

BOCCONI UNIVERSITY

PhD in Business Administration and Management

XXI Cycle

**SHAPING THE PATH TO CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY:
FROM NONFINANCIAL DISCLOSURE TO ORGANIZATIONAL LEARNING DYNAMICS**

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*The Gross National Product measures neither our wit nor our courage,
neither our wisdom nor our learning, neither our compassion nor our devotion to our country.
It measures everything, in short, except that which makes life worthwhile.*

Robert Kennedy at the University of Kansas, March 18, 1968

*I'm convinced that one reason we've seemed paralyzed in the face of these crises is our tendency
to offer old solutions to each crisis separately – without taking the others into account.
And these outdated proposals have not only been ineffective –
they almost always make the other crises even worse.*

Al Gore, A Generational Challenge to Repower America, July 18, 2008

Acknowledgements

It is my pleasure to express my gratitude to the many people who supported me materially and intellectually during my PhD. I would never have imagined that enrolling in a PhD could be such an intense life experience! I am perfectly aware that this is just a new (...maybe even harder...) starting point. Nevertheless it is a proper time for acknowledging everybody who trusted and supported me during this journey.

I am very much indebted to my supervisor, Prof. Francesco Perrini, who first brought me into the academic world and with whom I started cultivating my research and teaching attitudes. He has constantly provided me with insights and experience, with a passion to challenge my limits, and has become more of a mentor and friend, than a professor.

It is difficult to overstate my gratitude to Prof. Stefano Brusoni, my advisor in this thesis project from early brainstorming to the final version. He has represented for me the role model of a successful researcher in the field. His thoughtful advice and patience served to give me a sense of direction during the completion of the work.

I also wish to thank Prof. Giovanni Valentini, who joined this thesis project in the final stages of the work, for his insightful, stimulating comments and technical support.

I would like to acknowledge my many student colleagues with whom I have shared this experience. A special thank is due to my friends Alessandra, Chiara and Monica. Together we managed to overcome the hardest obstacles (...do you remember holidays spent on maths and statistics?!). I am grateful to our never ending discussions, to the venting of frustration, to our group works and presentations, and to moments (fortunately not so rare) taken away from research!

This work and my career so far have been carried out at the Department of Management, Bocconi University. I wish to express my sincere gratitude to all my colleagues and friends at Bocconi, for philosophical debates, exchanges of knowledge, skills and advice. They have provided an insightful and fun environment in which to learn and grow. Many thanks to Antonio Tencati, Stefano Pogutz, Paolo Migliavacca, Nicola Misani. A special thank goes to Prof. Sergio Pivato, Director of the Center for Research on Security and Protection against Crime and Emergencies (SPACE) for his support since I started to work at Bocconi. I would

like to acknowledge also Prof. Alfonso Gambardella, Director of the PhD School, and all professors who stimulated our search for excellence during the program.

In conclusion, I recognize that this research would not have been possible without the financial assistance of the Bocconi University PhD School, the Department of Management, the SPACE Center, and the SIF Chair of Social Entrepreneurship at Bocconi University. I am also indebted with personnel at Eni S.p.A for suggestions and provisions of the font materials used in the qualitative study I developed in this thesis.

I cannot finish without saying how grateful I am to my parents and my sister Clorì, for their lovely, never ending support along this hard trip. Words are not enough to thank Angelo for having joined me in the discovery of how to make the best of life.

To him and to my family I dedicate this thesis.

C'est le temps que tu as perdu pour ta rose qui fait ta rose si importante.
Antoine de Saint-Exupéry, *Le Petit Prince*

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CHAPTER 1

Introduction

Corporate social responsibility (CSR) and corporate sustainability (CS), defined as the voluntary integration of social and environmental concerns into business operations and the relationships with company stakeholders beyond legal prescriptions, have definitely joined mainstream management literature as legitimate fields of inquiry. Over time research addressing the role of business in society has progressively converged to the recognition that there is more to corporate success than the financial bottom line and there are no reasons to believe that firms which spend their energies trying to improve the world around them will necessarily suffer for those efforts.

Accordingly, in an attempt to justify the ever-growing diffusion of CSR strategies, practices and behaviors among firms and organizations a large body of literature has investigated the business case for CSR, that is, whether or not financial benefits to organizations engaged in actively contributing to social welfare can meet or exceed the costs of such investments.

As a result, obsession with showing significant, positive causal relations between a certain set of social performance measures and economic and financial ones has grown exponentially, thus assimilating the business contribution to society to an R&D-like investment consistent with profit-maximization strategies and the neo-classical imperative that the *business of business is just business* (Friedman, 1970).

Yet, after more than thirty years of studies on this subject it is surprising to note a substantial inconsistency in the results obtained, in terms of both existence and direction of the relation between social and financial performance. In spite of a majority of inquiries accounting for a significant positive relationship, conflicting results were reported even in cases based on the same sample of firms. It is not a case that the relationship between social and economic performance is now widely considered as ambiguous, complex and nuanced,

not allowing for much theoretical generalization on the implications of responsible business conduct.

And it is not even a case that to keep research aligned with practitioner interest in CSR, the shift away from the long-fought battle for replicable empirical findings becomes increasingly stringent, together with a growing request to reorient empirical investigation toward a deeper understanding of what it means to succeed in CSR and the underlying drivers of whether and when specific firms may thrive in it (Barnett, 2007; Harrison & Freeman, 1999). There is no doubt that CSR may be beneficial for companies engaged in it; less clear is how firms can achieve those potential benefits and what mechanisms link certain activities to certain expected outcomes.

As a result, the debate over the role and responsibilities of business in society is moving away from simplistic linear assumptions on the link between aggregate measures of social or environmental performance and economic-financial performance. Two still largely unaddressed research venues are emerging. Following the increasing sophistication in sustainability-related practices, one side includes empirical and theoretical attempts to disentangle the impact of specific CSR activities on performance. The other side focuses on the specific dynamics by which firms integrate CSR and CS into corporate operations and stakeholder interactions.

More in details, in an attempt to answer this quest for reorienting business in society research toward a deeper understanding of the drivers of CSR-related performance, recent research has been appreciating the impact of CSR at different levels of analysis (Aguilera, Rupp, Williams, & Ganapathi, 2007) and in specific management domains and stakeholder interactions (Perrini, Pogutz, & Tencati, 2006). In this context, research has started to focus on organizational, market, consumer-based, or environmental outcomes of specific areas of voluntary responsibilities. Moreover, emerging theoretical accounts have tried to define the impact of specific tools to manage CSR and stakeholder relationships on corporate social performance. All the studies on the impact of voluntary disclosure on performance belong to this stream.

On a partly related side, studies have started to consider CSR intrinsically as a process by which firms replace, at different levels and to different extents, existing ways of doing and understanding with new understandings and renewed behaviors (Basu & Palazzo, 2008;

Zadek, 2004). Accordingly, if CSR is interpreted as a new managerial model based on social welfare creation and stakeholder orientation, the specific learning paths by which organizations forget old ways of working replacing them with responsible ones could be especially helpful in explaining differential performance. In other words, sustainability performance, that is, a snapshot of a firm's overall social and environmental portrait at a particular point in time, can be interpreted as the result of a firm-specific learning process by which new knowledge and information is socially constructed, distributed and institutionalized in organizational routines and beliefs that replace, modify or add on old ones (Crossan & Berdrow, 2003).

Starting from these premises, my thesis project aims at opening the black box of corporate social performance and looking at the specific dynamics by which firms can benefit from it, with reference to both the implementation of specific tools to manage social and environmental concerns and the processes by which organizations unlearn old *modus vivendi* through shifting to new managerial models based on the voluntary integration of social and environmental policies and practices, and engagement in stakeholder dialogue and cooperation.

In so doing, my study aims at moving beyond the “why should firms behave responsibly?” issue toward the still unexplored “how can firms succeed in CSR?” question. We are still in search for a theoretical framework that adequately explains the contingent nature of the case for CSR (Mahon & Griffin, 1999).

* * *

The dissertation can be ideally divided in two main sections: one theoretical and the other presenting the results of two empirical studies.

Following an overview of my project, its aim and underlying motivations as presented in **Chapter 1**, **Chapter 2** “*Literature review and theory development*” aims at painting the portrait of CSR research, highlighting the two gaps that will be addressed in the empirical studies. Overall, literature on the role and responsibilities of business in society is still fragmented and multi-faceted. As a result, definitions and expressions abound, spanning from corporate social responsibility to social welfare orientation, to sustainability and so on. This makes it necessary to clarify boundaries and perspectives. In this work, I decided to

focus on CSR or alternatively on CS as business approaches through which firms align their activities to sustainable development objectives, covering areas such as environmental protection, social equity, community development, governance, supply chain management and so on.

Both CS and CSR are broadly and interchangeably used in mainstream research, referred to as voluntary business activities including social and environmental concerns, so as to interact with stakeholders (Funk, 2003). Yet, recent attempts abound to clear the lines between these two concepts. Some authors consider CS as the ultimate goal, with CSR as the intermediate stage with companies attempting to balance social, environmental and economic performance (Wempe & Kaptein, 2002). On a different side, others stress the distinction between the two constructs (van Marrewijk & Werre, 2003), relating to CSR as more communication-oriented (e.g., stakeholder dialogue, social, environmental and sustainability reporting, and so on) and to CS as more concerned with the agency principle (e.g., value creation, environmental management, human capital management, and so on). In order to align my research to the academic debate in the field, I decided to maintain the distinction, relying on CSR in the quantitative study on the impact of CSR-related disclosure on performance, while introducing CS in the qualitative investigation on the behavioral and cognitive antecedents of CSR-related artifacts' implementation.

Starting from this premise, literature review is structured as follows. First, the evolution in the debate over the role and responsibilities of business in society is depicted. The literature review shows subsequent shifts in both theory and practice with a focus progressively placed on micro-level dynamics and specific measures of performance impacted by CSR-related tools and behaviors. In fact, looking for a significant positive correlation with corporate financial performance, mainstream research has mainly overlooked the many contingencies that cause variability in outcomes related to the adoption of CSR (Barnett, 2007). But how does it happen that specific CSR activities build into a certain corporate social performance configuration and how does this relate to performance? In an attempt to theoretically answer this question, the second and third sections of Chapter 2 present the most recent contributions in the field. On the one side, those studies aimed at unpacking the CSP-CFP link are presented, showing the variety of performance areas on which CSR can potentially exert an impact. On the other side, the

perspectives on the need for incorporating organizational learning into CSR research are introduced. Accordingly, I first disentangle the contribution of organizational learning to the literature-based explanation of what it means to be sustainable and answer to stakeholder requests. A general responsiveness process is described, highlighting two learning dynamics: one at the level of firm-stakeholder interaction and the other at the level of adapting existing organizational routines and beliefs to new managerial models based on the integration of CS into business operations.

Literature review posits the basis for subsequent empirical accounts. **Chapter 3 “*More than words: The impact of nonfinancial disclosure level and structure on corporate social performance*”** builds on the studies sharing the need for unpacking CSP-CFP link.

Paralleling the renewed expectations of corporate conduct within a global stakeholder society, business results are increasingly dependent on the ability of firms to act responsibly, integrating social and environmental concerns into business operations and the relationships with stakeholders on a voluntary basis and beyond legal prescriptions.

Accordingly, a variety of sources have pressured the private sector to go beyond financial measures as all-inclusive indicators of corporate performance. Sharing the same fundamental roots as corporate social responsibility (Gond & Herrbach, 2006), nonfinancial disclosure and reporting have gathered momentum, increasingly viewed as a way to codify, manage and communicate CSR commitment and stakeholder knowledge through inclusive data and information, similar to more traditional financial documents (Hummels & Timmer, 2004). Flourished from the so-called social accounting movement in the 1970s and aimed at broadening the scope of accounting from its traditional and legally defined focus on financial stakeholders to broader accountability with respect to various internal and external stakeholders, nonfinancial disclosure and reporting includes all tools firms commonly use to formalize their position on CSR and to assist themselves in developing good business practices.¹

Indeed, the mere act of pulling together information from business units with different priorities represents a step towards evaluating and measuring overall corporate responsibility performance. But that exercise also, and more importantly, provides a concrete opportunity for the company to identify strengths and weaknesses across the

¹ Nonfinancial disclosure includes social, environmental and sustainability disclosures.

whole corporate sustainability spectrum (Nitkin & Brooks, 1998) and improve the ability to manage the dialogue with stakeholders on a continuative basis. Put it differently, nonfinancial disclosure and reporting may be viewed as a management process with the goal of improving performance by mapping, measuring, systematizing and communicating what firms do in stakeholder-related CSR areas. Nonfinancial disclosure exists to provide effective guidance for the progress of the firm, reporting its efforts to internal and external stakeholders. In other words, the process underlying social disclosure is depicted as a dialogue between the company and its stakeholder, or the means by which stakeholders can be effectively involved in the activities of the company (Greenwood, 2007).

Yet, notwithstanding an increasing interest in business practice, the performance consequences of nonfinancial disclosure are still largely anecdotal. Though recognizing nonfinancial disclosure and reporting as the natural operationalization of CSR, representing a managerial effort to gauge a firm's corporate social performance and contribute to an ongoing stakeholder dialogue (Cooper & Owen, 2007), mainstream research has disproportionately looked at either economic or environmental performance as predictors of disclosure levels rather than the reverse (Patten, 2002). This has prevented a comprehensive understanding of the performance consequences of relying on nonfinancial reporting as a managerial tool to address accountability concerns.

Moreover, most of existing research has treated disclosure as a univocal construct, based on the implicit, simplistic assumption that the more firms disclose the more accountable and responsible they are towards stakeholders, thus leading to better results. Such assumption is still largely anecdotal, lacking empirical validation.

As a result, both the question whether or not stakeholder-related nonfinancial disclosure contributes to improved corporate social performance and how disclosure has to be structured to lead to better performance are still matter of an open debate.

Building on existing studies (Adams, 2004; Epstein, Flamholtz, & McDonough, 1976; Gray, Kouhy, & Lavers, 1995a; Guthrie & Parker, 1989; Preston, 1981), my paper proposes and tests a model relating the level and structure of nonfinancial disclosure to corporate social performance. If nonfinancial reporting is conducive to a better ability to manage firms' social context of reference, then the better firms are at systematizing CSR and

stakeholder relationships through disclosure, the stronger the social and environmental performance they are able to obtain.

Adopting a stakeholder-based framework to formalize and test our hypotheses, we find evidence that it is not the level of disclosure to affect performance, but rather the way disclosure is structured. According to what predicted by theory on stakeholder engagement and accountability (Cooper & Owen, 2007; Greenwood, 2007; Rasche & Esser, 2006), better social performers are those who were able to improve disclosure breadth, in term of stakeholders and related themes covered in the reports. Moreover the extent to which disclosure is concentrated or uniformly distributed across stakeholders makes the difference on social performance, with concentrated structure having a negative effect on performance. Finally, firms able to combine high disclosure breadth with distributed disclosure structures are more likely to perform better than others as social change agents.

Reviewing the three-year disclosure experience of a sample of Fortune 100 companies who publish a nonfinancial report, this paper proposes and tests a model relating the breadth, depth and concentration of nonfinancial disclosure to corporate social performance.

Beyond providing a test of the effectiveness of nonfinancial disclosure level and structure in term of improved firm performance, the study provides an empirical corroboration for the long-standing critique to social and environmental discretionary disclosure. Critics suggest that as long as nonfinancial disclosure is voluntary and entirely at the discretion of managers, they are at liberty to conduct it in whatever way they see fit, that is, strategically collecting and disseminating only the information it deems appropriate to advance corporate image (Adams & Evans, 2004; Owen, Swift, Humphrey, & Bowermann, 2000). In this sense, my study contributes to the debate on the extent to which a firm nonfinancial disclosure reflects actual nonfinancial performance, showing that a finer grained analysis of disclosure is a better predictor of performance than just social and environmental disclosure amount.

Finally, the study empirically extends the theoretical debate over the need to analyze disclosure in a stakeholder-based setting (Cooper & Owen, 2007; Greenwood, 2007; Maak & Pless, 2006). In fact previous literature has highlighted the appropriateness of stakeholder management framework to analyze the antecedents and impact of nonfinancial disclosure (Roberts, 1992, 1998). Stakeholder pressure acts upon companies in two different forms –

not only are companies expected to effectively manage their corporate social performance, but they are also to be accountable for this performance (Jose & Lee, 2007). If so, adopting a stakeholder-based framework for the empirical analysis provides a better proxy for how companies engaged in socially and environmentally responsible practices interpreted their CSR relationship with stakeholders, as well as the impact of stakeholder-based CSR portraits on performance.

Shifting inside the boundaries of the organization, **Chapter 3 “*Learning dynamics of corporate sustainability integration: A process-based view*”**, relaxes the often unstated assumption that sustainability responsiveness processes occur for all firms in the same way. Given the paucity of empirical research on learning and unlearning dynamics occurring within an organization engaged into the adoption of sustainable practices, a qualitative study is proposed in order to provide an in-depth investigation of what happens when organizations face the challenging shift to new ways of doing old work.

Learning is defined as the processes by which, following the introduction of a new organizational artifact (e.g., a new managerial model, a set of procedures, a new way of organizing), recognized changes are encoded in organizational routines, thus modifying the range of possibilities for organizations involved. Accordingly, routines are considered as the locus of organizational learning profile formation (Crossan & Berdrow, 2003; Levitt & March, 1988; Pentland & Feldman, 2005), defined as multi-part dynamic systems composed of an ostensive part (i.e., the general understanding of what should be done), a performative part (i.e., the actual behavior of people within the organization) and a physical manifestation (i.e., the set of formal rules, artifacts and standard operating procedures implemented).

Two preliminary research questions are formulated: one on the evolution of sustainability profiles over time, the other on the extent to which shifts in profile were mirrored by related changes in organizational structure, as well as in sustainability-related behaviors and understandings.

Relying on grounded theory research tradition, learning dynamics, underlying drivers and related outcomes are investigated based on an in-depth longitudinal investigation of an extreme case in the Italian Oil & Gas industry.

A learning stage model of sustainability responsiveness is presented, clarifying the learning dynamics underlying the shift from a reactive posture based on intuitive, fragmented sustainability responses to an affirmative posture, achieved through coordinated, systematic dialogue and interaction with internal and external audiences. Throughout stages, change is explained as the result of routines' variability in their constituent parts. In other words, acknowledging that certain phenomena may have divergent impacts on different aspects of given organizational routines, learning results from alignment or misalignment among routine components. Moreover, the role of commitment strength to a change objective and sustainability-sensemaking style is depicted as having diverging impacts on routine-based performances and understandings.

