	NGOs	Total
Automotive	Ford	4	4	8
	GM		3	3
	Honda		1	1
	Toyota		2	2
Electric Power	AEP	3	6	9
	Dominion		1	1
	DTE	1	3	4
	Duke-Progress		10	10
	Edison		1	1
	FirstEnergy		3	3
	NextEra		3	3
	Southern	4	9	13
	Xcel		5	5
Oil & Gas	BP	5	8	13
	Chevron	3	9	12
	ConocoPhillips	4	4	8
	Exxon Mobil	7	11	18
	Occidental	2	1	3
	Shell		3	3
	Total S.A.	3		3
	TOTALS		36	87

Item generation

I developed new items to measure elements of a company's engagement strategy, which were described in the first paper of this dissertation, plus one additional construct on the quality of engagement process.

Elements of Corporate Engagement Strategy

1. Extent/Depth of Engagement

- a) Involvement of senior company leaders in engagement (1 item)
 - b) Extent of voluntarily created, interactive forms of engagement (1 item)
 - c) Scope and scale of issues addressed in engagement (1 item)
 - d) Stakeholder involvement in decision-making and implementation (1 item)
 - e) Timing of stakeholder involvement (1 item)
2. Company posture towards engagement (6 items)
 3. Control over the engagement process (5 items)
 4. Company character: Openness (5 items)
 5. Company character: Honesty/Integrity (5 items)
 6. Quality of engagement process (5 items)

All survey questions were phrased in terms of interactions that stakeholders had had with companies during the past year. This was done to create a common time frame during which stakeholders were asked to evaluate a particular company.

Survey Items

1a) Involvement of senior company leaders in engagement

This dimension of strategy relates to the seniority of company representatives who engage with stakeholders. Stakeholders value access to senior-level representatives as indicative of a company’s commitment to stakeholder engagement, and because they believe that this enables them to influence people who have power to make decisions on behalf of the company.

Survey respondents were asked with whom they interacted at a particular company during the last year. Respondents were asked to select all options that applied. An “Other” box was also provided for write-in answers. Less than 15 “Other” answers were provided, all but four of which were recoded into one of the existing categories. The four that were not recoded were put into a new category called “Government affairs.”

Scoring

The options for board members and senior level executives were given a score of “3,” which represents the most senior decision-making authority in a company. Staff in Investor Relations (IR) and Public Relations (PR) were given a score of “1” because they operate in the role of information providers and generally have less decision-making authority than the other corporate roles. Other roles were scored a “2,” under the assumption that these individuals have some decision-making power, less than senior level leaders but more than IR and PR staff.

An overall score for this component was calculated by summing the scores for each of the selected options. Scores ranged from 1-16, and were transformed proportionally into a 5-point scale.

Survey question options	Score
Board member, CEO or President	3
Other C-suite executives	3
Managers or operations staff	2
Corporate Social Responsibility staff	2
Environmental Health and Safety staff	2
Legal	2
Government affairs	2
Investor Relations	1
Public Relations	1

1b) Extent of voluntarily created, interactive forms of engagement

Companies that exhibit advanced stakeholder engagement strategies create multiple ways to engage stakeholders in addition to routine channels like shareholder calls and engagements mandated by law. Advanced engagement strategies involve two-way communication, not just one-way information flows between companies and stakeholders. Survey respondents were asked to check all options that applied to the forms of their interactions with companies.

Scoring

Engagement forms that went beyond the typical and required forms of engagement and which by definition would offer opportunities for two-way interactions were given a score of 1. Others were given a score of 0. An “Other” box was also provided for write-in answers. Less than 10 “Other” answers were provided, which were recoded into one of the existing categories.

An overall score for this component was calculated by summing the scores for each of the variables to arrive at an overall score. Scores ranged from 0-5, and were transformed proportionally into a 5-point scale. Survey question options	Score
Stakeholder advisory meeting(s) or forum(s) not mandated by law	1
Part of a multi-company/multi-stakeholder partnership, working group, forum, consortium, or alliance	1
Dialogue around shareholder resolution	1
Single company project or initiative	1
Informal channels (one-on-one or small group)	1
Stakeholder engagement mandated by law (e.g. a National Environmental Policy Act stakeholder review)	0
Shareholder resolution filing	0
Public activism/grassroots campaign and/or demonstration	0
Lawsuit or legal proceeding	0
Regulatory hearing or proceeding	0
Company annual meeting	0
Quarterly investor call	0
I responded to survey or other request for information from the company	0
I issued a survey or other request for information to the company	0

1c) Scope and scale of issues addressed in engagement

The scope and scale of issues refer to the content of what is covered during engagement. **Scope** describes how central issues are to a company’s strategy and survival. **Scale** refers to the breadth of a company’s responsibility around issues that are covered in engagements. In order to limit the length of the survey, I created a hybrid question includes some elements of both scope and scale.

Scoring

Two scale options -- strategy and business model and guiding ethics, values, and principles -- were scored a “2” because they address issues that are core to a company’s survival. Two scope options -- influence on legislation and/or regulation and influence on industry standards/protocols -- were also scored a “2” because they extend beyond the company level. Other options were scored 1 because they are less central to a company’s survival and/or are limited to firm boundaries. The overall score for this component was calculated by summing the scores for each of the variables. Overall scores ranged from 0-12, and were transformed proportionally into a 5-point scale.

Survey question options	Score
Strategy/business model	2
Guiding ethics, values, or principles	2
Influence on legislation and/or regulation	2
Influence on industry standards/protocols	2
Company product/service design, operations, and end-of-life responsibility	1
Environmental, social, & governance (ESG) goals/targets and/or performance	1
ESG disclosure & reporting	1
Regulatory or legal compliance	1

1d) Stakeholder involvement in decision-making and decision implementation

The first paper of the dissertation proposed a series of stakeholder roles that vary according to the level of decision-making power that firms granted to stakeholders in engagement. Survey respondents were asked to check all options that applied in their interactions during the past year with a specific company.

Scoring

I made several assumptions in assigning scores for each option. Zero scores were given to the roles that I assumed by definition would involve no decision-making power granted by companies. Those that would involve some decision power were given a weight of “1,” and roles that would be granted a high degree of decision power were given a weight of “2.” The overall score for this component was calculated by summing the scores for each of the variables. Overall scores ranged from 0-5, and were transformed proportionally into a 5-point scale.

Survey question options	Score
Leader/Organizer: I played a leadership role in an initiative the company is involved in	2
Involved/Partnering: I partnered with the company on projects and/or making and implementing decisions	2
Consultative: I provided knowledge, data, advice, and opinions (with or without being paid)	1
Recipient of information: I was informed or educated the company's strategy, policy, & activities	0
Collector of information: I gathered data and information from the company for my own or my organization's purposes	0
External influencer: I influenced other important stakeholders, regulators, and/or policymakers on issues relevant to the company	0
Advocate/activist: I advocated and/or exerted activism on specific issues	0
Enforcer: I sought to hold the company accountable for legal and regulatory obligations	0
Watchdog: I monitored and spread the word about the company's actions and performance	0

1e) Timing of stakeholder involvement

Stakeholders were asked to evaluate the timing of their involvement with companies according to this scale:

- **Early stage:** Before the company determines a course of action; maximum opportunity for influencing decisions
- **Mid stage:** The course of action is being narrowed and is taking form; medium opportunity for influencing decisions
- **Late stage:** The course of action has been mostly or fully decided; minimal opportunity for influencing decisions
- **NA/not able to determine**

Because stakeholders might interact with companies on multiple initiatives, they were asked to answer the questions “based on the initiatives that are the **most important** in addressing issues of interest to

you.” Answers were coded as follows: Late Stage= 1; Mid Stage=3; Early Stage=5, based on the assumption that companies that allowed stakeholder input in early decision stage would be more advanced in their stakeholder engagement than those that involved stakeholders in a late stage.

2. Control over the engagement process

In this component, stakeholders were asked about their belief about who has **control** over several different aspects of company-stakeholder interactions. Because stakeholders might interact with companies in multiple ways, they were asked to answer the questions “based on the interactions that are the **most important** in addressing issues of interest to you.”

- Deciding which stakeholders will interact with the company
- The content of the interactions (what issues are covered, how, and by whom)
- Making decisions around issues addressed during the interactions
- Implementing decisions
- Monitoring decisions

A 5-point Likert scale was used for this question: Company control=1; Mostly company, some stakeholder control=2; Joint control=3, Mostly stakeholder’ some company control=4; stakeholder control=5. Because the original scale was categorical (i.e. it did not contain any assumptions about what kind of control was better or worse) answers were recoded into an ordinal scale. A 1 or 5 was recoded as a “1” because either total firm control or total stakeholder control would not represent an advanced engagement strategy. Responses of 3 were recoded as “5,” under the assumption that a firm with the most advanced engagement strategy would be sharing control equally with stakeholders around these dimensions of engagement. Answers of 2 or 4 were recoded as “3,” representing a middle ground between these two poles.

3. Company posture towards engagement

New items were created for a scale to measure a company’s posture toward engagement, defined as a combination of **assuming responsibility** for issues important to stakeholders and **exhibiting proactiveness** on stakeholder engagement. This builds on the conceptual framework developed by Clarkson (1995) that companies adopt one of four approaches: Reactive, Defensive, Accommodative, and Proactive. The items in this construct include:

- The company actively sought out and/or created opportunities to engage with me.
- Senior leaders at the company are supportive of the company's interactions with me.

- The company representatives I interacted with have the authority and resources to take action on the company's behalf.
- The company leads the industry in taking meaningful action on the issues I care about.
- The company leads the industry in its commitment to interacting with stakeholders on the issues I care about.
- The company demonstrated a willingness to lead on the issues I care about.

Company character in engagement

In the first paper of the dissertation I identified two components of character that people used to evaluate differences in company representatives' behavior in engagement: Openness, and Honest, and Genuine/Authentic. I created scales for two of these concepts: Open to Learning and Honesty/Integrity, the reasons for which are explained in this section.

4. Company character in engagement: Openness

Three methods appear in the literature for measuring an individual's open-mindedness: self-report surveys; content analysis of verbal statements; and expert analysis of arguments (Peterson & Seligman, 2004). Of these three forms of measurement, self-report survey items could have been adapted for use in this survey; however it was not feasible to import the scales in their intact form and modify them because there were too many items: 30 items (Adorno, Frenkel-Brunswik, Levinson, & Sanford, 1950); 40 items (Rokeach, 1960); and 10 items (Stanovich & West, 1997). I therefore adapted several items from the Flexible Thinking Scale (Stanovich & West, 1997), and the summary definition of open-mindedness given by Petersen & Seligman (2004) in developing the scale for this survey.

- People at the company were receptive to interacting with me.
- The people at the company listened to my ideas and concerns.
- Even if they listened to me, company representatives discounted my input as wrong, irrelevant, or insignificant. (R)
- People at the company were open to learning about new ideas.
- The company only interacts with supportive stakeholders; it does not interact with those who present challenges or opposition. (R)

5. Company character in engagement: Honesty and Integrity

The empirical findings from the first paper of the dissertation identified both honesty/integrity and authenticity as aspects of company representatives' behavior in the engagement process. In developing items for this survey, I focused on honesty/integrity rather than authenticity. There were two reasons for this.

First, the kind of authenticity that people described in the empirical data related more to the definition of honesty as “interpersonal sincerity,” and less to “emotional genuineness and psychological depth” that defines authenticity in the psychological literature. Second, I needed to keep the survey to a reasonable length, and a separate section on authenticity would have made the survey too long. I therefore created a 5-item scale that combines elements of both honesty and integrity.

- I believe company people were truthful, even if it would benefit them to be misleading.
- I think people at the company withheld important information that was relevant to our interactions. (R)
- Individual people at this company "walked their talk"--their words were congruent with their actions.
- Our interactions were dominated by company representatives explaining or defending their point of view. (R)
- People at the company were willing to acknowledge what they don't know.

6. Quality of engagement process

This dimension of engagement did not emerge from the empirical research, but it was identified in the literature review in the first dissertation paper as a relevant dimension of engagement. Research in the fields of negotiation and organizational justice indicates that people place a value on the fairness or justness of how outcomes are determined (Leventhal et al., 1980; Lind & Tyler, 1988). In organizational justice, this is known as *procedural* justice.

In the workplace, procedural justice refers to the desire employees have for their employer to ask for their opinions and to seriously consider their opinions. They want decision-making processes to be consistent, based on accurate information, and free from personal biases of the decision maker. They also want decision processes that allow for the correction of bad decisions and that conform to prevailing standards of ethics or morality (Bosse et al., 2008). I adapted several items from Luo (2007) and from Curhan (2006) in developing items for stakeholders to evaluate the justice or fairness of the engagement process with companies.

- I had sufficient opportunity to address issues of concern to me.
- My interactions with the company were facilitated or carried out in manner that I believe was fair.
- I believe there were important parties or points of view that were not included in the interaction(s).
- The company clearly defined and explained its decision-making processes around issues I care about.
- The implementation of decisions or agreements was monitored fairly.

A summary of survey constructs and items is contained in Appendix B.

Pilot Testing

The survey was pretested with four individuals who have extensive experience with company-stakeholder engagements. They included:

- A senior manager who is responsible for stakeholder engagement at the electric power company that was part of this research study
- The former executive director of an environmental NGO that engages with over 70 companies each year
- A senior staff member of this same NGO, who regularly does corporate engagements
- A senior vice president at an investor firm, who has two decades of experience with engagement.

All individuals were asked to review, and ideally to complete, the survey, after which I interviewed them about their experience and recommendations for the survey. I spoke with three pre-testers, and received extensive written feedback from the fourth.

Interviews relied on the protocol for survey pretesting recommended by De Vaus (1995) as a guide. Individual items were evaluated in terms of: 1) how much response variation they are likely to generate; 2) whether respondents understand the intended meaning of the question; 3) item redundancy; 4) scalability—whether questions form a scale as intended; 5) non-response of questions because they are unclear, too intrusive, provide insufficient responses or appear to be too similar to previous questions. In addition, the entire questionnaire was reviewed for flow and respondent interest and attention.

The survey was extensively revised using feedback from pretesters and all three dissertation committee members. The survey was significantly shortened from the original form in response to feedback that it was too long, and would likely dissuade the sample population from participating.

RESULTS

Measurement model and Fit of developed scales

First-order factor analysis

I performed confirmatory factor analysis (CFA) for each of the six components that comprise the proposed engagement model. Factor analysis was done separately for the NGO data set (N=87) and the investor data set (N=36). I treated the NGO data as the primary data sample because the N met the criteria of 10-times the number of variables in the factor analysis. I sought to replicate the findings with the smaller investor data set, which was too small to meet the 10x criteria, but which could nonetheless provide some measure of validation of the factor structure developed from the NGO data.

I used a rotated principal factor method to examine the validity of the measurement models for each construct. Oblique rotation was also performed, which generated similar results as the principal factor method, but with less clarity in the overall pattern of factor weighting. Therefore, principal factor rotation was used for all analyses.

Several approaches can be used for deciding on the number of factors to include in a factor analysis (see for instance Mershon & Gorsuch, 1988). A universally accepted approach is to retain factors with eigenvalues of 1.00 or higher, which is the criterion I used. I also examined screeplots of eigenvalues plotted against the factor numbers. This method is sometimes used to evaluate the point at which the plotline turns sharply right and begins to flatten out. Eigenvalues to the left of this inflection point can be retained, while those to the right can be discarded (Cattell, 1966).

I used 0.5 as a cutoff value for item inclusion, and excluded variables that were double loaded. If items fell between 0.4 and 0.5 and were not double loaded, I tested the reliability coefficient for the scale with and without that item. If the item improved or did not significantly affect the reliability coefficient for the proposed scale, I included it. The dark green color in the tables indicates that an item was retained, while a light green color indicates that the scale was tested with and without the item.

1. EXTENT OF ENGAGEMENT

Factor	Eigenvalues	
	NGO data, N=80	Investor data, N=35
Factor1	1.5522	2.3440
Factor2	0.2417	0.1475
Factor3	0.0645	-0.0538
Factor4	-0.1130	-0.1250
Factor5	-0.3089	-0.1858

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor 1
SENIOR LEADERS	0.6014	0.7282
INTERACTIVE	0.6527	0.8160
SCOPE/SCALE	0.6814	0.8046
STAKE_INVOLVE	0.4912	0.5715
TIMING	0.2429	0.4169

2. CONTROL

Factor	Eigenvalue	
	NGO data, N=79	Investor data, N=36
Factor1	2.0437	1.1218
Factor2	0.3169	0.5539
Factor3	-0.1076	0.1462
Factor4	-0.1592	0.0454
Factor5	-0.2081	-0.3731

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor1
CONTROL 1	0.6102	0.5389
CONTROL 2	0.5682	0.7311
CONTROL 3	0.7465	0.4632
CONTROL 4	0.6217	0.1399
CONTROL 5	0.6362	0.2507

3. POSTURE

Factor	Eigenvalue	
	NGO data N=83	Investor data N=33
Factor1	3.2689	3.2042
Factor2	0.3644	0.6861
Factor3	0.1588	0.4598
Factor4	-0.0518	-0.0509
Factor5	-0.1244	-0.0896
Factor6	-0.1965	-0.1912

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor1
POSTURE 1	0.7784	0.7641
POSTURE 2	0.8491	0.7743
POSTURE 3	0.5613	0.3581
POSTURE 4	0.7857	0.7441
POSTURE 5	0.7836	0.8471
POSTURE 6	0.6289	0.7882

4. OPENNESS

Factor	Eigenvalues	
	NGO data N=84	Investor data N=36
Factor1	3.4776	2.9403
Factor2	0.1407	0.2409
Factor3	-0.0241	-0.0397
Factor4	-0.0564	-0.0956
Factor5	-0.0955	-0.1777
Factor6	-0.1239	2.9403

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor1
OPEN 1	0.6706	0.7586
OPEN 2	0.9095	0.8132
OPEN 3	0.6076	0.8258
OPEN 4	0.8265	0.8625
OPEN 5	0.6761	0.5269

5. HONESTY

Factor	Eigenvalues	
	NGO data N=86	Investor data N=36
Factor1	2.4173	2.3912
Factor2	0.2133	0.2808
Factor3	-0.0378	0.0245
Factor4	-0.1577	-0.1218
Factor5	-0.1985	-0.2554

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor1
HONESTY 1	0.7395	0.6683
HONESTY 2	0.6549	0.7272
HONESTY 3	0.7205	0.6938
HONESTY 4	0.5475	0.7064
HONESTY 5	0.7891	0.6598

6. FAIRNESS/JUSTICE OF PROCESS

Factor	Eigenvalues	
	NGO data N=84	Investor data N=35
Factor1	2.54858	1.84483
Factor2	-0.00368	0.13768
Factor3	-0.04386	-0.08519
Factor4	-0.11834	-0.17085
Factor5	-0.17521	-0.20225

Unrotated factor loadings

Variable	NGO data Factor1	Investor data Factor1
PROCESS 1	0.7127	0.6341
PROCESS 2	0.7138	0.5886
PROCESS 3	0.6937	0.6919
PROCESS 4	0.7371	0.6105
PROCESS 5	0.7117	0.4948

Scale reliability

Table 3 shows the final dimensions, items, and reliabilities for each new scale. I calculated alphas for two different investor scales: one scale that used the factor structure and variables that emerged from the investor factor analysis, and a second that imposed the NGO factor structure on the investor data to create equivalent scales. (Only two of the constructs were different in the NGO and investor factor analyses: CONTROL and POSTURE.) I calculated reliability coefficients for equivalent NGO and investor scales because equivalent constructs will be needed in a later step in order to compare NGO and investor scores of individual companies. All coefficient alpha reliabilities except one, on the dimension of control for investor data, meet or exceed the accepted 0.7 threshold (Cronbach, 1951).

Table 3: Scale items and reliability coefficients

Scale	Item	NGO data scale α	Investor data A ¹ scale α	Investor data B scale α
Extent of Engagement	<p>SENIOR LEADERS: Involvement of senior company leaders in engagement, weighted scale</p> <p>INTERACTIVE: Extent of voluntarily created, interactive forms of engagement, weighted scale</p> <p>SCOPE/SCALE: Scope and scale of issues addressed in engagement, weighted scale</p> <p>STAKEHOLDER INVOLVE: Stakeholder involvement in decision-making and implementation, weighted scale*</p> <p>TIMING: Timing of stakeholder involvement**</p> <p>* For NGO data, this variable was a borderline factor loading. Calculated alpha coefficient with and without; alphas were identical. Retained the variable.</p> <p>** Did not load in either NGO or investor factor analysis</p>	.70	.82	same as NGO factor structure; same α
Control	<p>CONTROL 1: Deciding which stakeholders will interact with the company</p> <p>CONTROL 2: The content of the interactions (what issues are covered, how, and by whom)</p> <p>CONTROL 3: Making decisions around issues addressed during the interactions*</p> <p>CONTROL 4: Implementing decisions**</p> <p>CONTROL 5: Monitoring decisions**</p> <p>* For investor data, this variable was a borderline factor loading. Calculated alpha coefficient with and without. Was found to decrease alpha if included. Dropped the variable.</p> <p>** Did not load on control factor for investor data; were not included in the factor.</p>	.78	.68 (includes CONTROL 1 & 2 only)	.50 (includes all 5 CONTROL variables)
Engagement posture	<p>POSTURE 1: <i>The company actively sought out and/or created opportunities to engage with me.</i></p> <p>POSTURE 2: <i>Senior leaders at the company are supportive of the company's interactions with me</i></p> <p>POSTURE 3: <i>The company representatives I interacted with have the authority and resources to take action on the company's behalf.**</i></p> <p>POSTURE 4: <i>The company leads the industry in taking meaningful action on the issues I care about.</i></p> <p>POSTURE 5: <i>The company leads the industry in its</i></p>	.88	.87 (excludes POSTURE 3)	.84 (includes all 6 POSTURE variables)

¹ A=investor factor structure; B= NGO factor structure

	<p><i>commitment to interacting with stakeholders on the issues I care about.</i></p> <p>POSTURE 6: <i>The company demonstrated a willingness to lead on the issues I care about.</i></p> <p>** Did not load on posture factor for investor data; was not included in the factor.</p>			
Openness	<p>OPEN 1: <i>People at the company were receptive to interacting with me.</i></p> <p>OPEN 2: <i>The people at the company listened to my ideas and concerns.</i></p> <p>OPEN 3: <i>Even if they listened to me, company representatives discounted my input as wrong, irrelevant, or insignificant. (R)</i></p> <p>OPEN 4: <i>People at the company were open to learning about new ideas.</i></p> <p>OPEN 5: <i>The company only interacts with supportive stakeholders; it does not interact with those who present challenges or opposition. (R)</i></p>	.85	.85	same as NGO factor structure; same α
Honesty/ Integrity	<p>HONESTY 1: <i>I believe company people were truthful, even if it would benefit them to be misleading.</i></p> <p>HONESTY 2: <i>I think people at the company withheld important information that was relevant to our interactions. (R)</i></p> <p>HONESTY 3: <i>Individual people at this company "walked their talk"--their words were congruent with their actions.</i></p> <p>HONESTY 4: <i>Our interactions were dominated by company representatives explaining or defending their point of view. (R)</i></p> <p>HONESTY 5: <i>People at the company were willing to acknowledge what they don't know.</i></p>	.83	.82	same as NGO factor structure; same α
Fairness/ Justice	<p>PROCESS 1: <i>My interactions with the company were facilitated or carried out in manner that I believe was fair</i></p> <p>PROCESS 2: <i>I believe there were important parties or points of view that were not included in the interaction(s).</i></p> <p>PROCESS 3: <i>The company clearly defined and explained its decision-making processes around issues I care about.</i></p> <p>PROCESS 4: <i>The implementation of decisions or agreements was monitored fairly.</i></p> <p>PROCESS 5: <i>I had sufficient opportunity to address issues of concern to me*</i></p> <p>* For investor data, this variable was a borderline factor loading. Tested with and without. Was found to increase alpha if included; retained the variable.</p>	.84	.73	same as NGO factor structure; same α

Creation of first-order factors

Based on the results of this analysis, I created new factors using an unweighted average of the individual variables that comprise each factor. Other, more complex methods can be used that employ factor loadings in weighting variables. However, given the low N of the data set used in this research, this more complex method would overspecify the model and add unnecessary noise to the data. I therefore chose the simpler method of unweighted averaging.

I first examined the standard deviations of the individual variables comprising each factor. If the standard deviations are quite different, all the variable scores should be divided by the standard deviation before averaging, so the overall score is not distorted by one variable. If the standard deviations are not dramatically different, as the data in Table 4 shows, a simple unweighted averaging method will suffice. This is the method that was used.

Table 4: Item means and standard deviations, by NGO and investor

	Mean NGO	s.d. NGO	Mean Investor	s.d. Investor
SENIOR LEADERS	2.01	1.21	2.25	1.28
INTERACTIVE	2.22	0.89	2.43	1.12
SCOPE/SCALE	2.37	1.11	2.57	1.14
STAKE_INVOLVE	2.22	1.29	1.97	1.00
TIMING	2.95	1.42	2.43	1.24
CONTROL 1	2.55	1.56	3.67	1.43
CONTROL 2	3.18	1.46	3.78	1.29
CONTROL 3	2.38	1.48	2.22	1.53
CONTROL 4	1.71	1.11	1.61	0.93
CONTROL 5	3.08	1.62	3.83	1.61
POSTURE 1	2.77	1.46	3.72	1.43
POSTURE 2	3.05	1.37	3.79	1.22
POSTURE 3	3.19	1.27	3.18	1.30
POSTURE 4	2.49	1.40	2.72	1.00
POSTURE 5	2.36	1.16	3.06	1.22
POSTURE 6	2.66	1.37	3.21	1.17
OPEN 1	3.41	1.25	4.00	1.07
OPEN 2	3.23	1.30	4.00	0.89
OPEN 3	3.06	1.29	3.94	1.26
OPEN 4	3.06	1.30	3.56	1.08
OPEN 5	3.32	1.24	3.42	1.56
HONESTY 1	2.92	1.24	3.37	0.94
HONESTY 2	2.89	1.28	3.42	0.97
HONESTY 3	2.91	1.28	3.47	1.08
HONESTY 4	2.82	1.09	3.00	1.20
HONESTY 5	2.76	1.23	3.11	1.01
PROCESS 1	3.24	1.28	3.89	1.12
PROCESS 2	2.69	1.12	3.09	1.25
PROCESS 3	2.53	1.09	3.28	1.21
PROCESS 4	2.79	1.04	3.21	0.53
PROCESS 5	3.13	1.28	3.81	1.12

Tables 5, 6, and 7 shows the correlation coefficients for the first-order factors that were created. Again, I performed two separate calculations for the investor data. The first investor correlation matrix, shown in Table 6, uses the investor-derived factor structure, which did not form a Control factor, and used a different scale for Posture. The second investor correlation matrix, shown in Table 7, uses the scales created from the NGO data, applied to the investor data. The first and the third matrices are therefore comparable.

As shown in all three tables, several first-order factors have very high between factor correlations: Posture, Openness, Honesty, and Fairness. This raises the question of discriminant validity, which I address in the Discussion.

Table 5: Descriptive Statistics and Correlations of First-Order Factors: NGO data only

	Mean	s.d.	1	2	3	4	5
Extent of Engagement	2.21	.82					
Control	2.58	1.1	.33*				
Posture	2.70	1.0	.31*	.64***			
Openness	3.25	1.0	.28**	.48***	.83***		
Honesty	2.86	.94	.01	.48***	.71***	.69***	
Fairness	2.87	.92	.30	.54***	.84***	.79***	.69***

Table 6: Descriptive Statistics and Correlations of First-Order Factors: Investor data only, using investor factor structure

	Mean	s.d.	1	2	3	4
Extent of Engagement	2.31	.92				
Posture	3.26	1.0	.40*			
Openness	3.78	.94	.47**	.74***		
Honesty	3.27	.79	.31	.75***	.68***	
Fairness	3.44	.75	.22	.56***	.73***	.70***

Table 7: Descriptive Statistics and Correlations of First-Order Factors: Investor data only, using NGO factor structure

	Mean	s.d.	1	2	3	4	5
Extent of Engagement	2.31	.92					
Control	3.02	.80	.21				
Posture	3.24	.93	.47**	.54**			
Openness	3.78	.94	.47**	.66***	.79***		
Honesty	3.27	.79	.31	.36*	.74***	.68***	
Fairness	3.44	.75	.23	.36*	.61***	.73***	.70***

* p < .05, ** p < .01, *** p < .001

Second-order factor analysis

I performed a second-order factor analysis on the six factors that were created in the first-order analysis, plus all the individual variables that were dropped in the first-order analysis. As with the first-order analysis, the second-order analysis was done separately for NGO and investor data. The goal of this analysis was to determine which components of the proposed model vary together to comprise higher order engagement strategy.