The contribution of the paper is twofold. Going into the details of the learning dynamics occurring throughout a responsiveness process, my study clarifies the mechanics of sustainability responsiveness, showing content and learning-based differences among sustainability postures adopted by organizations over time. On the other side, the study investigates the interplay between routine components, showing the drivers of a learning process in the field of CS thus building on and extending recent contributions over routines as source of change and flexibility.

Finally, **Chapter 5 “*Rewrap and conclusion*”** summarizes the thesis, presenting its main conclusions.

* * *

Overall, the study contributes to two broad research areas. On the one side it adds to the CSR and sustainability research area rejecting mainstream approach to demonstrating CSR theoretical superiority as the result of significant, positive correlations with financial and economic performance. In so doing, the study highlights both the contribution of nonfinancial voluntary disclosure to corporate social performance and the dynamics by which firms shift to new managerial models based on the integration of CS into day-by-day operations. On the other side, it enriches organizational learning research with empirical studies that contextualize learning into firm-specific domains, disentangling the contribution of specific learning dynamics and related drivers, and extending current debate over routines as a source of change.

PART I
THEORY

CHAPTER 2:
Literature Review & Theory Development

2.1 Introduction

The discretionary adoption by private firms of policies and programs with a prominent social welfare orientation as a response to public pressures and societal expectations is becoming an unprecedented global movement. Proof of this is the increasing number of researchers, managers and consultants, international organizations, nonprofits, governments, institutions and opinion leaders focused on the necessity to include CSR in the corporate agenda, integrating it into the firm's blueprint.

On the practical side, legislators, customers, the media, financial communities and non-governmental organizations are calling upon business to make considerable changes to products, services, and processes throughout their entire lifecycle, thereby challenging the traditional management paradigms of organizations. It has been argued that such extensive changes cannot be accommodated within the business-as-usual mindset.

While the growing complexity of empirical realities pressing in on corporations has resulted in some behavioral shifts in socially favorable directions (Stormer, 2003), mainstream literature has chased the dream to prove a universally favorable rate of return to CSR and sustainability (Barnett, 2007), in an attempt to legitimize business in society field looking for a significant positive correlations with economic and financial performance measures. As a consequence, existing studies have attempted to address the outcome and bypass the question of 'how to get there'.

In more details, the three fundamental lines of CSR inquiry prevalent in the academic literature, while not mutually exclusive, may be characterized as (Basu & Palazzo, 2008):

1. stakeholder driven: CSR and CS are viewed as a response to the specific demands of external and internal stakeholders, such as governments, NGOs, consumer lobby groups, employees and their representatives, with regards to a firm's operations, or with regard to generalized social concerns, such as reducing poverty or global warming;
2. performance driven: this line of inquiry emphasizes the link between external expectations and a firm's concrete CSR actions, focusing on measuring the effectiveness of such actions (Wood, 1991), as well as determining which activities might be best suited to deliver improved performance. Scholars have, for instance, attempted to strengthen the link between CSR and corporate strategy (Porter & Kramer, 2002), assess the impact of CSR on profitability, risk or market value (for a review see: Griffin & Mahon, 1997).
3. motivation driven: this line of inquiry examines either the extrinsic reasons for a firm's CSR engagement, such as enhancing corporate reputation (Fombrun, 2005), preempting legal sanctions (Parker, 2002), responding to NGO action (Spar & La Mure, 2003), managing risk (Fombrun, Gardberg, & Barnett, 2000; Husted, 2005), and generating customer loyalty (Bhattacharya & Sen, 2001, 2004), or intrinsic rationales building on philosophical concepts, such as social contract theory (Donaldson & Dunfee, 1994), Aristotelian virtue ethics (Solomon, 1993), and Kantian duty ethics (Bowie, 1999), to advance particular notions of its obligations and responsibilities.

If there is one broadly shared commonality in the highly pluralized field of CSR research, it is the endeavor to analyze CSR by attempting to answer the broad "why should corporation address social and environmental concerns toward society?" question rather than the still largely unanswered "how can corporation succeed in implementing it?"

In other words, although there is a shared consensus on the fact that organizations maximize their chance for survival to the extent that there is a fit between their actions and the demands of various affected stakeholders, mainstream literature tends to give for granted that investing in CSR and committing to a specific course of action directly turn into

improved performance, without any need to learn how to incorporate social responsibility within traditional managerial paradigms.

According to the most recent contributions, if CSR is interpreted as a new managerial model based on social welfare creation and stakeholder orientation, focusing only on economic and financial consequences would be reductive.

On the contrary, narrowing down research focus on specific CSR mechanics and their impact on performance, as well as a stronger focus on learning paths by which organizations forget old ways of working replacing them with responsible ones could be especially helpful in explaining differential performance.

The remainder of the chapter is organized as follows. First, the major advancements in CSR literature are critically presented showing the existence of emerging, still open questions. Second the paths ahead for CSR research are presented, positing the basis for subsequent empirical accounts.

2.2 Evolving paths in business in society field

During the last fifty years, the concept of CSR has gone through a progressive rationalization, shifting from a sense of responsibility by corporations toward society at large to the need for clearly identifying, classifying and answering to stakeholder requests in order to strengthen long-term firm competitiveness and performance.

Despite criticisms considering CSR either unnecessary in spite of the invisible hand of the market (Jensen, 2002) or an agency loss for firms (Friedman, 1970) variously engaged in it, subsequent waves of theoretical and empirical research, together with a growing attention by business practice, have sustained a cultural shift in favor of the appropriateness of CSR, a business approach that creates long-term shareholder value by embracing opportunities and managing risks for three dimensions on a voluntary basis: economic, environmental and social dimensions.

Starting from this premise, the section that follows presents an overview of the evolutionary path in the theoretical and empirical debates.

2.2.1 The evolutionary path of CSR theoretical debate

The first step in the history of CSR occurred in the nineteen twenties when both academic and managerial literature began to assign duties to companies (Clark, 1939; Kreps, 1940). But most scholars agree in recognizing Bowen's *Social Responsibilities of the Businessmen* (1953) as the first attempt to theorize the relationship between corporations and society (Carroll, 1979; Preston & Post, 1975). It was an attempt to clarify the content of such responsibilities rather than simply assigning responsibilities to business actors, defining CSR as:

The obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society (Bowen, 1953: 6).

During these years, however, theoretical attention remained focused on large companies characterized by a progressively higher freedom of action and power to influence pattern of societal development.

The seminal contribution by Bowen coincided with the New Jersey Supreme Court ruling that legalized corporate contributions for purposes other than a direct benefit to business. Even the legal environment, at least in the US, was becoming increasingly favorable to CSR.

However the fear of destroying value remained high, since such preliminary theorizing was not supported by empirical investigation on the mechanisms linking certain action to the bottom line. Defensive or merely reactive behavior prevailed among firms in an attempt to counter nascent social movements, including the environmental movement, the consumer movement and the product safety movement (Waddock, 2004).

Social movements were making evident the upsurge in corporate power with respect to most of their constituents, together with an extraordinary ability to influence their environments. Accordingly, the nineties sixties were characterized by the focus on corporate power as central in the debate over CSR and business and society relationship (Davis, 1960). In his Iron Law of Responsibility, Davis wrote that:

Whoever does not use his social power responsibly will lose it. In the long run those who do not use power in a manner which society considers responsible will tend to lose it because other groups eventually will step in to assume those responsibilities (1960: 63)

Within this context two concepts assimilate into the general thinking, essential to current understanding of what CSR is: to be socially responsible, it is necessary that a company consider the expectations of the surrounding community (Frederick, 1960) and confront them voluntarily, beyond the legal prescriptions. In this sense, McGuire argued that:

The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations (1963: 144).

But the nineteen sixties also brought the first criticisms of the effectiveness of the CSR paradigm (Friedman, 1962), because of its apparent inconsistency with the classical economic argument that the social responsibility of the corporation is to make money for its shareholders.

The two decades following Bowen's publication were characterized by acrimonious controversies over the political as well as social legitimacy of CSR (Wartick & Cochran, 1985). For this reason, the nineties seventies are characterized by attempts to lend clearer, more rigorous formalization to the concept (Manne & Wallich, 1972). Even if the contributions were extremely heterogeneous, they converged on the need for a new rationale for CSR, able to reconcile social responsibilities and economic interests. The underlying rationale is clear: without demonstrating the CSR is consistent with stockholder interests, CSR would have remained controversial. Accordingly, most studies focused on the content and implementation process of CSR that support long-term interests for corporations to be socially minded, by strengthening the environment which corporations belong to.

The idiosyncratic relationship between companies and their social context becomes to emerge (Ackerman, 1975; Preston & Post, 1975): society interacts with business at large, giving it certain legitimacy and prestige. Economic gains remain the priority. According to Davis:

Firm has an obligation to evaluate in its decision making process the effects of its decision on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks (1973).

The underlying assumption is that, if the surrounding society businesses belong to deteriorates, businesses lose their critical support structure and consumer base. Therefore, it is in corporations' long-term interests to support the well-being of their environment.

Despite this renewed enthusiasm (Elkins, 1977; Fitch, 1976; Keim, 1978) on the enlightened self-interest model of CSR, it was just a starting point for the subsequent waves of modeling and search for theoretical paradigms linking CSR to performance. Nineties eighties find their apex in the three-dimensional model developed by Carroll (1979) and describing CSR as encompassing:

The economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (1979: 500).

For the first time, social responsibilities appear as integral parts of corporate objectives, with social and economic objectives not treated as incompatible trade-offs. Moreover, in order to support practice, the concept of corporate social performance is introduced combining, under the same rubric, the concept of CSR, social issues and corporate social responsiveness.

Carroll's theorizing was further elaborated by Wartick and Cochran (1985), with a focus on the dimensions of principles, processes and policies. A few years later, Wood (1991) tried to link CSP with various related theories in organizational studies such as organizational institutionalism, stakeholder management theory and social issues management theories.

Despite high hopes over the managerial implications of the Wood's model, it did not succeed in widespread application, due to the lack of objective measurements of CSP and empirical test (Wood & Jones, 1995). Consequently, the nineteen nineties were characterized by a generalized attempt to bring CSR studies to the micro-level organizational and managerial analysis in order to overcome the lack of practicality of previous theoretical models.

Introduced with the seminal work by Freeman (1984), the stakeholder management model of CSR was developed mainly by management scholars who were attracted by the opportunity to solve problems of measurement and testing by more narrowly identifying

the actors and defining their positions and functions in relation to one another. With stakeholder theory, societal expectations are thus represented, translated, and delivered at the company's gate by stakeholders (De Bakker, Groenewegen, & Den Hond, 2005). Instead of focusing on a generic responsiveness toward society, the stakeholder management approach turns on the importance of locating and classifying stakeholders as "those groups who can affect or are affected by the achievement of an organization's purpose" (Freeman, 1984, p. 49). Accordingly, it becomes necessary for firms the detection and scanning of, and response to, the social demand to achieve social legitimacy, greater social acceptance and prestige (Garriga & Melé, 2004) and, in turn, support long-term value creation. According to stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984) the adoption of CSR behavior is in firm's best interests.

In other words, the stakeholder theory of the firm is about creating value for stakeholders through the integration of business, ethics and societal considerations. It remains a managerial theory about how business works, in terms of interactions and value creation. In order to catch these multiple dimensions, Freeman and Velamuri recently (2006) proposed the expression "company stakeholder responsibility", in an attempt to extend the stakeholder approach to value creation to all businesses, beyond corporations, and take into consideration the inseparability of business from ethics.

To be more specific and in an attempt to summarize the different approaches that have been adopted over time, the distinctiveness of the stakeholder theory domain can be traced back to the following assumptions. First of all, firms are open systems that interact with a wider system – the external environment of reference – on a continuative basis. The external environment or, alternatively, context of reference is not treated as an aggregate construct, but in its constituent groups – stakeholders – that affect and are affected by firms' decisions and operations (Freeman, 1984). Stakeholders have been classified in different ways (for a review see: Mitchell, Agle, & Wood, 1997) as having a legal, moral or presumed claim on the firm, as well as the ability to affect its processes, decisions and so on.

Moreover, they have been treated either as resource providers or as risk bearers and residual claimants for the value created by the firm (Jones, 1995). Accordingly, CSR contributes to the bottom line via its favorable influence on the firm's relationships with relevant stakeholders.

Management and strategy research has long emphasized the internal stakeholders such as employees, customers and stockholders, that is, those that have a direct stake in the firm's activity and operations. However, secondary stakeholders (e.g., community activists, public institutions, media, and other non-governmental organizations), namely, those that do not have a formal contractual bond with the firm or direct legal authority over the firm, are increasingly raising research attention in the name of their ability to pressure the firm (Eesley & Lenox, 2006), imposing either operational costs (e.g., public relation expenses) or losses in terms of intangible resources (e.g., trust and reputation).

The second crucial assumption is that the interests of all legitimate stakeholders have intrinsic value: no set of interests is assumed to dominate the others (Clarkson, 1995; Donaldson & Preston, 1995; Phillips, Freeman, & Wicks, 2003). This means that stakeholder theory is different from other theories because it is driven by taking morals and values (i.e., ethics) explicitly into consideration, as a central feature of the organization. Such assumption defines stakeholder theory's normative foundation, namely, each stakeholder is considered "for its own sake and not merely because of its ability to further the interests of some other groups, such as the shareowners" (Donaldson & Preston, 1995, p. 67). According to this perspective, relationships with stakeholders are not means to an end but the end themselves.

However the assumption above does not imply that stakeholders are the same for each firm, as well as relationships treated in the same way by all firms. Here comes the third main feature of the stakeholder theory: its concern is with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. The instrumental and descriptive traditions (Donaldson & Preston, 1995) of the stakeholder theory are focused on these issues, the former on the link between responsiveness to stakeholders and success or performance (Jones, 1995; Wood, 1991), the latter on investigating the way firms and stakeholders interacts in actual terms. The power, legitimacy and urgency framework, developed by Mitchell et al. (1997) in order to explain stakeholder identification and prioritization is a leading example of the descriptive side of stakeholder theory. What is worth emphasizing at this point is what emerges from the many studies on processes and outcomes: even though the interests of all stakeholders are normatively legitimated, firms

have to be able to develop a balancing ability between often conflicting, costly interests, in light of the respective contributions, costs and risks of each stakeholder group.

The overall logic is that CSR increases the trustworthiness of a firm and so strengthens relationships with stakeholders (e.g., increased employees satisfaction), which decreases transaction costs and so leads to financial gain (e.g., decreased employee turnover, more eager talent pool, union avoidance). From this angle, one can view CSR as an investment, perhaps with sizable financial returns, in addition to or despite any benefits that might accrue to society.

Stakeholder theory is increasingly an integral part of the studies on the role and responsibilities of business in society, the cornerstone of the business case for CSR (Barnett, 2007). In other words, scholars are facing the distress of ambiguity in the link between CSR and performance, trying to disentangle the contribution of specific CSR-related behavior or practices to specific categories of stakeholders (Wood & Jones, 1995).

Instead of continuing asking what CSR is and with what impact on performance, current research has started to move away from the often simplistic assumption that only owners have the right to evaluate corporate performance, and only that performance judged to be relevant to owners is an appropriate concern of management (Wood & Jones, 1995). In fact, looking at the most recent advancement in business in society research, a renewed focus emerges (Bies, Bartunek, Fort, & Zald, 2007; Hinings & Greenwood, 2002): the importance to go beyond the search for a universal business case for CSR and explore the mechanisms and dynamics associated with social change agency. This is the reason why, more than in the past, current theoretical research has started to open the black box of the CSR-CFP link, specifying levels of analysis and ranging from the micro-foundation of the decision to incorporate CSR practices in business operation to the impact of institutional infrastructures at local and global level (Aguilera et al., 2007).

2.2.2 Paths in empirical investigation

Paralleling the search for consistency between CSR and firms' economic interests, the last thirty years of empirical investigation have been mainly concerned with the business case for CSR and sustainability. In other words, the shift from the macro-social effects of CSR to

organizational-level analysis of CSR impact on firm behavior and performance has pushed empirical analysis away from explicitly normative and ethics oriented studies toward implicitly normative and performance-oriented analyses.

As a result, in an attempt to justify CSR as rationally aligned with profit maximization objectives, studies have chased the dream to prove a universally favorable rate of return to CSR (Barnett, 2007), trying to demonstrate CSR theoretical superiority looking for a significant positive correlations with economic and financial performance measures.

Over time the business case for CSR has been approached in many different ways to prove or disprove the sound economic rationale for moving beyond shareholder value maximization. Though different in measures, approaches and results, the huge amount of quantitative analyses on this subject shares the same underlying definition of what CSR should be: a strategic and profit-driven corporate response to environmental and social and environmental issues.

Since the first two studies published in 1972 (Bragdon & Marlin, 1972; Moskowitz, 1972), an increasing number of empirical investigations have been undertaken to address the economic and financial impact of CSR-related actions, tools and behaviors. Researchers have examined the economic performance of groups of companies which differed on a variety of measures of social performance including pollution (Bowman & Haire, 1975; Bragdon & Marlin, 1972; Fogler & Nutt, 1975), the existence of social responsibility or environmental practices (Christmann, 2000; Clarkson, 1988; Kedia & Kuntz, 1981), overall social responsibility reputation (Alexander & Buchholz, 1978; Cochran & Wood, 1984; Preston & O'Bannon, 1997) or, more recently, third-party social and environmental evaluation (Graves & Waddock, 2000; Hart & Ahuja, 1996; McWilliams & Siegel, 2000; Russo & Fouts, 1997; Waddock & Graves, 1997a).

Instead of measuring corporate social and environmental performance directly or relying on third-party evaluation, part of the studies has assumed performance from corporate social and environmental voluntary disclosure (Abbott & Monsen, 1979; Anderson & Frankle, 1979; Blacconiere & Northcut, 1997; Blacconiere & Patten, 1994).