Table 8: Second-order factor analysis, NGO data only (N=71)

Factor	Eigenvalue	Description	Variable	Factor1
Factor1	3.42489	Composite factor, 1 st order factor analysis	EXTENT_ENGAGE	0.3443
Factor2	0.43477	Composite factor, 1 st order factor analysis	CONTROL	0.6337
Factor3	0.3299	Composite factor, 1 st order factor analysis	POSTURE	0.9306
Factor4	-0.04662	Composite factor, 1 st order factor analysis	OPENNESS	0.8473
Factor5	-0.08352	Composite factor, 1 st order factor analysis	HONESTY	0.7377
Factor6	-0.12455	Composite factor, 1 st order factor analysis	FAIRNESS	0.8808
Factor7	-0.21517	Dropped from 1st order factor analysis	TIMING	0.0262

Based on these results I created a second-order Strategy factor for the NGO data from five first-order factors: *Control, Posture, Openness, Honesty, and Fairness*. As before, I used an unweighted averaging method. The reliability coefficient of this strategy scale is .91.

I performed two second-order factor analyses for the investor data, one using the first-order factors that were created using the investor factor structure, and a second using the NGO factor structure imposed on the investor data.

Table 9: Second-order factor analysis, investor data only, using investor factor structure (N=31)

Factor	Eigenvalue
Factor1	4.36839
Factor2	1.56729
Factor3	1.15397
Factor4	0.8659
Factor5	0.38732
Factor6	0.0968
Factor7	0.06086
Factor8	-0.05872
Factor9	-0.08037
Factor10	-0.13057
Factor11	-0.17364
Factor12	-0.2247

Description	Variable	Factor1	Factor2	Factor3
Composite factor, 1 st order factor analysis	EXTENT_ENGAGE	0.5623	-0.3451	0.5350
Composite factor, 1 st order factor analysis	POSTURE	0.8312	0.0155	-0.0241
Composite factor, 1 st order factor analysis	OPENNESS	0.9300	0.0802	0.0077
Composite factor, 1 st order factor analysis	HONESTY	0.8179	-0.1826	-0.3035
Composite factor, 1 st order factor analysis	FAIRNESS	0.7764	-0.0080	-0.2987
Dropped from 1st order factor analysis	TIMING	0.1701	-0.6897	0.0309
Dropped from 1st order factor analysis	POSTURE 3	0.5172	0.2666	0.4005
Dropped from 1st order factor analysis	CONTROL 1	0.4881	-0.3037	0.1686
Dropped from 1st order factor analysis	CONTROL 2	0.6297	-0.0139	-0.1970
Dropped from 1st order factor analysis	CONTROL 3	0.4168	0.2658	-0.1219
Dropped from 1st order factor analysis	CONTROL 4	0.2697	0.6995	-0.2329
Dropped from 1st order factor analysis	CONTROL 5	0.2169	0.4572	0.6230

Based on these results, the second-order Strategy factor for the investor data should include Posture, Openness, Honesty, and Fairness, and possibly Control 1, 2, and 3. The second-order factor

would not include the Extent of Engagement, Posture, or Control 5 because these variables are double loaded on two different factors.

I calculated the reliability coefficient for a scale with the Control 1, 2, and 3 variables, and with the Control 2 factor only. The scale with all three Control variables was .81, and it was .87 with just the Control 2 variable. These results suggest that it would be reasonable to include Control 2 (and not Control 1 or 3) in the second-order factor.

However, the simple averaging method I use to calculate the second-order factor would allow this one variable to have outsized influence on the overall factor score, when averaged with the other first-order factors. For this reason, it is reasonable to exclude all Control variables from the second-order factor. The second-order Strategy factor for the investor data is therefore comprised of four first-order factors: *Posture, Openness, Honesty, and Fairness*. The reliability coefficient for this scale is .90.

Table 10: Second-order factor analysis investor data only, using NGO factor structure (N=31)

Factor	Eigenvalue
Factor1	3.50436
Factor2	0.34256
Factor3	0.06332
Factor4	-0.01511
Factor5	-0.11341
Factor6	-0.13714

Description	Variable	Factor1
Composite factor, 1 st order factor analysis	EXTENT_ENGAGE	0.5540
Composite factor, 1 st order factor analysis	CONTROL	0.6154
Composite factor, 1 st order factor analysis	POSTURE	0.8790
Composite factor, 1 st order factor analysis	OPENNESS	0.9354
Composite factor, 1 st order factor analysis	HONESTY	0.8021
Composite factor, 1 st order factor analysis	FAIRNESS	0.7834
Dropped from 1st order factor analysis	TIMING	0.2066

The second-order factor structure for the investor data if NGO-equivalent first-order factors are used is nearly identical to the second-order NGO factor structure, with the exception that the Extent of Engagement factor loads on the first factor, but does not in the NGO second-order factor analysis.

Individual company ratings

In this section I report the second-order factor scores for individual companies. The goal of this step is to

determine if there are discernible differences in how stakeholders rate the engagement strategies of different companies.

Throughout this analysis, I have treated NGO and investor data as separate samples. In order to report individual company scores, I first determined whether NGO and investor stakeholders do in fact give companies different scores. If their ratings differ, the two groups of respondents need to continue to be treated as separate populations. If their ratings are not significantly different, they can be combined.

Table 11 displays significance tests of first and second-order factors. For the investor data, I used the investor first and second-order factors that have the NGO factor imposed on the data. This was done in order to compare equivalent data. As already mentioned, because the NGO dataset is larger, I am using it as the primary sample, with the investor dataset used for validation. With a few exceptions on the Control and Posture factors, the investor data has validated the NGO factor structure. At this point in the analysis, I use the NGO factor structure to analyze the investor data, in order to create comparable factors.

This analysis indicates that except for the Extent of Engagement factors, the differences between the NGO and investor data sets are significant, and the two samples should therefore be analyzed separately.

Table 11: Factor means, and significance tests for NGO & investor data sets

First-order factors	NGO, N=84	Investor, N=33	t-test, 2-tailed
Extent of Engagement	2.21 (.82)	2.31 (.92)	t= .597, NS
Control	2.58 (1.1)	3.02 (.80)	t= 2.23, (p<.05)
Posture	2.70 (1.0)	3.23 (.93)	t= 2.59, (p<.01)
Openness	3.25 (1.0)	3.78 (.94)	t= 2.72, (p<.01)
Honesty	2.86 (.94)	3.27 (.79)	t= 2.30, (p<.05)
Fairness	2.87 (.92)	3.44 (.75)	t= 3.22, (p<.01)
Second-order factor*	NGO, N=77	Investor, N=32	t-test, 2-tailed
Strategy factor	2.82 (.10)	3.30 (.13)	t= 2.83, (p<.01)

* Includes Control, Posture, Openness, Honesty, and Fairness

Table 12 displays the individual company scores for the second-order Strategy factors, and Table 13 displays the scores for the variable on the Extent of Engagement that did not load in the second-order Strategy factor analysis. Although there was not a significant difference between NGO and investor data,

I present them separately here because of the very small numbers of companies that are being evaluated. Companies for which there are two or more observations for both NGO and investor datasets are indicated with blue text. These seven companies are plotted in Figures 1 and 2. The R-squared value with OLS regression for the NGO and Strategy factors was .32, and was not significant: $F(1, 5) = 2.31$, $p = .19$. The F-statistic for a two-tailed test with $\alpha = .05$ would need to be 10.01. The R-squared value for the Extent of Engagement factor using OLS regression, with robust standard errors to account for the Ford outlier, was .4 and significant $F(1, 5) = 18.48$, $p < .01$.

Finally, I performed an ANOVA test on the NGO data for 10 companies that had 4 or more respondents to determine whether companies were significantly different from one another. For Strategy, this test failed to produce a significant result at the .05 level, but it is nearly significant at the .10 level: $F(8, 50) = 1.75$, $p = .11$. However, this marginal significance should be interpreted cautiously because respondents scored multiple companies, and the observations are therefore not independent. For Extent of Engagement, the ANOVA test failed to produce a significant result: $F(8, 57) = 1.20$, $p = .32$. Figures 3 and 4 shows scatterplots of these scores, by company.

Table 12: 2nd order Strategy factor scores, by company

Company	N	Mean NGO	N	Mean Investor
AEP	6	3.33 (.80)	2	3.68 (.03)
BP	7	2.30 (.99)	5	3.10 (.41)
Chevron	9	2.63 (.67)	3	2.89 (.55)
Conoco	4	2.56 (.95)	4	3.78 (.38)
DTE	3	3.26 (1.1)	1	1.92
Dominion	1	1.87	0	
Duke	10	2.71 (.75)	0	
Edison	1	3.83	0	
Exxon	10	2.25 (.68)	6	3.14 (.78)
FirstEnergy	2	2.28 (.18)	0	
Ford	4	2.90 (1.2)	3	4.08 (.66)
GM	2	3.87 (.47)	0	
Honda	1	2.72	0	
NextEra	2	3.49 (.33)	0	
Occidental	1	3.17	1	3.88
Shell	3	3.04 (.97)	0	
Southern	7	3.11 (.80)	4	3.56 (.64)
Total	0		3	2.65 (.90)
Toyota	2	2.94 (.68)	0	
Xcel	4	3.46 (.59)	0	

Table 13: Extent of Engagement scores, by company

Company	N	Mean NGO	N	Mean Investor
AEP	6	2.39 (1.1)	3	3.45 (.97)
BP	8	2.06 (.78)	5	1.97 (.75)
Chevron	9	2.11 (.68)	3	2.38 (.95)
Conoco	4	2.04 (.72)	4	1.91 (.70)
DTE	3	2.01 (.21)	1	.87
Dominion	1	1.48	0	
Duke	10	2.89 (1.02)	0	
Edison	1	3.14	0	
Exxon	11	2.10 (.55)	7	2.37 (.81)
FirstEnergy	3	2.00 (.74)	0	
Ford	4	1.81 (1.3)	3	2.53 (1.0)
GM	3	2.22 (1.05)	0	
Honda	1	1.49	0	
NextEra	3	2.09 (.28)	0	
Occidental	1	1.80	2	2.00 (.92)
Shell	3	1.58 (.23)	0	
Southern	7	2.31 (.68)	4	3.06 (.74)
Total	0		3	1.41 (.41)
Toyota	2	1.31 (.05)	0	
Xcel	5	2.75 (1.1)	0	

Figure 1: Scatterplot of Investor by NGO Strategy factor

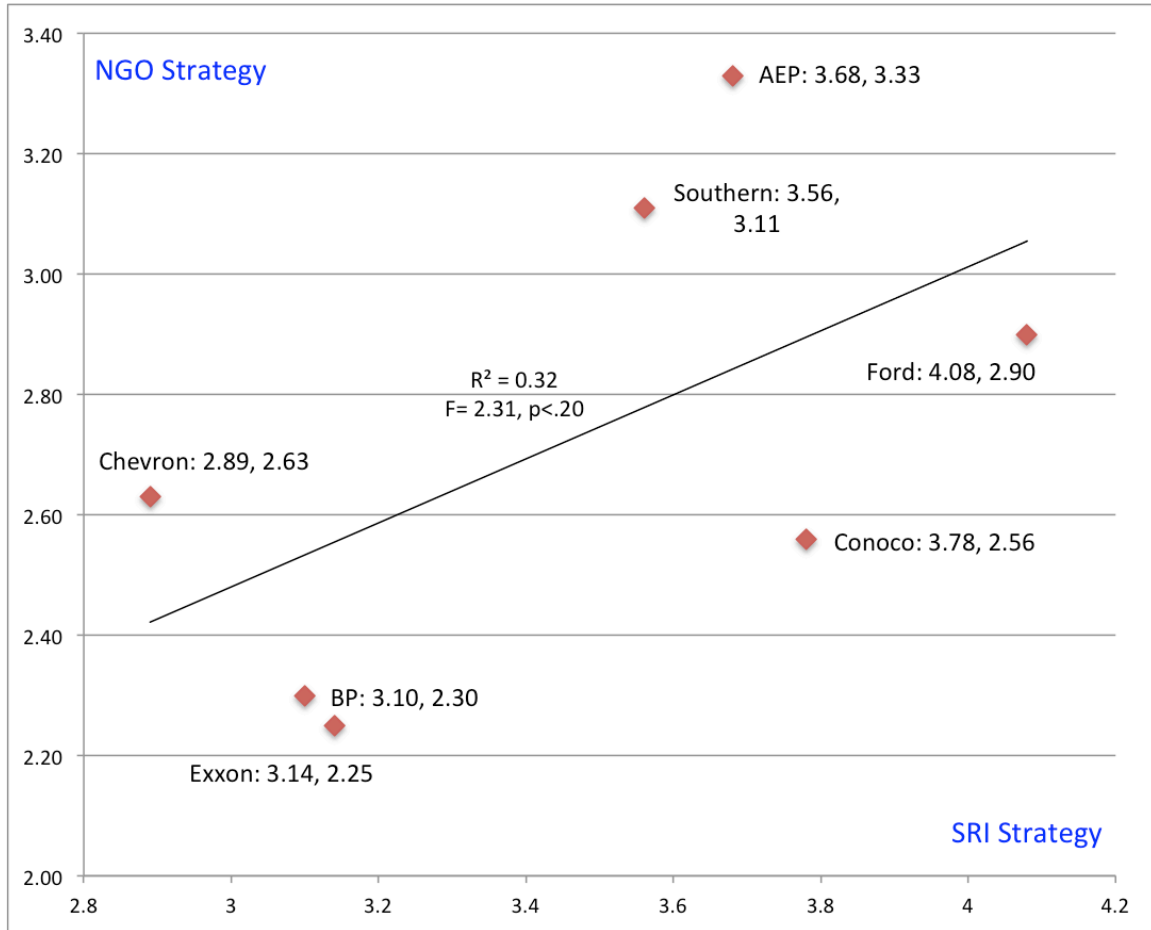


Figure 2: Scatterplot of investor by NGO Extent of Engagement factors

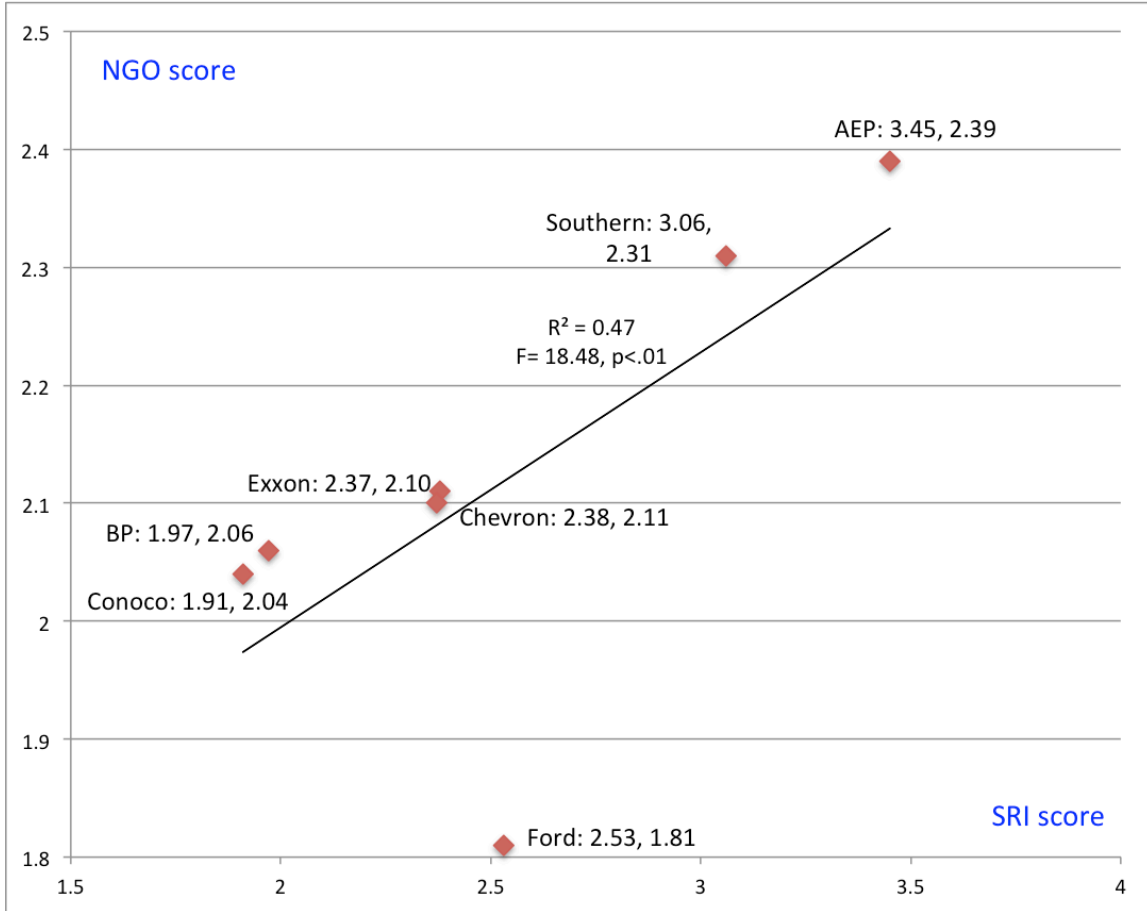
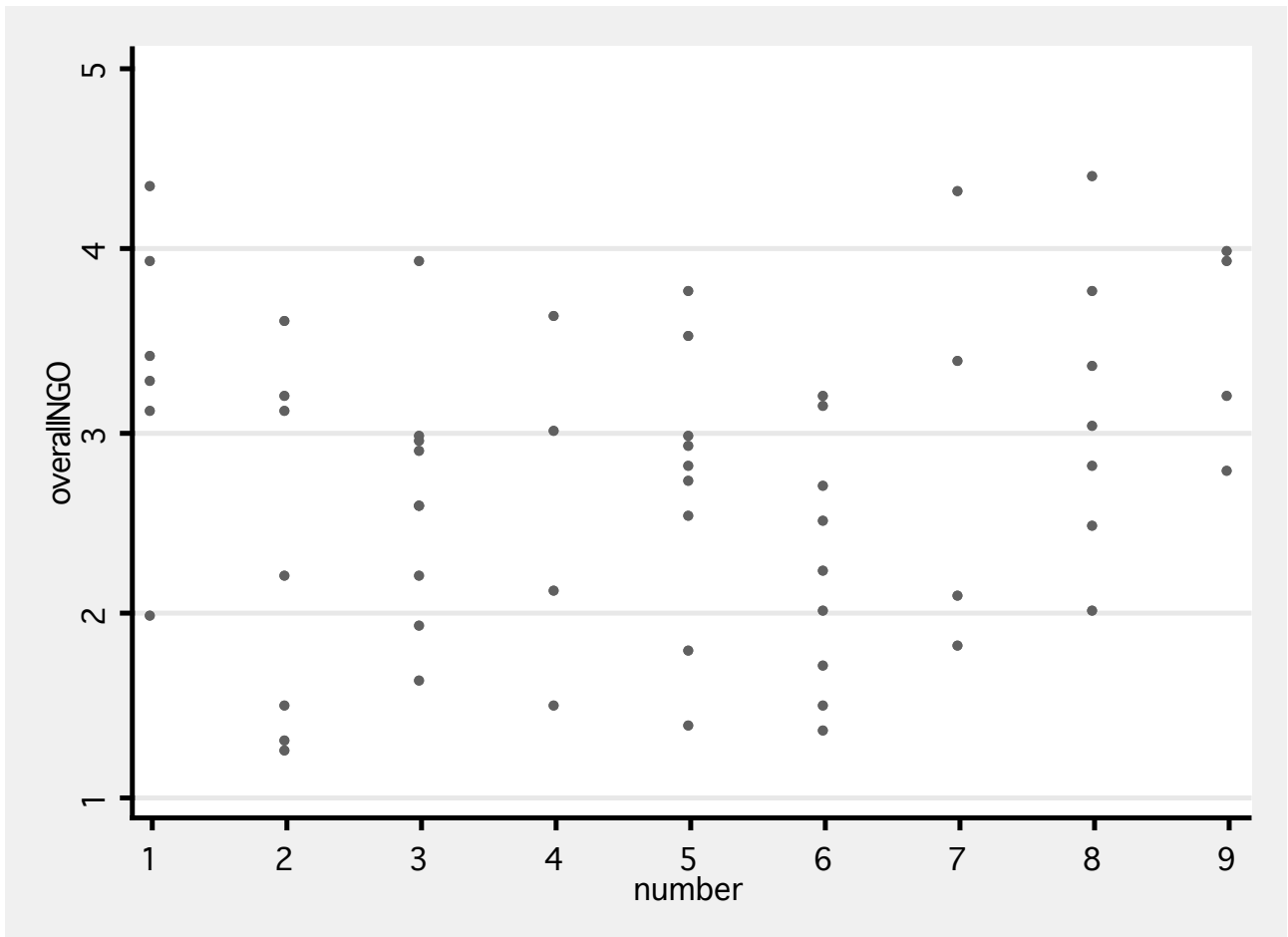


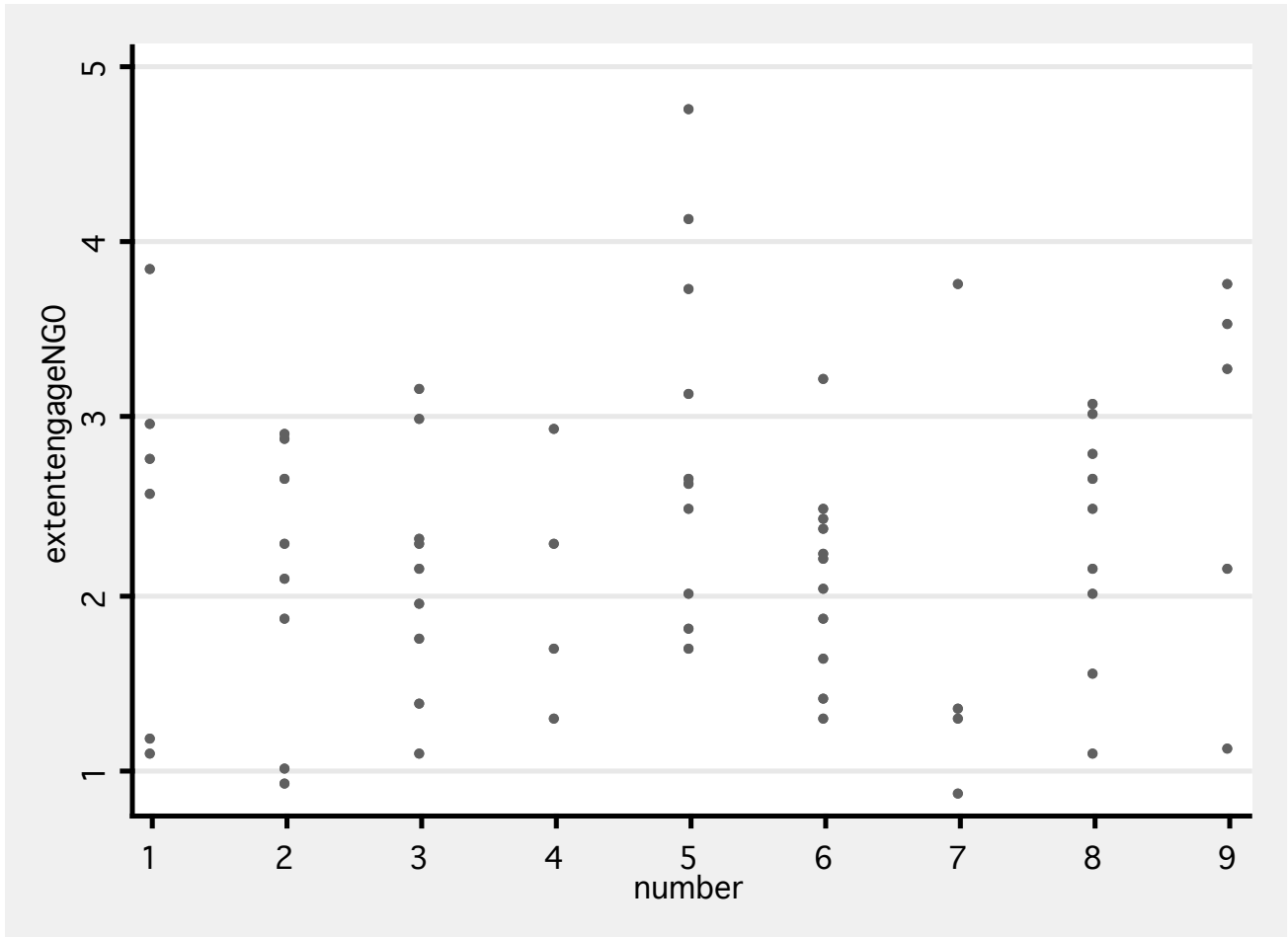
Figure 3: Scatterplot of Strategy scores, by company, NGO data only



Legend:

- 1=AEP
- 2=BP
- 3=Chevron
- 4=Conoco
- 5=Duke
- 6=Exxon
- 7=Ford
- 8=Southern
- 9=Excel

Figure 4: Scatterplot of Extent of Engagement scores, by company, NGO data only



Legend:

- 1=AEP
- 2=BP
- 3=Chevron
- 4=Conoco
- 5=Duke
- 6=Exxon
- 7=Ford
- 8=Southern
- 9=Excel

DISCUSSION

The primary goal of this study was to develop and validate scales for measuring individual components of corporate stakeholder engagement strategy, and determine which of these vary together to comprise an overall strategy. Researchers who study engagement typically lump together sets of mutually exclusive variables to describe higher-level typologies. It is assumed that the variables within a specific strategy cluster together, but to date, this has not been subject to empirical testing. This exploratory study takes the first steps toward defining and measuring the elements of corporate engagement, and testing which of these vary together to create a higher-order strategy measure.

Building on work done in the first paper of the dissertation, this analysis used survey data from investor and NGO stakeholders to generate six first-order factors that represent elements of a corporate engagement strategy: 1) the extent or depth of engagement; 2) control over the process of engagement; 3) corporate posture toward engagement in terms of proactiveness and leadership; 4) openness of corporate representatives; 5) honesty of corporate representatives; and 6) perceived fairness of the engagement process.

The NGO dataset was used as a primary data source, and the investor data were used to check and validate the findings from the NGO data. In a second-order factor analysis, five of the first-order factors varied together in the NGO dataset to form a higher-order Strategy factor: Control, Posture, Openness, Honesty, and Fairness. Four first-order factors varied together in the investor dataset: Posture, Openness, Honesty, and Fairness. Control did not form a factor in the investor dataset, which raises the question as to why investor stakeholders appear to think of control differently than do NGO stakeholders. The Extent of Engagement factor did not vary with the other factors in the NGO data, but did in the investor data. Overall, these results show that there was relatively good agreement between the NGO and investor datasets, which lends support for the factor structure developed herein.

That the Extent of Engagement factor did not vary with the rest of the factors in the NGO analysis may be explained in part by the scoring of its component variables. These were scored differently than the other Likert-scale variables in the Posture, Openness, Honesty, and Fairness factors. I also relied on a number of assumptions for item scoring that could have distorted the final outcome in ways that were different from the other factors. However, the Extent of Engagement factor did form a reliable scale, which means that it does consistently measure an aspect of a company's engagement strategy. It may be that this aspect of strategy is different in kind from the other strategy factors, or it may be that the

small data set and/or the assumptions used in scoring made it appear different when it is in fact the same, a type I error.

Furthermore, I would anticipate that the variables that comprise this factor are more sensitive to small sample size because they depend on the *breadth* of stakeholders' experiences with companies. For instance, it could easily be the case that the small sample of stakeholders who responded for the company "AEP" interact primarily with Investor Relations and Public Relations staff, which are scored lower than the CEO and board members in the Involvement of senior company leaders in engagement item. This would lower the Extent of Engagement score for AEP not because this is the reality of AEP's engagement strategy but because the sample did not include stakeholders who interact with more senior leaders at the company.

If this survey method were used in future research, a much larger group of stakeholders responses would be needed to get a complete and accurate picture of how the company is operating. The scoring protocol might also have to be adjusted proportional to the number of stakeholders who answered the questions in a certain way. In summary, the construct validity of the Extent of Engagement factor, its underlying assumptions, and scoring approach will need to be examined in future work.

In spite of these concerns, the Extent of Engagement factor did produce an ordering of companies from low to high that is roughly aligned with that of the overall Strategy factor. In both Figures 1 and 2, BP, Exxon, and Chevron are low scorers, while AEP and Southern are high scorers. Ford and Conoco differ between the Strategy and Extent of Engagement factors. These results lend partial validity to the way that the Extent of Engagement factor was scored.

In addition, the Strategy and Extent of Engagement scores for individual companies track, to some degree, anecdotal evidence from the qualitative portion of the dissertation research. Exxon and Chevron were mentioned by several stakeholders in interviews as representing a low standard of stakeholder engagement, both in terms of the extent of engagement activities and their posture, openness, and honesty in the engagement process itself. AEP and Ford were mentioned as representing a high standard or advanced approach to engagement in these terms.

The data bear this out to some degree. The ANOVA for company differences for Strategy using NGO data was marginally significant at the .10 level, and significant for the Extent of Engagement. Exxon and Chevron are in the bottom half of the rankings, while AEP is at the top. This is consistent with anecdotal qualitative data. Ford is relatively high on Strategy, but not on Extent of Engagement.

Ford is worth mentioning because it is an outlier in Figure 2 due to a low NGO score. The standard deviation for Ford's NGO responses (see Table 13) is higher than any other company. For the Extent of Engagement factor, three raters gave the company quite low scores and one gave it very high scores, as shown in Figure 4. It appears that three out of four of Ford's NGO respondents have a markedly different opinion than its investor respondents on this factor. However, it is not possible to know whether this is an artifact of the small sample size or a meaningful difference between investor and NGO respondents.

STUDY LIMITATIONS AND FUTURE RESEARCH

The most significant limitation of this study is the small number of responses that comprise the dataset. I received responses from 59 individuals, for a total of 123 company evaluations. 87 of these were from NGO respondents and 36 were from investor respondents. Because investors and NGOs represented two different respondent populations they could not be combined to form one larger dataset.

The small dataset had two consequences for the subsequent analysis. First, I was not able to perform a large exploratory factor analysis because the number of responses was far below the criterion of 10 times, or even for the lowest rule of thumb, 5 times the number of variables in the analysis. I therefore relied on a confirmatory factor analysis technique for each of the six constructs that had been defined in advance of data collection. Although these six constructs were largely validated, particularly in the NGO data, what was missed was the opportunity to conduct an exploratory factor analysis, which might have identified latent factors or new combinations of variables that could generate new theory on stakeholder engagement. Because research on measuring stakeholder engagement strategy is at an early stage, and constructs are not yet well identified or defined, exploratory factor analyses would be preferable to the confirmatory approach used in this study. This would require a much larger data set.

The second consequence of the small dataset is that it failed to produce significant differences in overall individual company Strategy scores, although the Extent of Engagement scores were significantly different by company (see Figures 3 and 4 and accompanying text). The overall company scores should therefore be thought of as preliminary and tentative. An opportunity for future research is to validate these scores with an external measure, such as with one of the many public and private indices of corporate social responsibility that now exist.

Another limitation of the study is that several first-order factors are very highly correlated, raising the questions of whether sufficient discriminant validity has been achieved, and/or whether a halo effect is present. In both the NGO and investor datasets, the factors of Posture, Openness, Honesty, and

Fairness are highly correlated, ranging from .56 to .84, and they all load strongly on one factor in the second order factor analysis. However, with the exception of Posture-Openness and Posture-Fairness, the internal reliability of each factor is greater than the between-factor correlation. This does suggest that some degree of discriminant validity is present, but perhaps not a great deal.

These issues will need to be addressed in future research by refining the survey items to achieve better clarity around concepts that are being measured. The survey already attempts to minimize the halo effect by asking respondents to recall specific interactions during the past year and to evaluate behaviors, rather than to give overall impressions (Balzer & Sulsky, 1992). However, more could be done to address this by varying the wording and framing of questions and when possible giving respondents options to answer questions with counts of certain behaviors or other concrete data.

Finally, both NGO and investor datasets are cross-classified and non-independent. That is, each respondent, on average, rated more than one company. To handle this, multi-level modeling should be used. I did not use it in this study because it requires much larger dataset to achieve robust results. However, this feature of the data means that the ANOVA tests of differences between companies should be interpreted with caution. The ANOVA of the overall Strategy was marginally significant at the .10 level, but even that finding could deteriorate if multi-level tests were applied.

This study represents a first step in defining and measuring elements of a corporate stakeholder engagement strategy. As such, the findings can be used as a foundation to further develop and refine the components that comprise engagement strategy; develop new data sources to evaluate these dimensions (including but not limited to stakeholder surveys); and evaluate differences among individual companies' and why these differences exist.

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Appendix A: Introductory letter to research participants

Dear [NAME],

I'm writing to invite you or someone at [ORGANIZATION] to participate in a research initiative at the MIT Sloan School of Management.

This is the first comprehensive effort to gather feedback from investors and other stakeholders about your experiences with companies around environmental, social, and governance (ESG), or sustainability, issues. The purpose of the research is to evaluate differences in how companies relate to their stakeholders, and to understand how both companies and stakeholders can increase the effectiveness of their interactions with one another. Research participants can choose to receive pre-publication results in the spring of 2012.

Participating in the research involves taking an anonymous survey about your experiences with one or more companies in the automotive, electric power, or oil & gas industries. The link to the survey is: https://survey.qualtrics.com/SE/?SID=SV_bCxxmNh22PhGwA

The survey is being sent to people at over 300 financial institutions and 250 non-governmental organizations. If you know of someone who would be interested in this research, please pass along the survey link. If you have any questions please email Kate Parrot at kparrot@mit.edu or call 857-523-8234. I would be glad to speak with you. If you have no interest in participating in this research or do not interact with companies in the auto, electric power, or oil & gas industries, please send me an email so I can make sure you do not receive any more information about this project.



Evaluating Company-Stakeholder Interactions on Environmental, Social, and Governance (ESG) Issues

What is the background of this research? This initiative is part of my doctoral research at the MIT Sloan School of Management. The research is one facet of an expanding program of sustainability-focused research, teaching, and practice activities at MIT.

Why should I participate in this research? Although companies and stakeholders spend a great deal of time, energy, and resources engaging with one another, there is little shared understanding about what constitutes a successful interaction, and what factors contribute to or impede success. In addition, there is no universally accepted framework for evaluating differences in how companies relate to their stakeholders. Your participation in this research will help shed light on these areas.

What will I receive in return? The survey results (anonymous and in aggregate form) and all research findings will be made publicly available in late summer 2012. Survey participants can choose to receive pre-publication results in the spring of 2012.

How long will the survey take? The survey will take approximately 20-30 minutes depending on how many companies you evaluate.

Will my responses be anonymous? All survey responses are anonymous and confidential, and participation in the survey is completely voluntary. No information will be collected that could identify you or your organization's responses, and **no individual or organizational respondents will be publicly identified in any way**; only aggregate survey results will be reported. A list of organizations that receive the survey will be published, but those that actually participate will not be identified.

What's the deadline for completing the survey? Please complete the survey within 14 days of receiving it.

Can I start the survey and finish it later? Yes. Your answers will be saved as you proceed and you can visit the survey link at any time to complete the survey. You can also go back and change your answers to previous questions.

Bio : Kate Parrot has worked with companies and non-governmental organizations on sustainability issues for the last ten years. She is currently a doctoral candidate at the MIT Sloan School of Management, where she focuses on corporate social responsibility, sustainable finance, and organizational learning and change. Her approach to research is that it should exhibit both academic rigor and practical relevance and usefulness. She holds an M.S. degree in Technology and Policy from the Engineering Systems Division at MIT, where she studied system dynamics modeling, corporate finance, economics, and environmental policy. She has held positions in management consulting, the non-governmental sector, and local and state government.

Appendix B: Summary of Survey Constructs and Items

1. EXTENT OF ENGAGEMENT: Extent of the depth and level of commitment to engagement (5 items)

1. **SENIOR LEADERS:** Involvement of senior company leaders in engagement (1 item)
2. **INTERACTIVE:** Extent of voluntarily created, interactive forms of engagement (1 item)
3. **SCOPE/SCALE:** Scope and scale of issues addressed in engagement (1 item)
4. **STAKEHOLDER INVOLVE:** Stakeholder involvement in decision-making and implementation (1 item)
5. **TIMING:** Timing of stakeholder involvement (1 item)

2. CONTROL: Control over the engagement process (5 items)

1. **CONTROL 1:** Deciding which stakeholders will interact with the company
2. **CONTROL 2:** The content of the interactions (what issues are covered, how, and by whom)
3. **CONTROL 3:** Making decisions around issues addressed during the interactions
4. **CONTROL 4:** Implementing decisions
5. **CONTROL 5:** Monitoring decisions

3. POSTURE: Company posture towards engagement (6 items)

1. **POSTURE 1:** *The company actively sought out and/or created opportunities to engage with me.*
2. **POSTURE 2:** *Senior leaders at the company are supportive of the company's interactions with me*
3. **POSTURE 3:** *The company representatives I interacted with have the authority and resources to take action on the company's behalf.*
4. **POSTURE 4:** *The company leads the industry in taking meaningful action on the issues I care about.*
5. **POSTURE 5:** *The company leads the industry in its commitment to interacting with stakeholders on the issues I care about.*
6. **POSTURE 6:** *The company demonstrated a willingness to lead on the issues I care about.*

4. OPENNESS of corporate representatives (5 items)

1. **OPEN 1:** *People at the company were receptive to interacting with me.*
2. **OPEN 2:** *The people at the company listened to my ideas and concerns.*
3. **OPEN 3:** *Even if they listened to me, company representatives discounted my input as wrong, irrelevant, or insignificant. (R)*
4. **OPEN 4:** *People at the company were open to learning about new ideas.*
5. **OPEN 5:** *The company only interacts with supportive stakeholders; it does not interact with those who present challenges or opposition. (R)*

5. HONESTY/INTEGRITY of corporate representatives (5 items)

1. **HONESTY 1:** *I believe company people were truthful, even if it would benefit them to be misleading.*

2. **HONESTY 2:** *I think people at the company withheld important information that was relevant to our interactions. (R)*
3. **HONESTY 3:** *Individual people at this company "walked their talk"--their words were congruent with their actions.*
4. **HONESTY 4:** *Our interactions were dominated by company representatives explaining or defending their point of view. (R)*
5. **HONESTY 5:** *People at the company were willing to acknowledge what they don't know.*

6. FAIRNESS of engagement process (5 items)

1. **PROCESS 1:** *My interactions with the company were facilitated or carried out in manner that I believe was fair*
2. **PROCESS 2:** *I believe there were important parties or points of view that were not included in the interaction(s).*
3. **PROCESS 3:** *The company clearly defined and explained its decision-making processes around issues I care about.*
4. **PROCESS 4:** *The implementation of decisions or agreements was monitored fairly.*
5. **PROCESS 5:** *I had sufficient opportunity to address issues of concern to me.*

Essay #3

Glimpsing possibility in company-stakeholder engagements:

How relational ambivalence and quasi-cooperation foreclosed cooperative outcomes

INTRODUCTION

Stakeholder theory rests on the idea that managers should seek to create as much value as possible for all of a firm's stakeholders without resorting to trade-offs among them. The possibility of resolving trade-offs in a way that creates value for all of a firm's stakeholders is both definitional to stakeholder theory and represents its superordinate goal. Yet there is much to be learned about how shared value is created in practice, and what factors enable and constrain its generation (Freeman, 2010).

This paper presents a case study of a long-term engagement between an electric power company (Power Co.) and activist environmental non-governmental organizations (NGOs). Drawing on theories of negotiation and trust, I develop a dynamic model that illuminates the mechanisms that contributed to the participants' failure to achieve the potential of engagement that some believed was within their grasp. In brief, Power Co. and NGO stakeholders enjoyed a five-year period of relative success in engagement, followed by a seemingly irreconcilable disagreement on a high-stakes issue: proposed Environmental Protection Agency (EPA) regulations that would limit air pollutant emissions from power plants. Despite the hopes of individuals on both sides for finding a mutually agreeable solution, and their beliefs that such an agreement could be more productive than separate attempts at influencing the regulatory agency, the parties failed to find common ground, and in the process destroyed their working relationships. The question I seek to answer is: What prevented the participants from realizing the possibility they envisioned for shared value creation?

LITERATURE REVIEW

Theoretical framing

Stakeholder engagement can embody many different kinds of social phenomena, including dialogue, negotiation, conflict resolution, teaming, inter-organizational cooperation, public participation, and social movements. I use theories and concepts from research on negotiation and conflict resolution because stakeholder engagement during the period of study displayed characteristics of these phenomena, and the associated theories offer substantial explanatory power for the observed processes and outcomes. Cognitive frames, trust and relationship are central to the analysis, and are reviewed herein.

Negotiation frames

Frames are mental representations that guide how people interpret a situation. In negotiation, they are thought of as the mediating factor between a negotiator's personal attributes and the characteristics of a situation, and his or her behavior in negotiation (Pinkley, 1990). Research on two kinds of frames have dominated the negotiation literature: 1) how negotiators construe the nature of the issue or task at the center of negotiation, and consequently its purpose or goal, and 2) trust expectations about how other parties in the negotiation will behave.

Issue and purpose frames

Deutsch (1949a, 1949b) and Walton and McKersie (1965) developed early models of how people frame negotiation issues and goals, as either distributive/competitive or integrative/collaborative. Negotiators who adopt a distributive framing construe the purpose of negotiation as divvying up “fixed pie” or “zero sum” outcomes among competing parties. One’s own goals and those of others are seen as negatively interdependent, meaning if one party wins the other must lose (Deutsch, 2011). In this competitive contest, each party tries to enhance its own power to unilaterally impose a solution that maximizes self-gain, while simultaneously obstructing the progress and reducing the power of the other.

Negotiators who use an integrative framing think of potential negotiation outcomes as an “expandable pie” or “variable sum,” from which all the parties could in theory derive value. The goal here is to cooperate—to reconcile the interests of all the parties around common goals and attain ‘win-win’ outcomes that maximize joint gains. Often this involves redefining the nature of the negotiation from a single-issue focus to include other related issues that can be used in developing a solution that satisfies all parties’ needs (Fisher, Ury, & Patton, 1981; Putnam, 1990).

Distributive, competitive negotiation frames are thought to produce behaviors intended to defeat the other party, such as unilaterally establishing outcome goals and bottom lines, and engaging in offers, concessions, and possibly compromises to divvy up a fixed pie of resources. More contentious means include misleading the other party and withholding information; manipulating opponents’ perceptions of one’s set points; and issuing attacks, demands, or threats. In contrast, integrative, cooperative negotiation frames produce problem-solving behaviors that include open sharing of information; joint identification of the nature of the problem and solutions that benefit all parties; responsiveness to others’ needs; and acting in trustworthy ways (De Dreu, Weingart, & Kwon, 2000; Deutsch, 2011; Pruitt & Carnevale, 1993; Pruitt & Kim, 2004). Table 1 summarizes these two models.

Table 1: Negotiation issue and purpose frames

Competitive/Distributive	Cooperative/Integrative
<ul style="list-style-type: none"> • Negative goal interdependence (conflicting goals) • Fixed pie/single issue • Negotiation is a competitive win-lose endeavor • Individualistic orientation: maximize gain and/or minimize loss for <i>self</i> 	<ul style="list-style-type: none"> • Positive goal interdependence (common goals) • Expandable pie/multiple interdependent issues • Negotiation is a cooperative win-win endeavor • Mutualistic orientation: maximize gain and/or minimize loss for <i>all</i>

Laboratory research supports the proposition that frames drive action. For instance, participants who played the “social dilemma game,” in which the task was to maximize joint claims from a common resource pool, were more generous in their allocations to their partners than those who played the ultimatum game, where the task was to convince one’s negotiating partner to accept one’s unilateral proposal for resource distribution (Larrick & Blount, 1997). Participants expect to cooperate more when negotiating around a task in which “two people face a common problem” versus one where “each person is trying to get what he or she wants” (Thompson & DeHarpport, 1998). Research also has shown that frames can differ even when situational characteristics are held constant, for instance participants who played the “Community Game” engaged in cooperative behaviors about twice as frequently as those who played the identical “Wall Street Game” (Ross & Ward, 1995).

By linking frames to behaviors that negotiators exhibit, this body of work helps address the “black box” bias in negotiation research, which has historically emphasized antecedents and consequences at the expense of negotiation processes (Pruitt & Kimmel, 1977; Thompson, 1990). However, a core assumption that undergirds most negotiation research is that negotiator frames are fixed during a negotiation interaction, and do not change or evolve. As Brett et al. write, “Current [negotiation] theories may adequately characterize negotiation when negotiators’ goals are known and static, but they do not describe how negotiations progress when goals are ambiguous and/or evolving” (Brett, Northcraft, & Pinkley, 1999, p. 437). Distributive and integrative approaches are thought of as separate, and usually competing, paradigms, which negotiators select at the start of a negotiation and follow throughout its course (Putnam, 1990).

Researchers are just beginning to embrace the notion that frames change and evolve in interactive collective processes (Bazerman, Curhan, & Moore, 2002). Scholars working in the cognitive heuristics school of negotiation have explored the interplay of collective interlocking scripts (Pruitt & Carnevale, 1993), the mutual influence of negotiation loss and gain frames (De Dreu, Carnevale, Emans, & van de Vliert, 1995), and how individualistically motivated negotiators in a group trigger a decrease in the use

of integrative strategies (Weingart, Brett, Olekalns, & Smith, 2007). The issue development approach to negotiation has produced *stage* models, in which integrative and distributive behavior evolve developmentally (e.g., Adair & Brett, 2005; Gulliver & Gulliver, 1979), as well as *interdependence* models, in which negotiators alternate between integrative and distributive strategies and tactics in a symbiotic tension between competitive moves for individual gain and cooperative behaviors necessary for coordinating mutual agreements (Lax & Sebenius, 1986; Putnam, 1990; Van de Vliert, 1997).

This small body of research on dynamic interactions between frames and behaviors tends to emphasize the potential benefits of a blended competitive-collaborative strategy rather than its downsides or risks. For instance, it is claimed that problem solving and contending tactics can be beneficial within the same negotiation because problem solving requires being firm about one's needs (which sometimes requires the use of contentious tactics) while also being flexible about the means for achieving them (Druckman, 2003). Parties can adopt "conglomerated" strategies like "firm-flexibility" (holding firm on one's own interests while seeking solutions that satisfy other parties), or "thromises" (combining threats and promises) (Van de Vliert, 1997). Furthermore, "a vigorous defense of one's position on certain issues, in contrast to others, may help the other party understand one's properties and thus locate an acceptable exchange of concessions" (Pruitt, 2011, p. 853). However, because very little research has been conducted on blended approaches, many open questions remain about how and how well these strategies work.

This study aims to contribute to research on negotiation framing in two ways. One is to open up the "black box" of negotiation to understand the dynamic, interactive processes by which frames and also behaviors shift over time in response to endogenous and exogenous factors. The second involves the relatively unexplored area of blended negotiation strategies. While researchers are beginning to recognize the inadequacy of existing models that depict negotiation strategies as homogeneous, there is little understanding about what heterogeneous strategies look like, and more importantly, whether and under what conditions they lead to productive outcomes. This paper seeks to address this limitation.

Trust frames

Trust refers to expectations about how others will behave (Dasgupta, 2000; McEvily, Perrone, & Zaheer, 2003). Trust is thought of as fundamental to integrative negotiation, and virtually all scholars have agreed that trust is an immediate antecedent of cooperation (Smith, Carroll, & Ashford, 1995).

Negotiators who hold a goal of cooperation must also be able to rely on their partner to cooperate; without this expectation, cooperation is unlikely (Pruitt & Kimmel, 1977; Yamagishi, 1986). But despite the centrality of trust (and distrust) in negotiation processes and outcomes, researchers have yet to

integrate recent insights from the trust literature into theoretical models, and trust research itself remains limited in ways that could be important to understanding negotiation phenomena. Two of these areas are: 1) theories about the multiplex, multidimensional nature of trust; and 2) the nature and function of trust in long-term, repeated interactions.

Multiplex nature of trust

In an influential synthesis of the diverse trust literature, Mayer et al. (1995) proposed three trustee characteristics that influence a trustor's willingness to trust: ability, benevolence, and integrity. Two of these, benevolence and integrity, are particularly relevant for this analysis. *Benevolence* involves the extent to which a trustor believes that the trustee wants to do good to him or her (Mayer et al., 1995; Schoorman, Mayer, & Davis, 2007). Benevolence is related to other concepts in trust research such as *affect-based trust*, involving the expression of genuine care and concern for the welfare of partners (McAllister, 1995), and *identity-based trust*, referring to understanding the interests and intentions of the other party, and identifying with those wants based on shared values and commitment (Coleman, 1993). The concept of *prosocial* motivation, in which negotiators aim to maximize both their own and others' outcomes, also encompasses the notion of benevolence (De Dreu et al., 2000).

Integrity-based trust involves the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable (Mayer et al., 1995). Issues such as the consistency of the party's past actions, credible communications about the trustee from other parties, belief that the trustee has a strong sense of justice, and the extent to which the party's actions are congruent with his or her words all affect the degree to which the party is judged to have integrity. This form of trust is related to ideas of calculative trust, integrity, reliability, dependability, and responsibility (Butler, 1991; Cook & Wall, 1980; Johnson-George & Swap, 1982; Rempel, Holmes, & Zanna, 1985; Zucker, 1986).

A third dimension of trust that is salient for this analysis is trust in relational commitment. This refers to the trustor's expectation that the other party is committed to continuing the relationship into the future. Some authors conflate the existence of a relationship, which involves personal knowing, direct communication, and (sometimes but not always) mutual liking, with the trust that others will want to continue it (e.g., Gelfand, Major, Raver, Nishii, & O'Brien, 2006; McAllister, 1995). However, these are actually separate ideas, as this analysis will demonstrate.

The idea that people develop trust that can vary along different dimensions challenges a long-held assumption across intellectual traditions—that trust and distrust are separate and inverse counterparts with low trust indicating high distrust and vice versa (Lewicki, McAllister, & Bies, 1998). Lewicki et al. (1998) suggest that a more appropriate and nuanced view of relationships is not unidimensional and

uniplex but instead as complex and multidimensional. In this paradigm, it is possible (and likely) that the different dimensions of trust do not necessarily vary together. Individuals could conceivably accommodate views of each other that are not internally consistent, trusting another on one dimension (e.g., being in integrity around telling the truth) but not on another (e.g., benevolence).

However, to date there have been only a few empirical studies that make use of a multiplex, multi-dimensional concept of trust (Chua, Morris, & Ingram, 2008; Lui & Ngo, 2004), and questions remain about the impact that a mixed trust-distrust dynamic has, especially in long-term relationships. As noted by Pirson and Malhotra (2008) in their review of research on stakeholder-firm relationships, "little is known regarding which [trust] dimensions are most critical in building and sustaining stakeholder trust, and whether the relevance of the various dimensions is contingent upon the nature of the stakeholder relationship. Furthermore...this lack of integration has made it difficult to identify the precise nature of organizational trust as it is built (or undermined) across stakeholders."

Trust in long-term interactions

Research on trust suffers from the same limitation as negotiation research: a dearth of longitudinal, process-based studies that explore the changing nature of trust over time. Many studies focus on just one of the three phases of trust: 1) trust building (where trust is formed or reformed), 2) stability (where trust already exists), and 3) dissolution (where trust declines) (Rousseau, Sitkin, Burt, & Camerer, 1998). Given this constrained research focus, it is not always clear how past ties and history are actually functioning as the "shadow of the future" (Zaheer & Harris, 2005). Van De Ven and Ring (2006) in their review of trust in cooperative inter-organizational relationships, note that with the exception of several studies, "virtually all of the research on trust in inter-organizational relationships is based on cross-sectional studies that do not provide information about the temporal development of trust. We have very little empirical evidence about the evolutionary dynamics of interpersonal trust. Longitudinal research is required to observe how and why processes of trust develop over time."

This research aims to contribute to the literature on trust in two ways. First, to my knowledge this is the first study that explores the implications of multiplex trust in a negotiation, by showing how a mixed trust-distrust dynamic influences negotiator behavior and negotiation outcomes. Second, the paper adds to the small body of existing work on longitudinal, process-based studies of trust across different phases. The analysis shows how the past history of relationship establishes trust frames that then shape prospects for future collaboration, and also illuminates the dynamics of a phase of rapid trust dissolution (Cohen & Dienhart, 2013; Elangovan & Shapiro, 1998).

METHODS

Site selection and data collection

Phase 1

The first phase of data collection and analysis consisted of a 12-month period from February 2011 to February 2012 at two companies—an automotive company and an electric power company (Power Co.). Both companies have extensive stakeholder engagement activities. This phase was described in detail in the first paper of this dissertation. Data collection centered on several kinds of stakeholder engagements at each company, and involved interviews, observations, and review of archival documents. Interviews focused on the general topic of the effectiveness of stakeholder engagement activities—how people evaluated the success of engagement and what factors they believed enhanced or impeded success. A copy of the Phase 1 interview protocol is contained in Appendix A.

During this research period, both companies were experiencing conflict with environmental NGO stakeholders around proposed federal environmental regulations, and relationships between the companies and stakeholders that for the past several years had been collaborative and congenial broke down amidst sharp disagreements. This provided a unique opportunity to study the nature and process of stakeholder engagement, and in particular the tension and choice points around how the parties thought about shared value creation in stakeholder engagement. I considered doing a comparative case analysis of the dynamics of both companies, but I had more frequent and higher level access at Power Co. and therefore decided to focus the research there.

The original data from Power Co. (described in detail in Table 3 of the first paper of the dissertation) provided the initial information that was needed to begin the analysis. I wrote several memos using this information to describe what had happened at Power Co. from February to May 2011, a period when the company and NGOs were negotiating around the EPA regulations. Throughout this paper, this period of active conversation is referred to as the “negotiation.” At no time was I invited to any of these confidential engagements, which were protected under the terms of a non-disclosure agreement. I therefore rely throughout this paper on interview data and on observable actions at the organizational level.

Phase 2 data collection

The Phase 1 memos revealed that I would need to return to Power Co. and conduct more interviews to understand what had occurred during the February-May 2011 negotiation. The first task was to select key informants to interview. The NGOs were represented by two individuals, NGO A and NGO B. I

conducted follow-up interviews with both of them. At Power Co., the company's most senior leaders at corporate headquarters participated in the small-group engagements—the future CEO, the heads of Environmental Health and Safety, Power Generation, and Policy, and three other senior leaders responsible for regulatory policy, legal affairs, and energy market analysis. Three of the company's nine most senior leaders were part of the conversation. Not everyone participated in every engagement; a core group of four or five Power Co. people would typically convene with others sometimes joining.

I asked my company contacts who was *most* involved in the negotiations with the NGOs, and who had experiences engaging with them in prior years. Three individuals fit these criteria. They worked in different areas of the company, which gave them different perspectives on the negotiations. An additional person who led a separate department, Power Co. X, was also interviewed.

Phase 2 data collection took place between February and September 2012. I interviewed key decision-makers at both Power Co. and NGOs who were involved in the negotiation, asking them both about what had occurred during and afterwards. As in Phase 1, interviews were conducted in person when possible and by phone otherwise. All interviews were taped and transcribed.

I conducted two types of interviews. One was a standard informational interview designed to gather a range of data about how an individual was framing, or making sense of, his or her experience with regard to the negotiation and the other participants. I also asked about people's actions, and sought to uncover the links between internal frames and actions. At the time, I thought that the case would focus on a within-company comparison of two different stakeholder engagement episodes, one around a prior legislative effort and one around the EPA regulatory controversy. The Phase 2 interview protocol, which is included in Appendix B, asks questions about both episodes. The case was not, in the end, about the legislative effort, but the data generated through the interviews about it provided critical context and background that appear in the analysis.

The second type of interview I conducted was a modified version of a Subject-Object Interview, an interview protocol that is grounded in cognitive developmental theory, and seeks to elicit the latent mental structures that people use to make meaning of their experiences (Souvaine, Kegan, Goodman, & Felix, 1988). Through this interview format I gathered data about the frames people used to approach negotiation, as well as their emotional experiences, which are helpful for understanding motivations for action. A copy of the Subject-Object interview protocol is contained in Appendix C.

A list of interviewees, disguised by pseudonyms, and the dates they were interviewed is listed in Appendix D. The dates are important because many interviews were done after a significant incident occurred on April 29, 2011 (the public leak of Power Co.'s legislative effort) and another in early May,

2011 (the launch of the NGO campaign). Most interviews, because they were conducted many months after these dates, likely include some degree of retrospective bias because memories were no longer fresh, and were colored by recent events. I dealt with this methodologically by creating an artifact (contained in Appendix E) of the timeline of the major events surround the EPA regulations and the Power Co.-stakeholder negotiations. I sent this to people in advance of interviews, and used it during the interviews as a way to stimulate their recall of past events. People did refer to the timeline frequently during interviews, and it appears to have assisted them in remembering what happened. I address other potential concerns about retrospective bias in the limitations section of this paper.