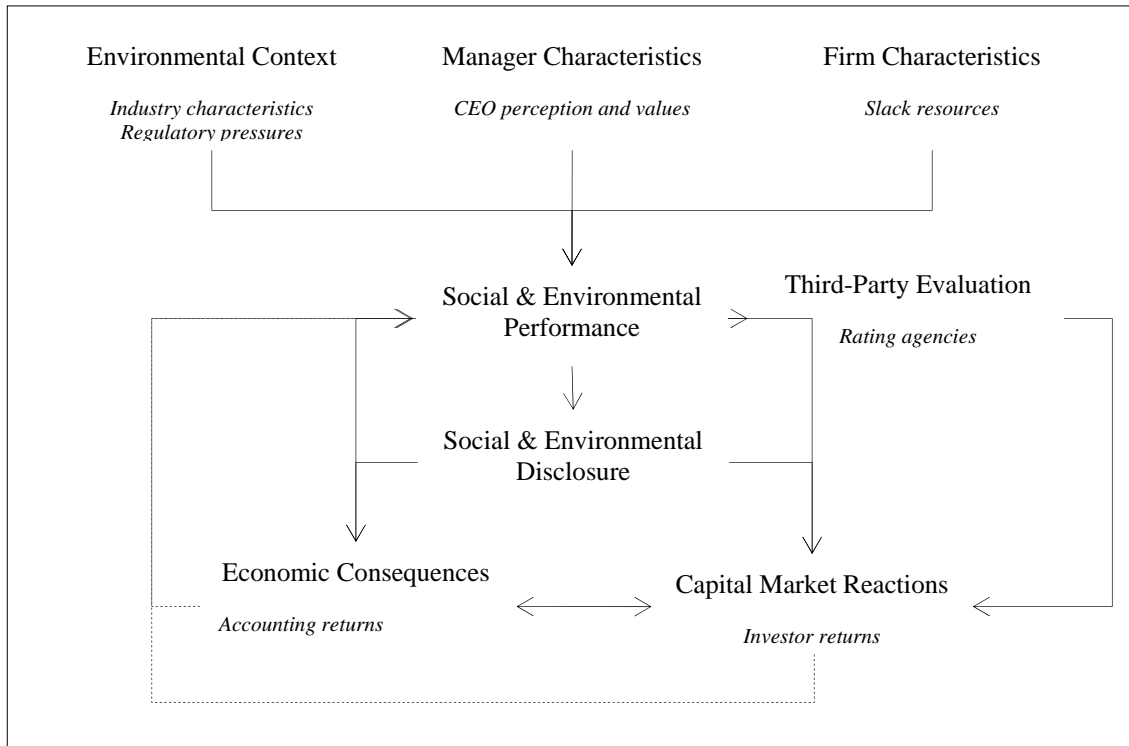
Such variety in measurement perspectives has been paralleled by a comparable variety in measures of financial performance: from investor returns to accounting returns or a combination of the two (Cochran & Wood, 1984; Margolis & Walsh, 2003).

Part of these studies supports a negative impact of CSR-related activities and behavior on performance. Research on the negative impact of CSR shares a focus on the costs incurred through the engagement in socially responsible management. This perspective stresses that engaging in socially responsible activities implies allocating more resources than necessary, given the same output level. Consequently, CSR appears a useless expense putting firm at risk of competitive disadvantage compared to companies focused more on pure economic goals and shareholder value maximization (Friedman, 1970; Vance, 1975; Walley & Whitehead, 1994). In this sense, critics of CSR contend that expending limited resources on social and environmental issues decreases the competitive position of firms by unnecessarily increasing its costs (Barnett, 2007). On a related side, a few studies support a negative relation based on governance challenges (Tirole, 2001). These studies warn that taking into consideration stakes other than the exclusive interests of shareholders broadens managers' functions and discretion in such a way that, as a result, it weakens managerial incentives, dilutes the structure of control, due to an agency loss, reduces financial performance (Friedman, 1970; Jensen, 2001; Levitt, 1958).

However, the much richer number of studies supporting a positive relationship between social and economic performance seems to rule out misappropriation and misallocation concerns (Margolis & Walsh, 2003). In fact, a huge amount of studies reports a positive relationship between social and economic performance as the result of a stronger ability of firms to manage the expectations of their social context of reference (Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997a). As a whole such studies assume, often implicitly, that answering the expectations emerging from firms' stakeholder network lowers transaction costs, improves trust and legitimacy and sustains the ability of firms to face competition (Barnett, 2007). More recently, CSR supporters seem to converge on considering the CSP-CFP link as reciprocal, such that the larger the available resources, the larger the social performance, thus unleashing new resources to be invested in CSR (Pava & Krausz, 1996; Preston & O'Bannon, 1997; Waddock & Graves, 1997a, b).

Figure 2.1 below gives a summary picture of the current views on the link between corporate social and environmental performance and financial one.

Figure 2.1 – The CSP-CFP link: A summary picture



Looking backward to the whole picture, there is no doubt that CSR empirical accounts have improved over time, offering stronger theoretical rationales, more relevant operationalizations, and more and better controls for previously omitted variable. This process of progressive sophistication has been the most direct result of the accumulation of reviews of this CSP-CFP research published since 1972. The reviewers have identified problems of all kind. The use of different measures for social and economic performances and incomparability among different time periods have been identified as the most relevant flaws in empirical research (Arlow & Gannon, 1982; Aupperle, Carroll, & Hatfield, 1985; Cochran & Wood, 1984; Orlitzky et al., 2003). Additionally, sampling problems have been highlighted, together with lack of validity in measures of social responsibility (Arlow & Gannon, 1982; Cochran & Wood, 1984; Griffin & Mahon, 1997; Pava & Krausz, 1996). On a partly related side, some studies have stressed the need to overcome an intrinsic mismatching in variables, through disentangling which stakeholders are relevant to which kind of measures, thus relying on stakeholder theory to define appropriate causal relationship (Wood & Jones, 1995). Finally, some reviews have pointed out the opportunities to test mediating mechanisms and moderating conditions (Barnett & Salomon,

2006) such as, for example, R&D investments (McWilliams & Siegel, 2000), the industry firms belong to or the organizational size (Arlow & Gannon, 1982), or the moderating effect of measurement issues (Orlitzky et al., 2003).

As a whole and despite a general positive attitude and optimism toward CSR, periodic reviews have spread the perception of an intrinsic imperfect nature of such studies and reinforced the tension surrounding the business case.

In the words of Barnett:

Yet the improved rigor has only produced rigor mortis. ...Twenty-five years of research has not produced a solution but, rather, isolated islands of partial insights about an unseen larger picture (2007: 796).

Given the lack of universal measures for social performance, the effect on financial performance could be due to the method adopted to evaluate social results. These studies share the assumption that efforts to universally prove the business case are doomed to failure, no matter how ingenious the theory, crystal clear the terminology, or rigorous the data and methodology (Rowley & Berman, 2000). CSR is contingent to many factors at the team, firm and industry levels (Ullmann, 1985). In fact, as suggested by recent reviews of quantitative studies (Margolis & Walsh, 2003; Orlitzky et al., 2003; Salzmann, Ionescu-Somers & Steger, 2005) the general inconsistency in the results obtained has to be ascribed to the fact that the relationship between social and economic performance is complex and contingent to situational, company- and plant-specific factors that are difficult to detect through most analytical approaches. Accordingly, theory would benefit from moving beyond simple correlations and both look at the many contingencies that could explain the variability in return to CSR and search for more detailed analysis addressing the many facets that characterize CSR and its related performance areas.

The need for a complex relationship hypothesis emerges as increasingly stringent, based on less simplistic research questions and able to reorient empirical research towards the mechanisms underling the ability of firms to integrate stakeholder requests and benefit from it.

2.3 The road ahead: Unpacking CSR-CFP link

The obsession with the search for a universal rate of return to CSR has left unexplored questions about what it is firms are actually doing in response to their actual and perceived renewed role into society and with what effects.

In fact and in contrast with the direction of mainstream quantitative research, business practice shows how firms actively engaged into CSR are enlarging their sphere of responsibility and accountability, moving beyond bottom line as an all-inclusive tool for performance evaluation. In other words, firms themselves tend to consider social and environmental performance not as univocal constructs, but increasingly decline it into specific stakeholder-firm relationships and related CSR areas.

In this sense, if CSR is considered as a new governance model based on the crucial value of stakeholder relationships and on the capacity of a firm to meet stakeholder needs beyond mere legal compliance, then a clear understanding of CSR performance consequences should disentangle different management areas and investigate how specific activities translates into organizational, managerial or market gains.

In an attempt to answer this quest for reorienting business in society research toward a deeper understanding of the drivers of CSR-related performance, recent research has been appreciating the impact of CSR at different level of analysis (Aguilera et al., 2007) and in specific management domains and stakeholder interactions (Perrini et al., 2006).

CSR-related organizational outcomes: Along with the increasing importance of intangibles for company success, in terms of the ability of firms to create, manage and transfer knowledge, the quality of the workforce has become the critical source of competitiveness for companies. As a result, a number of studies have been addressed to the impact of CSR values, beliefs and activities on internal organization.

Firms are increasingly relying on values and specific projects to affect employee's behavior and the integration of CSR and related issues into the organization. In more details, CSR-oriented organizational values, more or less integrated into specific organizational arrangements (e.g., codes, rules or procedures), have been recognized as the antecedents of the creation of an ethical climate and organizational ethics profile (Victor &

Cullen, 1988). Additionally, values and beliefs have been linked to the development of an organizational attitude toward CSR (Aupperle et al., 1985; Hemingway & MacLagan, 2004).

On a partly related side, engagement into ethics-oriented practices as perceived by employees has been frequently associated to positive organizational outcome. In this context, Jones (1995) drew on the frameworks of agency theory, transaction cost economics and team production to argue that an organization whose managers were perceived as acting with integrity and honoring their commitments would be an efficient contractors and would incur in beneficial effects like lower agency costs, transaction costs, and costs associated with team production. Similarly, Pfeffer (1994) argued that firms whose relationships with their employees were trusting and cooperative in nature would outperform those that are not. On this basis, empirical analysis (Davis & Rothstein, 2006; Prottas, 2008) has found a positive impact of acting ethically and with integrity on employee attitudes (e.g., job satisfaction and life satisfaction), well-being (stress and health) and behavior (e.g., lower absenteeism).

Both perceived and actual CSR have also been shown to have an impact on organizational commitment, that is, employees' identification with the objectives and goals of their organization and willingness to remain with their organization. Studies in this context have found out the positive impact of ethically related elements such as fairness at work, care and concern for employees, trust in employees, and reputation of the organization on organizational commitment (Maignan, Ferrell, & Hult, 1999; Vitell & Singhapakdi, 2008). Similarly, authors have shown a stronger organizational commitment for employees working for organizations with ethical codes of conduct (Valentine & Barnett, 2003).

Additionally, through the implementation of CSR-related activities such as the prevention of non-discriminatory behavior or the practices of diversity management firms may gain in attractiveness as a potential employer (Greening & Turban, 2000; Turban & Greening, 1996). Overall, achieving a reputation as a good place to work is explicitly associated not only to positive labor market outcomes but also to superior competitive positioning and financial gains (Davis, 1973; Fombrun & Shanley, 1990; Waddock & Graves, 1997b). Employee satisfaction and positive labor relations are considered as source of increased productivity, decreased turnover and decreased conflict (Freeman, 1984).

Finally, more recent research has started to investigate the impact of job design on employees' motivation and behavior, adopting a relational perspective (Grant, 2007).

In summary, research on the organizational return to CSR shows how prosocial and ethical values and beliefs, translated into specific projects and programs (e.g., initiatives to manage health and safety risks, training and learning projects, programs on work-life balance, and so on), may have an impact on employees' attitude and behavior, strengthening their commitment to the organization, their job satisfaction and work motivation. Such organizational gains turn into operational benefits such as increased productivity, stronger brand value and attractiveness and efficiency through reduced costs due to absenteeism or turnover (Paine, 2003).

CSR-related consumer market outcomes: Paralleling the growth of the consumerism movement, and the increasing consumers demand for corporate transparency, CSR practices and information about companies have become quality indicators, strengthening company and brand positioning. In this context, CSR practices such as social and environmental labels, transparency and reliability in communication, and product diversification strategies, represent useful heuristics on which individuals can focus when evaluating a firm (Jones & Murrell, 2001: 63). Focusing on the impact of CSR initiatives on consumer market, studies have highlighted the mediating role of corporate reputation (Greening & Turban, 2000), which in turn affects the accumulation of intangibles in term of trust and market reciprocity (Smith, 2003). In other words, firms that integrate CSR in their relationship with customers have better chances to enhance their reputation as reliable, open, able to innovate and trustworthy exchange partners (Castaldo, Perrini, Misani, & Tencati, 2009; Perrini, 2006a). If so, socially oriented firms can successfully leverage their reputation in those business areas where trust is crucial in determining consumer choices, thus gaining consumer loyalty (Frank, 2004).

CSR-related society outcomes: With reference to the local and global community in which firms operate, implementing procedures of stakeholder dialogue, interaction and collaboration with society at large supports consensus management, strengthening firms'

license to operate (Kern, Sachs, & Rühli, 2007; Russo & Tencati, 2008). Other studies have recognized the importance of CSR as fostering social capital accumulation (Maak & Pless, 2006; Perrini, 2006b), lowering transaction costs (Rigling Gallagher & Gallagher, 2007), generating a durable competitive advantage through reputation- and trust-based linkages (Freeman, Martin, & Parmar, 2007), designing, producing and delivering more value-added, environmentally friendly and socially cohesive outcomes (Brugmann & Prahalad, 2007; Post, Preston, & Sachs, 2002a).

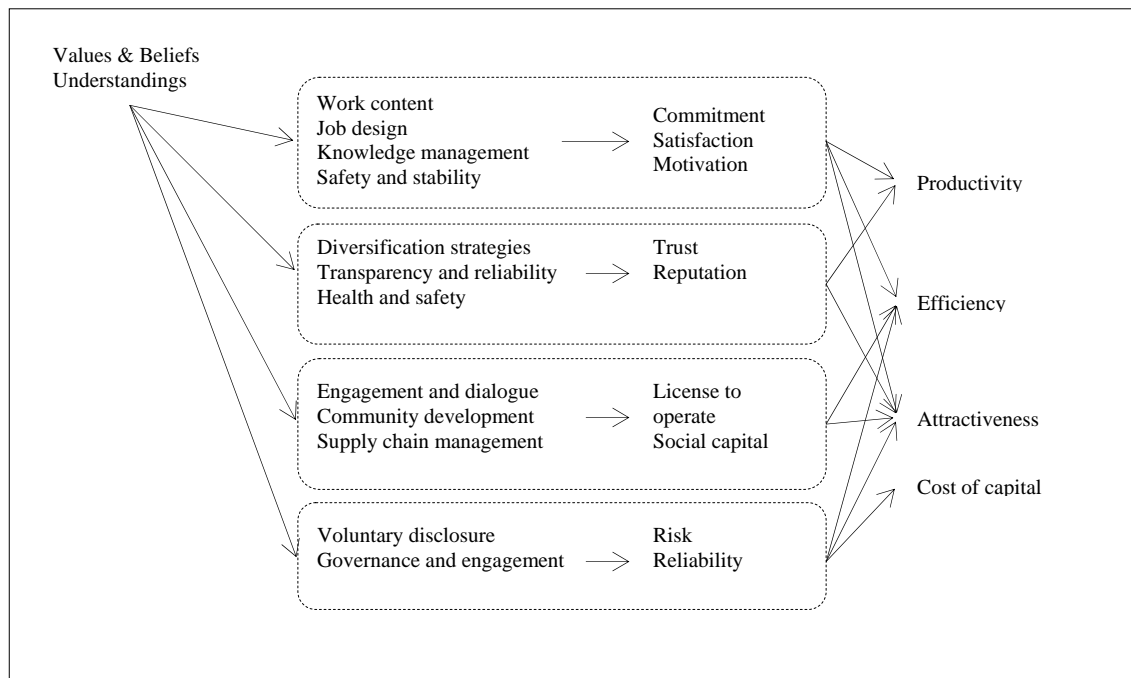
Finally, based on a sustainable approach, firms might find it more practical to anticipate future CSR issues in their supply chains and integrate CSR supply chain standards into daily operations (Maloni & Brown, 2006; Perrini, Russo, & Tencati, 2007). This turns both into a systematic ability to think about the effects of company operations, by adopting a cross-boundary perspective and taking into consideration the resulting actions by all the actors variably involved in the production processes. CSR-driven value chains brings to improved performance in terms of lower operating and coordination costs, improved collaborations, higher innovation potential, higher value to final market.

CSR-related financial market outcomes: the adoption of CSR practices can be beneficial in managing the relationship with financial community. Companies can, in fact, adhere to CSR practices to manage and ideally eliminate risks associated with misconduct, carelessness or insensitivity. CSR can reduce risks at different levels: from the easily identifiable (e.g., environmental risk, the risk of customer dissatisfaction, insurance or legal expenses and so on) to the hidden risks such as decreased productivity, damages to corporate image, deterioration of the relationship with company stakeholders, and so on. Studies in this context shows positive benefits associated to the fact that potential investors and lenders would perceive firms engaged in CSR as less risky than the others. More than in other CSR-related areas, the ability to benefit from positive financial markets outcome is strictly related to the ability of firms to disclose social and environmental information. Disclosure plays a fundamental role in this process: with the visibility gained through disclosure, shareholders and financial partners at large can interpret CSR activities as signal of a firm's successful attempts at satisfying stakeholder groups (Orlitzky & Benjamin, 2001).

Finally, the positive impact of CSR on the financial community can be exerted via the development of a better ability to govern the firm (Bowie, 2006; Ghoshal, 2005). Accordingly, companies who share more democratic ownership structures, more balanced and broader governance systems, and a more comprehensive view of organizational goals and performance have also better chances to increase shareholders' loyalty and voice, reduce exists, encourage relationship investing and empowering other groups (e.g., employees, suppliers, and so on) to have long-term relationships with the firm (Letza, Sun, & Kirkbride, 2004).

Figure 2.2 provides a summary picture of the most recent advancement in research over stakeholder-related impact of integrating CSR into business operations, as presented above.

Figure 2.2 - CSR impacts: A stakeholder-related picture



Despite recent advancements toward a deeper understanding of the mechanics linking CSR activities to more specific performance measures, organizations still tend to be considered as black boxes in which stakeholder pressures are automatically translated into stakeholder-related performance consequences (Sharma & Vredenburg, 1998).

Disentangling specific dimensions of the CSP-CFP link may offer insights into the driving factors explaining variability in performance.

2.4 The road ahead: Bridging CSR and organizational learning

The failure in providing a definite legitimation or discredit to the business case for CSR (Barnett, 2007; Rowley & Berman, 2000; Ullmann, 1985) and the need to explain the increasing sophistication in firms' social and environmental behavior are at the basis of the recent shift toward enlarging the justifications for engagement in CSR and clarifying the drivers underlying the ability of firms to benefit from it.