Data analysis

Time periods and units of analysis

I structured the analysis around time periods that were divided by pivotal transitions in engagement:

- 1) 2006-2011: the historical period of engagement
- 2) February to April 2011: the frames and actions characterizing a negotiation around a controversial EPA issue
- 3) April 2011 onward: the conflict spiral phase

To construct a picture of the historical engagement period, I used data from all 40 of the Power Co. and NGO informants that were interviewed in Phase 1. For future periods 2, and 3, I used data from the interviewees listed in Appendix D, organized into the units of analysis shown in Table 2.

For Power Co., I analyzed the frames of two different subgroups within the company: 1) the group of leaders at Power Co.'s corporate headquarters that were just described (Power Co. HQ), represented by individuals named Power Co. A, B, C, and D, and 2) another department in the company (Power Co. Subunit), represented by a single individual, Power Co. X. Power Co. X led a department within the company that was located in a different geographic region from the company's corporate headquarters. He had not participated in the five years of engagement with NGOs, but had a history of arms-length experiences with them in regulatory and legislative affairs.

The NGOs were represented by two individuals with senior roles at their organizations. One, whom I will call NGO A, had spent his career working in the NGO community, with a stint a governmental environmental regulatory agency. The other, called NGO B, had worked for nearly a decade at a different power company, and had also spent time working in government at an environmental regulatory agency. Both people had been involved with Power Co. since the beginning of stakeholder

engagement in 2006. In the small group conversations with Power Co., they were sometimes accompanied by others from their organizations.

Table 2: Units used in analysis for periods 2, 3, and 4

Power Co. HQ Aggregated data from Power Co. A, B, C, & D	NGO Organization A Individual-level data from NGO A
Power Co. Subunit Individual-level data from Power Co. X	NGO Organization B Individual-level data from NGO B

As Table 2 shows, this analysis uses one aggregated data set (Power Co. HQ) along with data from three individuals at Power Co. Subunit, NGO A, and NGO B. While it is not usually ideal to treat aggregated and individual data as equivalent for analytical purposes, it was both appropriate and necessary in this case. It was necessary simply as a function of the access I had to each organizational unit. Power Co. HQ gave me very high-level access to multiple people at corporate headquarters. I had access only to single individuals at Power Co. Subunit X, and NGO A and B.

However, rather than representing a major limitation in the data, this mixed aggregated-individual level data was actually appropriate because each “unit” was comparable in its power to make moves *within* the negotiation and also make decisions outside of it on behalf of their organizations or organizational units. As part of Power Co., the Power Co. Subunit was not completely independent, but operated to some degree autonomously and not entirely within the view of other decision-makers at Power Co. HQ. NGO A and NGO B were both senior decision-makers within their organizations, responsible for setting organizational-level policy and strategy on climate and air quality issues.

It was also appropriate to aggregate the views of people at Power Co. HQ into a single unit because they had all had a similar experience with previous NGO engagement, and they conferred frequently to develop the company’s position on the issues and to decide how to act on issues raised in stakeholder engagement. In analyzing the data, I aggregated their views into one single “Power Co. HQ” voice, but made special note of individual views that differed from the rest of the group, or brought out points that were not mentioned by others.

Analytical process

The data analysis proceeded over a period of months. I wrote a series of memos as I collected data in each phase to develop a descriptive story of what had occurred. I next constructed a series of tables that identified initial sensemaking categories for analysis, and how sensemaking and behavior had changed over time. As I iterated between memo writing and construction of the tables, the analysis began to

converge on three core sensemaking concepts that were driving the behavior of the participants in the negotiation: trust, personal relationships, and issue frames.

I then reviewed the literature in order to more clearly define early analytical constructs, and to refine my understanding of how these were functioning in the case. For example, I had initially identified what I believed were eight different forms of trust. After consulting the trust literature I realized that these eight categories could be encompassed by two general categories—benevolence and integrity.

Once the literature review was complete, I created a detailed table showing how trust, negotiation frames, and personal relationships had evolved over time for each of the four units of analysis in the case (which were described in Table 2). I used this detailed table to draft an initial 120-page memo of the entire story. Lastly, I used this memo to create the dynamic model of negotiation shown in full in Figure 5, and revised the analysis to focus on the core dynamics that were operating in the case.

Validity issues

In a qualitative, interpretive research design such as this one, threats to internal validity arise primarily from researcher bias, or projecting the researcher's interpretations onto the data rather than accurately representing the meanings and experiences of people in the situation (Maxwell, 2012). I discuss three issues here related to researcher bias: 1) How to collect enough data to draw accurate conclusions; 2) How to ensure that my interpretations of the data are accurate; and 3) How to ensure that participants reveal what is true in their experience, and not withhold relevant information.

Regarding the first concern, I used a variety of data collection methods and sources—interviews that generated data on different aspects of engagement—frames, actions, and outcomes; observations of engagements; and archival analysis. The research extended over a 19-month period, enough time to gather a large amount of data through ongoing, iterative conversations and interactions with research participants. In presenting and analyzing the data I drew on all three sources of data—interviews, observations of engagements (though not of confidential negotiation), and archival documents—which allowed for data triangulation to ensure factual validity.

The second concern centers on interpretive validity of the data, or ensuring that the conclusions I draw from the data are accurate. The single most important way of ruling out misinterpreting what participants mean and what they do is to systematically solicit feedback from them about one's data and conclusions (Maxwell, 2012). Validity testing is also an important way to identify and correct for one's own potential biases. I wrote detailed research memos on both cases, which were reviewed by several company people and stakeholders from both cases. I used their feedback to refine the analysis and

revise the memos. At the time of this writing, Power Co. has reviewed a draft of this paper, and has indicated that they agree with my interpretations of the story. I hope to get feedback also from the NGOs who were involved in the research.

The third validity concern involves creating research agreements and conditions during the research process itself to ensure that participants reveal what is true in their experience, and not withhold or distort information, or share only what the researcher might want to hear. Because of the sensitive, high-stakes nature of the issues at the center of the research, I assured anonymity to individual participants and to their parent organizations. In a signed consent form, and in a verbal pre-interview briefing, I assured all participants that interviews were completely anonymous, nothing they said would be attributed to them, and identifying details would be masked.

In the interviews themselves, I used a “mirroring” technique, in which I periodically summarized what I heard people say in an objective, non-judgmental manner, and asked them to confirm or revise my understanding. I believe this demonstrated to the participant that I was listening carefully to what he or she was saying, and that I was interested in ensuring I understood the meaning of the words accurately. I also avoided leading questions and sought to reframe and feed back what the person had said using their exact words rather than a paraphrase of their thoughts using my words. These methods, which are part of an empathetic interview style, were used in the training and certification I underwent for the Subject-Object interview method described earlier.

DATA

Power Co. forms of stakeholder engagement

Power Co. began to meet with NGO stakeholders in 2006 after the arrival of a new CEO who believed that companies should be transparent, accountable, and engage proactively with internal and external stakeholders. Power Co. worked with a nonprofit environmental advocacy group, Envirocare, to design a series of structured, facilitated engagements with a group of stakeholders from the Envirocare network. The CEO ordered the entire senior leadership team and key staff in the company’s environmental health and safety and operations departments to attend these engagements. This was a significant commitment by the company’s leadership to engagement. Engagements occurred once yearly in person, typically for an evening and a full day, and once or more per year by phone for several hours. Over time, company people and NGO stakeholders established a norm of talking informally as needed, and several NGOs communicated directly several times per year with the company’s CEO and other members of the

senior leadership team.

At first, Power Co. was “dwelling in a legacy of non-involvement and non-engagement with stakeholders,” as one company person said, and its leaders were reluctant parties to the engagement table. But by 2011, company people and stakeholders agreed that Power Co. had transformed its earlier defensive stance, and was fast becoming a leader in engaging environmental stakeholders. As an NGO put it, “They have really proactive leadership in identifying stakeholders and reaching out at the highest level of the company. We haven’t seen that in other large utilities in this peer group.”

Period 1: 2006-2011: Generating relational capital and cooperative successes

The five-year period of engagement from 2006-2011 was characterized by two major developments. One was the generation of relational capital, comprised of personal relationships and integrity-based trust, but with mixed views of benevolence-based trust. The second development was a series of visible cooperative outcomes, which shaped the participants’ negotiation frames in subsequent time periods. These developments are described in this section with supporting data.

1) Personal relationships

Prior to the beginning of engagement, Power Co. and stakeholders had no direct relationship with one another, and engaged only at arms’ length in confrontational ways. One NGO representative described their interactions with Power Co. through the 1990s as primarily “adversarial...you wind up on either side of the argument and see who wins.”

As Power Co. and NGOs began to interact more frequently, they began to develop personal relationships, and some people on both sides considered each other friends. By 2011, the company’s new CEO felt that Power Co. “truly had a relationship” with stakeholders, which were “key to the success” of the company. Power Co. was able to develop these kinds of relationships in part because they chose only to interact with NGOs that were willing to listen and to advocate in a constructive way. “Those who remain passionate and emotional about their own view and perspective, and are closed in their view are so much less effective than those that state their position in a matter of fact way and are clearly demonstrating they are willing to listen. There were a lot more of those [emotional NGOs] early on in the process. As we move forward there are fewer.”

NGO representatives also valued their personal relationships with the company, for instance as one put it, “The one theme of our engagement is a good personal relationship that I have with the Power Co. CEO and [other senior leaders]. I have relatively frequent conversations with them. If they have something on their mind they feel free to call me and vice versa.”

Having these relationships did not necessarily mean company people agreed with stakeholders (or vice-versa). As one Power Co. person said, “We’ve got relationships that help us understand why they take the stand they’re taking and they can understand why we’re taking ours...It doesn’t mean we’re going to get to a point of agreement, many times we’ll get to a point where we agree to disagree. But we at least we talk through it, as opposed to throwing legal jargon across email traffic.”

2) Integrity-based trust

Integrity-based trust is one form of trust involving the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable (Mayer et al., 1995). The integrity-based trust that developed between Power Co. people and NGO stakeholders was based on the participants’ attributions of each other’s willingness to: a) uphold norms of communication, b) be honest and transparent in engagement.

a) Integrity of communication norms

In their personal relationships, Power Co. and NGO people gradually developed a norm of giving the other a “heads up” in advance of actions. If one group knew that a decision was brewing, it became the norm to reach out to the other to let them know in advance. The participants valued this advance communication, even if they disagreed with the actions that the other side took.

For instance, one NGO representative described how he disagreed with Power Co.’s position on the issue, but he appreciated that the company had given him forewarning, “Power Co. filed these comments [with the regulatory agency], so clearly our advocacy had no impact on what they did. That was really disappointing. On the other hand, I have good enough relationships with Power Co. folks that...I knew what they were going to file before they filed it because somebody there told me. So, at least I knew.” Similarly, the Power Co. CEO said of one instance where he and an NGO disagreed, “The NGO Executive Director was kind enough to call and say, ‘We’re going to take a hard approach on this.’”

Both sides expected that they would not just receive this courtesy, but also extend it to the other side. For instance, an NGO said, “Because of the relationship we have, if there is something that put Power Co. in a bad light I could imagine giving them the heads up. Because of the relationship we have established, [I would] just say look sorry we’re just finishing the numbers, but we just want you not to be caught completely unaware about this.”

Giving a heads-up was not a formally agreed or explicit rule, but rather an informal and tacit norm that evolved over time. One time an NGO group failed to give Power Co. a heads up when they came out with a report on air pollution that analyzed the emissions of Power Co. and dozens of other companies.

Upon learning about the report, company people were irritated that the NGO had not told them about it in advance. The company's reaction to a relatively minor transgression of the norm confirms its existence as part of the company-NGO relationship.

b) Honesty

Engagement would not likely have been sustained for long without an attribution by each side of the other's basic honesty. I define honesty to mean factual truthfulness (Peterson & Seligman, 2004), including sharing truthful information and not deliberately lying through omission.

The evidence from the case was tilted entirely towards evaluations of the honesty of Power Co. I have no data either on Power Co.'s assessment of NGOs' honesty and transparency, or NGOs' evaluation of themselves on this score. The issue simply did not come up in interviews, whereas evaluations of Power Co. were raised spontaneously by both sides. I attribute this to the historically advocacy-based nature of the engagement, in which stakeholders sought to hold Power Co. accountable for its behaviors and its impacts. Neither Power Co. nor NGOs were in the habit of evaluating the NGOs' character in the way that NGOs were accustomed to evaluating the company. "The NGOs are not held under the same scrutiny as we are," one company person said.

This section contains sample quotes that speak both to Power Co.'s view of itself and NGOs' attributions of the company. Although there are no data about Power Co.'s opinions of NGOs, it stands to reason that because the company had an active hand in selecting stakeholders for engagement, it would only continue a five-year relationship with people it considered honest, or at least not dishonest.

People from Power Co. viewed themselves as maintaining an honest, straightforward stance in engagement. "We are a very honest broker of facts and ideas and we tell it as we see it...We've never had anyone ever say, 'Power Co. hid information, they didn't tell the truth...' That's really important because once you lose your credibility, you can forget about negotiating with anybody on anything." NGO interviewees corroborated the company's view of itself as an honest broker. One NGO participant, NGO A, who played a central role in the future disagreement with Power Co., praised the company's leadership for their honesty. He said, "The individuals that I have been dealing with have not been misleading," and "They've demonstrated that they've got leadership that's interested in actually having a serious conversation with a group like us, and not playing games and being candid and relatively transparent, by which I mean they share information with us that's consistent with their need to protect confidential information."

3) Benevolence-based trust

As described in the literature review, benevolence involves the extent to which a trustor believes that the trustee wants to do good to the trustor, aside from pursuing one's own egocentric motives (Mayer et al., 1995). Power Co. were ambivalent about NGO benevolence because of the heavily advocacy-oriented NGO approach, and NGOs felt ambivalent about Power Co. benevolence because Power Co. did not fully address all of their concerns.

Power Co. ambivalence about NGO benevolence

People from Power Co. credited stakeholders for many changes that the company had made over the last several years, for instance on energy efficiency, renewable energy, and fuel supply chain sustainability. "There is no doubt that stakeholders pushing constructively has changed who we are," as one person said. However, people at the company judged that, above all, NGOs were interested in advancing their social and environmental goals, and proved "benevolent" only as long as the company was willing to act in ways consistent with their agenda. This felt to company people like a "one-way" relationship, in which the company was asked to do all the learning and changing, but NGOs were not likewise willing to consider and revise their own beliefs or agendas.

Company people, in short, doubted whether the NGOs' were truly benevolent towards them. As one person said, "Stakeholders say 'we're working together.' But their 'together' is them trying to wish their demands on us." He continued, "I don't know if they consider the partnership a 'partnership,' or them just telling us what to do...Collaboration works with the NGOs, as long as you wholeheartedly listen to what they say and do what they say. It doesn't work when you ask them to come to the middle somewhere." This interviewee, who had a great deal of experience engaging with stakeholders in different formats, attributed this stance to the NGOs' strong beliefs, "NGOs have a mission to move the ball forward, but it's become much more than that—it's become a religion to them about what they believe. I have a feeling I'm not allowed to believe anything else or believe anything in the middle or I will be a demon to them. And it's not just me it's the whole leadership team and it's our company."

Furthermore, company people believed that stakeholders tended not to acknowledge the efforts and the progress that the company had made. As one Power Co. rep said, "It was beginning to feel like we were never doing enough, it was never good enough and there was no recognition for the amazing progress that we had made in just a few years."

There was some discernment by Power Co. people of differences among stakeholders, e.g. "Some are willing to work with you, and some just want to keep telling you what they want." However, for the

most part Power Co. people referred to NGOs as a block interest group. This may be due in part to the fact that Envirocare deliberately prepared all the stakeholders before the large engagements to prioritize their agendas, and develop a coherent stakeholder “ask” that was focused on a small set of priority issues. NGOs were perceived as a block because they organized to present themselves that way.

NGO ambivalence about Power Co. benevolence

For the NGOs, the judgment of Power Co.’s benevolence towards their interests was tied to their judgment of whether the company was willing to respond to their concerns, and demonstrate a progressive stance on issues about which they cared. NGO representatives did think that Power Co. had made significant progress in addressing their concerns, although as was just noted, they did not tend to communicate this directly to the company. However, even though NGO views of the company’s benevolence was not negative, nor was it resoundingly positive and enthusiastic. There were (at least) three things that stakeholders wanted in addition to the changes that the company had already made.

One, they wished that Power Co. would more directly acknowledge the environmental impacts of its operations. As one NGO put it, “They always say, ‘We’re great, we’re cleaning up our plants,’ but they don’t really talk about it from a societal standpoint, that plants are having an impact on people...who end up in the hospital. They don’t acknowledge that.” Stakeholders also wanted Power Co. to recognize the legitimacy and value of efforts to address those impacts. As one NGO representative said of the EPA regulations that were under discussion, “What is being missed by Power Co. is the very real value around what EPA is trying to do...and the [environmental] benefits to the nation and to customers.”

Two, stakeholders wanted the company to be more responsive to a few issues of high priority to them that had become stalled in the engagement process. They believed that the problem was not that Power Co. didn’t know what they wanted; they had been “repeating their messages year after year.” Rather, the company had simply refused to respond. For instance, a group of NGO stakeholders wanted Power Co. to pursue a “decoupled” revenue generation model, which would require an enormous change in the company’s core business strategy. The company had engaged stakeholders in dialogue on the issue, but ultimately decided that decoupling was unworkable, at least for the foreseeable future. Some stakeholders were frustrated with this stance, believing that Power Co.’s refusal to embrace decoupling, among other issues, signaled that the company was not yet willing to make fundamental changes to “fully align its mission” with sustainability.

Three, stakeholders wanted Power Co. to exert more proactive leadership in support of environmental interests. Stakeholders believed that the company could do much more on this front, for instance, “We have seen Power Co. do a lot of good things. So I don’t want to make it sound like they’re

just completely evil. But we haven't seen them really put forward a proactive approach to cleaning up their fleet." As another described, "I'd like to see them philosophically or rhetorically come out with an explanation of how to align sustainability with their business model...to say climate changes are real, this is a problem, we need to fix it and here's how you do it." In short, stakeholders wanted Power Co. to be more proactive in contributing to solving problems and to not impede solutions, to "focus on what they want versus what they oppose."

4) Engagement outcomes

At the outset of engagement, both stakeholders and company representatives agreed that Power Co. held what Clarkson (1995) would call a "reactive" or "defensive" posture on environmental concerns. A senior Power Co. executive described the company this way: "Our defensive posture was we wanted to push back on everything that occurred, in particular environmental regulations...we would just say 'No, it cannot be done.'" By 2011, Power Co. had undergone a significant transformation, which company leaders attributed in part to stakeholder engagement. The company published a comprehensive report that detailed its social and environmental performance, and had taken action to improve that performance. It had voluntarily reduced carbon emissions; implemented energy efficiency programs; initiated sustainability dialogues with its fuel suppliers; conserved water; developed carbon capture and storage technology; and designed programs to preserve wildfowl habitat in its service area.

As they engaged with Power Co. under the leadership of its new CEO, stakeholders began to believe that new winds of change were blowing at the company. As one said, "They gave the impression...that there was the sincere effort to think how they were running their business, and they took a lot of effort to introduce us to a wide range of the company's leaders. And it was very clear that they were tapping into new leadership. There was a sense that they were trying to modernize the company."

Power Co. and stakeholders cooperated on a number of key issues. Two notable successes were the company's energy efficiency programs and the negotiated agreement on the Waxman-Markey climate legislation. On energy efficiency, the company had implemented a variety of energy savings measures in response to state-level mandates. Although the programs were required by law, there was leeway in the degree to which utilities chose to implement them. Power Co. engaged with stakeholders to develop a proactive and far-reaching effort that surpassed those of its peers. One internal Power Co. advocate described how the company worked with stakeholders to generate solutions that represented a victory "not just for NGOs," but also for Power Co. as well.

Five or six years ago...we were doing the minimum that we had to do by regulations in two states....and now we're going to spend more than \$100 million a year on energy efficiency, and we are being lauded by environmentalists as leaders. That is amazing because when we started the conversation with stakeholders five or six years ago we were laggards; we weren't doing anything, and they were constantly hitting us on that. And now...they always hold [our home state] up as an example of what can and should be done. It turned out to be a victory for everyone, and not just the NGOs. It was good for business, we met lost revenues, and we got what we needed to make it happen.

This passage evinces the dynamic of stakeholder advocacy-company response, in which the company sought to satisfy stakeholder advocates, but only as long as stakeholder suggestions made good business sense. In contrast, stakeholders did not frame the issue as a win-win, but instead emphasized the progressive stance that Power Co. was willing to take on an issue of importance to them. One stakeholder compared the company favorably against three others that he also engaged, "Power Co. is doing the best of the four electric utilities in my opinion in delivering energy efficiency. They went from zero to 60 in two years. I don't know how much the company is comfortable with this, but they're becoming a regional model for energy efficiency implementation."

The other cooperatively generated solution was the Waxman-Markey climate bill, which was introduced as a bill in the U.S. House of Representatives in March 2009. The basic shape of the bill (a cap-and-trade scheme) had already been established by previous legislative efforts. What remained to be worked out were a number of technical issues that would affect major industries, including the utility sector. Power Co. had decided to support the bill,¹ and from there the company and NGOs engaged in a direct dialogue to try to forge an agreement on the bill's technical components. This kind of direct interaction on a significant public policy issue was a first for Power Co. and the NGOs.

From the company's perspective, the engagement with NGOs on Waxman-Markey was a success. "We really had a great dialogue and lot of give and take and it's probably the only time that we have agreed with that segment of the environmental community on a major piece of legislation. So from that standpoint it was extraordinarily valuable for us."

NGOs believed that their engagement with Power Co. was successful, but only to a degree. They were generally satisfied with the progress they had made on negotiating the House version of the bill, "We had several successful experiences where we negotiated language that addressed their concerns and addressed our concerns. And it looked like they were actually engaging in a way to 'get to yes'." However, the NGOs were not entirely happy with the House bill, and they intended to advocate in the Senate version against a key concession that Power Co. had won in the House version. They and Power Co. would have to "agree to disagree and try to see who would prevail [in the Senate]." When the bill

reached the Senate, “all bets were off.”

To summarize how each side thought about these engagement outcomes, both agreed that they were particularly visible and compelling successes, but there were differences in how each side interpreted the results. Company people described the outcomes as win-win solutions, while NGOs framed outcomes as the company being responsive to their advocacy. This is consistent with the perception by Power Co. of NGOs as advocates, and the perception by NGOs of Power Co. as benevolent to the extent that it was willing to exert environmental leadership (see Section 1.3: Benevolence).

Power Co. people believed that engagement had produced several mutually satisfactory outcomes. They, but not NGOs, used integrative language to describe their engagement goals. As one said, “One of the objectives of a process like this is to see if you can find common ground in certain areas and work together to find solutions.” As another put it, “That’s really what stakeholder engagement is; it’s about finding some common ground. Where is it that we can come together? We may not be able to come together on everything, but there’s probably something that we can find that we have common ground on. So we start there and then we build on that.” The company’s former CEO described how the company had even had a dialogue with a very radical NGO group that had a “stated objective to get rid of coal worldwide.” The CEO’s objective was “to keep the electricity on worldwide.” He said, “To get those two things done, either one of us can’t win, or we’ve got to find some middle ground.”

That people from Power Co. tended to use integrative language around engagement reflects the reality that they were continually trying to integrate and balance NGO stakeholder advocacy with many other considerations—financial, economic, environmental, and political. They believed that they needed to balance the concerns of environmental stakeholders with investors, customers, employees, and the communities they served. Some people at Power Co. thought that the company was focusing *too* much attention on environmental concerns, and that more kinds of stakeholders like employees, customers, and community representatives should be invited to the engagement table.

Environmental NGO stakeholders, in contrast, tended not to use integrative language. They focused on what they could convince the company to do on their main issue of concern: the environment. The company’s perception of the NGO role as advocates was consistent with how they perceived themselves. As one NGO said, “I think Power Co. is quite clear what we want them to do, because we’ve been repeating it to them year after year after year.” Another put it, “I am not a believer in dialogue for dialogue’s sake. I think that we can get stuck in that. What’s important is our ability to change the way the company operates, and I think having the company understand that that’s our goal is important.”

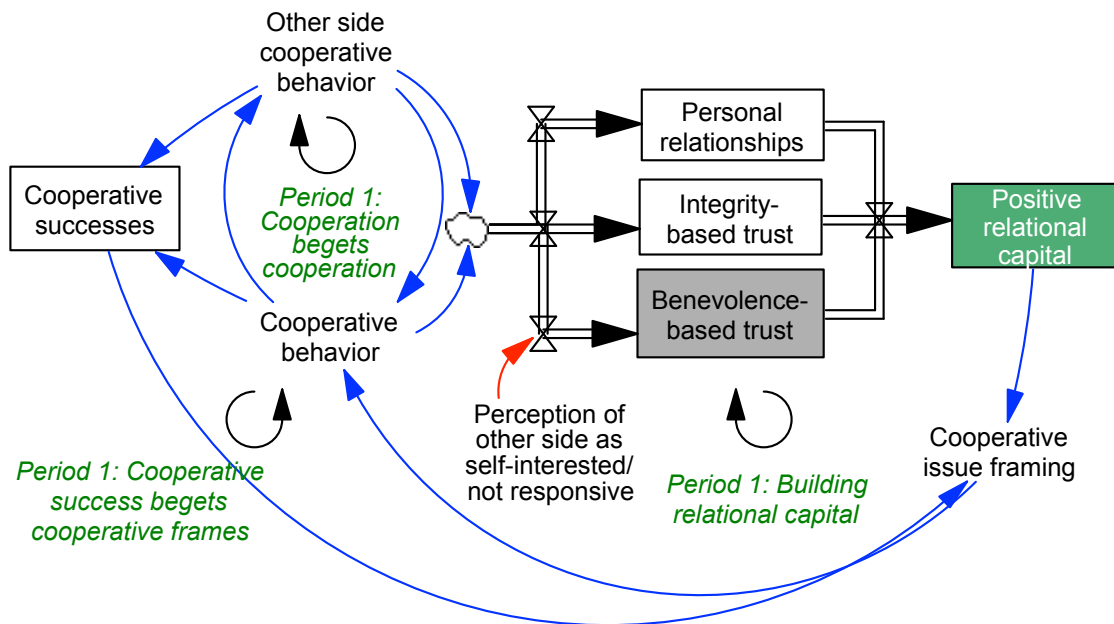
For NGOs, engagement outcomes were measured primarily in terms of how responsive the

company was to their concerns. This was in fact an explicitly defined criterion of engagement success. As an Envirocare representative described, “The idea behind our process was to advocate for change....and a key part of our model was to regularly check back with Power Co. to track what change was being implemented. We went through an annual process of evaluating whether our engagement (which involved a considerable amount of time and staff resources) led to measurable change, and only proposed further engagement where we felt that we continued to have traction. We were looking to work with the company on both accountability related issues (e.g., governance, stakeholder engagement, and disclosure) as well as measurable performance changes.”

Summary of Period 1

In summary, the five-year period of engagement from 2006-2011 was characterized by two major developments, the generation of relational capital and cooperative successes. These are shown in a dynamic relationship, depicted in Figure 1¹.

Figure 1: Engagement dynamics in Period 1



¹ Variables are related by causal links, depicted by arrows in the diagram. Blue arrows represent positive links, meaning if the causal variable increases, the affected variable also increases. Red arrows represent negative links, meaning if the causal variable increases, the affected variable *decreases* (moves in the opposite direction). Boxes indicate a variable that can accumulate or decrease to zero

The participants built a stock of positive relational capital (the green box in Figure 1) consisting of *personal relationships*—involving personal knowing, direct communication, and (among some participants) mutual liking—and *integrity-based trust*—trust in one another’s honesty and in the willingness to uphold norms of communication. At the same time, both parties were ambivalent about each other’s benevolence. This is indicated in Figure 1 by the grey color of the “benevolence-based trust” stock, which was limited by perceptions by each side towards the other. Power Co. judged NGOs to be primarily self-interested advocates, while NGOs believed Power Co. was partially but not fully responsive to their concerns. The mixed nature of relational capital, characterized by integrity-based trust and personal relationships, combined with ambivalence about benevolence-based trust, is what I call *relational ambivalence*.

The second thing the participants generated in Period 1 was a series of cooperative successes, which were a function of positive relational capital and of both sides’ willingness to cooperate (*Cooperation begets cooperation* loop). Cooperative behaviour in turn generated more positive relational capital (*Building relational capital* loop), which led the participants to adopt a cooperative frames about how to approach engagement (*Cooperative success begets cooperative frames*). There were differences in how each side interpreted their cooperation, however. Power Co. people used win-win language, referring to how their interests and those of NGOs and other stakeholders were satisfied, whereas NGOs tended to describe outcomes in terms of how responsive the company was to their concerns. In summary, the engagement from 2006 to 2011 marked a shift from historically competitive, arms-length interactions to a self-reinforcing, cooperative dynamic that set the stage for how future negotiation would unfold.

Period 2: Negotiation on the EPA issue

In early 2011, after five years of engagement, Power Co. and NGOs found themselves in a disagreement on a high-stakes issue: a set of Clean Air Act regulations being promulgated by the U.S. Environmental Protection Agency (EPA). Together, these regulations would require Power Co. to significantly reduce air emissions of several pollutants from its coal-fired power plants. Once aware of their disagreement on the issues, the company and NGO stakeholders held several meetings to try to find resolution. These meetings began in February of 2011, and continued through April 2011. Meetings took place both in person and by phone. They were carried out under the protection of a non-disclosure agreement, which enabled the company to show to the NGOs details of its analysis of the EPA regulations and discuss proposed actions. I did not have access to these confidential engagements, and therefore rely on

reports from both sides about what occurred. In this section I lay out the views held by each side of the issue, their initial negotiation frames, and the behaviors they exhibited during the negotiation.

Background on the EPA rules and the rulemaking process

At the center of the conversation between Power Co. and NGOs were two rules: the Mercury and Air Toxics Rule (MATS) and the Cross State Air Pollution Rule (CSAPR). MATS, which was first proposed by the EPA in March 2011, would be the first national standard limiting emissions of mercury, toxic metals, and acid gases. Power plants are the largest sources of several MATS pollutants, which are linked to cancer, asthma, and damage to the brain, heart, and lungs.² CSAPR, which was issued in 2010, would regulate emissions of sulfur dioxide and nitrogen oxides, which are precursors to ground-level ozone pollution and contain unhealthy fine particulates. MATS and CSAPR are regulations of the U.S. Clean Air Act, which the EPA is responsible for enforcing. The EPA regulatory process involves a lengthy, technical scientific and economic analysis of air quality issues, including one or more public comment periods as well as consultations with scientists, industry groups, and environmental organizations. The EPA seeks to integrate all this information into a regulation that will withstand legal and administrative scrutiny.

However, proposed regulations almost never escape such scrutiny. A representative from the EPA Office of Air and Radiation, which is responsible for issuing MATS and CSAPR, explained that in the vast majority of cases, rules are immediately challenged once they are finalized. Interested parties, which can be cities, states, industry groups, or environmental organizations, typically take two actions in response to a proposed rule. They submit a petition to the EPA for administrative review, which can create a delay in regulatory implementation, and they file a petition with the D.C. Court of Appeals for judicial review. Both CSAPR and MATS were subject to administrative review and litigation.

Power Co. as an individual petitioner and through industry groups, and the NGOs sought to influence the outcomes of these regulations by providing public comments and meeting with the EPA directly to explain their positions on the regulations. Both the company and NGOs also had participated in court challenges earlier versions of the proposed rules.

² Reducing Toxic Pollution from Power Plants: EPA's Proposed Mercury and Air Toxics Standards, U.S. EPA, March 16, 2011

Issue views and BATNAs³

This section lays out the initial views that Power Co. and NGOs had on the EPA issue, and the options that each side had to resolve its concerns.

Power Co. views on the EPA regulations

Power Co. people said both in interviews and in engagements that they did not disagree with the intent of the proposed EPA regulations but they were concerned about the impacts of the short compliance timelines. These would require the company to quickly retrofit some plants with modern pollution controls, and shut down some older plants for which upgrading was not economically viable. Company people believed that the short timelines would not only be logistically difficult to achieve given permitting and construction schedules, they would also create negative impacts for other stakeholders.

Investors would be impacted by plants shutting down before the end of their expected life, which the company would have to record as a loss on its balance sheet. Customers would be affected by the proposed regulations because the company would have to significantly and quicklyⁱⁱ raise electricity rates to cover the costs of compliance.ⁱⁱⁱ Closing plants quickly would also create negative impacts for employee and communities in which the plants operated. As one company person said, “When a power plant closes down, that's normally the largest employer for that community, so those jobs are going away, the tax base is going away, schools are impacted. You cannot do that one long weekend ahead and think that you're being fair to your communities.”

Finally, and of paramount concern, the regulations would restrict the company's freedom to use its pool of capital to address multiple corporate priorities.^{iv} In making investment decisions, Power Co. was continually trying to balance managing the company's overall financial health and access to capital markets; meeting its legal obligation to provide reliable electricity service at a reasonable cost; and complying with existing and future environmental regulations. Each of these mandates required the company to be responsive to a different set of stakeholders. The proposed regulations would require the company to funnel large amounts of capital into environmental improvements, which would satisfy NGO and EPA stakeholders, but restrict the company's ability to invest in other priorities like upgrading

³ A BATNA is a “Best Alternative to a Negotiated Agreement,” the recourse each side has if the negotiation has failed or is failing to produce acceptable outcomes. The BATNA is the standard against which negotiated outcomes are measured. Having a BATNA enables each side to protect itself against terms that are too unfavorable and from rejecting terms that are in its interest to accept (Fisher, Ury, & Patton, 1981). A BATNA is essentially a competitively-oriented tactic—the action that is deployed if cooperatively oriented negotiation fails.

transmission and distribution lines or building new plants, projects that enabled Power Co. to manage other stakeholder interests like providing reasonable investor returns and ensuring reliable electricity service for customers.

What Power Co. wanted was a longer timeline to make capital expenditures on environmental improvements at a more measured pace, and/or run plants out closer the end of their useful life before shutting them down. The EPA offered only limited opportunities for individual companies to intervene in rulemaking, and always it held final decision power. Power Co. would in any case continue to try to influence the EPA with public comments and invited feedback. Working with the NGOs to approach the EPA with a consensus solution might further enhance the company's chances for influencing the outcome before regulations were released. This would avoid the lengthy litigious script that was usually set in motion after regulations were proposed.

If a collaborative approach did not succeed, Power Co.'s BATNA was to develop legislation in collaboration with Congressional members with whom it had relationships, which would direct the EPA to modify the regulations. Compared to the regulatory process, the wheeling and dealing nature of lawmaking offered more opportunities for individual companies to influence legislation, provided a company had Congressional allies, which Power Co. did.

NGO views on the EPA regulations

The proposed EPA regulations stood to address environmental issues that were central to the NGOs' core organizational identity and purpose. The NGO representatives viewed the regulations as the right thing to do in order to protect the environment and public health. They believed the EPA's decision was a long time in coming—too long in fact. For years, their organizations had used lawsuits and other informal means of influence to prod the EPA into action on air quality and climate change. After years of watered down proposals from the EPA, and stalling tactics from Republican administrations and the utility industry, the NGOs saw the proposed regulations as a victory that was a long time in the making. Because the NGO position was in favor of the EPA proposal, their BATNA in the engagement with Power Co. was to not engage. That is, they could simply support the EPA's proposal without modifications to address the company's concerns.

Table 2 summarizes the initial views and BATNAs of each side on the issue. The distinction between positions and interests is one made by researchers in the field of conflict resolution (Fisher et al., 1981), and can be defined as follows:

- **Positions** are demands or statements of what someone says they will or will not do. They are one party's solution. They are the best way we know how to satisfy our interests.

- **Interests**, on the other hand, are the underlying needs, desires, concerns, hopes, or fears that are driving the positions. (Search for Common Ground, 2003)

Table 2: Initial positions, interests and BATNAs

	Power Co.	NGOs
Interests	<ul style="list-style-type: none"> • Create freedom to invest capital to meet multiple priorities and stakeholder needs • Protect against sudden negative impacts to investors, customers, and communities 	<ul style="list-style-type: none"> • Protect and improve human and environmental health • Protect against delays in solution implementation, which would perpetuate harm
Positions	<ul style="list-style-type: none"> • We are not opposed to intent of the regulations; the EPA has the right and the responsibility to promulgate them • We need more time to comply 	<ul style="list-style-type: none"> • The EPA is correct in the scope and timing of the proposed regulations • Significant delays or interference with the EPA’s authority are not acceptable
BATNAs	<ul style="list-style-type: none"> • Devise a legislative solution that would modify the EPA’s regulatory authority 	<ul style="list-style-type: none"> • Back the EPA’s proposal without trying to address Power Co. concerns

Summary of initial views

The NGOs were in a much stronger position entering the engagement with Power Co. because they fundamentally agreed with the status quo regulatory proposal. Through the engagement they hoped to protect against further delays and head off the possibility that Power Co. would launch a legislative effort against the EPA. Company people, in contrast, believed they were between a rock and a hard place. They would be significantly affected by the proposed regulations, and they did not have much direct power to influence the scope of the regulations. By negotiating with the NGOs, as one company person said, “We were hoping for anything, frankly, and we were kind of desperate.” However, this approach was uncertain both in terms of whether Power Co. could reach agreement with NGOs on a solution, and whether the EPA would see that solution as persuasive.

Negotiation frames

In this section I analyze the frames that each side held around the negotiation with the other party on the EPA regulations, linking these to the developments from Period 1. As described in the methods section, I analyze the dominant frames of four different “units” within the negotiation: 1) the people at Power Co. Headquarters (HQ) 2) Power Co. X, who leads Power Co. Subunit, 3) NGO A, a senior leader within NGO Organization A, and 4) NGO B, a senior leader within NGO Organization B.

As outlined in the literature review, negotiators who adopt a competitive or distributive framing think of negotiation outcomes as a “fixed pie” that must be divvied up among competing parties, while those who use a cooperative or integrative framing think of negotiation issues as an “expandable pie,” from which all the parties could in theory derive value from bargaining. In this analysis, I use the term “competitive” to refer to both competitive and distributive framings, and “cooperative” to refer to both cooperative and integrative framings.

Power Co. HQ frames

I argue that the momentum of engagement, undergirded by relational capital and the experience of collaborative successes that was generated in Period 1 propelled company people into a negotiation with the NGOs in Period 2, in which they hoped to collaborate to generate an integrative solution. People at Power Co. Headquarters (HQ) tended to frame the potential of engagement in *cooperative*, *integrative* terms and yet, based on their experience with the NGOs in Period 1, were not hopeful that the NGOs would exhibit *benevolence* towards their concerns.

Cooperative issue frames

In a continuation of the cooperative approach to engagement that characterized Period 1, people at Power Co. HQ wanted to try cooperating with NGOs on the EPA issue to generate a mutually agreeable solution, rather than both sides influencing the EPA separately. This framing is a continuation of the *Cooperative issue framing* variable in Figure 1, now applied to the EPA issue in Period 2. As Power Co. A said, “Imagine the difference if the feedback were aligned or if it were totally diverse, imagine the difference from the EPA’s perspective...than if we are totally separate and opposed in our views.” (See Appendix F for additional quotes on framing).

For the company, forging a cooperatively generated solution meant expanding the conception of the EPA issue beyond a single-issue focus on the environment to include impacts on other stakeholders—investors, customers, regulators, and communities, who were not at the negotiating table. This integrative framing is consistent with that the way that company people thought about their collaborative successes in Period 1—generating solutions that satisfied multiple stakeholder interests. The longer timeline that Power Co. wanted to negotiate would allow the company to balance multiple issues and priorities with (from their perspective) only minor increases in pollution above the status quo EPA regulatory proposal.

Despite their interest in collaborating with the NGOs, company people were uncertain even at the beginning of negotiation about whether engagement would adequately address the company's concerns. Power Co. C raised the question about whether in fact a legislative solution was needed:

Can we reach agreement that yes there actually are some real issues here this time, and it's in everyone's interest to work together? I think we can probably reach some common ground there, but then what do you do with it? Can you go to EPA, can they write more flexibility in, or do you really need to go to Congress and say, you need to change the law, you need to provide more flexibility, and allot more time? In the political environment right now, Washington, I think that's a big challenge.

Ambivalence about NGO benevolence

Though they could see the potential for an integrative solution, generating this outcome was conditional on trusting that NGOs would listen and exhibit benevolence towards their concerns, and help make a case with the EPA for a more "reasonable" compliance timeline. The previous five years of engagement had led people at Power Co. to a view the NGOs as primarily interested in advancing their own agenda, and as *not* necessarily benevolent towards the company's concerns. Given this history with the NGOs, Power Co. people were not optimistic about what a cooperative path might yield. As Power Co. B said:

I saw a pretty slim to no prospect that we would get them to see that there was...some way to ameliorate [regulations] that we saw as very, very costly and unnecessarily so. Going in, my own personal view was, yes, it's good to talk about things to see if there is anything that they might be willing to negotiate. But I didn't go in with a whole bunch of optimism. And I would say that most of the people in the room who have been involved in this kind of thing were not particularly optimistic either.

Power Co. Subunit frames

The individual who led Power Co. Subunit, who plays a key role in the story, until this point had been only occasionally involved in the engagement between Power Co. and stakeholders. In contrast to the people at the company's headquarters, this individual (whom I call Power Co. X) held *competitive* frames around the EPA issue and perceived it as distributive (win-lose). He conceived of the task before Power Co. as one of securing extra time for the company against the competing goals of the "environmentalists," for example:

I think it's clear that the environmentalists argue that the rules had to be as stringent as possible, that they were long overdue, that we did not need additional compliance time and that everything would be fine, that there would be no legitimate concerns regarding reliability... The Clean Air Act says three years to comply. Environmentalists wanted three years...Our response was you should not fight these rules, but we should work to get the rules written in a way that compliance is easier, and gives us more time to comply.

Power Co. X did not have a personal relationship with the NGOs, did not like them, and utterly distrusted their benevolence. His long experience doing battle with NGOs on regulations and legislation had created a negative perception of them in his mind. According to one person at the company, Power Co. X “didn't like the NGOs and didn't trust them.” Another company person described a conversation in which Power Co. X said, “You think you have this rosy relationship with the NGOs? As soon as you don't agree with them, they'll turn on you and bite your neck off.”

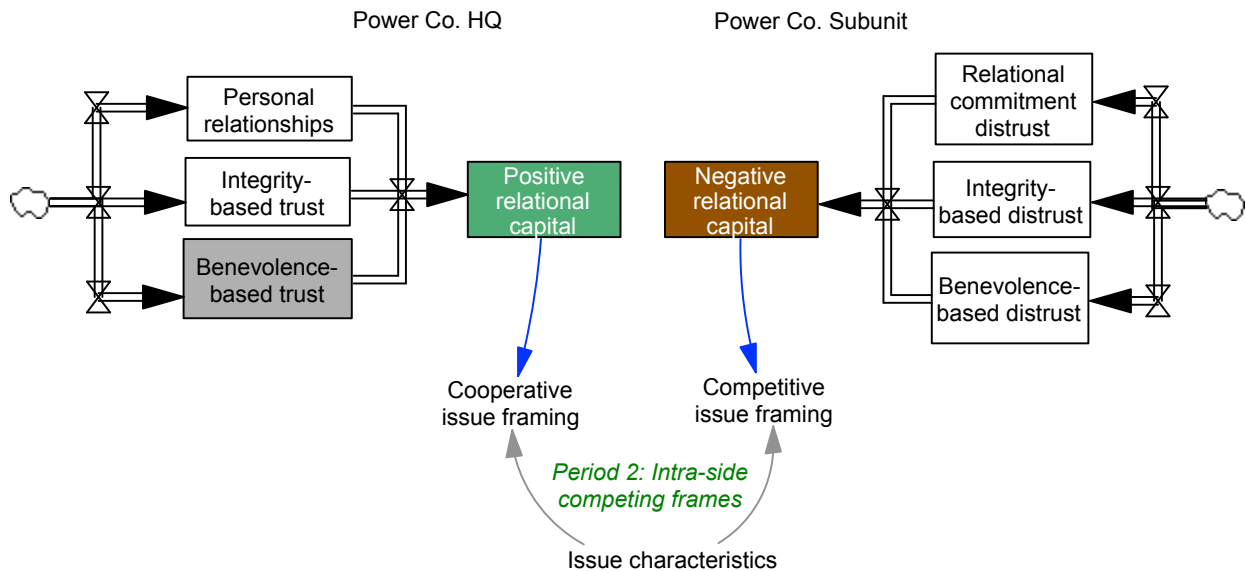
Table 3 summarizes the dominant frames of each unit within Power Co. The competing frames dynamic within Power Co. is indicated in Figure 2 by the note “*Period 2: Intra-side competing frames.*”

Table 3: Summary of Power Co. frames

		Power Co. Headquarters Power Co. A,B,C,& D	Power Co. Subunit Power Co. X
Relational capital	Personal relationships	Present	Absent
	Integrity-based trust	Trust in NGO integrity	N/A
	Benevolence-based trust	Ambivalent about NGO benevolence	Distrust of NGO benevolence
Negotiation frames	Cooperative v. competitive	Cooperative frames	Competitive frames

Figure 2 models the competing frames of each unit within Power Co.

Figure 2: Power Co. competing negotiation frames in Period 2



NGO Frames

The two NGOs involved in the negotiation initially held competing negotiation frames, with one more cooperatively oriented and one more mixed. Both were ambivalent about the company’s benevolence towards their interests.

Mixed frames

NGO A held mixed cooperative-competitive frames. On the one hand, he was opposed to giving the company any more time, and framed the problem as a single-issue, win-lose proposition. More time for the company would mean more pollution, and a loss for the environmental interests he represented. “Our reaction to the argument that they need more time is that these rules have been delayed 20 years already and that we have been fighting the administration, and the power sector for the last two decades to get these rules implemented.” And, “If the decision was as stark as additional years before they have to cut their emissions, no there isn’t really a way to accommodate those concerns.” However, NGO A simultaneously articulated the downside of a competitive approach to the issues:

If we discontinue our attempts to reach agreement where we can, and we just go to the conventional mode of lobbying our best arguments at some third-party and using whatever influence we have to try to achieve our objective and defeat their objective...it isn't the best way to go about things. It consumes a lot of time, and it consumes a significant amount of political capital and resources. The other ways consume time too, but defeating an opponent is not a path to a sustainable policy environment if your opponent feels aggrieved and its convinced of the notion that the other protagonist is hopeless and not to be trusted and never satisfied and so on and so forth. Because all that does is set up the next interaction to be one that is going to be characterized by fighting and charges and counter charges.

NGO B, on the other hand, who had industry experience, held a cooperative frame going into the negotiation with a view to working out a solution that would satisfy both him and the company, "I was willing to work with their bottom line and they needed time beyond what EPA's rules would have allowed. That to me was workable. All right, so let's figure it out, you need an extra five years, three years, okay. We've lived with this now for 40 years, we're okay with another three."

He conceived of the issue in broader terms than just one of timing, and indicated a willingness to find solutions that would benefit all involved. In reflecting on the negotiation, he said what he wanted from Power Co. was a genuinely cooperative attempt. As he said, "a really honest effort to not only lay out the business challenge but then a receptivity to actually sitting down to come up with something that would work...to develop a common game plan...for how we are going to implement what we believe is the right outcome."

Ambivalence about Power Co. benevolence

The NGO representatives were well aware of the company's initial position on the regulatory issue, and that the company was concerned about the issue of timing. During the previous years of engagement they had developed a view of the company as both a progressive leader, and also as resistant on some issues of concern to them. Engagement on the EPA regulations represented a test of whether the company was, indeed, willing to consider their interests as part of the engagement. As NGO B said:

Right now they are proceeding under the assumption that they need more time, it will save them money, it will make life easier politically and there is no down side to doing it. And so what we need to do is put that other side of the ledger on the table and expect them to validate and work with those concerns. If we can do that and they are willing to do that, then that's a real partnership, if they have no, if at the end of the day they are unable to get their minds around that, if at the end of the day we're unable to deliver that information to them and subsequently they are unable to get their minds around it, then yeah I don't really know what kind of partnership we really have. At that point it really is just a question of them bringing us in so that we can hold their hands and say there, there it'll all be okay?

Table 4 summarizes the frames held by the NGOs. These were similar to the frames held by Power Co. HQ in the left-hand side of Figure 2.

Table 4: Summary of NGO frames

		NGO Organization A NGO A	NGO Organization B NGO B
Relational capital	Personal relationships	Present	Present
	Integrity-based trust	Trust in Power Co. integrity	Trust in Power Co. integrity
	Benevolence-based trust	Ambivalent about Power Co. benevolence	Ambivalent about Power Co. benevolence
Negotiation frames	Cooperative v. competitive	Mixed frames	Cooperative frames

Negotiation behaviors

According to people on both sides, the negotiation consisted largely of Power Co. presenting arguments to the NGOs as to why they believed the EPA regulations would be problematic, and the NGOs asking questions and seeking to understand the company’s resistance to them. As NGO A said, “We tried to...get them to provide us with enough information so we would be able to understand in greater detail why they felt that they could not comply with the rules that were under development at the EPA.” This pattern of negotiation persisted with little change until a turn of events precipitated a conflict spiral in Period 3.

Power Co. quasi-cooperation

What the people at Power Co. HQ did not tell NGOs was that during their engagement, Power Co. Subunit was working on legislation that not only proposed a timeframe extension for compliance to the end of 2020, but also contained provisions that would weaken the proposed regulations and limit the EPA’s authority in other ways. By pursuing legislation, Power Co. Subunit was deploying the very BATNA

that the NGOs hoped to forestall through negotiation.⁴ The deployment of both cooperative and competitive negotiation tactics simultaneously is what I call “quasi-cooperation.” In reference to Figure 2, the company was running both sides of the cooperation-competition model at once.

Quasi-cooperation was occurring in at least two ways. One, the people at Power Co. HQ were negotiating with NGOs under the premise of cooperation while withholding information about the legislative effort from the NGOs. This violated the integrity-based trust expectations of the engagement relationship. Power Co. D acknowledged that the decision to pursue the legislation and withhold this information, “flew in the face of working together. It was done behind the scenes.”

Company people provided different reports for why they remained silent. According to Power Co. D, the people at Power Co. HQ did not know the details of the legislation, and in any case were prohibited from telling the NGOs about the effort. Power Co. C had a different view—telling the NGOs would not help the company protect its interests in case the EPA influence efforts failed, “We've been meeting with the EPA and, and we really don't think we're going to change the path that they're on. So we were looking at [the legislative effort]. Should we have engaged the NGOs in that process? I don't think we saw that that would help a whole lot.” Whatever the reason, by their own admission, company people knew that the legislative effort was likely to upset the NGOs, as Power Co. B said, “I think that there was a sense that they probably were going to be uncomfortable with us doing a legislative effort. The problem was that if we didn't start something then the clock was going to run out on the EPA.”

The other way the company was quasi-cooperating was by advocating that the group find a solution that worked for everyone, while at the same time repeatedly pushing a unilaterally pre-determined solution. This was a compliance timeline of 2020—the same timeline that was being written into legislation being developed by Power Co. Subunit. In essence, Power Co. was espousing cooperatively oriented, integrative goals, openly sharing technical information with the NGOs with the expressed purpose of reaching a mutually beneficial solution, while also deploying a distributive negotiating strategy by resisting joint problem solving.

Was Power Co. really interested in cooperating at all?

Power Co.'s choice of a quasi-cooperative strategy raises an obvious question: Was the company genuinely trying to cooperate at all, or was it simply *appearing* to cooperate while in reality defecting

⁴ The legislative effort was not revealed to me during initial interviews with Power Co. people about their engagement with NGOs. All interview data about the legislative effort were gathered after it came to light publicly.

from the cooperation and pursuing a competitively oriented path? Are company people's statements of cooperative, integrative framing really to be believed, or were they simply giving lip service about the value of engagement?

Though it is possible that Power Co. was playing at cooperation while pursuing its actual strategy of competition, I believe a more plausible explanation is that the company was genuinely pursuing both paths at once. Although the "pessimistic doves" at Power Co. HQ were not optimistic about generating a collaborative outcome, there are several reasons to believe that at least some people sincerely hoped for one. First, Power Co. and NGOs had successfully cooperated in the past, which had given Power Co. people the idea that one of the objectives of engagement is to "see if you can find common ground in certain areas and work together to find solutions." Second, the company's most senior leaders devoted their time to the negotiation, an indication that the company was taking it seriously.

Third, although at least one person (Power Co. C) questioned whether an NGO-negotiated solution would be sufficient to influence the EPA, several people at the company were able to articulate the benefits of such a solution, and its advantages over the usual litigious approach. For example Power Co. C said, "If engagement breaks down and we disagree then we'll be back to where we were at that starting gate, where you just fight over everything. If the outcome is everyone is suing EPA on rules, then nothing has changed. So can you reach some understanding, some common ground or solutions that's outside of arguing before a panel of judges in Washington?"

Finally, when asked about their original intentions for engagement after the legislative effort came to light, Power Co. B explicitly denied that the company was simply perpetuating a veneer of collaborative negotiation, "It wasn't like we [at Power Co. HQ] were totally going through the motions. I think we wanted to know where the NGOs were coming from or be sure where they were coming from and see if there was any possibility that they would have some willingness to negotiate."

NGO response and lock-in of competitive-competitive dynamic

People at Power Co. made a number of different arguments about the regulations, which are summarized along with the NGO responses in Appendix G. The NGOs were not sympathetic to the company's arguments. After hearing repeated advocacy for the 2020 timeline, they concluded that the company was not interested in "genuine discussion and problem solving," and was not benevolent towards their interests. As NGO B said, "they consistently discount the real environmental consequences of the kinds of delays that they were looking for." In short, the NGOs believed that Power Co. was uninterested in cooperation, as NGO B explained:

They were completely unwilling to entertain any solution set other than the one that they had already concluded was the one that works best for them....It was very clear that their only real objective in our stakeholder dialogue was more or less for us to bless whatever storyline it was that they wanted to tell us ...They had made up their mind as to what the political dynamics were and the only issue was if they were going to convince us that they were right as opposed to being creative thinkers.

Led by the more competitively oriented NGO A, both NGOs matched Power Co.'s behavior with a similarly inflexible position, arguing that the company could reasonably meet the EPA timelines, with perhaps a few very modest modifications. This response caused Power Co. people to interpret NGO behavior as not particularly understanding or benevolent towards the company. As Power Co. D described, "The NGOs drew a line in the sand and said, 'Well you've had 20 years and you've done nothing...and now you're asking for an extra year.'"

This competitive move-competitive response dynamic, shown in Figure 3 by the *Competition begets competition* loop, then began to dominate the negotiation. There were some overtures in the direction of cooperation, but these did not succeed in transforming the competitive momentum that had been invoked. As this dynamic continued, both parties began to develop mirror images of the other's moves as self-interested and non-benevolent, a perception that only worsened as the negotiation proceeded.

Figure 3: Shift to competitive negotiation dynamics in Period 2

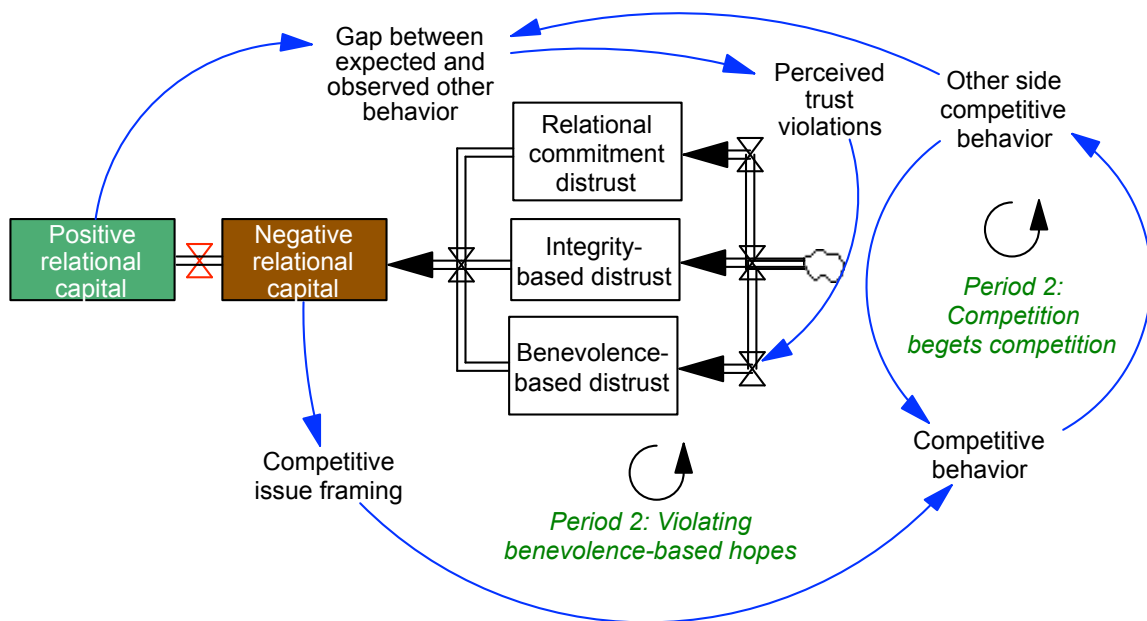


Figure 3 depicts this dynamic in terms of the “Gap between expected and other behavior.” The positive relational capital that the two sides had generated over five years had led to hopes about the other’s benevolence. But the other side’s perceived un-benevolent actions began the transformation of ambivalence into active distrust. This reduced cooperative framing and increased competitive framing, further reinforcing competitive behavior.