As a result, on the one side research has started to disentangle the many facets of the CSP-CFP link. In this regard, research is progressively leaving aside the financial gain motive, recognizing justification to CSR that span from moral obligation to environmental and community stewardship, from sustainability to reputation and license to operate. Accumulated through a systematic ability to consider and respond to issues beyond narrow economic, technical, and legal requirements (Davis, 1973), trust, legitimacy and reputation are the resource needed to nurture the ability to engage in further stakeholder dialogue, create stakeholder value, achieve superior competitive performance and sustain long-term growth. On the other side, assuming CSR as the new zeitgeist for firms, academic debate is asking for a deeper understanding of the dynamics of successful CSR implementation (Bies et al., 2007).

Integrating business and social needs takes more than good intentions and strong leadership. It requires adjustments in organizations, reporting relationship, incentives (Porter & Kramer, 2006: 91).

Literature recognizes that firms may differ in the extent to which they address stakeholder requests, through reactive versus proactive CSR initiatives and behaviors (Clarkson, 1995). As a result, organizational practices related to CSR may show decoupling effects so that some companies introduce CSR practices at a superficial level for window-dressing purposes, whereas other companies embed CSR into their core company strategies (Aguilera et al., 2007; Weaver, Treviño, & Cochran, 1999).

Moreover, literature tends to share an often implicit assumption that firms will benefit the most from CSR through integrating specific activities into business operation, changing

radically their established ways of working regardless of how they have behaved until that moment. Despite few anecdotal evidences telling how specific firms have shifted from superficial to integrated CSR models (Post, Preston, & Sachs, 2002b), the mechanisms through which change is brought into firms boundaries are still largely unexplored. The integration of stakeholder concerns is seen as a process of learning, though the stages of the process and how they unfold are still assumed rather than theoretically and empirically examined.

In more detail, firm responsiveness and commitment to expectations, demands, or criticisms moved by relevant stakeholders may take different forms (Carroll, 1979; Epstein, 1987). In particular, the strength of commitment ranges between low, when organization simply denies responsibility doing less than expected/requested, and high when a proactive response prevails anticipating responsibility and doing more than explicitly required by the external environment (Clarkson, 1995; Wartick & Cochran, 1985). Similarly, Sharma and Vredenburg (1998) document the competitive benefits for those firms exhibiting a consistent pattern of voluntary environmental actions over time, what they call proactive environmental strategy. Posture can be different across firms, but also for the same firm over time as it confronts new challenges (Mirvis, 2000; Werre, 2003). For example, analyzing Nike's responsiveness to its critics over an extended period of time, Zadek (2004) found evidence for a transformation of posture proceeding through five stages, from defensive (i.e., denial of a reported problem and/or abnegation of responsibility) to civil (reflecting greater openness and a willingness to engage with the organization's critics). More recently, Basu and Palazzo (2008), distinguish among three dominant types of posture, shifting from defensive when refusing feedbacks from others, to tentative when inexperience concerning a certain social issue prevails and open when oriented toward learning based on the willingness to listen and respond to alternative perspectives offered by others. On a related side, Porter and Kramer (2006) explain the competitive potential related to the shift from responsive CSR to strategic CSR: the former defined as a synonym of good citizenship, attuned to the evolving social concerns of stakeholders and able to mitigate or anticipate the adverse effect from business activity; the latter corresponding to the embeddedness of social and environmental dimensions into the core value proposition.

Though sharing the prescriptive conclusion that the ability to gain from CSR is inextricably linked to the integration of CSR into business operations, strategies and systematic interactions with stakeholders, recent debate still shies away from asking itself what may be happening inside corporate black box (Sharma & Vredenburg, 1998). In fact, the spasmodic attention to the outcome as led to by-pass the question of “how to get there”.

Organizational learning offers the potential to provide theoretical bases to explain the shift from the decision to act responsibly and the resulting CSR posture. In fact, for firms the shift from a traditional management paradigm to a social and environmental-oriented one requires unlearning old assumptions that exclude social and environmental considerations from business decision-making and, on the other hand learning new ones that include stakeholder-related issues in the underlying value systems of management. Put it differently, the decision to conform to a certain CSR portrait will require new ways of organizing in some way consistent with the intended outcomes (Porter & Kramer, 2006).

In more details, the decision to implement a certain CSR activity (e.g., a code of conduct, a supply-chain management system like SocialAccountability 8000, a non-financial accountability system, an investment in community welfare enhancing activities and so on) originates from more or less explicit interaction with stakeholders perceived as relevant. In fact, it would be useless to deal with social responsibility without answering the question ‘responsible to whom?’ As a consequence, the necessary prerequisite to CSR responses is a deep understanding of the context of reference and the categories of relevant stakeholders that comprise it (Freeman, 1984). Stakeholder relevance has been defined in different ways, mainly as a combination of their relative power, legitimacy and urgency (Mitchell et al., 1997), with a legal, moral or presumed claim on the firm, as well as the ability to affect its processes, decisions and so on. Management and strategy research has long emphasized the internal stakeholders such as employees, customers and stockholders, that is, those that have a direct stake in the firm’s activity and operations. However, increasingly secondary stakeholders (e.g., community activists, public institutions, media, and other non-governmental organizations), namely, those that do not have a formal contractual bond with the firm or direct legal authority over the firm, are raising research attention in the name of their ability to pressure the firm (Eesley & Lenox, 2006) imposing either operational costs (e.g., public relation expenses) or losses in terms of intangible resources (e.g., trust and

reputation). In this sense, CSR includes all those processes, activities and initiatives that improve corporate performance by improving firm's relationship with relevant stakeholder groups.

Looking at the dynamics underlying stakeholder interactions, taking into account relevant stakeholders' requests necessarily implies a responsiveness process that passes through the generation of internal awareness of the issues and stakeholders involved. In order for this shift to occur, it is necessary that organizations learn about those factors affecting the issue relevant to firm-stakeholder relationship, meaning that at some point within the organizations stakeholder requests, their causes and potential outcomes should be interpreted as relevant for future operations and organizational performance.

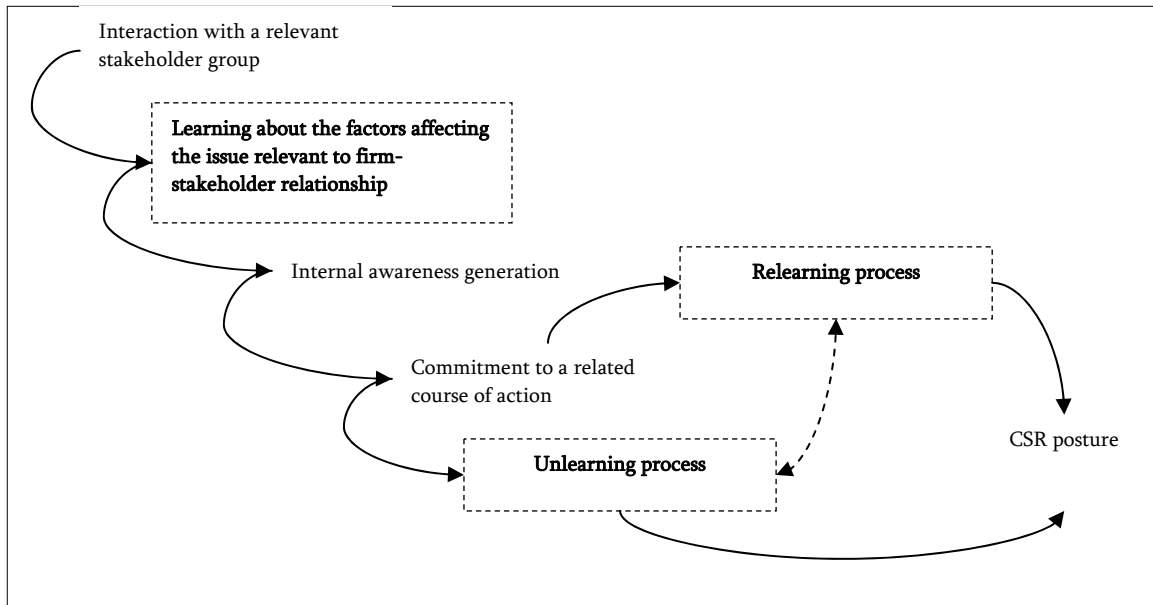
It is here that the first learning process emerges giving rise not only to general awareness of the problem to be faced but also to a specific commitment to a related course of action.

Such commitment will imply a change in certain features of the organization, from single routines, policies and practices, to basic elements of the corporate core such as strategy, structure, goals and underlying corporate values (Post et al., 2002b).

Again the step from the decision to start a CSR action and the change in the way a firm pursues its goals, survival, value creation and growth is mediated by a process of learning made of dynamics of unlearning old ways of working and relearning processes. In fact it is the distribution and institutionalization of the objects of learning that enable change to occur encompassing the entire enterprise (Crossan & Berdrow, 2003; Duncan & Weiss, 1979). Figure 2.3 summarizes the steps of a general process by which interaction with stakeholders is translated into organizational change.

If what described above is a general responsiveness process, empirical evidence and the puzzling results of quantitative studies on the relationship between CSR (or better a certain context and time-specific CSP posture) and economic performance suggest that such process does not occur for all the firms in the same way. In other words and referring both to CSP literature and organizational learning one, it is not unreasonable to assume the existence of different forms of learning underlying the variability of CSP posture and outcomes related to it. In other words, learning challenges vary at different levels of commitment to CSR.

Figure 2.3 – A general responsiveness process: The potential for learning



Existing literature suggests a view of learning as more or less pervasive, depending on whether or not and to what extent routines components are changed. Radical and incremental changes in understandings and performances are assumed to be the result of the integration of a new physical manifestation (e.g. a procedure, a certification, a new standard) representative of a certain interpretation of a need for change (Pentland & Feldman, 2005). As a result, each situation, as embedded into an artefactual representation, will challenge organizations, pushing them toward more or less pronounced unlearning and relearning dynamics.

For example, reactive learning processes derive from a total denial of responsibility by interested firm. For this reason they are those challenging less established ways of doing in that both established beliefs and routines remain the same. On the opposite side, proactive learning processes are those challenging the most firms' *modus vivendi* in that, in the attempt to anticipate stakeholder requests, firms should shift to new value systems and procedures able to systematically scan the social context of reference and engage in stakeholder dialogue on a continuative bases.

This means that at any given point, organizations should search for consistency between what is perceived as appropriate CSR and the organizational context in which the process of attaining that expected result occurs (Basu & Palazzo, 2008; Freeman & Gilbert, 1988).

Before deepening our understanding of a learning model of social responsiveness, it is necessary to specify better which views of learning we are referring to in this research project.

2.4.1 Organizational learning: The basis for change

Over forty years have elapsed since Cyert and March (1963) first made reference to the term 'organizational learning'. They argued that organizations respond to changes in the external environment through making adaptations to their objectives and search routines, thereby achieving more effective alignment. This seemingly straightforward principle has sparked huge interest from both academic and practitioner communities, with debate encompassing a range of multidisciplinary bases (Easterby-Smith, Burgoyne, & Araujo, 1999). Today there seems to be little question that organizations can learn and that learning is essential for long-term survival and prosperity (Crossan & Berdrow, 2003; March, 1991). Organizational learning is a primary vehicle for utilizing past experiences, adapting to environmental changes and enabling future options (Berends, Boersma, & Weggeman, 2003).

Though with different focuses, underlying theoretical roots and main objectives, much of the contemporary conversation about organizational learning seems to converge on the same more or less explicitly stated premises.

Learning is intrinsically a multilevel phenomenon, with processes occurring at individual, group, organizational and interorganizational levels (Crossan, Lane, & White, 1999). While learning inevitably starts in the minds of individuals, organizational learning is more than the sum of each members' learning, relying on social and psychological processes through which systems of norms and rules are developed and maintained, supporting or hindering adaptation and change (Duncan & Weiss, 1979; Fiol & Lyles, 1985).

Although organizational learning occurs through individuals, it would be a mistake to conclude that organizational learning is nothing but the cumulative result of their members' learning. Organizations do not have brains, but they have cognitive systems and memories ... Members come and go, and leadership changes, but organizations' memories preserve certain behaviours, mental maps, norms, and values over time (Hedberg, 1981: 3).

In other words, what has been learned is at some point made independent of any individual by embedding it in organizational memory, or institutionalizing it into systems, strategy, routines and prescribed practices (Argyris & Schön, 1978; Levitt & March, 1988; Miner, 1990). Accordingly, learning has the potential to exert its influence on the behavior of organizational members (Fiol & Lyles, 1985), representing potential for behavioral change (Hedberg, 1981; Kim, 1993) or organizational routines/standard operating procedures (Cyert & March, 1963).

Partly related to the previous point, existing literature converges on differentiating learning paths in terms of their change impact on the whole organizations or specific organizational traits (Miner & Mezias, 1996). As a result, there is more than a single learning process occurring within the organization at a given point of time. Changes in internal and external contexts stimulate more or less deliberate learning processes at different organizational levels (Miller, 1996). In summary, existing literature suggests a view of learning as more or less pervasive, depending on whether or not and to what extent both routines and beliefs change. As a result, each situation will challenge organizations, pushing them toward more or less pronounced unlearning and relearning dynamics. In this context, learning is a mediating factor between change objectives and business results.

Finally, research shares a process-based view of learning, occurring either at a specific level (Miller, 1996) or across levels of analysis (Crossan et al., 1999). Learning has been defined as 'a process by which knowledge about action-outcome relations is developed' (Shrivastava, 1983: 10) or 'a process by which individuals gain new knowledge and insights and thereby modify their behaviour and actions' (Stata, 1996). Though different in the emphasis put on different aspects of organizational learning, that is, either on knowledge acquisition or on routine-based learning, the definitions agree on the necessity for a process approach, or they at least assume that organizational learning, analogously to individual learning, takes place as a process.

Given the extreme variety of approaches that characterizes organizational learning literature, it becomes important to set boundaries and clarify definitions my research relies upon.

A meaning for organizational learning: Though the study of organizational learning is no longer in its infancy, there is still no consensus on what it exactly is and how it occurs (Fiol & Lyles, 1985; Shipton, 2006).

Initially based on the postulate of collective cognition proposed by Herbert Simon at the beginning of the 1950s, organizational learning has been addressed by a broad range of literatures aimed at explaining the development of new industries, technologies (Rosenberg, 1976) and industrial structures (Dosi, 1988), in the systematic improvement in productivity (Arrow, 1962), until the most recent dynamic capabilities theory of strategic management (Teece, Pisano, & Shuen, 1997). As a result, such numerous manifestations across and within diverse scholarly domains have complicated the emergence of a shared agreement as to what learning is. It emerges as a dynamic concept, representing the continually changing nature of organizations and crossing different domains and levels of analysis (Miner & Mezias, 1996).

Despite the lack of shared understandings, the evolution of definitions, theoretical models and related constructs have witnessed a progressive shift from a tendency to define learning in terms of its outcomes (i.e., improvement in activities) to a deeper attention to the content of learning and the processes of achieving related outcomes (Dodgson, 1993). In other words, regardless of theoretical roots, research increasingly agrees on the necessity to go beyond normative overtones, which defines organizational learning as the process that, by definition, improves actions through better knowledge and understandings (Fiol & Lyles, 1985).

Such movement away from simplistic assumption of learning given the attainment of a desired outcome (Miller, 1996) has resulted in the emergence of two complementary research traditions (Glynn, Lan, & Milliken, 1994; Miner & Mezias, 1996): behaviourist approaches view organizational learning as an adaptive capacity of organizations to changes in their environment (Dosi & Marengo, 2007; Levitt & March, 1988), while cognitive approaches focus on the evolution of knowledge and consider learning as a change in organizational members' knowledge that results in shared ideas and the development of new common meanings (Argyris & Schön, 1978; Hedberg, 1981; Huber, 1991).

This dichotomy has led to two major conception of organizational learning. On the one side, considering learning as an adaptive response to a stimulus (Cyert & March, 1963), the

organization is viewed as a goal-driven adaptive system with certain aspiration levels. Learning is a process of reaction or adjustment to changed environmental conditions, occurring through direct experience and experience of others which interact with a portfolio of routines understood as the outcome of previous learning and experimentation (Cyert & March, 1963; Levitt & March, 1988). In such context, learning at the organizational level emerges as a trial-and-error exercise through which firms interact with their environment and results in incremental, adaptive changes (Fiol & Lyles, 1985; Miner & Mezas, 1996; Nelson & Winter, 1982). In line with the behaviourist approach, theorists have argued that routines and procedures are the repositories of learning in response to external or internal stimuli (Levitt & March, 1988).

Criticizing the behaviorist perspective as neglecting the internal complexity of the learning subject, the cognitive approach finds its theoretical roots in the information processing research tradition (Newell & Simon, 1972). Organizational learning is substantiated in the process by which information is acquired, shared, interpreted and stored into the so-called organizational memory (Huber, 1991). As a result, it is a modification in the body of knowledge that, stimulating cognitive shifts, makes changes in individual and organizational behavior possible (Daft & Weick, 1984; Duncan & Weiss, 1979). Those taking a cognitive perspective have argued that learning represents potential rather than actual behavioral change (Huber, 1991). Using tools such as cognitive maps, they focus on event interpretations, internal representation schemes, and the impact of cognitive biases on behavior.

The emphasis on cognitive changes has transformed the initial distinction between observable behavior and underlying cognition into a distinction between superficial learning and deep learning (Leroy & Ramanantsoa, 1997). Such distinction between superficial, routine-based learning and true, cognitive-based learning can be found in the early works of most authors studying organizational learning (Argyris & Schön, 1978; Dodgson, 1993; Duncan & Weiss, 1979; Fiol & Lyles, 1985; Hedberg, 1981; Kim, 1993; Senge, 1990). Argyris and Schön (1978) distinguished between single-loop and double-loop learning, the first resulting in adaptive processes of incremental routine change, while the second consisting in an in-depth questioning of the theories underlying action and, more specifically of the value systems and interpretation frameworks required for action.

Organizational learning involves the detection and correction of error. When the error detected and corrected permits the organization to carry on its present policies or achieve its present objectives, then the error-detection-and-correction process is single-loop learning. Double-loop learning occurs when error is detected and corrected in ways that involve the modification of an organization's underlying norms, policies and objectives (Argyris & Schön, 1978: 3).

Partly differently, Fiol and Lyles (1985) identified lower-level and higher-level learning dynamics. In their view, the former involves developing cognitive associations that facilitate incremental organizational adaptation, but without questioning of norms, assumptions, and frames of reference. Higher-level learning occurs when all these are challenged and altered, producing a more accurate understanding of causal relationships.