After several meetings, people on both sides of the engagement thought that they were making very slow progress, but had not managed to resolve the central question of a regulatory timeline extension for at least some of the company’s plants. The negotiation was stalled in a unilaterally oriented, position-based, single-issue discussion around compliance timelines, and neither party was willing to make much concession to the other. This situation can be compared with a multi-party, interest-based, multi-issue conversation, which would have characterized a cooperatively oriented, mutual gains approach to negotiation (McKernan & Fairman, 1999)

Independent perspective

One individual who was not part of the negotiations—an NGO representative who participated in the Envirocare engagements—offered this perspective on the negotiations. I include it to give some context for what a relatively independent observer thought about the two sides’ positions on the issues:

I still think there’s a lot of possibility for common ground. When you look at it, what Power Co. probably needs is a little bit of flexibility and they’re asking for a lot. And EPA is not appearing to be very flexible...they’re certainly being flexible in some ways, but around specific things like the MATS regulations, they’re under pretty clear guidelines about what they can and cannot do. I think the common ground hopefully can emerge when the dust settles. But right now I think it’s going to be a battle.

I think it would take some give on both sides. And right now I’m not seeing too much willingness on either side. I think the environmental groups are not willing to acknowledge that Power Co. could use a little bit more time, like a couple of more years. And Power Co. is not willing to admit that they don’t really need until the end of 2020.

Period 3: Conflict spiral phase

The two sides never had the opportunity to see what might have happened next because the company’s secret legislative effort was publicly leaked, and the engagements quickly collapsed.

NGOs perceive violations of integrity-based trust and relationship damage

The NGOs received the news of Power Co.’s legislative effort as an assault on the relational capital that had been generated. In their minds, integrity-based trust was damaged because Power Co. had kept the legislative effort a secret, violating the norm of giving a heads up about their activities. Said NGO A, “We

have known that if Power Co. was not able to persuade us, then they weren't going to throw up their hands and say 'oh never mind.' It's not a surprise that they have reserved an alternative route of getting their concerns addressed...[but] I think they made a huge mistake in not being open with us about their plan and that really has harmed the relationship." The company's choice of quasi-cooperation also harmed the standard of honesty that the NGOs had come to expect because, according to NGO A, "they continued to have these conversations with us leaving us with the impression that they were still pursuing [the engagement] avenue rather than pursuing a legislative avenue."

Further confirmation of benevolence-based distrust

To the NGOs, the legislative effort provided additional evidence that Power Co. was exhibiting a lack of benevolence towards their concerns on at least three counts. One, the content of the legislation escalated the disagreement by including issues that had not previously been part of the negotiation. The legislation proposed to not only extend compliance timelines to 2020, but also weaken the regulations and curb the EPA's authority in other ways. Of grave concern to the NGOs was a provision that would remove the EPA's authority to regulate greenhouse gas emissions. The NGOs had spent decades working on the climate change issue, and a recent court decision had paved the way for future EPA regulations. Victory seemed imminent, and a legislative attack on the regulations was seen as wholly unacceptable.

Second, the NGOs believed that the support of legislation by an influential company like Power Co. sent a message that regulations was the wrong approach altogether. The NGOs believed this created long-term damage to their environmental agenda. As NGO B described:

By continuing to refer to EPA regulations as a train wreck...Power Co. feeds a political climate in their home states that makes the political establishment believe the only legitimate solution to the problem of power plant regulations is no regulation. Power Co. having fed the perception that the EPA was out to screw the industry means that you now have this storyline that exists in Washington that has been legitimized by some of America's leading corporate citizens. It has done incredible amounts of damage to the NGO community, and our agenda of promoting clean, low carbon energy. And Power Co. doesn't really care.... they just wouldn't deal with that. They refused to understand that that was big problem for us.

Third, as I described earlier, for the NGOs, benevolence-based trust is tied to whether Power Co. is willing to be an environmental leader. With the legislative effort, Power Co. appeared be reversing its earlier leadership stance. In NGO A's words, "Prior to the last twelve months Power Co. was in a mode of trying to work with environmental groups...and in the last twelve months I think that's changed to one of conventional, campaign-oriented attacks on regulations. Changing partners in the dance if you will." This reversal was a disappointment to NGO B in particular, who was more relationally oriented and

also optimistic about the cooperative potential of negotiation. He said, "I really believed that these guys wanted to do things differently...I had faith in the fact that a guy like [the new CEO] was a new generation. And I also really had faith in the fact that he and others in the organization actually wanted to accomplish positive things for the environment." By the time I spoke with this interviewee again, his opinion had changed:

I suppose I was naïve...I mean I rescheduled my life, I rushed to [corporate headquarters] to try to sit down with them but it was a waste of time...My assessment of them is that they are opportunistic in how they deal with these [environmental] issues. They will respond to the politics of the moment, and when the politics of the moment require a more progressive approach, they find a way to do that. When the politics of the moment aren't primary or are changed they don't pursue it. So I would sort of say that at the end of the day, they are certainly very self-interested and they are kind of opportunistic. There isn't any consistent vision there.

A transformational moment

The revelation of the company's legislative effort was a transformational moment in the negotiation, one in which "parties reach new understandings of their situation, define the nature of the conflict, the relationship among the parties, or the problems they face" (Putnam, 2004). After the company's legislative effort came to light, Power Co. and the NGOs had a handful of conversations about where to go next. The company's CEO tried to convince the NGOs to help with the legislation, "We'd very much like to work with you to try to figure out how we could come out with a good piece of legislation. Help us put meat on the bones. Look this isn't perfect, it'll never end up the way it is, but don't just say no."

However, the NGOs were not interested in working on a legislative solution that they had believed from the start was the wrong approach and harmful to their agenda. They wanted the company to abandon its legislative effort, as NGO A put it, "to not to pursue this legislation and [instead] continue the kind of dialogue activities that we have been engaged in the last several years." If the company chose to continue with its legislative activities, the NGOs warned that they would launch a public campaign against the company. NGO B tried to reason with his company contacts to prevent this course of action, "I've been on the phone with them, and I said if you go down this road [with legislation] then this is the road we are going to go down [with a campaign] and it's all kind of stupid."

The independent observer who was quoted earlier attributed that the company had asked for too much in the legislation, which had invoked a combative NGO response, "Instead of dropping the hammer in the middle of the night...instead of acting in stealth mode and overreaching in their ask I think Power Co. could have made their case first about their problem and then crafted a solution that

was more targeted...The way they did it the green groups' radar screen lit up red, with missiles flying in, and everyone went into combat mode.”

At least one person, Power Co. C, thought there might have been an opportunity to prevent the turn that the engagement had taken, “I'm sure the NGOs felt like [the legislation] was a betrayal...I just think they had a hair trigger reaction. They felt we had done something we shouldn't have done and their reaction was immediately to engage in a campaign. When I say immediately, we had some discussions, so wasn't without any communication at all. Maybe there was an opportunity to do something more that would have avoided the campaign that they took. You can speculate.”

NGO campaign

Power Co. proved unwilling to abandon the legislative effort, and the NGOs went ahead with their campaign. Its purpose, according to NGO A, was as follows: “This is an important misstep on Power Co.'s part from my perspective and now we're going to have a public fight about it. We are part of an effort to hold the company accountable...we're trying to force them to engage publically on the question of what amount of adverse health impacts are they proposing should be traded for the delays they are seeking.” NGO A framed the campaign as a “fair” tactic, “We had an internal conversation here at NGO A about whether to participate in a fair but hard-hitting campaign against Power Co. My position was that I wasn't going to let my friendship with the Power Co. CEO alter what I thought we should do as an institution, vis-à-vis Power Co. as an institution.”

The campaign involved press releases, picketing, ad campaigns, social media action, and a large billboard around the corner from the company's corporate headquarters with a picture of a young girl, which charged that the company was damaging public health. One of the NGOs also published a detailed assessment of the proposed legislative draft claiming that the legislation would punch holes in the nation's clean air laws. Especially galling to Power Co. people were lawn signs at the homes of Power Co. executives, a move that was initiated by an activist arm of one of the NGO organizations, but without the knowledge or approval of the individual engaged with Power Co. Both NGO representatives framed their actions as justifiable given the company's actions. NGO A defended the campaign: “Whether [the campaign tactics] were objectionable or not, they were reactions to what Power Co. did, not the environmental groups taking the initiative to give Power Co. a hard time.”

Power Co. reaction to the NGO campaign

The tone and the tactics of the NGO campaign infuriated people at Power Co., who felt betrayed that the NGOs had turned on them “in a New York minute,” and insulted them by unfairly implying that the

company was deliberately out to harm public health. The NGO campaign put a “deep scar” on the management team at Power Co., who found it especially difficult to look past the billboard that had been erected next to the company’s headquarters and the signs placed in their front yards.

Further development of benevolence-based distrust and relationship damage

The NGOs’ actions solidified in the minds of people at Power Co. that NGOs were ideologically driven, lacked benevolence, and were willing to sacrifice relationships. As Power Co. D reflected, “It goes very quickly to them throwing vicious barbs and statements about our company and statements about the leaders of our company that I think are terrible. So I misinterpreted the relationships that we had developed.” In the minds of people at Power Co., the NGO campaign had crossed a line of unforgivable behavior, and the NGOs had “thrown away” the progress of the previous five years. Power Co. C said:

Going back to five years of engagement, my understanding is the reason you do that is to better understand where you're coming from, to recognize that there's real people involved—it's not just a nameless, faceless corporate entity or an environmental organization entity. Engagement is to get people to understand that there are real people here who have legitimate views and positions and reasons for it and we are engaged in looking at where is there common ground. To me a couple of those NGO groups just threw that all away.

They are manipulating [information from EPA] to put a label on Power Co. as this huge corporate giant that has no concern whatsoever for people to the point where we're willing to engage in policies that result in people dying...When you take a step of accusing people of being killers at the corporation, there is no trust anymore in my mind. They betrayed that trust, the trust that we can engage in honest dialogue. Not a trust that we are agreeing with things, but the trust that we can have honest dialogue. They went outside the bounds of that.

Surprise at the NGO response, and justification for quasi-cooperation

Although company people had anticipated that the NGOs would be “at the very least surprised and potentially angry” that the company was pursuing legislation, some people were taken aback by the ferocity of the NGO reaction. As Power Co. B said, “To end up with the kind of level response we got, that was a surprise. The reality was that we were not doing anything that was inconsistent with what we were telling them. It wasn't that we were trying to gut the Clean Air Act as they charged. That part was a surprise to us.”

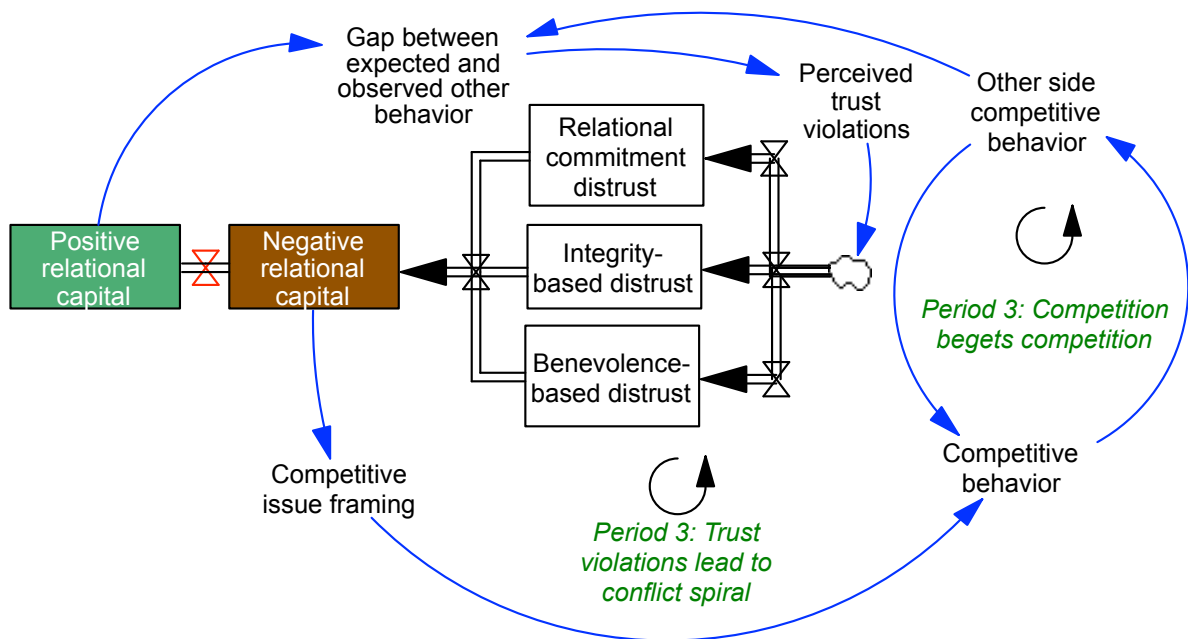
Some people at the company understood why the NGOs were so unhappy. As Power Co. C said, “it comes out that we were working on legislation and we hadn't told them. We had a couple of phone conversations and I could tell the emotion coming out and the voices of some of the people that they felt that we were being underhanded because we engage them in specific dialogue on these compliance

challenges but we're also working on possible legislative solutions behind their back. I would guess that that's what would be how they felt. And if I'm in their shoes I'd probably be upset as well."

However, others justified the company's actions in terms of the NGOs own past behavior. As Power Co. B put it, "I wasn't surprised that they weren't happy when [the legislative effort] was revealed, because I think they felt we were having discussions and therefore we're not developing legislation or some other path. And part of my reaction to all that is to roll my eyes a little bit and say, 'Well, wait a second. Do you mean to say that every issue that you ever discussed with us you never pursued any other legislative discussions?' And the answer is of course, not. The NGOs have done the same thing."

Figure 4 shows the continuation of the dynamic during Period 3 that had begun in Period 2. The difference is that multiple forms of trust were violated, leading to escalating competitive behavior and a conflict spiral dynamic.

Figure 4: Solidification of competitive dynamics and conflict spiral in Period 3



Final outcomes

After the NGOs launched their campaign, the engagement broke down. To date, the company and NGO stakeholders still have no direct contact. Several mirror images were formed during the negotiation and its aftermath, involving each side's view of the other as competitive, not benevolent, and willing to

throw away relationships, while one’s own side was cooperative, benevolent, and valued relationships (or at least did not sacrifice them without reason). In addition, both sides carried mutual feelings of victimization; each saw the other as aggressive and viewed its own actions as simply defensive (Kelman, 2007). Table 5 summarizes these mirror images.

Table 5: Mirror images at the conclusion of engagement

	Power Co.		NGOs	
	Images of self	Images of other	Images of self	Images of other
We are cooperative; they are competitive	We are not opposed to the intent of the regulations	They are inflexible advocates; it’s their way or no way	We are willing to listen to what they have to say	They are unwilling to entertain any solution other than the one that works best for them
We are benevolent; they are not	Our solution addresses environmental concerns, just with a little longer timeline	They're never going to see our side of this	We may be willing to accommodate their concerns as long as they don’t take a legislative path	They discount the environmental consequences of their proposals
We value relationships/ They sacrifice relationships	Relationships have value to us; we thought they were our friends	They willingly threw away the relationships we had built because of one issue	Relationships have value to us; we thought they were our friends	They deliberately sacrificed the relationships we had built
We are only defending our interests/ They are aggressively undermining our interests	We were desperate, hoping for anything; we had to develop an alternative (legislation) before the EPA clock ran out	Their campaign sought to damage our reputation by accusing us of deliberately harming public health	Our campaign was simply a reaction to what they did; fighting was inevitable, even if it was “stupid”	Their legislative proposal undermined our environmental agenda and attacked our interests, and they didn’t care

Working relationships destroyed

People on both sides believed that their relationships had been harmed. Power Co. D, who had spent perhaps the most time engaging with NGOs over the years, said, “It was hurtful that people could just divorce you and get rid of you and never talk to you again because of one issue....It was all fake. That was surprising to me because I felt that I had a relationship with all of them that was more than just working together, it was trust and friendship and I truly understood and liked them and it was one fatal blow because we didn't agree.” As NGO A put it, “I do value good personal relationships and I felt that I

developed a good personal relationship with the CEO, and I was developing a good personal relationship with the incoming CEO. And both of those have been wounded.”

Integrative potential foreclosed

By damaging their relationships, the participants foreclosed the potential for future cooperation. As Power Co. D said, “It is sad that this is happening when I had our whole management team leaning towards the open dialogue discussions. I see that dwindling very quickly because of the actions taken.” NGO B reflected on his perceptions of the failure to capitalize on the cooperative potential of negotiation, “there's plenty of potential common ground but we didn't spend the last year plowing that common ground, we spent the last year pouring salt on it. What I saw here was two sides that really wanted to win, rather than do something.”

Questionable strategic outcomes

At this writing, neither side had gotten exactly what it wanted. The company's legislative attempt ultimately went nowhere. The company successfully negotiated with the EPA a modest extension of the EPA timeline, though not nearly as long as it wanted, and not as a result of agreements with the NGOs. The NGOs were similarly unhappy with the regulatory outcome, because one of the regulations, CSAPR, had been overturned yet again by industry challenges. NGO B summarized the losses that both sides had accumulated:

It was a tremendous waste of time and resources. The place where Power Co. is getting to now is pretty much the place they could've gotten to at least a year ago. And what makes me most sad is that no one got anywhere, and it was a little bit like mutually assured destruction. We lost ground because we are now working that much harder to defend what should have been a relatively straightforward effort to clean up power plants long overdue. And we'll have to now spend months if not years playing defense against the emboldened set of anti-environmental policy makers in Washington.

They on the other hand have not really gotten anywhere either because the regulations have in fact moved forward. To the extent that there are five to ten power plants that are going to have a difficult time meeting the deadlines, they'll be able to negotiate some kind of consent decree to enable them to continue to run the plant's while they either retrofit or make appropriate plans for retirement. That could have been done a year ago. And in the meantime Power Co. has squandered a set of relationships.

DISCUSSION

The initial question motivating this analysis was why, after several years of relative success in engagement, Power Co. and NGOs failed to realize the integrative potential they envisioned for engagement, and in the process destroyed trust and working relationships. An explanation for the observed outcomes involves two types of factors: 1) structural and issue characteristics, and 2) a sequence of framing choices and resulting behaviors that, while they seemed rational at the time to the people who were involved, carried unforeseen consequences.

Issue characteristics

The EPA issue was different in than the issues that Power Co. and NGOs had previously worked on together, in at least four ways: 1) a high-stakes issue around which both sides stood to gain or lose a great deal, 2) a proposed solution to the issue that initially threatened one side and represented a victory for the other, 3) an authority structure that placed decision power in the hands of a third party (the EPA), which neither side could reliably influence, and 4) the parties' lack of experience with cooperative approaches for addressing this type of issue, compared to their extensive experience with non-cooperative approaches.

First, regulation of air pollution at the scale proposed by the EPA was a high-stakes issue, which lay at the heart of both sides' core interests. For the NGOs, it represented a significant step forward in their agenda for air quality improvement. For the company, the regulations would require a significant outlay of capital and commitment of resources to comply. Both stood to gain or lose a great deal depending on the final regulatory ruling.

Second, the proposed EPA solution to the issue—a relatively short timeline for compliance—was one that threatened the company, but represented a victory for the NGOs. The company's goal was therefore to change the regulation, while the NGOs' goal was to see that it was implemented with as little weakening as possible.

Third, neither side held direct power to make a decision about the regulations. That decision was in the hands of the US EPA. The company and stakeholders could—and did—seek to influence the EPA through public comments and in meetings with regulatory officials. Company-NGO engagement represented a backchannel approach in which the company and stakeholders might generate a solution to address the company's concerns and present that to the EPA as a "consensus" solution between a powerful industry player and the environmental community. However, this approach, even if it gave Power Co. more voice at the EPA, still left the company at the mercy of regulators. In contrast, the

BATNA of pursuing a legislative solution to constrain the EPA's authority, would, if it were successful shift the balance of power and give the company far more influence in determining regulatory outcomes.

The last reason the EPA issue was different from others was that the parties had no experience with what they were setting out to do, or much sense of whether a consensus solution would even work to sway the EPA. The parties' relative inexperience with a cooperative approach contrasted with their extensive experience with competitive approaches, such as: separate attempts to influence the EPA, legislation aimed at dictating terms to the Agency, post hoc administrative and judicial challenges to its decisions, and (for the NGOs) activist campaigns. In short, the risks and rewards of relying on a cooperative path were unknown, while the risks and rewards of competitive approaches were more familiar to the participants. However, as I argue next, the parties in fact misjudged the downside risks of deploying a competitive strategy within their cooperatively framed engagement.

The company and NGOs did have experience achieving a win-win outcome on a high-stakes issue: the Waxman-Markey climate legislation in 2008-2009 (see Section 1.4: Engagement Outcomes). However, the Waxman-Markey agreement occurred around a legislative proposal, which has a different decision-making process and power structure than the regulatory process. In lawmaking, unless one party completely dominates Congress and the White House, solutions must be negotiated to satisfy the interests of different parties with power. More so than the regulatory process, legislative processes involve bargaining and negotiating to satisfy the different parties' demands and win Congressional votes.

The regulatory process unfolds very differently. It is not up to interested parties to craft a deal; the EPA issues the regulation. After regulations are issued, interested parties challenge them. The process does not involve a mechanism by which parties co-create a solution that addresses their concerns. As already described, the EPA solicits a variety of opinions through formal hearings, public comment periods, and small in-person meetings with different stakeholders, and then makes a decision consistent with its legal mandate. As a contact in the EPA Office of Air and Radiation described:

These rules are very technical. We have to compile a lot of data and engineering information. We don't do anything that resembles much what a layman refers to as negotiating. I don't think I've been in a single conversation that says if we do this will you support X. We take in a lot of information, ask a lot of questions. We are probing for technical data and the counterpart's bottom line. We assemble what we've heard in these probing interactions and what we've read into our own work product.

In summary, the high-stakes nature of the issue, the company's lack of decision power and social control over it (Shmueli, Elliott, & Kaufman, 2006), as well as the unfamiliarity and uncertainty of an NGO-negotiated solution meant that even if the company were to find common ground with NGOs, they

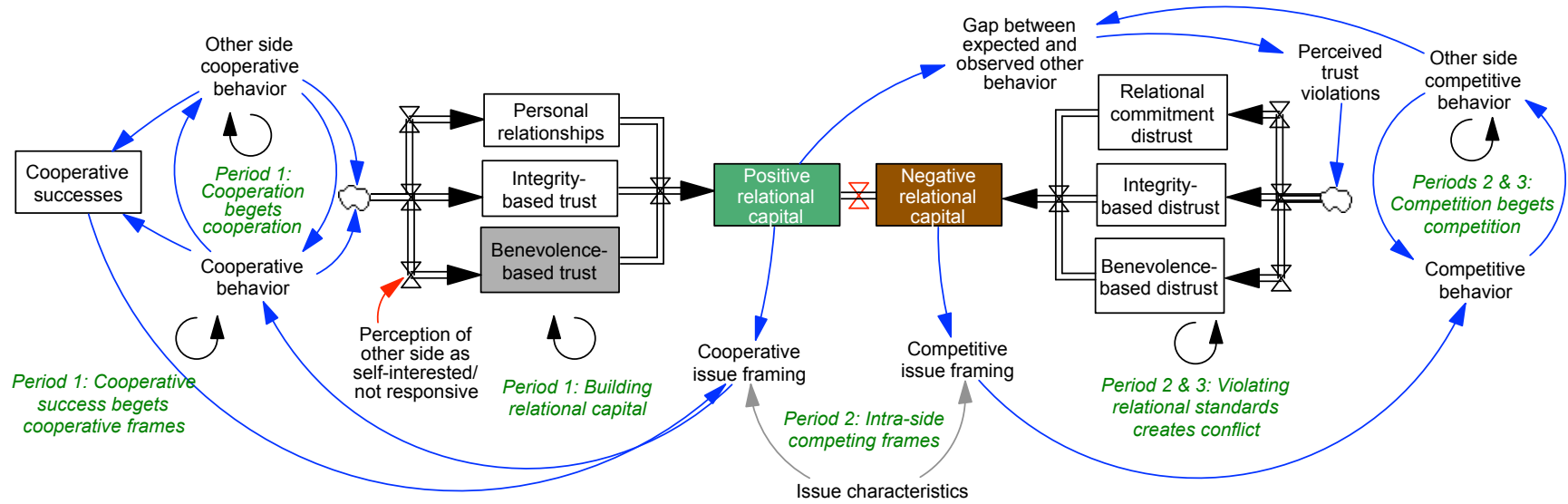
still might not be assured that their interests would be protected. The independent NGO who was quoted several times earlier described the situation this way:

In a way, Power Co. is trying to move to the Netherlands model to deal with regulatory problems. The current model is lawyers, guns, and money. They thought it would be better to do the Netherlands model: lets figure out a collaborative solution that we can deal with. It works in the Netherlands because the government is leading it. The government serves as a backstop; they say to companies and other stakeholders, 'Let's get together and figure out solutions and be creative on how to get there.' But if there's no resolution that way, then the government will do command-and-control regulations. It's harder to do in the US because it's based on trust.

Framing and behavioral drivers

There were at least three social psychological explanations for the outcomes that were observed, involving dynamic interactions between frames and interpersonal behaviors. These are: 1) unresolved relational ambivalence, which contributed to quasi-cooperation, 2) specific features of how quasi-cooperation manifested, which undermined the cooperative potential of negotiation and locked in a competitive dynamic, and 3) misjudgment by both sides of the downside risks of deploying competitive strategies in the presence of positive relational capital. In describing these dynamics, I refer to Figure 5, which combines the previous figures into a comprehensive model.

Figure 5: Full engagement model



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1) What were the implications of unresolved relational ambivalence?

The analysis in this paper finds that, consistent with the multiplex view of trust (Lewicki et al., 1998), individuals can hold mixed views of one another on different trust dimensions. What, then, are the implications of this ambivalent trust condition? What kind of behavior does ambivalent trust produce, and what effect does that behavior ultimately have on trust and relationships? I argue that ambivalent trust helped motivate a particular kind of double-minded or ambivalent action: “quasi-cooperation,” that contributed to the collapse of negotiation.

In this case, the individuals on both sides of the negotiation had good personal relationships and trust in each other’s integrity, but had ambivalent trust toward each other’s benevolence, a phenomenon that I call “relational ambivalence.” This is depicted in Figure 5 by the grey-colored stock of benevolence-based trust combined with the white boxes of personal relationships and integrity-based trust. Trust has historically been assumed to be an either/or phenomenon, with trust held as essential to cooperation, while distrust is implicated in a negotiator’s choice of competitive strategy. This study challenges this assumption, showing that an ambivalent dynamic persisted for some time without preventing cooperation for the first several years of engagement. Good personal relationships, integrity-based trust, and cooperative successes appeared sufficient to hold the participants together in a continued engagement, while doubts about benevolence-based trust were not salient enough to halt cooperative activities.

Benevolence-based doubts only became relevant when the engagement relationship came under pressure from the EPA issue with the four characteristics that described previously. This issue evoked competing frames within Power Co. about the right path forward: a cooperative issue frame held by people who wanted to try engaging with the NGOs to address the issue, and a competitive issue frame held by an individual at another part of the company who did not have good relationships with the NGOs (noted in Figure 5 as “Intra-side competing frames”). Rather than coalescing around one strategy or the other, these competing frames gave rise to a “quasi-cooperative” negotiation strategy, involving the simultaneous deployment of tactics that were partly cooperative—open sharing of information with the intent to generate a mutually beneficial solution—and partly competitive—pushing a unilaterally determined solution within the negotiation, and engaging in a cooperatively framed effort while withholding information about the deployment of the company’s BATNA during the negotiation period. In terms of Figure 5, Power Co. was running both sides of the model simultaneously—the cooperative behaviors on the left side as well as the competitive behaviors on the right side.

I argue that relational ambivalence was a key factor that drove this quasi-cooperative behavior. As already discussed, there is reason to believe that company people genuinely did want to find common ground with NGOs: they had devised common ground solutions with them in the past; the company's senior most leaders participated in the negotiation; and company people articulated the downsides of the business-as-usual approach and the benefits of finding a different approach.

Positive relational capital and cooperative issue frames generated by past success held company people at the negotiation table in a cooperative attempt, and undergirded their willingness to share sensitive information about the company's operations. At the same time, past experience with NGOs who were heavily advocacy oriented had created doubts in the minds of company people about the NGOs' benevolence. They hoped the NGOs would exhibit benevolence on the EPA issue, but did not trust that they would. I posit that this ambivalent trust interacted with two factors to produce quasi-cooperation: the nature and power structure of the issue, which made the NGO negotiation alone seem like a risky strategy for addressing the company's concerns, and negotiators' knowledge about a competitive legislative effort that was being driven by a "clear-eyed hawk" inside the company (described in the following section).

By adopting competitive negotiation tactics in part to protect against NGO un-benevolence towards them, Power Co. affirmed the NGOs' own benevolence-based doubts about the company. The NGOs then deployed a competitive response in the negotiation, and the interaction coalesced around a competitive struggle, producing an effective negotiation stalemate. In game-theoretic terms, the company's behavior in negotiation was seen by the NGOs as violating the trust required for a cooperative negotiation, which the NGOs quickly matched with their own defection from cooperation. Then the revelation that the company was pursuing a cooperative negotiation while simultaneously deploying its BATNA (an even more serious defection from cooperation) triggered the NGOs to deploy a well-oiled activist campaign apparatus (also a grave defection from cooperation). This series of moves completed one full turn of a conflict spiral, which solidified negative mirror images held by both sides about the other, and ended the negotiation.

In summary, relational ambivalence persisted for some time in a relatively low-pressure condition. But like a supersaturated chemical solution that crystallizes instantaneously when shaken, when this ambivalence was put under pressure without an outlet for resolution, it created a cascade of actions that produced little concrete resolution and destroyed the participants' working relationships. This study thus illustrates how past relational experiences influence negotiators' strategy choices, a dynamic is not easily captured by much of the existing laboratory research on cooperative and competition

focuses on interactions between people who are strangers at the outset of negotiation and have no relational history.

The efficacy of blended negotiation strategies: Why quasi-cooperation did not work

While a small body of research (e.g., Druckman, 2003; Putnam, 1990; Van de Vliert, 1997) speaks to how negotiation strategies that involve both competitive and cooperative tactics can be potentially productive and even beneficial, only a small toehold of empirical work exists on what these kinds of strategies look like, and under what conditions they might be effective. Gaining more clarity on the efficacy and risks of blended strategies is especially important when considering the kinds of high stakes issues that characterized this case. If winning is very important to a negotiator, high levels of anxiety result, which interferes with performance. People who believe they cannot win will cheat, avoid challenge, engage in impaired problem solving, and use other self-handicapping strategies (Johnson & Johnson, 2005). These types of moves might not serve a beneficial purpose in a cooperatively framed negotiation, and instead create unproductive outcomes and conflict.

In this case, Power Co.'s quasi-cooperation strategy was ultimately unstable, and the negotiation dynamic rapidly took on the competitive dynamics of the right side of Figure 5, which eclipsed the cooperative dynamic on the left side of the figure. I argue that quasi-cooperation did not work for two reasons: 1) initial competitive moves locked the negotiators into a competitive behavioral dynamic, leaving little incentive for cooperative framing and behavior, and 2) competitive behavior within the negotiation eroded the trust on which a cooperative negotiation depended.

Regarding the first reason, Power Co.'s initial moves led NGOs to quickly conclude that the company was taking an inflexible, competitive negotiation stance. Whether this was in fact the case, the NGOs perceived that it was, and then hardened their position in response. This is represented by the *Competition begets competition* loop in Figure 5. Cooperatively oriented moves, such as open information sharing and language about finding a solution that would address multiple stakeholder concerns, appear to have been lost in the competitive signal that the company, perhaps unintentionally, was sending to NGOs.

This points to one risk inherent in a blended strategy: competitive moves can tip the negotiation's center of gravity into a competitive dynamic from which it may be difficult to regain footing in a cooperative space. In this case, the company's push for a 2020 timeline created a narrow focus on a single issue—timing—foreclosing the kind of broader multi-issue conversation that can lead to

integrative outcomes (Medvec & Galinsky, 2005) such as impacts on jobs and communities, about which both sides cared.

A complicating factor in this case was the interaction between the cooperative and competitive paths taken by two different departments within the company. The case evidence suggests that these were not separate and parallel efforts, but that the competitive legislative attempt influenced the cooperatively framed negotiation by creating a consensus within the company on the 2020 timeline solution. I explain this in terms of loss and gain frames.

Power Co. Subunit and Power Co. HQ were aligned around the 2020 timeline as the preferred solution to extend the EPA compliance deadlines. It appears that this focused people inside the negotiation on what they might *lose* in a negotiation with NGOs compared to the 2020 solution, rather than what they might *gain* relative to the EPA proposal. In general, gain framed negotiators are focused on maximizing gains compared to a reference outcome, and thus evaluate concessions as decreases in gains, while loss framed negotiators are focused on minimizing losses compared to a reference outcome, and view concessions as increasing losses (De Dreu et al., 2000).

If the EPA timelines had been the reference outcome, any extension that the company could negotiate with NGOs would represent a gain that might help their “desperate” situation. This may have been part of what motivated the company to negotiate with NGOs in the first place. As one individual had said, “We were hoping for anything, frankly.” From a gain frame perspective, negotiating with NGOs held the potential of generating a *better* outcome against an EPA reference outcome.

However, it appears that the dominant reference outcome in the negotiation was not the EPA regulatory proposal, but the 2020 timeline. Research has shown that gain framed negotiators demand less, concede more, and settle more easily (De Dreu et al., 1995). If gain frames had been active in the negotiation, company people might have agreed to a few extra years for specific units within the envelope of the existing EPA regulations. Instead, company people continued to advocate for the 2020 timeline, and after several meetings had not accepted a modestly better outcome of a few extra years to comply for a handful of specific plants.

Given the company’s insistence on a 2020 deadline and unwillingness to accept a much more modest outcome, I conclude that 2020 was the *actual* reference outcome, not “hoping for anything” over and above the status quo. Compared to this reference, the options under consideration with NGOs would represent negotiation losses, not gains. The reality that Power Co. was actively taking steps to advance its BATNA (the legislation), and not simply holding it as an option in reserve in case the NGO negotiations failed, likely contributed to the company’s unwillingness to settle any gains they might

negotiate with NGOs. In summary, the company's decision to advance legislation (a competitive tactic) while also trying to cooperate with NGOs actively interfered with cooperation by creating a tangible reference outcome against which the NGO-negotiated options appeared as potential losses.

The second reason that Power Co.'s blended strategy failed to generate productive outcomes is it violated the trust expectations on which the negotiation depended. Taking benevolence-based trust as an example, Power Co. violated NGO trust with actions that were contrary to the leadership that the NGOs had come to expect from the company, as one NGO had said, "I really believed that these guys wanted to do things differently." The NGOs then violated what remained of Power Co.'s benevolence-based trust in them by launching a campaign that crossed a line by using an unfairly accusatory and shaming tone and tactics. Said one company person, "When you take a step of accusing people of being killers at the corporation, there is no trust anymore in my mind. They betrayed that trust."

One strand of research on trust games emphasizes the role of intentions in achieving cooperative outcomes (Dufwenberg & Kirchsteiger, 2004; Falk & Fischbacher, 2006; McCabe, Rigdon, & Smith, 2003). Intention-based models are based on players reading each other's motives, not just decoding others' actions—the mechanism presumed to be at work in outcome-based models of trust games. This study suggests that blended strategies can interfere with participants' ability to read the other's intentions by sending mixed-motive signals. Bazerman, Curhan et al. (2002) note that negotiators can readily attribute sinister motivations to opponents when the basis for behavior is ambiguous. That certainly happened in this case when the participants concluded that each side was aggressively trying to undermine their goals. Within a trust-based, cooperative negotiation, negotiators would be wise to anticipate how others will interpret their moves—whether as competitive or cooperative, trustworthy or untrustworthy. This is, however, neither straightforward nor easy in practice, for reasons discussed in the next section.

Relational capital is a two-edged sword: escalating trust means competitive behaviors pose more risk

In a long-term negotiation, trust standards do not stay constant; they change over time. The relational capital that the participants had generated over five years of engagement raised the standards by which each side judged the other's behavior as trustworthy or untrustworthy. Behaviors that at one time might have been shrugged off by the other party as business-as-usual combativeness were later interpreted as violations of trust and personal relationships, once that positive relational capital had been built. This is indicated in Figure 5 by the "Gap between expected and observed other behavior." A gap is created when one party perceives that the other's behavior is inconsistent with expectations. As this gap grows, it engenders not lack of trust, but active distrust, or what Sitkin and Roth (1993) call "violated trust."

Perceptions of violated trust in this case evoked a competitive response, which was likely amplified by strong emotions such as anger and sadness arising from the perception of betrayal.

An analogy to the escalating standard implications of trust could be thought of in terms of religious vows. Monks and nuns typically take vows as part of their ordination into religious life. Vows commit an individual to adhere to a certain standard of behavior. Not doing so carries psychic consequences for the individual and possibly sanctions from others. A vow of kindness, for instance, means that an unkind act such as swearing at a cab driver would be seen not simply as a lapse in civil behavior, but as a *violation* of a standard that one promised to uphold. A monk or nun observed doing such a thing might disappoint and lose the trust of followers who had expected a higher standard of behavior.

The escalating standard dynamic of trust in long-term relationships means that negotiators must consistently uphold higher standards by which others judge their behaviors, or risk violating others' trust. This implies that people must not only be able to read other's expectations and anticipate whether moves will be construed as aligned with or in violation of those standards, people must also be able to track how others' expectations *evolve* over time. The double-edged irony of relational capital is if negotiators misjudge how their moves will be perceived in light of escalating standards, they risk transforming positive relational capital into negative relational capital, leaving them worse off relationally than before the engagement began.

This may not be a concern in short-term or single-round negotiations that do not afford much opportunity to build relational capital. But when negotiators encounter each other repeatedly inside and outside of direct negotiation processes, relationships become intertwined with the ability to achieve one's own goals. In such situations, it may make sense to engage in some degree of "relational accommodation," optimizing relational outcomes at the expense of economic ones (Curhan, Neale, Ross, & Rosencranz-Engelmann, 2008). Many scholars who study conflict transformation in fact consider relationships and good relational outcomes to be of central importance in achieving lasting solutions (Curle, 1971; Fisher et al., 1981; Lederach, 1997, 2003; Saunders, 2001).

In this case, it seems that people did not privilege relational outcomes on an equal footing their strategic goals, or fully consider or appreciate how the other side would judge their actions as damaging to trust and relationships. For instance, company people knew that NGOs would potentially be angry once they learned about the company's legislative effort, but they were surprised at the level of NGO anger that was directed towards them. Similarly, NGO A believed that the NGO activist campaign tactics were fair reprisals for the company's legislative attempt, but at no point did he speak to how his actions

might have contributed to wounding the relationships that he valued. Both sides seem to have misjudged the standards that the other side was using to evaluate their own behavior.

Consequently, each side may have unwittingly harmed its ability to achieve long-term strategic goals by creating ill will with people who have power to frustrate that goal attainment. One NGO acknowledged this in his comments to the effect that “no one got anywhere, and it was a little bit like mutually assured destruction.” This quote captures the reality that the engagement left everyone worse off after the conflict, not only in terms of damaged relationships, but also in terms of each side’s ability to advance its interests through cooperation, or at least by not invoking the other side to deploy obstructionist tactics (e.g., the NGO campaign).

The implication here is that once relationships have been established, negotiators must consider how different courses of action might impact those relationships, or risk damaging their ability to achieve long-term goals. The question remains, however, how to do this with any degree of accuracy. Perhaps part of the solution involves making expectations for behavior explicit rather than implicit. A breach of trust can only be considered a betrayal if, among other criteria, it violates expectations of which both parties are *mutually aware* (even if the expectation is implicit and the other party does not accept these expectations) (Elangovan & Shapiro, 1998), or to which they have agreed as part of a mutual obligation (Cohen & Dienhart, 2013). Although it could be argued that the violations in this case were violations of moral principles—e.g. fairness or goodness—it is only in the presence of mutual awareness or obligation that betrayal, by definition, can occur.

This insight is not just a matter of semantics. Rather, it raises the point that awareness of the rules of the game, and the guidelines by which each side expects the other to behave, are critical to cooperation. Conflicts can escalate and relational capital can quickly deteriorate if one party unknowingly violates expected standards of behavior and generates a negative reaction from the other.

THEORETICAL CONTRIBUTIONS

This paper makes contributions to theory on negotiation, trust, and stakeholder engagement. Regarding negotiation, the research sheds light on blended competitive-collaborative negotiation strategies, identifying two generalizable risks of these kinds of strategies: competitive moves can lock the negotiation into a competitive dynamic and conflict spiral from which recovery is difficult or impossible, and competitive moves can erode the trust on which a cooperative negotiation depends. The paper also contributes a dynamic, interactive model of negotiation to a literature that has often neglected how frames and behaviors shift over time in response to endogenous and exogenous factors.

Regarding trust, the paper contributes a dynamic, process-based model of how trust operates through different phases: trust building, stability, and dissolution. As such, it expands trust research beyond the static models that have typically dominated the literature. Finally, the research makes use of a multiplex view of relationships in negotiation, and illuminates the implications of ambivalent trust—in this case its role in producing “quasi-cooperative” behavior that both depended on trusting relationships, and contained the seeds of trust violations.

Finally, this research sheds light on the process of value creation in stakeholder engagement, and how company managers sought (unsuccessfully) to create value for multiple firm stakeholders without resorting to trade-offs. In this case, the company failed to reconcile the interests of one vocal group of environmental stakeholders with the interests of others—investors, customers, employees, and communities. The reasons for this involve a complex set of endogenous and exogenous factors unique to this particular situation. But one generalizable lesson is that even in a long-term stakeholder relationship where trust exists, it may be difficult for managers to convince individual stakeholder groups that other stakeholder interests are important to finding an integrative solution. Assembling a greater diversity of stakeholder voices so that each group can hear the others’ views may be necessary to address this challenge.

PRACTICAL IMPLICATIONS

On the one hand, this story could be thought of as an abject failure. Trust was violated, relationships were destroyed, the potential for future collaboration was soundly dashed, and the outcomes from the perspective of both sides were far from optimal. I would like to propose, however, that this case contains a number of important practical implications that could help improve the potential for success in future engagements.

Get the right people at the table

A central question in the literature on stakeholder theory involves how managers do, and could, create as much value as possible for stakeholders without resorting to trade-offs (Freeman, 2010). Throughout their engagement with NGOs on the EPA issues, Power Co. sought to balance the interests of one well-organized group of environmental stakeholders with those of others—investors, customers, employees, and communities. However, none of these other stakeholders were at the negotiating table, leaving the company to represent their interests as a counterpoint to the NGO position. Either the company did so ineffectively, or the NGOs did not believe or care about those arguments, or both. The result was that

the negotiation was dominated by a narrow focus on environmental and public health issues, to the exclusion of other stakeholder considerations. This proved unacceptable to the company.

The company was hoping that NGOs would be benevolent towards their interests, but this may have been unrealistic given what they knew about the NGOs' strong beliefs on environmental issues. Perhaps rather than convincing the NGOs about the "right" compliance timeline, the company could have reframed the issue as a problem needing input from multiple stakeholders who would be impacted by the regulatory decision. Getting everyone who has a stake in the process to the negotiation table so their interests and points of view can be considered is a bedrock principle of a consensus-based process (Carlson, 1999). If a variety of stakeholders had been able to speak for themselves, they might have made a more believable and comprehensive case for their interests than Power Co. was able to do by bargaining with one group of strong-willed, powerful stakeholders on behalf of all stakeholders. The circle of stakeholder interests could have also been broadened by inviting in a few other utility companies to represent different industry views. Expanding the circle of stakeholders in this way might have created an opening to shift the conversation away from a narrow focus on the concerns of one company a small set of environmental NGOs to an expanded solution space that would encompass the interests of a broader system of stakeholders.

Separate personal relationships from benevolence-based trust

As Power Co. X said to one of the people at Power Co. HQ, "You think you have this rosy relationship with the NGOs? As soon as you don't agree with them, they'll turn on you and bite your neck off." While this may be an overly sinister appraisal of the NGOs' character, it appears that some people on both sides may have been unrealistic in the opposite direction, by confusing their personal friendships with hopes that the other side would be benevolent. In other words, they expected their friendships to characterize their working relationships, not the other way around.

After the fallout from the engagement, two people in particular, Power Co. D and NGO B, who, among all the participants were the most friendly with people on the other side, spoke to how they were revising their expectations about NGOs to be more realistic. Power Co. D said that he had thought of his relationship with the NGOs as one of trust and friendship, until he felt hurt by the willingness of the NGOs to abandon the relationship to advance their interests. He believed that in retrospect he had been misinterpreting his relationships with the NGOs, and was learning to be more clear-eyed in future engagements. He said this about a new engagement with a different NGO, "I truly like this person but I also am guarded knowing what his mission is—it's to stop coal. So I negotiate with that knowledge."

NGO B initially believed that he had the kinds of relationships that could have supported a collaborative process. He thought that company people “wanted to do things differently” and to “accomplish positive things for the environment.” But in retrospect he believed he had been naïve, and the company was not the progressive an environmental leader that he had hoped they were.

In summary, these speakers saw more clearly after the fact that their expectations for the other’s behavior may have been unrealistic, and both were in the middle of revising their images of the other to be less idealized. However, their views were undoubtedly influenced by the distrust that existed at the end of the engagement period. An open question is whether and how it might be possible to see the other clearly, neither idealizing them nor attributing sinister motivations where none exist, or committing fundamental attribution errors—attributing negative character traits as an explanation for behavior rather considering situational factors that might have contributed to behavior.

Rely on established principles of negotiation and conflict process effectiveness

The negotiation failures in this case illustrate several points where interventions might have made a difference.

Creating mutual awareness about trust expectations

Both Power Co. and NGOs were surprised by the self-interested moves made by the other party. Making expectations of behavioral standards explicit rather than tacit may have helped. This is what the facilitators of the Public Conversations Project Abortion Dialogues did to lay the foundations for a five-year series of meetings with pro-life and pro-choice leaders (Parrot, 2011). In their first meetings, the facilitators guided the group to develop lists of “hot button” terms that they all agreed not to use, and what terms *were* acceptable in their conversations. For example, after a long debate about what to call the products of conception, the group finally settled on the term “human fetus” that no one was entirely happy with, but that was deemed acceptable for the sake of moving forward with the conversation. By engaging in this conversation up front, the abortion dialogue participants avoided unwittingly offending the people on the other side by appearing to be disrespectful or un-benevolent towards their beliefs and interests. In this case, this kind of mutual awareness does necessarily translate into a different choice of action, but participants would have at least been more conscious of how their choices might be perceived by others. With this awareness comes a greater sensitivity to how actions might impact relationships, which creates a different kind of choice than if this awareness is lacking.

The practice of mutual acknowledgement

Although participants on both sides attributed that the other side lacked benevolence towards their interests, this may not have been true. For instance, the NGOs attributed that the company did not care about the environmental impacts of its activities. But the available data indicates that the company did care about these issues, just not to the degree that the NGOs did, and not to the exclusion of other stakeholder interests.

Although I did not have access to the confidential EPA negotiations, I did observe other stakeholder engagements, in which the parties were not engaging in the practice of *mutual acknowledgement*—the acceptance or confirmation by one party of the other party's view of its status, its experience, or its reality (Kelman, 1997). "Such acknowledgements do not constitute acceptance of the other's position or accession to its claims, but at least they serve to recognize that there is some legitimacy to those positions and claims and some basis for them in the other's experience" (Kelman, 1997, p. 75). Instead, the discussion consisted of point and counterpoint, which may have left speakers wondering if their points had been heard or appreciated. A simple practice of mutual acknowledgement might have been sufficient to reassure both sides that the other *recognized* their views, even if they did not agree, thus defusing some of the potential for competition and conflict.

Timing and process of collaborative problem solving

The finding that quasi-cooperation was unproductive has two practical implications, which come from the literature on conflict resolution. In this case, Power Co. came to the negotiating table with a prepared solution: a 2020 compliance deadline, which led the NGOs to conclude that the company was not interested in genuine discussion and problem solving. But it may have been the timing of when the solution was presented, as well as its unilateral nature, that was as much a problem as the solution itself.

Scholars of negotiation and conflict recommend that advocacy for a particular solution come later in a negotiation cycle, after the parties together identify the problem(s) and jointly generate potential solutions. Strategies for creating collaborative intergroup relations for problem solving recommend this sequence of steps: 1) problem recognition or identification; 2) generation of potential solutions; 3) evaluation and selection of solutions; and 4) implementation and review of interventions (Burke, 2011; Rahim, 2002). Advocating for a particular solution comes third in the cycle, not first.

In this case, Power Co. advocated for its solution first, skipping steps one and two, which foreclosed creative problem solving. There is no guarantee that a different sequence of steps would have resulted in a collaborative outcome, but it is not difficult to see that the approach just outlined would have gotten the participants off to a much different start than the process they did use. Talking about the

problem and potential solutions without invoking unilaterally determined fixes could have helped expand the problem definition beyond a debate around a single-issue solution like timing, and “expand the pie” to include other issues important to both sides, which increases the chances of finding a mutually agreeable solution (Carnevale, 2006; Fisher et al., 1981). Using this kind of process depends of course on the willingness of both sides to participate genuinely in it. This may not have been realistic in this case given Power Co.’s internal commitment to the 2020 solution and to a legislative path. However, had the problem space been opened even a little for creative thinking, the parties might have produced ideas that addressed their concerns even more satisfactorily than arguing about timing.

Interest based rather than position-based dialogue

The other implication of the finding that quasi-cooperation was unproductive is that the revelation of each party’s deeper interests may help transform an unproductive quasi-cooperative stalemate. The parties got locked into a competitive contest early on, which may be difficult, though not impossible to shift. One move that might have helped would be an intervention aimed at generating an interest-based rather than a position-based discussion.

From what I could discern, the negotiation was primarily position-based, with each side arguing its positions rather than discussing underlying interests (see Table 2: Interests, Positions, and BATNAs). In a feedback memo to the company and stakeholders in 2012, I presented the analysis that they had been engaging in a position- versus an interest-based dialogue. My contacts at Power Co. agreed with this assessment; I did not get feedback from the NGOs involved in the negotiation.

Negotiators are advised to explore their interests together in order to increase the potential of finding integrative outcomes (Fisher et al., 1981; McKernan & Fairman, 1999). Most of the interests described in Table 2 were not discussed to my knowledge. Had they been, the participants might have broken their stalemate debate on the single issue of timing and generated creative options. According to the Search for Common Ground, a research and practice center for conflict transformation:

To be successful in cooperative problem solving, one of the most important things to understand is that positions are not interests. We often enter into conflicts with a focus on our positions – the way we think things should be done to solve a problem. If we remain focused only on our positions, we limit the possible solutions to one of the following: I win, you lose; You win, I lose; or We each partly win and partly lose (compromise)

What is the way out of this? Shifting our focus from positions to interests – the reasons why we have come up with our positions - our underlying hopes, concerns, and needs. You might think of positions and interests in terms of an iceberg. Positions are like the ten percent of the iceberg that is visible above the water, while interests are the ninety percent of it hidden below the surface (Search for Common Ground, 2003, pp. 5–1).

STUDY LIMITATIONS

This study has several limitations. First, it is a single case that involves a complicated and unique configuration of factors. Consequently, the model that was developed from the analysis may not be entirely generalizable to other situations. For instance, the kinds of trust that might be relevant to a given situation might vary across situations. In this case, a form of trust identified by some scholars, trust in others' competence or abilities (Mayer et al., 1995) was not particularly relevant, but in other cases it might be. However, even though the specifics might vary, the core insight of the model is that competition and cooperation are self-reinforcing dynamics, which influence and are influenced by relational capital and negotiation frames. These are generalizable patterns that may well shed light on how other long-term negotiations unfold. However, the question remains as to what factors precipitate a shift from one dynamic to the other, or into and out of a conflict spiral. In this case, a particular kind of issue, combined with ambivalent trust, drove a quasi-cooperative strategy that precipitated the shift from cooperation to competition. However, it is unclear whether this explanation could ever be generalized to other situations.

This study is limited by the fact that I never directly observed the negotiation, which was highly sensitive and also confidential. Thus, for several critical points in the analysis, such as the competition-begets-competition dynamic, I had to rely on interview data to construct a picture of what occurred. In addition, because of the sensitive nature of the issues and/or the infeasibility of asking participants direct questions about some issues, I made several conclusions based on a combination of available evidence and logical inference. For example, I concluded that relational ambivalence played a role in creating quasi-cooperation; the company was indeed trying to cooperate with the NGOs, not just pretending to do so; and the company's legislative effort prompted company people to use loss frames within the negotiation. To deal with these issues, I triangulated the data both within and across negotiation sides and ensured that my interpretations were well supported by direct quotes and factual events. I also stated clearly when conclusions were reasoned arguments, not facts.

These techniques helped address potential problems with interpretive validity. However, interpretive validity still presents a real concern, given that I was interpreting how people's internal sensemaking operated in a very complex, nuanced situation. The best way to deal with this is to ask participants to validate or correct the interpretations I have made. As of this writing, this process has been initiated with the company and will proceed over the course of the next several months, and also involve input from the NGOs.

Retrospective bias is a concern in this case in two respects. First, many interviews were conducted a year or more after the initial negotiation period. I dealt with this concern in the data collection design, as explained in the Methods section. The other concern about bias arises from a discrepancy between the timing of the initial interviews with Power Co. in March 2011 and those with the NGOs in April and May 2011. The March interviews with Power Co. individuals took place before the company's legislative effort was publicly revealed on April 29, 2011. NGO B's first interview took place on April 25, before this revelation, and NGO A's interview on May 17, after this revelation. This is potentially problematic because the conclusions about NGO A's frames in Period 2 may be biased by the series of contentious events that occurred prior to his interview. In the analysis, I described NGO B as being more optimistic about the negotiation than NGO A, which raises a concern that retrospective bias might have indeed been at work.

While the possibility of bias cannot be discounted, I believe that is not a major threat to the conclusions for a few reasons. One, NGO A acknowledged the positive dimensions of his relationships with Power Co. and he was careful in all interviews not to assign suspicious motives for ambiguous actions. He also described being ambivalent about the potential of negotiation, rather than being completely competitively oriented, which might be expected if retrospective bias were entirely coloring his memories. The question for purpose of analysis is whether he was, as I concluded, more competitively oriented than NGO B. I characterized him in the analysis as taking a hard line stance against the company, but this was based on reports of behavior given by both the company and NGO B, not reports by him of his actions. Because others confirmed the picture of him as more hard line than NGO B, I do think that the conclusions about NGO A in comparison to NGO B are accurate.

DIRECTIONS FOR FUTURE RESEARCH

This study points to several important areas for future research. One revolves around the prevalence and the efficacy of blended negotiation strategies. The literature that was summarized earlier has produced long lists of strategies that are classified as integrative/distributive, collaborative/competitive; or problem solving/contending. By finding evidence for a blended "quasi-cooperative" strategy, this study challenges the classification of negotiation strategies as static either/or dichotomies. The prevalence of blended strategies, why negotiators deploy them and in what form, and to what effect, are wide-open questions.

This paper cracks a door open to a potentially rich territory of study on blended strategies, in which researchers will be challenged to suspend a priori classifications of frames and behaviors, and examine

the situational intentions and meanings of frames and behaviors more closely. What might look like a collaborative move in one situation could be construed competitively in another, depending on the nature and history of the relationship, trust frames, and issue characteristics, among other factors. When these other factors are considered, I predict that researchers will discover that what might have looked like a wholly competitive or collaborative negotiation in reality involves a nuanced combination of “competitive” and “collaborative” frames and strategies used simultaneously and sequentially at different times for different reasons. The outstanding question then, as this paper begins to suggest, is what combinations of behaviors under what conditions lead to productive versus destructive outcomes.

The research also identifies a potentially important feature of trust and relationships in long-term engagements: to raise the standards for behavior upon which cooperation depends. Under pressure from an exogenous source, the participants in this case did not uphold these higher standards, and the negotiation collapsed. While this case illustrates the factors that contributed to failure, it is a matter of conjecture about how negotiation participants might achieve sustained success. More research is needed in the field and the laboratory on the nature and impact of trust standard escalation in repeated interactions. Part of this inquiry involves understanding the varying nature and severity of trust violations. Some violations are construed as minor and forgivable, while others are perceived as major and unforgivable. Under what conditions do different kinds of violations lead to different outcomes—in some cases irreparable relationship damage, in other cases forgiveness and reparation?

Finally, although this study highlights the role of relational ambivalence in producing a negotiation breakdown, it would be incorrect to assume that relational ambivalence is a negative feature of relationships, or that it inevitably leads to difficulty. Ambivalence about trust or other relational characteristics may exist in many, if not most, relationships. The question, what is its impact? Under what conditions does it or does it not cause problems? Can it be helpful? Why and how long can it persist, and what triggers a shift into one or the other poles of the ambivalent state? Do people try to resolve ambivalence, and if so how? These and other questions could be explored not only in negotiation research, but in all kinds of interactions in individuals, groups, and organizations.