Though both perceived as useful and even necessary within an organization (Crossan et al., 1999; Miner & Mezias, 1996), the two perspectives have developed mainly independently, with few integrative attempts. As a result, from the cognitive standpoint, behavioural change has been considered as a mere, natural consequence of cognitive changes. On the other side, supporters of the behavioral perspective have considered organizational learning as driven by change in behavior regardless of underlying cognitive changes (Leroy & Ramanantsoa, 1997). Moreover, most of these studies tend to concentrate themselves on the content of learning (i.e. cognitive or routine-based changes), leaving aside the dynamics and micro-processes by which cognition, behavior and physical manifestations of the two interact when a change objective is introduced.

Regardless of the focus on either the cognitive or the behavioral aspect of learning, the two streams presented above agrees in recognizing learning as an imperfect process. Both routines and cognitive frames established to guide activity at one point in time may be inappropriate in changing environmental conditions, representing a potential source of inertia (Levinthal & March, 1993). In other words, organizational learning is a change process that will or will not produce improvements (Cohen, 1991). Organizations, like people, can learn the right things incorrectly. Or they can learn wrong things correctly, based on the extent to which change objectives challenge old *modus vivendi* (Huber, 1991) or established organizational memories (Walsh & Ungson, 1991).

Paralleling the studies on organizational learning processes, the same tension between cognition and behavior incorporated into organizational routines can be found in the literature on organizational unlearning. There is agreement in recognizing unlearning the necessary precondition to learn and attain organizational change objectives (Hedberg, 1981; Mezias, Grinyer, & Guth, 2001). Unlearning processes interact or even precede the integration of new knowledge into cognitive frames and routines, through complete or partial elimination of incompatible organizational beliefs, routines, procedures and scripts, physical artifacts of the organizations (Moorman & Miner, 1996).

Despite great interest in the process of unlearning (Akgün, Byrne, Lynn, & Keskin, 2007), it has received limited acceptance in the literature due to confusion regarding the terms learning and unlearning both in theory and in practice, especially because most of the arguments on the unlearning has been conducted in the organizational learning literature (Walsh & Ungson, 1991). Moreover, as for learning processes the dynamics by which existing knowledge, beliefs and routines are discharged and replaced by new ones are still open to debate.

In an attempt to reconcile cognitive and behavioral perspectives, neglecting neither the importance of routines as the locus of organizational learning profile formation nor the abstract understandings underlying them, a new stream has recently emerged based on the micro-level dynamics that underpin routines evolution (Pentland & Feldman, 2005).

Though traditionally associated with stability and inertia within organizations (Cyert & March, 1963; Nelson & Winter, 1982), recent advancements in the field of organizational routines are building on the initial premises, increasingly associating routines with organizational adaptation (Feldman & Rafaeli, 2002) and change (Feldman, 2000; Feldman & Pentland, 2003), evolution (Miner, 1991), flexibility (Adler, Goldoftas, & Levine, 1999; Pentland & Reuter, 1994) and learning (Cohen & Bacdayan, 1994; Feldman, 2000; Levitt & March, 1988; Miner, 1990). As a whole, these contributions tend to look within the black box of organizational routines and strengthen the role of participants performing them.

Accordingly, in investigating learning processes following a more or less explicit integration of a change objective, organizational routines are considered as multi-part dynamic systems composed of:

- *Ostensive aspects*: routines consist of abstract regularities and expectations of what should be done to perform a routine that enable participants to guide, account for, and refer to specific performances of a routine (Feldman & Pentland, 2003). Ostensive aspects are not written rules or procedures which for many routines may not even exist. They consist of the understandings (embodied as well as cognitive) of the participants.
- *Performative aspects*: routines also consist of actual performances by specific people, at specific time and places. Literature refers to this aspect as the performative component.
- *Artifacts*: finally routines are made of physical manifestations that are easier to be identified, such as formal rules of conduct or standard operating procedures.

Acknowledging that certain phenomena may have divergent impacts on different aspects of given organizational routines, change is explained as a result of routine variability in its constituent parts. As a result, the processes by which specific learning dynamics emerges and objects of learning consolidate should start with a closer observation of the changes occurring in different aspects of an organizational routine (Pentland & Feldman, 2005).

This view of learning process as a function of the interaction between routine components is at the basis of my research. Accordingly organizational learning is defined as the collective process by which the acquisition of new understandings embedded into organizational routines replaces, modifies or adds on old ones. Unlearning and relearning are both part of the process, with:

- *Unlearning dynamics* conceived as the processes of discarding, replacing and reducing established routines;
- *Re-learning dynamics* conceived as the processes by which recognized changes are encoded in organizational routines, thus modifying the range of possibilities for organizations involved in a learning process.

Such dynamics are analyzed as the result of alignment or misalignment among routine components. Overall learning is affected by the extent to which there can be disconnect between the technical design of the routine (i.e., artifact) and the work process as understood and enacted by participants (i.e., ostensive and performative aspects).

How learning occurs: processes and drivers of change. As explained above, existing literature converges on looking at organizational learning as a process. Expressions such as organizational learning necessitates experimentation, the unlearning of past methods (Hedberg, 1981), or the acquisition and integration of new knowledge to change and improve organizational performance (Crossan et al., 1999) are commonly used.

The shift from adaptive learning into generative learning and the idea of unlearning of the old before learning of the new both are intrinsically process-based (Senge, 1990). The same idea applies to the shift from a Model I theory-in-use to the Model II theory-in-use (Argyris & Schön, 1978).

However, regardless of emphasizing the predominance of behavioral, routine-based changes or the prominence of cognitive properties of individual members, scholars in this area tend to import individual learning concepts to the level of organization, either focusing on the stages of such process (Crossan et al., 1999), or classifying it in terms of sources (Levitt & March, 1988), outcomes (Crossan & Berdrow, 2003) or learning modes (Miller, 1996). In summary, despite growing interest in studying and understanding the organizational learning process, literature so far has treated indifferently learning occurring at the individual and organizational level, developing models mainly by deduction and not through exploratory research into the phenomenon aimed at disentangling specific mechanics (Feldman, 2000).

Heading the call for a deeper understanding of the actual process by which organizations learn, recent advancements on routines as generative systems provide the opportunity to bring organizational learning research back to the organizational level (Feldman, 2000), zooming in on micro-level dynamics that underpin core organizational phenomena such as learning, change and adaptation (Becker, Lazaric, Nelson, & Winter, 2005). In fact, the potential of the concept of routines to contribute to explaining change is based on the fact that routines are a unit of analysis that is processual in nature (Becker, 2004). Routines occupy:

The crucial nexus between structure and action, between the organization as an object and organizing as a process (Pentland & Reuter, 1994: 484).

This is why they provide a window to the drivers underlying change, enabling us to observe change in more details.

The conceptualization of routines as generative systems able to explain change rather than simply stability and inertia finds its roots in the seminal contribution by Pentland and Rueter (1994). In an attempt to explain the apparent contradiction between early concepts of routines as fixed patterns of repeated action in response to defined stimuli (March & Simon, 1958; Nelson & Winter, 1982) and sociological approach to define routines as effortful accomplishments (Giddens, 1984), the authors propose a distinction between routines as a complex pattern of social actions and routineness as the property of such pattern, resting on the behavior of individuals performing the routines. Such a distinction helps explaining those situations in which patterns of action intrinsically non-routinized display high degree of regularity and vice versa, routinized pattern of action are performed in many different, non repetitive ways. In this context:

An organizational routine is not a single pattern but, rather, a set of possible patterns – enabled and constrained by a variety of organizational, social physical, and cognitive structures, from which organizational members enact particular performance (Pentland & Reuter, 1994: 491).

In an attempt to further extend the performative model of organizational routines introduced by Pentland & Rueter (1994), Feldman (2000) takes the role of agency explicitly into account in showing how routines are not only effortful accomplishments by individuals choosing from a repertoire of possible options, but also emerging accomplishments due to potential changes in both the repertoire itself and the rules that govern choices within that repertoire. Accordingly, variability may be caused by external stimuli but also by the internal dynamics of routine itself. Such perspective moves away from viewing routines as either behavioral or cognitive and toward thinking of them as something that includes both of these aspects:

One can think of routines as flows of connected ideas, actions and outcomes. Ideas produce actions, actions produce outcomes, and outcomes produce new ideas. It is the relationship between these elements that generates changes (Feldman, 2000: 613).

In other words, change is due to the fact that routine components are not necessarily aligned, so that variation in one of the components can cause variability in the other. Moreover, the interaction between agency and structure is embedded into institutional,

organizational and personal context that can be sources of phenomena having diverging impacts on routine mechanics.

The attempt to reconcile cognitive and behavioral view of routines is made more explicit in the later work by Feldman & Pentland (2003), in which routine is defined as a 'repetitive, recognizable pattern of interdependent actions, involving multiple actors' (2003: 96) resulting from the interaction between an ostensive and a performative component. Accordingly, routines consist of both idealized, abstract understandings (i.e. ostensive aspects) and specific performances in given times and places (i.e. performative aspects). Ostensive and performative aspects are interrelated by a recursive relationship, generating new understandings of the routines as emergent structure (Giddens, 1984). The ostensive aspect acts as a guide for what actions should be taken in performing a routine, and can also account for actions already taken. It signifies what is distinctive about a set of activities that can be called a routine. Conversely, the performance of a routine recreates, maintains, and may modify the ostensive aspect of the routine. However:

Changing one does not necessarily lead to change in the other. Overestimating the importance of the ostensive leads manager to underestimate the importance of the adjustments and improvisations that people undertake to make the routine work (Feldman & Pentland, 2003: 103).

Addressing such relationship becomes important in providing a deeper understanding of the change potential of organizational routines and their impact on stability or variability.

Starting from these premises, Pentland & Feldman (2005) document the dynamics of change resulting from the potential misalignment among ostensive aspects, performative components and artifacts defined as the physical manifestations of the organizational routines. The central point made is the need for consistency between designing artifacts and desired pattern of actions. Since there can be a disconnect between the technical design of the routine (i.e. the artifact) and the work process as understood and enacted by the participant, anyone interested in understanding factors producing change or stability need to map both the internal structure of given routines and the interactions among components. Organizational learning is explicitly recognized as a function of the dynamic interaction and misalignment among routine components.

Heading the call for deeper investigation of the interactions explained above, Howard-Grenville (2005) specifies the role of agency in affecting change or persistence in organizational routines. In more details, the author shows how variability in actors' intentions and orientations, leading to different abstract understandings of how routines should be performed, has an impact on the more or less flexible use of a routine (i.e., performative aspect). Moreover, routine persistence and flexibility in use are related to contextual dimensions such as technological, coordination and cultural structures affecting artifacts and expectations, as well as to the extent to which routines are embedded into the organizational structures. In other words, agency and organizational context interacts, thus affecting the more or less flexible, more or less persistent use of routines.

Sharing the same focus on the internal dynamics of organizational routines as emerging systems, D'Adderio (2008) investigates the interaction between artefactual representation of routines, with specific reference to standard operating procedures, and routine performance. Such relation is described as an iterative cycle of framing, overflowing and further reframing, in which artifacts provide guidance and control to agents that in the process of adaptation to rule unavoidably cause change that stimulate further reframing. This study provides a further corroboration for the usefulness of integrating cognitive and behavioral perspectives into the analysis of organizational change. In fact, as the underlying reasoning shows, the inherent flexibility and adaptability of human practices implies that rules may attempt to guide behavior, but:

Human actors can always operate discretion in interpreting the rule or procedure, assign meanings and ultimately decide whether, how and when to abide by, work around, or altogether reject them (D'Adderio, 2008: 773).

As a whole these studies show the inadequacy of traditional conceptualizations in explaining the processual nature of organizational change, especially due to their inability to picture the whole story. In fact, underestimating the role of agency and what can affect agents' discretion in the performance of routines may led to imperfect understandings of how things actually work missing to represents empirical evidence (Feldman, 2000; Pentland, 2003; Pentland & Reuter, 1994). Additionally, taking into explicit account the internal dynamics of organizational routine can help designing change path, avoiding the

failure due to misalignments between designing artifacts which are not representative of related patterns of action:

Like the folly of rewarding one thing while hoping for another, we believe that designing things while hoping for patterns of actions is a mistake. The problem begins with a failure to understand the nature of organizational routines, which are the foundation of any work process that involves coordination among multiple actors (Pentland & Feldman, 2008: 236).

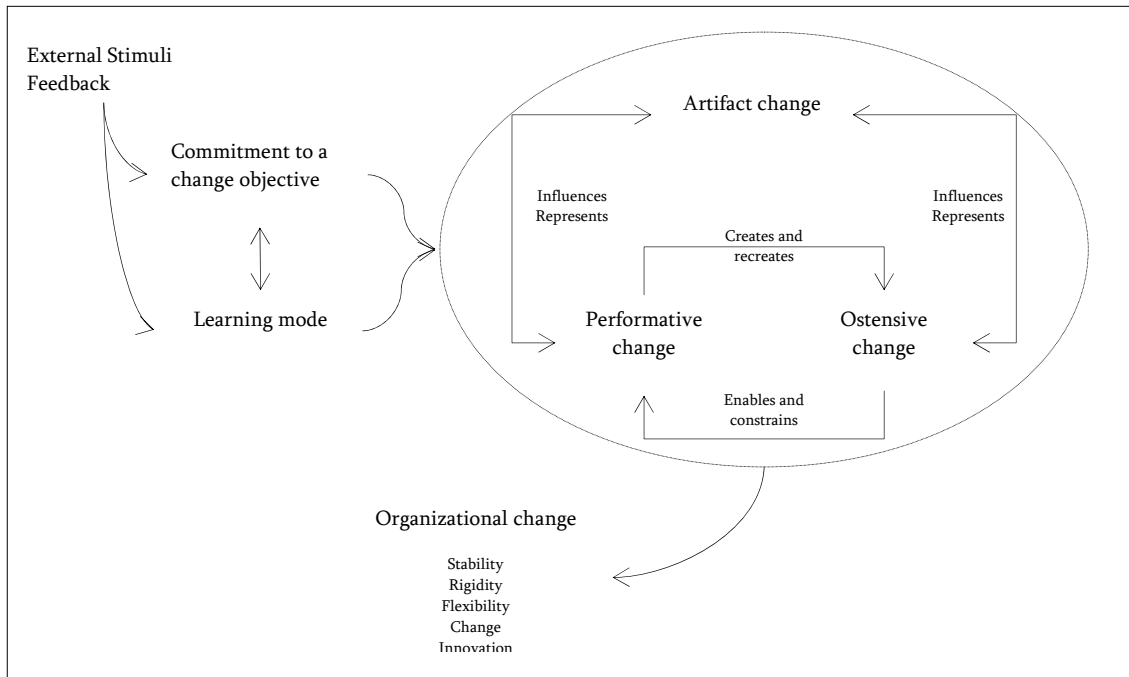
In this sense, the view of routines as generative systems provides an extremely valuable opportunity to grasp into the dynamics underlying organizational learning process, that is, the process by which new understanding is embedded into existing organizational routines through replacing, modifies or adding on old ones. In fact, going beyond material determinism in considering routines as nothing more than checklists, procedures and softwares (Leonardi & Barley, 2008), has the potential to open up the black box of organizational learning stages and contents, showing the conditions predicting the ability to attain expected results given a certain commitment to a new course of action.

Acknowledging that certain phenomena may have divergent impacts on different aspects of given organizational routines, learning is explained as a result of routine variability in its constituent parts. As a result, the processes by which specific learning dynamics emerges and objects of learning consolidate should start with a closer observation of the changes occurring in different aspects of an organizational routine (Pentland & Feldman, 2005) as internal and external individual learning starts to be encoded.

In other words, it will be possible to analyze unlearning and relearning processes in term of alignment or misalignment among routine components and highlight whether or not and to what extent this potential misalignment hinders or facilitates overall learning.

Figure 2.4 summarizes the view of organizational learning and change based on the micro-dynamics of organizational routines, as explained above.

Figure 2.4 - A routine-based view of organizational learning process



2.5 Summary and conclusion

This chapter aimed at painting a comprehensive portrait of extant debates on the role and responsibilities of business in society. The analysis of existing literature shows how the focus of CSR research has been shifting from understanding “why” (i.e., reasons for CSR engagement) to “what” (i.e., defining the CSR construct) to “how” best to adopt strategies and processes that support CSR decisions within the organizations, supporting the achievement of expected results. However, the spreading obsession to justify CSR as a profit-maximizing activity has left its driving factors mainly unexplained.

In this field, both disentangling specific dimensions of the CSP-CFP link and the incorporation of organizational learning perspectives may offer insights into the driving factors explaining variability in performance and heterogeneity in responses and postures.

As for CSR research, ambiguity and lack of universal definitions still characterize organizational learning field. However, recent advancements on the dynamics of learning have been progressively addressing the tension between cognitive and behavioural perspective, clarifying what organizational learning is and starting from which units of

analysis learning paths can be observed. It is the work on the generative properties of routines at the forefront of organizational change explanations. This work explains organizational outcomes as the result of misalignment among routines components, that is, understandings of how routines should be performed, actual performance of routines, and physical manifestations.

Literature review posits the bases for subsequent empirical analysis. In particular, chapter 3 will present and test a model for how firms can benefit from structuring reporting tools in an adequate way. Bridging CSR and organizational learning literature, chapter 4 will provide a deeper look into learning processes underlying the attainments of a specific CS posture. In particular, case-based analysis will provide an opportunity to empirically document the stages preceding the implementation of an integrated managerial model for sustainability and the specific dynamics by which an affirmative posture has been attained.

PART II

EMPIRICAL ANALYSES

CHAPTER 3

More than words: The impact of nonfinancial disclosure level and structure on corporate social performance

3.1 Introduction

Paralleling the renewed expectations of corporate conduct within a global stakeholder society, business results are depending more and more on the ability of firms to act responsibly, integrating not only social and environmental concerns into business operation and but also their relationship with stakeholders – both on a voluntary basis and beyond legal prescriptions.

Over the years, research and practice have increasingly realized that corporate success means more than the financial bottom line and that firms that show concern for their wider economic, environmental, and societal impacts will benefit from such efforts.

Accordingly, a variety of sources have pressured the private sector to go beyond financial measures as all-inclusive indicators of corporate performance. Rooted in CSR (Gond & Herrbach, 2006), the practice of nonfinancial disclosure and reporting has gathered momentum, increasingly viewed as a way to codify, manage, and communicate CSR commitment and stakeholder knowledge by means of inclusive data and information that follow the same format as do more traditional financial documents (Hummels & Timmer, 2004). Born of the so-called social accounting movement in the 1970s and aimed at broadening the scope of accountability to various internal and external stakeholders, nonfinancial disclosure and reporting encompass all tools firms commonly use to formalize their position on CSR and to develop good business practices.