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Appendix A: Phase 1 Interview protocol

A. **About you**

- I'd like to start off asking about you—what is your role in this organization? Tell me a little about what you do here.

B. **History of the engagement**

- Can you tell me when this engagement began? Tell me the story of how it came to be.

C. **Strategy and outcome questions**

- What is the goal of the engagement from your perspective?
- What is the product or outcome you want to produce? Are you succeeding in producing this? What is blocking or preventing this from happening?
- In general, how do you know an engagement is successful? What makes it worth the investment of your time and resources?
- Are there things that you are hoping to prevent or avoid through this engagement?
- In general how satisfied are you with how this engagement is going?
- What could be improved?
- What are your hopes and future vision for the engagement?
- What is X [stakeholder/company] like to engage with? What works? What doesn't?
- How is the engagement structured (*prompt with examples...who plays what roles, how are power and resources allocated, what kinds of agreements and commitments are made during and after the engagement, what allegiances do individual participants have to their home organizations, etc.*)
- How is the engagement itself designed (*prompt with examples...frequency and length of meetings, facilitated/not facilitated, location, rhythm & structure of meeting, etc.*)?

D. **Motivation and intention for engagement**

- For companies: What are you hoping to accomplish by engaging with X stakeholder? Is there anything you are hoping to avoid by engaging with X stakeholder?
- For stakeholders: Why are you hoping to accomplish by engaging with this company? Are there particular companies you have targeted? If so, why, and why this company? What are your reasons for doing so? What is this company like compared to others you have engaged?

Appendix B: Phase 2 interview protocol

Notes:

- A timeline of key events around Waxman-Markey and EPA regulations will be sent to interviewees in advance, and used as an artifact during the interviews. This includes both external events (EPA issuing a regulation) as well as key engagements and actions taken by Power Co. and stakeholders.
- For all people who have been interviewed once already, I will map existing interview data to these questions and remind them what they have said, ask them to clarify or add. The idea is not that we're starting from scratch, but that I'm asking them to fill in holes and provide additional detail to flesh out what they've already said.

1. Questions for key timeline events

A. General info/context

- Who were the key decision-makers?
- What was your role in the engagement? How often were you present when engagements occurred?
- What was happening in the external world that influenced this decision/issue?

B. Actions

- What actions did you, personally, take at this point?
- What was the decision of your organization as a whole? What role did you play in shaping that decision? Did you agree/disagree with the decision?

C. Mental models & Emotions

Interviewee's own mental models

- What were you, personally, **thinking** about this issue?
- What was the intention behind your actions?/What were your hopes/expectations for the issue? For engagement?
- What **emotions** did you feel? Do you think these emotions influenced your actions, and if so how?
- Was there anything surprising or unexpected about the engagement or what people at (NGO orgs/AEP) did?
- Was there anything that was particularly disappointing or pleasing to you?
- Is there anything that is confusing or that you feel torn about even now?

Interviewee's knowledge & attributions about others

- Regarding actions taken by (NGO org/AEP), do you know who made this decision?
- What do you think were their motivations or agendas? Do you think the people you were dealing with at (NGO org/AEP) all had the same motivations/agendas, or did they have different ones?

D. Impacts

- What were the impacts of your actions and those taken by the people you were engaging with at (NGO org/AEP)?

2. Differences between Waxman-Markey and EPA regulations

- In terms of success, how would you characterize engagements around Waxman-Markey and the EPA regulations?
- What were the differences?
- Could you have predicted the outcome of engagement around the EPA regulations? Were the outcomes inevitable, or do you think they could have been different? What, if anything, would have made a difference?

3. Overall questions

- What do you see going forward with engagement between people at AEP and NGO stakeholders?
- What areas/topics do you think are best for direct engagements? Which cannot be usefully dealt with?

Appendix C: Phase 2 Subject-Object Interview Protocol

The standard interview protocol is conducted in person by a trained interviewer, and lasts approximately 60 minutes. Interview subjects are given 10 index cards, on which the following words are written:

1. ANGRY
2. ANXIOUS, NERVOUS
3. SUCCESS
4. STRONG STAND, CONVICTION
5. SAD
6. TORN
7. MOVED, TOUCHED
8. LOST SOMETHING
9. CHANGE
10. IMPORTANT TO ME

The interviewer asks the interviewee to pick a word that they would like to talk about first in relation to any topic. The interviewee leads the interview by reflecting on the word in relation to some aspect of their experience. Some questions that an interviewer might use are: “What made you the most ____ about this experience? What were the costs of this event or action? How do you know or evaluate ____? What would have changed this experience for you? What was the most important outcome of this situation for you?”

Appendix D: List of Interviewees

Interviewee Name	Phase 1 Interview	Phase 2 Subject-Object Interview	Phase 2 Interview
Power Co. A	March 2011	---	---
Power Co. B	March 2011	---	August 31, 2012 September 17 & 18, 2012
Power Co. C	March 2011	February 7, 2012	September 24, 2012
Power Co. D	March 2011	May 3, 2012	September 21 & 26, 2012
Power Co. CEO #1	March 2011	---	---
Power Co. CEO #2	March 2011	---	---
Power Co. X	---	---	September 13, 2012
NGO A	May 17, 2011	January 10, 2012	September 17, 2012
NGO B	April 25, 2011	January 18, 2012	September 27, 2012

Appendix E: EPA Regulation* Timeline

Power Co. & NGO actions				Power Co. stakeholder phone call	Power Co. & NGOs engage on proposed EPA regs	Annual Envirocare meeting		Power Co. & NGO engagement on draft legislation	NGOs launch public campaign
External events	Mass. v. EPA Supreme Court Ruling on GHGs	EPA GHG endangerment finding	Early indication of proposed EPA regs				Leak of draft legislation **		
Date	2007	Apr 2009	2009-2010	Dec 2010?	Feb to May 2011	March 23-24, 2011	April 29, 2011	April-May 2011	May 10, 2011

* Includes CSAPR, MATS, and GHG regulations

** The “Electric Power Regulatory Coordination Act of 2011”

Power Co. & NGO actions	Stakeholder call	Stakeholder call		Other engagement		Annual Envirocare-format engagement		Engagements cease
External events			EPA announces CSAPR final rule		EPA announces MATS final rule		EPA issues proposed GHG regulations	
Date	May 27, 2011	June 10, 2011	July 6, 2011	July 2011-Jan 2012	Dec. 16, 2011	Feb 2012	March 2012	

External events	EPA announces CSAPR revised rule	EPA to reconsider MATS
Date	May-June 2012	July 20, 2012

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Appendix F: Quotes to support analysis of framing

Person	Integrative/Distributive and Loss-Gain frames
<p>Power Co. A</p> <p>Integrative Framing</p>	<p>Integrative framing: As we come out of the meeting, hopefully we've influenced each other, recognized more about each other's perspectives and maybe come to the point where we can sit together on the same side of the table when we're talking to a group in Washington or in the state capital. That would be an ideal level of success.</p> <p>Integrative framing: The more consistent the feedback is on the rules, the better the chance of influencing those rules within the guidelines that are given. Imagine the difference if the feedback of the total group tomorrow were aligned or if it were totally diverse, imagine the difference from EPA's perspective...if we're aligned there's a big difference compared to if we are totally separate in our views and opposed in our views.</p> <p>Integrative frame & Gain frame (producing a better plan): What we will talk our way through is: now we understand those two different perspectives, and at what point could we agree. We're not taking the position of just saying no, we're completely opposed, we are taking the position that as all these rules come at us, we need to be rational about how we do implement a plan that gets us there, one that does recognize that customer rates impact a number of people, a number of jobs, and that everybody wants to operate in a fashion that's environmentally responsible, that we want to be responsible about how we go about it, and recognize the economic impacts as well. So is there a way we can get to a future point environmentally, that is also acceptable from a local and national economic perspective. That's the question before the group, and the tensions are going to be around the timing.</p> <p>Gain frame (producing a better outcome than litigation): None of us want to sacrifice health for rates, however you want to characterize that. But this is a pretty complicated issue and we all have different opinions about the science the costs and the benefits, let's all be open enough to talk through those, recognize that we all support improvement over some time frame, we disagree on what that time frame might be but if we can work together...that would be better than continuing to go through the litigation process and delaying and delaying and delaying. So where is that point where we can kind of come together and make good things happen for our country from an environmental and economic perspective?</p>
<p>Power Co. B</p> <p>Integrative Framing</p>	<p>Integrative framing (but proposing a legislative solution, which the NGOs wanted to avoid): [In my mind at the time success would have been] if the environmentalists had said, 'Gee, you guys are right. You really need six years or seven years' or 'We need to at least give you five years for sure.' Would that have helped influence EPA in how they would have promulgated the regulations or thought kind of going final with it? Yeah, it could have. But it would have been difficult to get where we wanted to go...with the EPA rules or even the EPA rules with extensions. To get there I think you have to have legislation. If discussions went really well and we move towards what we thought was a good outcome</p>

Person	Integrative/Distributive and Loss-Gain frames
	<p>then it would have resulted in us kind of going arm-in-arm to Capitol Hill where our various representative would say, "Gee, the environmentalists agree, Power Co. agrees, the power industry agrees – this is a great settlement where we get... everyone gets what they want. But we do legislation so it can happen.</p> <p>Gain frame (producing a better outcome than litigation): [They NGOs would say] even though EPA is giving us everything we want, we have to worry about the fact that if we push too far and too fast that there might be a pushback from litigation of the courts. But upon agreement with Power Co., and let's say that was brought out to the rest of industry, then you would in effect have a settlement of the parties and you would have probably not seen litigation.</p> <p>Gain frame (producing a better outcome than litigation): In the long run there would then be a much cleaner environment by not creating a set of regulations that will be difficult to comply with and would create the potential for litigation, for lawsuits, for all sorts of other things, and the possibility they would even get thrown out which is what happened to CSAPR.</p>
<p>Power Co. C</p> <p>Integrative Framing</p>	<p>Integrative framing: To me we're getting to the point where the rubber meets the road, in that one of the objectives of a process like this as I understand it is, to see if you can find common ground in certain areas and work together to find solutions....So now we're at a point where we've engaged with stakeholders for a few years. Do they see the same issues and can we work together...to come up with a solution? That is a challenge. But if we can come out of a discussion like we'll have tomorrow with willingness to work together and find solutions to this, then to me you have a benefit to the process.</p> <p>Integrative framing, but questioning value of a negotiated solution: Can we reach agreement that yes there actually are some real issues here this time, and it's in everyone's interest to work together? I think we can probably reach some common ground there, but then what do you do with it? And can you go to EPA, can they write more flexibility in, or do you really need to go to Congress and say, you need to change the law, you need to provide more flexibility, and allot more time? In the political environment right now, Washington, I think that's a big challenge.</p> <p>Integrative framing, but questioning value of a negotiated solution: Can We're going to see if there was some common ground we could agree on that would allow us to put something together, that might provide what we are hoping for, which is to get more time. But where you took that I don't think we ever got to that point. Is that something when you approach the administration--bring something to EPA that you can put into the regulation they are working on? Would it be something that you would take to Congress? I don't think the NGOs had any appetite to go to Congress.</p> <p>Gain frame (producing a better outcome than fighting and litigation): If engagement breaks down and we disagree then we'll be back to where we were at that gate, where you just fight over everything. If the outcome is everyone is</p>

Person	Integrative/Distributive and Loss-Gain frames
	<p>suing EPA on rules, then nothing has changed. So can you reach some understanding, some common ground or solutions that's outside of arguing before a panel of judges in Washington?</p>
<p>NGO A</p> <p>Ambivalent Framing</p>	<p>Distributive framing: If the decision was as stark as additional years before they have to cut their emissions, no there isn't really a way to accommodate those concerns. Our perspective and something I have told the Power Co. CEO and others for the last couple of years, our reaction to the argument that they need more time, is that these rules have been delayed 20 years already and that we have been fighting the administration, we have been fighting the power sector for the last two decades to get these rules implemented. They have known during that entire time that at some point the string of delays was going to run out and we are not all sympathetic with the argument that in 2011 the time remaining to implement these already delayed rules is now a lot shorter than if they had started working on it in say 2008.</p> <p>Distributive framing & Loss frame (legislative proposal/preventing erosion of EPA standards): Defeating a Power Co. legislative proposal if it is ever introduced is going to be our objective. That's step one. Getting Power Co.'s power plants into compliance with strong EPA rules on time, is the core objective and doing that in a way that doesn't lock in additional decades of emissions is another important strategic objective.</p> <p>Distributive framing & Loss frame (was Power Co.'s support valuable enough to concede losses on the emissions issue?): Well, the ideal outcome from our perspective is that we would have persuaded the company that with a little effort, it could in fact comply with EPA rules that we were supporting on the timetable that we were advocating. The probably more realistic expectation would have been that they would have said that they needed some specific things to be in EPA's rules in order for them to not be attacking those rules. So we would have tried to negotiate down what those specific things were to a point where we would have been able to decide whether...well Power Co.'s support would be great but was the lack of aggressive attack sufficiently valuable that we would be willing to say okay to the things that they were asking for?</p> <p>Integrative framing & Gain frame (producing a better outcome than distributive tactics would): If we discontinue our attempts to reach agreement where we can, and we just go to the conventional mode of lobbying our best arguments at some third-party and using whatever influence we have to try to achieve our objective and defeat their objective...it isn't the best way to go about things. It consumes a lot of time, and it consumes a significant amount of political capital and resources. The other ways consume time too, but defeating an opponent is not a path to a sustainable policy environment if your opponent feels aggrieved and its convinced of the notion that the other protagonist is hopeless and not to be trusted and never satisfied and so on and so forth. Because all that does is set up the next interaction to be one that is going to be characterized by fighting and charges and counter charges.</p>

Person	Integrative/Distributive and Loss-Gain frames
	Ambivalent framing: Our engagement with Power Co. is not exclusively adversarial and it's not exclusively collaborative. It's a mixture of modes.
NGO B Integrative Framing	<p>Integrative framing: All right, so let's figure it out, you need an extra five years, three years, okay. We've lived with this now for 40 years, we're okay with another three.</p> <p>Integrative framing: Their fundamental business interests are to build assets in rate base, to see wholesale power prices strengthen, and, but to do that in ways that manage that for customers. And none of that is particularly antithetical to what we are trying to get done as environmental advocates. So there's a lot more that we have in common in terms of common interests.</p> <p>We want to see capital deployed because we want to see cleaner energy technology. Wholesale power prices are an important factor in being able to economically justify renewable energy. And at the same time as well none of us want this to be more expensive than it absolutely has to be. We are all energy customers too.</p>

Person	Trust in other's benevolence
Power Co. B	<p>The idealistic nature of the NGO's and how they're funded and what they stand for doesn't make them I guess as willing to compromise on some of these things...whereas in a publicly traded company we can't afford to be idealistic. Their political calculus or their I guess environmental calculus is a lot different because they're not always looking for that greater good if it would be used publicly as undermining what they stand for regardless of the actual truth or not.</p> <p>I saw a pretty slim to no prospect that we would get them to see that there was...some way to sort of ameliorate what we saw as something that was very, very costly and unnecessarily so. And going in, my own was, yes, it's good to talk about things to see if there is anything that they might be willing to negotiate. But I didn't go in with a whole bunch of optimism. And I would say that most of the people in the room who have been involved in this kind of thing were not particularly optimistic either. It wasn't like we were totally going through the motions. I think we wanted to know where they were coming from or be sure where they were coming from and see if there was any possibility that they would have some willingness to negotiate.</p>
Power Co. C	<p>I am remembering meeting in the 97 or 98 timeframe with NGO A where he said the objective of his organization is to eliminate all use of coal in the United States, and that's basically what his organization had been trying to do for 25 years and they weren't going to stop. And so fast forward a decade or so and now we are in stakeholder engagement with him and having discussions on what areas we can agree on. Did he change his view from what I heard him say a decade earlier? Or is that still their objective and we are just sort of playing a game here? We don't support a position that would eliminate all coal at this point. That may at some point in the future makes sense. It doesn't today. So if</p>

Person	Trust in other's benevolence
	that is still NGO A's feeling and we have our feeling, you're not going to close that gap. So you talk a lot but maybe there's a gap there you couldn't close.
NGO B	<p>They're very quickly backing away from their more environmentally progressive rhetoric of a year or two or three years ago. So what you're seeing is a rapid repositioning of the company, but in a way that's designed to avoid accusations of hypocrisy or being a fair-weather friend.</p> <p>Right now they are proceeding under the assumption that they need more time, it will save them money, it will make life easier politically and there is no down side to doing it. And so what we need to do is put that other side of the ledger on the table and expect them to validate and work with those concerns. If we can do that and they are willing to do that, then that's a real partnership, if they have no, if at the end of the day they are unable to get their minds around that, if at the end of the day we're unable to deliver that information to them and subsequently they are unable to get their minds around it, then yeah I don't really know what kind of partnership we really have. At that point it really is just a question of them bringing us in so that we can hold their hands and say there, there it'll all be okay? And that was a little bit the tenor of the [Envirocare] meeting I think. They were looking for out of the meeting, was our validating their tough time.</p> <p>What wasn't quite clear to me is how receptive they were to really problem solving their issues, whether from their perspective the real point of the meeting was simply to convince us of the rightness of their point of view and to have us legitimize it.</p>

Appendix G: Primary arguments, responses, and counter-responses

Power Co.	NGO response	Power Co. response
<p><i>High costs and short compliance timelines might create reliability concerns if the we have to idle plants or shut them down prematurely</i></p>	<p><i>NGO B: It's said that patriotism is the last refuge for scoundrels; well reliability is the last refuge of scoundrel utility businesses. If you want to try to intimidate anybody, whether it's an environmental regulator or an economic regulator, if you want to intimidate them into approving a relaxation of environmental requirements or the rate of return that you believe is necessary in order to adequately reward your shareholders, the first thing that you say is if you fail to do this we will not be able to maintain the system viably and the lights will go out and that will be your fault.</i></p>	<p><i>To say, "You're exaggerating," You're exaggerating until the lights go out. We felt obligated to say, "Hey look, if you try to do too much too soon, you're increasing the risk that there would be a problem." There's been a number of programs, like when Congress was writing the 90 Clean Air Act amendments, where the industry was saying the sky is falling, the sky is falling, this is going to be a disaster, and it wasn't a disaster. And so we have to recognize that in the past we've cried wolf and people may think you're just crying wolf again. This time I think we may be overstating things some, but I think we're much closer to this is a real problem, and it's part driven by the time frames and in part it's the way the law is written.</i></p>
<p><i>Completing the construction for MATS controls would be physically impossible in three years; longer compliance timelines would allow us to meet the requirements with fewer negative consequences</i></p>	<p><i>NGO A: They have known during that entire time that at some point the string of delays was going to run out. We are not all sympathetic with the argument that in 2011 the time remaining to implement these already delayed rules is now a lot shorter than if they had started working on it in say 2008.</i></p>	<p><i>In March of 2011, EPA proposed a rule and it was the very first time that we saw what the emission limits were. So, the NGOs say we knew it was coming. Well, we knew it was coming but we didn't know that direct impact on our customers or on our system on a plant-by-plant basis. The other thing that they're saying is, "You could have done this stuff sooner." But you cannot get cost recovery from a state public utility commission unless you're required [by law to put in pollution controls].</i></p>
<p><i>Upgrading plants would impose exorbitant and rapid cost increases on consumers already hit by recession</i></p>	<p><i>NGO A: That is a real obstacle that the Power Co. planners have to take into account but we're prepared to make the case that these additional expenses or electricity are worth the benefits, and that's what we would like Power Co. to be arguing too.</i></p>	<p>---</p>

Endnotes for Essay #3

ⁱ Power Co. decided to support the Waxman-Markey bill for several reasons. First, they acknowledged that as a company, they had a responsibility to try to find a solution to the climate change problem. Second, addressing climate change fit with the company's longer-term generation strategy, which included energy efficiency and "decarbonizing" the generation fleet through retirements of coal units. Third, Power Co. people believed that given the political situation at the time, some sort of climate legislation was highly likely. It was better to be at the table shaping the legislation than to remain neutral or to oppose it. As one Power Co. person said, "There is the old slogan, if you're not at the table you're on the menu. So it was important for us to be engaged."

Finally, the company had a close working relationship with a key Congressional sponsor, who chaired a powerful committee responsible for considering the climate bill. As one company person described it, "The Congressman pretty much directly spoke to our CEO and said, 'Look, I believe I can get a deal that the industry will live with if you support me.' We took him at his word, based upon our experience with him. That was probably the single most important factor in getting behind the bill. He talked with us early and often. In some cases he asked us to help draft revisions of the bill."

ⁱⁱ For a variety of reasons, Power Co. did not like to ask regulators to approve sudden and significant rate increases. If rate increases were needed the company preferred to plan for them well in advance and phase them in gradually.

ⁱⁱⁱ Because Power Co. is a regulated utility, it would normally pass environmental improvement costs directly onto consumers in the form of higher electricity rates. This is referred to as "cost recovery." The company recovers the costs of its investment and also makes a return on that investment. Although it might seem counterintuitive that a company would earn a return on capital invested to meet mandatory regulations, this is a function of the social and regulatory contract that governs regulated utilities. They ensure reliable electric service at a reasonable rate, in exchange for a reasonable, but not exorbitant, margin of profit. State-level regulators calculate electricity rates in part by determining what a reasonable return on capital would be for a particular company. Costs for environmental improvements that are mandated by law are usually, but sometimes not fully, recoverable. To the extent that environmental improvements costs might not be recoverable, this could "materially reduce future net income and cash flows," according to the company's 2011 annual report.

^{iv} The company invested capital in one of three ways: in generation, transmission and distribution, and mandatory environmental controls like the ones that the EPA was proposing. From a strict ROI standpoint, investing in transmission and distribution is generally the most attractive of the three choices because it is expected to involve less time for cost recovery, and is relatively low risk compared to other options such as building a new power plant.

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Summary of dissertation findings and contributions

The three essays in this dissertation expand our understanding of corporate stakeholder engagement strategies and engagement outcomes, as well as the factors that both enhance and impede efforts to create shared value through engagement.

Essays #1 & #2: Corporate stakeholder engagement strategies

The first paper in the dissertation uses a combination of empirical data and a synthesis of concepts in the literature to develop a framework for evaluating firm-level stakeholder engagement strategies. The framework specifies each of the eight constituent elements more clearly than what is found in the existing literature, adding definitional and conceptual clarity, and describing how each element can vary on a spectrum from least to most advanced. The framework also proposes three strategy elements that are new to the literature: control over the engagement process; timing of stakeholder involvement; and involvement of senior leaders in engagement.

The second paper uses the strategy framework to develop and validate scales for measuring individual companies' strategy elements, and test which of these vary together to comprise a higher-order strategy. This type of analysis has not yet been done in the research on stakeholder engagement, which instead relies on descriptive strategy typologies comprised of elements that are assumed, but not proven, to vary together. This analysis generated six first-order factors, five of which combined to form a Strategy factor. A sixth factor—Extent of Engagement—did not factor with the others.

The Strategy and Extent of Engagement factors produced an ordering of companies from low to high that were roughly aligned, and that to some degree track anecdotal evidence from the qualitative portion of the research. Exxon and Chevron, both relatively low scorers in the survey, were mentioned by several stakeholders in interviews as representing a low standard of stakeholder engagement, in terms of the extent of engagement activities and their character in the engagement process itself. AEP and Ford, which were both high scorers on the Strategy factor, were mentioned as representing a high standard or advanced approach to engagement.

Together, the first and second essays in this dissertation represent a first step in defining and measuring elements of a corporate stakeholder engagement strategy. These findings can be used as a foundation to further develop the individual components that comprise engagement

strategy; develop new data sources to evaluate strategy dimensions (including but not limited to stakeholder surveys); and refine the method for combining individual strategy elements into higher-order strategy scores.

These firm-level strategy scores could then be used to explore a variety of questions such as whether corporate engagement strategies vary by stakeholder type, company industry, company size, or other variables; *why* a company adopts a certain strategy—for instance as a function of corporate leadership, industry type, stakeholder pressure, and previous experiences with stakeholders; and whether different corporate strategies are correlated with specific kinds of engagement outcomes such as shared value creation or fewer instances of undesirable engagements like shareholder resolutions.

Essays #2 & #3: Engagement process and outcomes

In addition to developing the engagement strategy framework just described, the first essay of the dissertation also uses empirical data in conjunction with concepts from several related literatures to propose six kinds of outcomes that can result from engagement. Three involve aspects of learning and relationship building, and three address tangible changes. This essay expands the range of possible engagement outcomes beyond the kinds of tangible results that the literature currently emphasizes. The findings also confirm that engagement participants both recognize and have successfully realized the shared value creation potential for engagement, which is a central tenet of stakeholder theory.

The third essay is a fine-grained analysis of an attempt by one firm using an advanced engagement strategy and NGO stakeholders to create shared value. The essay builds on the findings of the first essay in two ways. One, as the analysis makes clear, an advanced engagement strategy (e.g. multiple, interactive forms of engagement; stakeholder involvement in decision-making; proactive engagement posture; and open and honest corporate engagement character) is supportive of a shared value aspiration, but it is not enough to ensure its fruition. Other factors also influence engagement outcomes, including the negotiation frames held by engagement participants, issue characteristics and situational factors, and the engagement process itself.

The second way this essay builds on the first paper is by showing how different kinds of engagement outcomes inter-relate and influence one another. In particular, the analysis traces the role of relational capital in holding the participants together in an attempt to influence one

another, change the company, and create shared value (the tangible outcomes that were identified in the first essay). The analysis also reveals the fragility of shared value creation in the face of compelling reasons for each side to advance its own separate agenda, and identifies practical implications for mitigating this fragility and increasing the possibility for productive outcomes.

In this essay, I asked the question: What prevented the participants from realizing the possibility they envisioned for engagement? I argue that a combination of situational factors, issue characteristics, and relational ambivalence—the simultaneous presence of interpersonal trust and distrust—motivated the company to engage in “quasi-cooperation” with stakeholders, which ultimately contributed to the failure of engagement. Quasi-cooperation is the simultaneous deployment of cooperative and competitive tactics within a negotiation or engagement.

I argue that one of the company’s competitive tactics (a secret legislative effort) likely influenced the cooperatively framed negotiation by establishing a single-issue distributive loss frame as a reference point for negotiation instead of a gain frame. In response, the NGOs hardened their negotiating position, and the negotiation took on a distributive loss-frame flavor. The talks were essentially stalled until the unintended revelation of the company’s secret legislative effort. The company proved unwilling to abandon the legislation, and the NGOs took escalatory action, ultimately resulting in a destruction of working relationships and the potential for shared value creation.

In addition to contributing a detailed, empirical analysis of engagement to the literature on stakeholder theory, this essay expands research on trust and negotiation in several ways. The paper offers a temporal, process-based social psychological analysis of a real negotiation. This kind of analysis is rare in behavioral negotiation research, which relies heavily on laboratory studies and has been criticized for its “black box” bias towards studying inputs and outputs and ignoring interaction processes.

The paper also finds evidence for a phenomenon that has not been previously described in the negotiation literature: “quasi-cooperation.” While the small body of existing research is coalescing around the idea that dual distributive-integrative/competitive-cooperative negotiation strategies can be productive and even beneficial, questions remain as to the conditions under which this holds true. In this case, quasi-cooperation was ultimately unproductive because part of the competitive strategy remained hidden, and dragged the

cooperatively framed negotiation towards a distributive interaction. This violated the integrity-based trust upon which the negotiation depended. This points to at least two conditions that must be in place for a dual strategy to work: actions must not violate the conditions that enable the negotiation to exist, and they must not tip the negotiation into a competitive dynamic from which it is difficult to recover.

This essay also contributes to research on trust in several ways. One is by clarifying the definitions of different forms of trust that have been proposed in the literature, and showing how they interact in an empirical setting, providing an empirical confirmation of the multiplex view of trust, in which relationships are viewed not as unidimensional and uniplex but instead as a complex, multidimensional construct involving simultaneous trust and distrust on different dimensions (Lewicki et al., 1998). I use the term “relational ambivalence” to describe the coexistence of trust and distrust within the context of a personal relationship, and show the role that unresolved relational ambivalence played in generating the engagement failure.

The third contribution of this study is a temporal and process-based examination of how trust operates through its different phases: trust building, stability, and dissolution, which is uncommon in a field that looks at trust as a static concept or investigates just one or two of the phases of trust. The study contributes in particular to the understanding of trust violation and trust betrayal, and the differences between the two.

Many of the paper’s findings on negotiation and trust have practical implications that could inform how future engagements might proceed. For instance, the practice of mutual acknowledgement; the timing and sequencing of moves within engagement; moving towards an interest-based dialogue rather than a position-based discussion; surfacing assumptions about trust and relationship expectations; and considering the impacts of proposed actions to relationships could all be considered as possibilities for improving the potential of engagement to generate satisfactory outcomes for all parties.