Indeed, the mere act of pulling together information from business units whose priorities differ is an act of progress toward evaluating and measuring overall corporate responsibility

performance. But, more important, it enables companies to identify strengths and weaknesses across the whole corporate responsibility spectrum (Nitkin & Brooks, 1998) and to improve their ability to manage the dialogue with stakeholders on a continuous basis. In other words, nonfinancial disclosure and reporting may be considered as instruments to improve performance by mapping, measuring, systematizing, and communicating what firms accomplish in the area of stakeholder-related CSR. Nonfinancial disclosure effectively measures the progress of a firm, reporting its efforts to internal and external stakeholders. The process of social disclosure can be viewed as a dialogue between the company and its stakeholders, or as a way for stakeholders to become actively involved in the company (Greenwood, 2007).

Yet, despite the increasing interest in business practice, the performance consequences of nonfinancial disclosure are still largely anecdotal. Though recognizing nonfinancial disclosure and reporting as the natural operationalization of CSR, that is, the managerial effort to measure a firm's corporate social performance and contribute to an ongoing stakeholder dialogue (Cooper & Owen, 2007), mainstream research has nonetheless considered either economic or environmental performance solely as predictors of disclosure levels (Patten, 2002). As a consequence, only the mediating role of reporting in minding perception gaps between firms and their audiences has been appreciated (Clarkson, Li, Richardson, & Vasvari, 2008), leaving aside the managerial view of disclosure and its potential impact on the ability of firms to benefit from CSR (Lehman, 1999). Others have relied on disclosure level as a mere proxy for CSR (for a review see: Margolis & Walsh, 2003; Rowley & Berman, 2000), thus threatening a comprehensive understanding of the difference between implementing CSR and structuring the dialogue with stakeholders about the appropriateness of CSR behavior (Gond & Herrbach, 2006). Finally, most of the research has treated disclosure as a univocal construct, based on the implicit, simplistic assumption that the more firms disclose the more accountable and responsible they become toward stakeholders (for a review see Clarkson et al., 2008).

Consequently, the questions whether stakeholder-related nonfinancial disclosure contributes to improved corporate social performance and how best to structure disclosure to improve performance are both open to debate.

Building on existing studies (Adams, 2004; Epstein, Flamholtz, & McDonough, 1976; Gray, Kouhy, & Lavers, 1995a; Guthrie & Parker, 1989; Preston, 1981), our paper proposes and tests a model relating the level and structure of nonfinancial disclosure to corporate social performance. If nonfinancial reporting improves a firm's ability to manage its social context, then the firm's ability to systematize CSR and stakeholder relationships through disclosure also improves, as does its social and environmental performance.

Adopting a stakeholder-based framework to formalize and test our hypotheses, we find evidence that, different from what expected, the amount of disclosure does not improve performance, as much as the way disclosure is structured. According to what is predicted by theory on stakeholder engagement and accountability (Cooper & Owen, 2007; Greenwood, 2007; Rasche & Esser, 2006), better social performers are those who increased the breadth of their disclosure to stakeholders and in terms of related themes the reports cover. Moreover, the extent to which disclosure is concentrated or uniformly distributed across stakeholders is key to social performance, with concentrated structure negatively impacting performance. Finally, firms able to combine high disclosure breadth with distributed disclosure structures are more likely to perform better than others as social change agents.

Beyond testing the effectiveness of the nonfinancial disclosure level and structure in improving corporate social performance, our study empirically corroborates the long-standing critique of discretionary social and environmental disclosure. Critics suggest that as long as nonfinancial disclosure is voluntary and entirely the prerogative of managers, they are at liberty to conduct it in whatever way they see fit, that is, to strategically collect and disseminate only the information they deem appropriate to improving the corporate image (Adams & Evans, 2004; Owen et al., 2000). In this sense, our study contributes to the debate on the extent to which a firm's nonfinancial disclosure is credible, showing that a finer-grained analysis of disclosure is a better predictor of performance than the social and environmental disclosure in itself.

Finally, our study empirically extends the theoretical debate over the need to analyze disclosure in a stakeholder-based setting (Cooper & Owen, 2007; Greenwood, 2007; Maak & Pless, 2006). In fact, previous literature has highlighted the appropriateness of the stakeholder management framework to analyze the antecedents and impact of nonfinancial disclosure (Roberts, 1992, 1998). Stakeholder pressure influences companies in two different

ways – not only are companies expected to manage their corporate social performance effectively, but they must also be accountable for this performance (Jose & Lee, 2007). If this is valid, adopting a stakeholder-based framework for empirical analysis provides a better proxy for how companies engaged in socially and environmentally responsible practices interpreted their CSR relationship with stakeholders, as well as for the impact of stakeholder-based CSR disclosures on performance.

In the sections that follow, we first locate our research within the most relevant literature on nonfinancial disclosure and then develop specific hypotheses. Next we present our methodology and its results, distinguishing between current trends in nonfinancial disclosure and the results of the regression analysis. Discussion and implications comprise the final section.

3.2 Theoretical background and hypothesis development

Over time CSR disclosure and reporting have become key in discussions of the relationship between business and society that has resulted from two partly related shifts. One side includes the shift from the recognition of a generic social role and responsibility within society (Davis, 1960) to social responsiveness, that is, the development of a core ability to respond to social pressures (Frederick, 1986; 1998). More recently, a second shift has emerged: from a generic responsiveness to society at large to a realization of the importance of locating and classifying relevant stakeholders.

Stakeholder theory (Freeman, 1984) and the related stakeholder management approach (Mitchell et al., 1997; Post et al., 2002a) are part of this movement, which recognizes stakeholder dialogue as important for enhancing both a company's sensitivity to its environment and the community's understanding of the dilemmas facing the organization (Kapstein & Van Tulder, 2003; O'Dwyer, 2005). As a result, nonfinancial disclosure becomes the locus of firm-society dialogue, the external and systematic result of firms' thoughts about what CSR is and how it can be shared with their social context. It signifies the organization's readiness or preparedness to explain and justify to relevant stakeholders company judgments, intentions, acts, and potential omissions (Rasche & Esser, 2006).

Therefore, to succeed as responsible players, firms have to identify, measure, monitor, and report all social, environmental, and economic effects of their operations on the stakeholder society (Epstein et al., 1976; Maak & Pless, 2006). This approach increases both external and internal dialogue with constituencies and managerial awareness of and control over the social impact of corporate activity (Preston, 1981).

Despite the increasing theoretical recognition of the importance of analyzing disclosure in a stakeholder context (Cormier, Gordon, & Magnan, 2004; Roberts, 1992, 1998; Ullmann, 1985), empirical research lags far behind.

In fact, a number of studies have addressed the content of nonfinancial disclosure, to determine the amount and type of social and environmental disclosure companies provide (Deegan & Gordon, 1996; Gray et al., 1995a; Guthrie & Parker, 1989; Jose & Lee, 2007). Research on the antecedents of nonfinancial disclosure and reporting has been conducted (Adams, 2002; Meek & Roberts, 1995; Patten, 2002; Roberts, 1992). Contextual factors such as stakeholder pressure or the specific industry in which a firm operates, as well as organizational factors such as size and economic or environmental performance have been identified as potential predictors of the level of disclosure. Finally, the effect of disclosure and reporting practices on operative and market performance (Blacconiere & Patten, 1994) has been also addressed. Yet the consequences for the corporate social performance of disclosing nonfinancial data and information on a certain spectrum of stakeholder-related social and environmental areas are still largely unexplored.

These streams implicitly converge on the following conclusion. If companies want to succeed in improving stakeholder management and social responsibility, they have to measure and communicate their commitment to CSR systematically. In this sense, nonfinancial disclosure is expected to predict corporate social performance in that the former mirrors the latter, that is, nonfinancial disclosure is a transparent representation of firms' CSR accomplishments, impacts, and expected results. If disclosure is as objective and transparent as the external assessment and overall performance, than both should be equally representative of the firm's commitment to CSR (Orlitzky et al., 2003). If the above is true, then the more an organization engages with its stakeholders, the stronger the need is to be accountable toward them in disclosing nonfinancial information and the larger the impact on social performance becomes.

Nonfinancial disclosure and reporting may be viewed as managerial tools to improve CSR-related performance. They not only reflect what firms have done, but they contribute to improving future social and environmental performance, representing a firm's formal commitment to these beneficial actions (Preston, 1981). In other words, the volume of disclosure should matter in predicting performance. Accordingly, an increase in the quantity of information disclosed through nonfinancial reports – what we call disclosure depth – should represent a stronger commitment to CSR (Gelb & Strawser, 2001; Hummels & Timmer, 2004) and thus lead to better performance.

Our hypothesis follows:

Hypothesis 1: The higher the depth of nonfinancial disclosure by firm i at time t, the higher the corporate social performance at time t+1.

But is it just the level of disclosure (i.e., disclosure depth) that influences performance, supporting the empirical, simplistic “the more the better” maxim? Though it views nonfinancial reporting and disclosure as the locus of company-stakeholder dialogue, previous literature has considered disclosure as a univocal construct, mainly relying on its volume as predicted by or as predictor of performance.

However, if we instead view nonfinancial reporting as a measure of current social performance that both provides information about areas of future improvement, and helps to build a strategy for future objectives and actions, then aggregate measures miss the opportunity to distinguish between companies that differ in the extent to which they include different stakeholders and stakeholder-related areas. As Nitkin and Brooks note, “the mere act of pulling together information from business units with different priorities is a step towards evaluating and measuring overall corporate responsibility performance. But that exercise also, and more importantly, provides a concrete opportunity for the company to identify strengths and weaknesses across the whole corporate responsibility spectrum and improve the ability to manage the dialogue with stakeholders on a continuative basis” (1998). Therefore, nonfinancial disclosure and reporting may be viewed as a management process with the goal of improving performance by mapping, measuring, systematizing, and communicating what firms achieve in CSR-related areas (Gond & Herrbach, 2006). In this

sense, the more firms are able to extend their social responsibilities over a broad set of stakeholders and related issues – what we call disclosure breadth – the higher their social performance. Thus we hypothesize:

Hypothesis 2: The larger the breadth of nonfinancial disclosure by firm i at time t, the higher the corporate social performance at time t+1

Stakeholders have been classified in different ways (for a review see Mitchell et al., 1997), as having a legal, moral, or presumed claim on the firm, as well as being able to affect its process and decisions. Moreover, they have been treated either as resource providers or risk bearers and residual claimants of the value created by the firm (Jones, 1995).

Management and strategy research have long emphasized the internal stakeholders such as employees, customers, and stockholders, that is, those who have a direct stake in the firm's activity and operations. However, increasingly secondary stakeholders (e.g., community activists, public institutions, media, and other nongovernmental organizations), that is, those that do not have a formal contractual bond with the firm or direct legal authority over it, are increasing research attention to their ability to pressure the firms (Eesley & Lenox, 2006), imposing either operational costs (e.g., public-relations expenses) or losses in terms of intangible resources (e.g., trust and reputation).

However, what distinguishes stakeholder theory is its reliance on the crucial assumption that the interests of all legitimate stakeholders have to be considered equally, because of their intrinsic value (Clarkson, 1995; Donaldson & Preston, 1995; Phillips et al., 2003). In other words, stakeholder theory is driven by the morals and values of an organization. This assumption defines the normative foundation of stakeholder theory, that is, each stakeholder is considered “for its own sake and not merely because of its ability to further the interests of some other groups, such as the shareowners (Donaldson & Preston, 1995: 67).

The above assumption does not imply that stakeholders behave in the same way toward each firm, nor that all firms treat relationships the same way. The instrumental and descriptive traditions (Donaldson & Preston, 1995) of stakeholder theory are focused on these issues, the former on the link between responsiveness to stakeholders and success or

performance (Jones, 1995; Wood, 1991), and the latter investigating the way firms and stakeholders concretely interact. What is worth emphasizing at this point is the results of the many studies of processes and outcomes: even though the interests of all stakeholders are normatively legitimated, firms have to be able to develop a balance between often conflicting, costly interests, in light of the respective contributions, costs, and risks of each stakeholder group. Unavoidably, firms will prioritize some stakeholder claims over others. However, the ability to extend corporate attention to all stakeholders is hallmark to a firm's success as a responsible player. As a result, given the same disclosure volume and coverage, a firm that concentrates on a single or few stakeholder categories is not necessarily similar to a firm that can distribute its attention more equally to a broader set of stakeholders. Thus we hypothesize:

Hypothesis 3: The less homogeneous the distribution of nonfinancial disclosure by firm i at time t among stakeholders, the lower the corporate social performance at time $t+1$.

Accordingly, regardless of disclosure volume, truly socially responsible firms will be able to address a broad set of stakeholders equally. If so, disclosure concentration has not only a direct effect on social performance, but also moderates the impact of disclosure breadth on performance. Thus we hypothesize:

Hypothesis 4: The less homogeneous the distribution of nonfinancial disclosure among stakeholders, the lower the impact of disclosure breadth by firm i at time t on corporate social performance at time $t+1$.

3.3 Methodology

3.3.1 Sample

Since the purpose of the research is to assess the extent to which disclosure level and structure are predictors of corporate social performance, we needed to focus on a sample of

companies for which it was possible to measure all the variables consistently. Accordingly, we built a longitudinal dataset, employing data from the population of worldwide companies included in the Accountability Rating between 2004 and 2007 and publishing a nonfinancial report. Merging the Accountability Rating database used for the dependent variable (corporate social performance) with published reports used for the independent variables (disclosure breadth, disclosure depth, and disclosure concentration), yielded a final sample size of 114 firm-year observations involving 38 firms. The remainder of the section describes the details of variable operationalization.

3.3.2 Dependent Variable

Corporate social performance: To explore the causal relationship between disclosure level, disclosure structure, and performance, an external measure of corporate social performance was required. Many previous studies of social and environmental performance relied on scores provided by external rating agencies (see for example Clarkson et al., 2008; Hughes, Anderson, & Golden, 2001; Waddock & Graves, 1997a). Accordingly, we employed social performance data from the population of worldwide companies included in the Accountability Rating. Launched in 2004 by CSRnetwork and AccountAbility, Accountability Rating measures the extent to which firms have been able to take into account both the impact of their business operations on their social and environmental context and the needs and requests from stakeholders. The rating integrates a number of pre-existing initiatives (e.g., AccountAbility 1000 series, United Nations Global Compact, and GRI Sustainability Reporting Guidelines) developed to support firms in their social accountability process and includes the 100 largest companies worldwide – the Fortune Global 100 – listed by Fortune, from 2004 to 2007.

In other words, the rating evaluates to what extent companies can be referred to as “accountable companies” along four dimensions:

- Strategy: integration of social, environmental, and economic dimensions into firm strategy;

- Governance: development of stakeholder management ability in business operations, adapting management systems, standard procedures, incentive schemes, and performance targets at the different organizational levels;
- Engagement: interaction and dialogue with stakeholders on a continuous, transparent basis;
- Impact: Being proactive to avoid negative results, working in collaboration with stakeholders to provide joint solutions to social and environmental issues.

Accountability rating uses a variety of primary and secondary sources to capture these data, including a social audit, a questionnaire, annual surveys, publicly available documents, and other external data sources such as articles in the general business press and agencies. The assessment of Impact relies on the score provided by ASSET4, a Swiss investment information provider that evaluates firms' involvement in social and environmental issues, in terms of progress made in reducing carbon intensity and in various multi-stakeholder initiatives.

Each one of the Accountability areas is rated on a scale ranging from 0 to 25, so that the final aggregate rating corresponds to a score between 0 and 100, the sum of the scores received in the four dimensions.

The reason why we used AccountAbility rating as a measure of corporate social performance is threefold. First of all, it assesses the world's largest corporations which, according to industry and country reports (see, for example, surveys provided by KPMJ and AccountAbility), are the most likely to publish some sort of nonfinancial report on a continuous basis. Second, the AccountAbility rating procedure takes stakeholder engagement into explicit account, thus providing a measure of corporate social performance that is consistent with theory and with the method we followed to measure non-financial disclosure level and structure. In fact, if we look back at the evolution of the study of business in society, a shift becomes apparent from simplistic explanations of the reasons why firms and managers should extend their traditional economic role to embrace social and environmental responsibilities to the resulting practical and managerial *how to* dimensions, emphasized through the concept of corporate social responsiveness (Ackerman & Bauer,

1976; Frederick, 1994), then to the concept of corporate social performance as a synthesis of CSR and responsiveness approaches (Carroll, 1979; Wood, 1991).

Different from CSR activities, corporate social performance is the outcome of a firm's awareness of and response to the critical interdependencies with its stakeholders. It is in this sense that investing in CSR means attaining a specific CSP result, which contributes to the bottom line via its favorable influence on relevant stakeholders. Finally, different from other rating agencies, Accountability rating is publicly available and easily accessible, but also released with the purpose of reaching a wider audience than most of existing rating agencies do.

To summarize, in this study we operationalize corporate social performance as the score provided by AccountAbility Rating from 2004 and 2007. To reduce the endogeneity bias, we lagged this variable so that the impact of nonfinancial disclosure by firm i at time t was assessed on performance at time $t+1$. Finally, to reduce variability and improve the significance of our regression analysis, we took the logarithm of corporate social performance.

3.3.3 Independent variables

Consistent with previous literature (Abbott & Monsen, 1979; Ernst, 1978; Guthrie & Mathews, 1985; Guthrie & Parker, 1989), the variables related to the level and structure of nonfinancial disclosure were operationalized on the basis of a content analysis of nonfinancial reports published by the Fortune 100 companies included in the Accountability Rating between 2004 and 2006. The choice to focus the analysis solely on nonfinancial reporting is justified for several reasons. In particular, such reports help focus on a firm's CSR prioritization because managers commonly use them to indicate what they perceive as important to stakeholders (Cormier et al., 2004). Even more important, nonfinancial reports are produced regularly, thus allowing for comparative analysis across time and space. Finally, even though nonfinancial reporting is voluntary, companies increasingly rely on an external auditing process to increase the reliability of data and information disclosed to stakeholders. In this sense, using reporting as a unit of analysis

minimizes the risk of inconsistencies between what is disclosed and what is actually accomplished.

Differing from previous research on the effects of disclosure on performance, our study goes beyond aggregate measures of disclosure level (disclosure depth), providing a finer-grained analysis of its structure, namely, disclosure breadth and disclosure concentration.

Toward this goal, it was necessary to develop an interrogation instrument to record the typology and amount of disclosure in different CSR-related categories. Such an instrument was developed on the basis of a previous comparative analysis of the standard reporting frameworks available on the markets (Perrini & Vurro, 2007; Tencati, Perrini, & Pogutz, 2004). As shown in Table 3.1, the interrogation instrument records disclosure based both on stakeholders (eight categories considered: human resources, shareholders, financial partners, customers, suppliers, public authorities and institutions, communities and environment) and on a checklist of disclosure themes for each stakeholder.

Table 3.1 – *The interrogation instrument*

Human Resources	Shareholders	Financial Partners	Customers	Suppliers	Public Authorities	Community	Environment
Staff composition	Capital stock composition	Banks	General characteristics	Supplier characteristics	Taxes and duties	Corporate giving	Energy and Materials consumption, emissions
Employment policy and turnover	Shareholders' remuneration	Insurance companies	Market development	Supplier selection	Relations with local authorities	Direct involvement	Environmental strategy
Equality of treatment	Financial highlights	Others	Customer satisfaction and loyalty	Communication, awareness creation and information	Codes of conduct and compliance with law	Stakeholder engagement	
Training	Rating		Product information and labelling	Contractual terms	Conformity verification and inspection	Relations with the media	
Working hours	Corporate governance		Ethical and environmental products		Contributions, benefits, easy-term financing	Virtual community	
Schemes of wages and incentives	Benefits and services for shareholders		Promotional policies			Corruption prevention	
Absenteeism	Investor relations		Privacy protection				
Employees' benefits							
Industrial relations							
Internal communications							
Health and safety							
Personnel's satisfaction							
Protection of workers' rights							
Disciplinary measures and litigation							

Given the interrogation instrument, we developed three measures representing various aspects of nonfinancial disclosure.

Disclosure depth: Disclosure depth corresponds to the volume of disclosure offered by firm i at time t . Though less common in the more conventional areas of accounting research, the use of content analysis as a measure of volume of disclosure has been widely employed in CSR research (Gray et al., 1995a; Gray, Kouhy, & Lavers, 1995b). Disclosure depth, measured as the number of sentences referring to each theme, is an indication of the importance assigned to an issue by a reporting entity (Krippendorff, 1980). Though the themes in the recording instrument have been selected on the basis of a comparative analysis of existing standards to reduce subjectivity (Clarkson et al., 2008; Prencipe, 2004), the final number of themes can still be considered arbitrary.

To reduce this bias, we decided to measure disclosure depth with a weighted index, summing the number of sentences for each stakeholder and multiplying the ratio between the total number of sentences written about that stakeholder by the whole sample and the total number of sentences in the sample. Accordingly, the disclosure depth index is equal to:

$$\text{disclosure depth index} = \sum_{j=1}^m \text{stk}_{jit} \frac{\sum_{i=1}^n \text{stk}_{jit}}{\sum_{j=1}^m \sum_{i=1}^n \text{stk}_{jit}}$$

where: stk_{jit} is the number of sentences disclosed by firm i for stakeholder j at time t , with m equal to the number of stakeholders included in the analysis (i.e., the eight stakeholders considered) and n equal to the number of sampled firms. The number of sentences by each firm for each stakeholder is weighted by the ratio between the total number of sentences for that stakeholder in the sample at time t and the total number of sentences at time t .

In other words, the disclosure depth index measures the average volume of disclosure by firm i at time t in relative terms, that is, relative to what all the others in the sample do. The underlying ratio remains the same: though nonfinancial reports are increasingly standardized, neither a unique standard nor common language exists. There is great

variability between disclosing firms, so that relative measures are more appropriate than sums or simple arithmetic averages.

Disclosure breadth: Disclosure breadth measures variety of stakeholder-related themes included in the nonfinancial reports released by firm *i* at time *t*. To calculate the score of disclosure breadth, the total number of themes mentioned in the nonfinancial report was summed and divided by the total number of reportable themes. In other words, disclosure breadth is an index equal to the share of themes disclosed in the report. The use of indices to measure the extent of disclosure has a long tradition in the accounting literature (see for a review Ahmed & Courtis, 1999; Marston & Shrikes, 1991) and, in part, in the studies on social and environmental disclosure (Clarkson et al., 2008). Indices are typically constructed as a function of the number and sometimes the relevance of the items provided in the annual reports. Although different in the choice of selected items, based on the specific objective of the analysis, disclosure is an abstract construct that cannot be measured, as the literature has generally recognized (Marston & Shrikes, 1991). Disclosure indices provide only an indirect, and to some extent subjective measure of the underlying concept. Nevertheless, they have proved to be a valid research tool and their use is still very common in empirical accounting research (Botosan, 1997).

To calculate disclosure breadth, the total number of stakeholder-related themes mentioned in the nonfinancial report was summed in each stakeholder category. Given that the final number of themes within each category could be considered arbitrary, the number of reported areas for each stakeholder was divided by the total number of possible issues for that stakeholder (Bansal, 2005). For example, if a firm satisfied 5 of the 14 themes for human resources, one of the 7 themes for shareholders, and 2 of the 7 themes for customers, its disclosure breadth score would be $(5/14+1/7+2/7)$.

Disclosure concentration: We captured disclosure concentration using the “Gini” coefficient. Recently, management researchers have suggested (e.g., Gerhart & Milkovich, 1992; Pfarrer, Decelles, Smith, & Taylor, 2008) and employed these statistics for investigating pay dispersion (Bloom, 1999; Bloom & Michel, 2002; Shaw, Gupta, & Delery, 2002) or to measure the disproportionate weight of culpability in top executives versus

employees in analyses of corporate crime (Simpson, Harris, & Mattson, 1993). By analogy, the Gini coefficient has been suggested as useful to capture the disproportionate attention paid by firms to stakeholders (Pfarrer et al., 2008). The Gini coefficient can be calculated with individual- or subpopulation-level data (Brown, Sturman, & Simmering, 2003). For this study, we followed the subpopulation approach to calculation and used average disclosure levels at the stakeholder level. In other words, we calculated a separate Gini coefficient for each firm for each year, following the formula presented in Bloom (1999):

$$\text{gini coefficient} = \frac{1}{m} - \left(\frac{2}{m^2 \bar{y}} \right) (y_1 + 2y_2 + \dots + my_m)$$

where $y_1 \dots y_m$ is a sequence of disclosure levels for the stakeholders covered by firm i in decreasing order of size, \bar{y} is the average disclosure level for each stakeholder in firm i , and m is the number of stakeholders included in the analysis. Gini coefficients can theoretically range from 0 (indicating a total egalitarian stakeholder coverage) to 1 (for a totally concentrated/hierarchical disclosure structure).

3.3.4 Control variables

It would be too simplistic to consider the relationship between nonfinancial disclosure and social performance as straightforward. Several studies (Adams, 2002; Roberts, 1992) indicate that voluntary disclosure is not uniform but depends on different dimensions--from the industry each firm belongs to (Cowen, Ferreri, & Parker, 1987; Deegan & Gordon, 1996), to the organizational context in which the responsible behavior takes place (Gray et al., 1995a; Hackston & Milne, 1996; Patten, 2002).

Accordingly, controls have been classified as organizational and environmental affecting factors that can influence the level of corporate social performance, the number and relevance associated with stakeholders, and the propensity to report voluntarily on social and environmental issues.

Organizational affecting factors: First of all, we controlled for the presence of a supportive internal organizational environment. In particular, we controlled for the presence of

supportive organizational arrangements, introducing a dummy variable for the presence of a dedicated *CSR division* in the firm. The dummy is equal to 1 if a CSR division exists, 0 otherwise. The presence of a CSR division indicates not only a stronger commitment to CSR but also can be considered a proxy of the ease of recognizing, collecting, reporting, and communicating relevant information on CSR-related activities and behavior (Weaver et al., 1999). The presence of a CSR division has been checked via the company web-site and other publicly available information. Moreover, we controlled for firm experience in reporting (*reporting experience*) in that again this affects both the firm's ability to disclose relevant information depending on the amount of its experience in interacting with stakeholders and, potentially, the level of corporate social performance, in that firms with more experience in CSR also have longer track records in external evaluation processes (Gond & Herrbach, 2006). Reporting experience is equal to the number of years a firm has been publishing a nonfinancial report. Data were collected through company reports themselves and triangulated with data provided by CorporateRegister (www.corporateregister.com), an on-line archive of nonfinancial reports.

We also controlled for the use of reporting standard, introducing a dummy equal to 1 if a standard was adopted (e.g., the Global Reporting Initiative standard or the AccountAbility1000 process) and 0 otherwise, and for the reliance on third party audit, introducing a dummy equal to 1 if the report was audited and 0 otherwise. Data relevant to both of the above were drawn from company reports and checked through CorporateRegister. They facilitated control for variables that could have affected the structure of disclosure and the quality of released information (Dando & Swift, 2003; Willis, 2003). Finally, according to previous studies, we controlled for firm size, measured as the natural logarithm of employees and for firm profitability, measured as the return on equity index.

Environmental affecting factors: Previous studies have highlighted the importance of industry effect on the level of disclosure and the impact on corporate social performance (Patten, 2002). At the same time, industry effect can be relevant in that the more pervasive CSR behavior is among firms the greater the incentive to adhere to the responsible paradigm to maintain a competitive position. To capture the two combined effects, we controlled for

industry relying on *industry CSR ratings* as a measure of industry-level commitment to CSR, as provided by KPMG in the International Survey of Corporate Responsibility Reporting and checked with the AccountAbility surveys. Dividing into three intervals the 0 to 100 score provided by KPMG, we introduced a categorical variable distinguishing between low-, medium-, and high-performing industries. We also controlled for the country effect, classifying countries in Europe, the United States, and others, depending on the country of a firm's headquarters.

Year effects: Given the longitudinal nature of our dataset, we included a dummy variable for the year 2005 to pick up any effects specific to the years in the analysis.

3.3.5 Estimation Method

We performed a pooled OLS estimation regression. We used the Cook-Weisberg and the White test statistics to check the homoskedasticity assumption and found the presence of heteroskedasticity (Cook & Weisberg, 1983; White, 1980). To correct for heteroskedasticity, we used a robust-cluster estimator of the standard errors in our regressions. The robust-cluster variance estimator is a variant of the Huber-White robust estimator, which provides correct standard errors in the presence of any pattern of heteroskedasticity. It also remains valid and provides correct coverage in the presence of any pattern of correlation among errors within units. This estimator allowed us to relax the assumption of independence of errors in the regression. Since we used a pooled time-series approach, repeated observations may create correlated error terms and inflate t-statistics without using this correction. In fact, the robust-standard errors are unaffected by the presence of unmeasured firm-specific factors causing correlation among errors of observations for the same firms, or for that matter any other form of within-unit error correlation. Thus, the robust-cluster estimator produces correct standard errors even when the observations are correlated within clusters (STATA, 2005).

An alternative approach is to use a panel data regression with random effects, where the error terms contain a unit-specific component as randomly distributed across cross-section units. This method takes into account the individual-level differences between firms over

time, capturing heterogeneity in the error terms. We estimated the model using the option of the Huber-White estimator of standard errors to correct for heteroskedasticity. The results using this specification match the results using pooled OLS with a robust-cluster estimator of the standard errors. However, the Lagrange multiplier test (Breusch & Pagan, 1980) for the random-effect model suggests that the pooled regression model is the most appropriate one.

To test hypothesis 4, we needed to interact the variables measuring disclosure breadth and disclosure concentration. To avoid multicollinearity, we first de-meanned these variables, and then computed the interaction term as the product of each pair of de-meanned variables.

3.4 Results

3.4.1 Emerging trends in nonfinancial disclosure

Table 3.2 displays incidence rates for each stakeholder-related theme by year. The first three columns refer to disclosure breadth and present the total incidence rate of themes in the sample year by year. For example, an incidence rate of 100 percent for direct involvement in community-related projects indicates that all firms included that indicator in the nonfinancial report. The remaining columns refer to disclosure depth and show the average number of sentences devoted to each stakeholder-related theme and related standard deviation by year.

Disclosure breadth allows us to highlight trends in prioritizations associated with stakeholders and stakeholder-based themes. Incidence rates are used as proxies of how firms translate their perceptions of their context of reference into nonfinancial disclosure practices and related CSR profiles. If we accept the empirical maxim that firms are what they do (Post et al., 2002b), CSR topics chosen for reporting provide overall insights into a company's current priorities in stakeholder-related areas. On the other hand, the average number of sentences by theme highlights how portions of reporting devoted to each stakeholder and related issues varied over time.

Table 3.2- *Disclosure breadth and scope: Incidence rates*

		Disclosure breadth (% incidence rates)			Disclosure depth (mean and SD)		
		2004	2005	2006	2004	2005	2006
HUMAN RESOURCES	Staff composition	68.42	86.84	86.84	6.34 (6.58)	6.95 (5.91)	6.63 (5.86)
	Employment policy and turnover	52.63	63.16	76.32	7.29 (10.97)	8.39 (10.19)	11.74 (18.59)
	Equality of treatment	89.47	94.74	92.11	26.18 (33.24)	25.11 (20.55)	21.37 (15.26)
	Training	89.47	94.74	97.37	22.47 (16.38)	25.18 (17.63)	31.71 (24.07)
	Working hours	26.32	39.47	34.21	2.82 (6.92)	2.52 (4.34)	3.03 (5.38)
	Schemes of wages and incentives	57.89	60.53	65.79	4.92 (11.86)	5.29 (7.60)	5.66 (7.51)
	Absenteeism	5.26	13.16	15.79	0.05 (0.23)	0.41 (1.38)	0.53 (1.33)
	Employees' benefits	55.26	73.68	68.42	6.45 (9.06)	10.63 (14.30)	10.79 (21.97)
	Industrial relations	60.53	68.42	52.63	9.61 (16.82)	9.97 (11.79)	8.11 (12.93)
	Internal communications	57.89	52.63	57.89	7.11 (10.57)	6.37 (7.76)	7.22 (9.04)
	Health and safety	81.58	92.11	89.47	32.13 (38.88)	40.53 (41.88)	40.00 (44.79)
	Personnel's satisfaction	65.79	71.05	81.58	7.89 (10.84)	7.18 (8.94)	7.84 (6.73)
	Protection of workers' rights	63.16	63.16	73.68	10.24 (16.19)	8.68 (12.49)	8.37 (11.19)
	Disciplinary measures and litigation	5.26	13.16	5.26	0.53 (2.37)	0.74 (2.04)	0.21 (1.02)
SHAREHOLDERS	Capital stock composition	34.21	55.26	42.11	3.32 (12.67)	4.97 (11.82)	4.08 (9.77)
	Shareholders' remuneration	42.11	60.53	55.26	4.84 (14.56)	3.58 (8.88)	2.97 (6.32)
	Financial highlights	10.53	44.74	31.78	2.37 (7.64)	2.18 (5.96)	2.34 (6.21)
	Rating	60.53	52.63	52.63	5.03 (7.07)	5.53 (8.54)	5.43 (7.33)
	Corporate governance	84.21	94.74	94.74	36.34 (59.27)	47.84 (75.54)	52.42 (88.16)
	Benefits and services for shareholders	7.89	7.89	10.53	0.45 (1.83)	0.34 (1.65)	0.87 (3.60)
	Investor relations	55.26	52.63	52.63	11.11 (19.11)	9.66 (20.00)	7.97 (15.77)
FINANCIAL PARTNERS	Banks	2.63	0.00	0.00	0.03 (0.16)	-	-
	Insurance companies	2.63	0.00	0.00	0.03 (0.16)	-	-
	Others	2.63	2.63	2.63	0.47 (2.96)	0.42 (2.60)	0.55 (3.41)
CUSTOMERS	General characteristics	55.26	60.53	60.53	7.76 (17.31)	4.74 (6.50)	5.13 (7.50)
	Market development	92.11	100.00	100.00	41.24 (42.54)	52.76 (45.01)	67.37 (54.08)
	Customer satisfaction and loyalty	63.16	76.32	81.58	19.71 (24.39)	21.34 (22.31)	21.00 (24.13)
	Product information and labeling	44.74	65.79	76.32	8.71 (13.53)	10.45 (13.67)	11.34 (11.68)
	Ethical and environmental products	97.37	97.37	97.37	99.95 (82.69)	108.03 (83.49)	100.11 (69.70)
	Promotional policies	18.42	36.84	36.84	4.05 (11.64)	3.05 (5.58)	3.81 (7.39)
	Privacy protection	31.58	36.84	28.95	5.61 (12.93)	4.82 (9.00)	4.34 (10.14)

SUPPLIERS	General Characteristics	73.68	89.47	89.47	4.63 (4.26)	7.05 (6.28)	7.24 (7.34)
	Supplier selection	65.79	73.68	71.05	4.34 (5.71)	6.11 (7.55)	6.54 (6.31)
	Communication, awareness creation and information	78.95	84.21	76.32	21.08 (26.21)	19.97 30.12	20.53 (35.73)
	Contractual terms	47.37	60.53	57.89	5.08 (8.93)	4.32 (5.42)	4.55 (7.39)
PUBLIC AUTHORITIES	Taxes and duties	34.21	42.11	36.84	4.71 (11.68)	3.19 (5.70)	2.84 (6.22)
	Relations with local authorities	60.53	65.79	68.42	14.26 (18.98)	16.29 (21.82)	19.26 (27.93)
	Codes of conduct and compliance with law	89.47	94.74	100.00	39.05 (38.16)	37.87 (28.19)	34.42 (22.74)
	Conformity verification and inspection	39.47	44.74	65.79	7.87 (18.00)	8.45 (16.94)	9.58 (13.13)
	Contributions, benefits, easy-term financing	21.05	28.95	42.11	1.5 (4.21)	2.37 (5.28)	5.55 (9.80)
COMMUNITY	Corporate giving	86.84	92.11	97.37	52.39 (58.96)	48.11 (54.39)	43.13 (41.15)
	Direct involvement	100.00	100.00	100.00	64.97 58.42	82.42 (71.58)	70.08 (58.76)
	Stakeholder engagement	89.47	94.74	100.00	30.63 (24.99)	33.63 (29.23)	35.61 (29.95)
	Relations with the media	7.89	10.53	10.53	0.32 (1.49)	0.39 (1.55)	0.39 (1.46)
	Virtual community	7.89	15.79	13.16	0.79 (3.17)	2.16 (7.60)	0.29 (0.80)
	Corruption prevention	34.21	42.11	42.11	3.34 (9.26)	4.42 (9.76)	3.00 (5.70)
ENVIRONMENT	Energy and Materials consumption, emissions	97.37	100.00	100.00	125.05 (111.46)	112.13 106.81	122.87 (107.86)
	Environmental strategy	100.00	100.00	100.00	73.29 59.42	72.00 59.50	59.55 (51.10)

A first look at the data shows a general increase in the coverage of stakeholder-related themes over the time period under observation. At the same time, there is a general decrease in the variability of the disclosure level. Such a trend can be explained as a result of the increasing standardization of nonfinancial disclosure induced by the enhanced diffusion of the Global Reporting Initiative Guidelines and, as a consequence, by the increased awareness of CSR and how it can be declined into stakeholders and themes.

Specific stakeholder-related areas, training initiatives, equal opportunity, health and safety issues, staff composition, and employee satisfaction initiatives are the most covered dimensions of the responsible relationship with the workforce.

Though not as pervasive as the themes related to human resources, there is also an increase in the coverage of shareholders-related issues. Corporate governance, investor relation, and rating have the highest incidence rates. Data and information concerning the relationship with financial partners are rarely included in the reports.

The above do not apply to customers, whose coverage shows an increase consistent with the general rise. The responsible relationship with them starts with a detailed description of

market development trends in terms of new customers attracted by the firm over time and new products and services developed, followed by the description of ethically and environmentally friendly offerings and the initiatives that address assessing, monitoring, and improving customer satisfaction and loyalty.

The inclusion of suppliers is increasingly associated with the need to demonstrate a company's ability to take responsibility for value creation practices that cross organizational boundaries. This translated into data and information on supplier management policies aimed at spreading consistency in values and stakeholder orientation along the entire supply chain (i.e., communication, awareness creation, and information). The need to show consistency underlies the same inclusion of data on the general characteristics of suppliers and on the selection procedures.

The responsible relationship with public authorities follows, with companies paying increased attention to monitoring commitment and responsibility to local development both through both the adoption of codes of conduct and rules for compliance with law and collaboration with local authorities and institutions on community development projects.

Together with human resources, community of reference represents one of the most covered stakeholders. Firms converge to interpret their socially responsible relationship with the community in which they operate and progress, focusing on their ability to be good citizens, directly involved in projects targeted to improve life conditions, social inclusions, education and contribute to projects encompassing art and heritage development. In term of coverage, data and information on activities to engage stakeholders follow the description of what firms do for their community as responsible citizens. Direct involvement and stakeholder engagement are increasingly accompanied by corporate giving, which consists of donations, gifts, gratuities, benefactions, and other exclusively monetary corporate contributions to social organizations or community development projects.

The natural environment and its related issues continue to be the most covered themes over time. There is a convergence toward the description of environmental strategies that span corporate policies for environmental protection and promotion as well as environmental certification and management tools adopted by firms to improve their eco-efficiency and operational sustainability. Education and training projects on environmental

issues and relations with key environmental agencies and organizations are also included in this section. They are followed by data on actual environmental impact, such as energy consumption, materials, and emissions.

3.4.2 Regression Analysis

Tables 3.3 and 3.4 display descriptive statistics and correlations for the variables used in the analysis. The collinearity diagnostics, including variance inflation factors, indicate that multicollinearity was not a problem in the statistical analysis. The pooled OLS regression results with robust-cluster robust estimator are presented in Table 4.

Table 3.3 - *Descriptive statistics*

Variable	N	Mean	S.D.	Min	Max
Corporate social performance (log scale)	114	3.73	0.29	3.04	4.36
Disclosure breadth	114	4.73	0.93	1.52	6.51
Disclosure depth	114	51.77	25.17	8.14	159.68
Disclosure concentration	114	0.39	0.10	0.17	0.79
Disclosure breadth x Disclosure concentration	114	- 0.56	0.17	-1.23	0.11
CSR division	114	0.65	0.48	0.00	1.00
Reporting experience	114	6.47	3.35	0.00	15.00
Audit	114	0.45	0.50	0.00	1.00
Standard	114	0.75	0.43	0.00	1.00
Size (log scale)	114	11.90	0.71	10.49	13.36
Profitability	114	15.47	36.30	-	121.02
				117.84	
High performing industries	114	0.16	0.37	0.00	1.00
Medium performing industries	114	0.10	0.30	0.00	1.00
Low performing industries	114	0.75	0.44	0.00	1.00
Europe	114	0.58	0.50	0.00	1.00
Others	114	0.18	0.39	0.00	1.00
US	114	0.24	0.43	0.00	1.00
Year effect	114	0.33	0.47	0.00	1.00

In table 3.5, Model A presents the results of the regression with the control variables, which serve as a baseline model. In model B, we include the disclosure depth variable to test Hypothesis 1. In model C, we test Hypothesis 2 by including the disclosure breadth variable to the baseline model. In model D, we test Hypothesis 3 including the disclosure concentration variable. In model E, we test Hypothesis 4 by incorporating the interaction

effect between disclosure breadth and disclosure concentration. Model F is the full model where all independent variables are incorporated simultaneously.

Different from what was predicted, the coefficient of the variable representing the weighted volume of disclosure per stakeholder-related theme is positive but not significant, either in model B or in the full model. A higher number of sentences on a theme does not necessarily translate into an additional piece of useful information on company activities in those areas. In other words, though nonfinancial reports are increasingly standardized, a common language still does not exist, thus complicating the comparison across companies based on the quantity of disclosure.

We find that the coefficient of the variable representing the breadth of stakeholder-related themes disclosed by firms that release a nonfinancial report is positive and significant at the 1 percent level, thus supporting Hypothesis 1. In our sample, the more themes a firm covers in its nonfinancial report, the higher its performance in the next year. Firms that present more extensive nonfinancial reporting are more able both to manage their responsible relationships with stakeholders better and to strengthen its image as a socially responsible company among other stakeholders.

The coefficient for the variable capturing the extent to which disclosure is concentrated or homogeneously distributed across stakeholders is negative and significant at the 1 percent level. As predicted by Hypothesis 3, disclosing more but in favor of a limited set of stakeholders is more likely to decrease the level of corporate social performance in the next year. The impact of disclosure concentration on performance is further clarified in model E. In fact, the interaction term between disclosure scope and disclosure concentration is negative and significant at the 1 percent level. Disclosing in more stakeholder-related areas cannot lead to improved performance if the structure of disclosure is disproportionately in favor of some categories of stakeholders rather than homogeneously distributed. Thus Hypothesis 4 is supported.

Table 3.4 - *Correlations matrix*

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1. Corporate social performance (log scale)	1.00																				
2. Disclosure breadth	0.28**	1.00																			
3. Disclosure depth	0.19*	0.27**	1.00																		
4. Disclosure concentration	-0.31***	-0.61***	-0.02	1.00																	
5. Disclosure breadth x Disclosure concentration	0.12	0.49***	0.11	-0.54***	1.00																
6. CSR division	0.26**	0.15	0.13	-0.02	0.09	1.00															
7. Reporting experience	0.28**	-0.08	0.21*	0.11	0.10	-0.02	1.00														
8. Audit	0.44***	0.26**	-0.02	-0.12	0.14	0.37***	0.13	1.00													
9. Standard	0.26**	0.06	0.07	-0.06	0.12	0.14	0.10	0.14	1.00												
10. Size (log scale)	0.01	-0.17	0.12	-0.00	-0.15	0.05	0.19	-0.18*	0.04	1.00											
11. Profitability	0.03	-0.03	-0.16	-0.07	-0.01	0.02	-0.16	0.09	-0.08	-0.22*	1.00										
12. High performing industries	0.27**	0.02	-0.01	-0.12	0.12	-0.23*	0.17	0.14	0.02	-0.35***	0.25**	1.00									
13. Medium performing industries	-0.06	0.03	-0.18*	-0.04	0.02	0.12	-0.26**	-0.06	0.05	-0.10	0.10	-0.14	1.00								
14. Low performing industries	-0.18*	-0.04	0.13	0.13	-0.11	0.12	0.03	-0.16	-0.05	0.36***	-0.27**	-0.74***	-0.55***	1.00							
15. Europe	0.23*	0.14	-0.25**	0.05	0.02	0.15	0.07	0.52***	0.13	-0.14	0.12	0.08	0.22	-0.21*	1.00						
16. Others	-0.44***	-0.17	-0.03	0.12	-0.05	-0.03	-0.03	-0.34***	-0.25**	0.08	-0.03	-0.21	-0.16	0.28**	-0.56***	1.00					
17. US	0.13	-0.01	0.32***	-0.16	0.02	-0.15	-0.06	-0.29**	0.08	0.09	-0.12	0.10	-0.11	-0.01	-0.65***	-0.26**	1.00				
18. 2004	-0.09	-0.27**	-0.09	0.13	-0.19	0.05	-0.21*	-0.11	0.06	-0.03	0.07	-0.26**	0.46***	-0.10	0.00	0.00	0.00	1.00			
19. 2005	-0.15	0.10	0.05	-0.11	0.07	-0.03	0.00	0.04	0.01	-0.00	-0.02	0.10	-0.23*	0.03	0.00	0.00	0.00	0.00	-0.50***	1.00	
20. 2006	-0.15	0.10	0.05	-0.10	0.12	-0.02	0.00	0.04	0.01	-0.00	-0.02	0.10	-0.23	0.07	0.00	0.00	0.00	0.00	-0.50***	-0.50***	1.00

Note: *** p < .001 ** p < 0.01 * p < 0.05, n=114

Table 3.5 - Pooled regression results

Dependent variable: corporate social performance (log scale)

	(A)	(B)	(C)	(D)	(E)	(F)
Disclosure depth		0.000 (0.000)				0.022 (0.037)
Disclosure breadth			0.066 (0.023)**		0.033 (0.032)	0.000 (0.000)
Disclosure concentration				-0.741 (0.261)**	-0.868 (0.356)*	-0.937 (0.385)*
Disclosure breadth x Disclosure concentration					-0.323 (0.121)**	-0.329 (0.118)**
CSR division	0.130 (0.062)*	0.123 (0.062)†	0.120 (0.063)†	0.132 (0.060)*	0.136 (0.058)*	0.131 (0.058)*
Reporting experience	0.014 (0.008)†	0.013 (0.008)	0.016 (0.008)*	0.017 (0.007)*	0.021 (0.007)**	0.019 (0.007)**
Audit	0.164 (0.074)*	0.163 (0.075)*	0.144 (0.076)†	0.138 (0.076)†	0.130 (0.078)	0.129 (0.079)
Standard	0.076 (0.053)	0.075 (0.054)	0.071 (0.054)	0.067 (0.048)	0.079 (0.048)	0.078 (0.048)
Size (log scale)	0.037 (0.052)	0.037 (0.053)	0.051 (0.050)	0.027 (0.049)	0.019 (0.052)	0.015 (0.053)
Profitability	0.000 (0.001)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
High performing industries	-	-	0.275 (0.126)*	-	0.237 (0.139)†	-
Medium performing industries	-0.234 (0.128)†	-0.229 (0.127)†	-	-0.240 (0.129)	-	-0.225 (0.141)
Low performing industries	-0.165 (0.098)†	-0.167 (0.098)†	0.092 (0.089)	0.144 (0.090)	0.084 (0.093)	-0.149 (0.098)
Europe	0.182 (0.083)*	0.186 (0.084)*	0.169 (0.085)*	0.189 (0.085)*	0.173 (0.082)*	0.179 (0.085)*
Others	-	-	-	-	-	-
US	0.288 (0.077)***	0.274 (0.073)***	0.267 (0.769)***	0.258 (0.077)**	0.084 (0.074)**	0.232 (0.072)**
Year 2004	-	-0.049 (0.056)	-	-	-	-0.034 (0.054)
Year 2005	-0.098 (0.046)*	-0.146 (0.035)	-0.14 (0.048)**	-0.127 (0.047)**	-0.126 (0.048)*	-0.155 (0.033)***
Year 2006	0.05 (0.056)	-	-0.003 (0.054)	0.024 (0.049)	0.025 (0.051)	-
Constant	2.976 (0.581)***	3.001 (0.598)***	2.285 (0.579)***	3.387 (0.587)***	3.108 (0.732)***	3.465 (0.734)***
Observations	114	114	114	114	114	114
R ²	0.481	0.484	0.515	0.536	0.560	0.563
F	9.24	9.98	12.12	11.43	13.64	14.06
P<	0.000	0.000	0.000	0.000	0.000	0.000

Note: *** p < .001 ** p < 0.01 * p < 0.05 † p < 0.1

Several other variables representing organizational and environmental affecting factors are positive and significant at the 1-10 percent level in Models B through F, respectively. The presence of a CSR division is positive and significant in all the models, indicating that an internal formal commitment within the organizational boundaries improves the ability of firms to manage CSR, thus improving performance in the next year. Having a longer reporting experience has a positive and significant impact on performance in all the models but B, thus indicating the presence of a learning-by-doing effect on CSR management. Moreover, the coefficient representing whether or not a nonfinancial report was audited has a positive, significant impact on performance in Models B through D, indicating the usefulness of relying on external advisors to strengthen a firm's ability to interact with stakeholders and improving social performance. Finally, belonging to a well-rated CSR industry contributes more positively to corporate social performance than does belonging to a medium-low rated industry.

3.5 Discussion and conclusion

Companies are increasingly relying on nonfinancial disclosure as a key element in systematizing and discussing their responsible relationship with stakeholders. While CSR still seems linked to traditional themes concerning, for example, environmental protection or worker safety, there is a clear trend toward extending the breadth of disclosure, including a wider range of stakeholders and a wider set of themes by stakeholder.

Regardless of differences in the way responsible behavior is perceived and translated into disclosure, both business practice and academic debate stress the need to conform to a CSR portrait as an antecedent to becoming a trustworthy, legitimate partner. Such a responsible portrait can be traced back to a number of stakeholder-related themes, from economic robustness and operational efficiency to maximum safety at each level (from product safety for customers to the safety of working conditions and environmental safety for the community of reference); from environmental sensitivity and long-term sustainability to responsible citizenship and open dialogue with the various categories of relevant stakeholder; from dynamism, quality, and innovation in processes and products, to skill development and cross-boundary responsibility. In other words, the more or less explicitly

stated assumption in current debates is not only that the more an organization engages in stakeholder-related activities the better, but also that engagement becomes the postulate of trustworthiness, and as a direct result, of the ability to improve stakeholder management and perform at a superior level.

Starting from an attempt to test the soundness of “the more the better” assumption, this study adds to our understanding of the performance consequences of nonfinancial disclosure and demonstrates the impact of disclosure level and structure on corporate social performance.

3.5.1 Major Findings

Our results supported most of the hypotheses and the general notion that a finer-grained analysis of the practice of nonfinancial disclosure is needed to go beyond the “what should companies disclose” question to the “how should companies disclose information” question, both regarding their responsible relationship with stakeholders.

Different from what anecdotal evidence and theoretical accounts suggest, the level of disclosure does not have a significant impact on social performance. This result was unexpected in light of our initial argument for Hypothesis 1. Mainstream research considers nonfinancial disclosure and reporting as managerial tools to improve CSR-related performance, in that both lead to a stronger commitment to CSR and thus to better performance.

This result seems to support the critique of nonfinancial disclosure because it masks poor performance (Hughes et al., 2001), and the critique that poor performers provide more extensive disclosure than good performers do, and the conclusion by Ingram and Frazier (1980) about the poor quality of voluntary nonfinancial information disclosed by the firms.

On the contrary and in light of the other findings in our study, the failure to find a positive, significant relationship between the amount of disclosure (i.e., disclosure depth) and performance could be explained by the fact that, although nonfinancial disclosure increasingly relies on third-party standards (e.g., the Global Reporting Initiative Guidelines), it remains voluntary, so that neither a unique common format nor a universal reporting language, style, and practice exists to create simpler and more comparable

company reports. In this sense, one can hardly conclude that a firm has a higher probability of being a good performer just because it discloses more than the others do. In other words and given a certain amount of disclosure, to consider disclosure depth as a unique predictor of performance means to treat equally firms that disclose in different subject areas or place different emphasis on the same areas.

Going beyond empirical claims that disclosure is a univocal construct, our findings provide a preliminary answer to the question of how disclosure should be organized to improve performance. Supporting Hypothesis 2, our results show that firms able to extend their social responsibility over a broad set of stakeholders and related issues have a better chance to increase performance. Our findings support theoretical claims that CSR cannot be understood separately from the dependence relationships between companies and their social context (Ackerman & Bauer, 1976; Post et al., 2002b), such that the detection and scanning of, and response to the social demand become fundamental to achieving social legitimacy, greater social acceptance, and prestige (Garriga & Melé, 2004). In this sense, an active company involvement in CSR has to go beyond a generic responsiveness toward society at large, focusing rather on the importance of identifying stakeholder and related areas of responsibility. Accordingly, nonfinancial disclosure and reporting are the managerial tools that support firms in the process of mapping, measuring, systematizing, and communicating what they do in CSR-related areas. If so, regardless of the level of disclosure, the more firms are able to extend their systematizing and communicating efforts to a wider range of stakeholders and stakeholder-related CSR themes, the stronger their ability to achieve superior social performance, especially if accompanied by the determination to maintain an appropriate balance between different, often contrasting interests (Ogden & Watson, 1999).

Results provide an empirical test for the theories describing “true responsible economic actors” as those who are able to combine high engagement with the social context of reference and balanced coverage of diversified interests (Greenwood, 2007). Supporting Hypotheses 3 and 4, findings point to the benefits associated with distributing disclosure efforts equally among stakeholders. Given a certain amount of disclosure volume and coverage, firms that concentrate on few stakeholder categories cannot be associated with those able to satisfy the information needs of a more comprehensive set of stakeholders.

Moreover, broad coverage of stakeholders and stakeholder-related issues may not have the expected effects on performance if they are not associated with a distributed disclosure structure.

A note of caution is appropriate to this category of research, which relies on information disclosed through reports. As mentioned in the section on research methodology, our study ignores sources of disclosure other than nonfinancial reports (e.g., corporate web sites, annual reports, and press releases). There may be companies that have programs consistent with the CSR paradigm but have not used a report or else use reporting to disclose such information. Our research does not capture this information, although the choice of those firms who publish a report was supported by the need to enhance traceability, comparability over time, and reliability of disclosed information. In addition, the study suffers the usual limitation of content analysis-based research. Though supported by previous literature (Gray et al., 1995b), the choice of the unit of analysis to score disclosure level remains subjective. Given our need to measure the volume of disclosure in certain behavior-related areas, using sentences as the unit of analysis has been more natural and less subjective than counting words and not as aggregated as counting paragraphs. As a sensitivity check, we measured the disclosure level as the unweighted, total amount of sentences and aggregated it according to stakeholders only. Results did not change in a significant way. Moreover, this study explicitly addresses nonfinancial disclosure by large corporations who in general have a high resource availability devoted to CSR and the formalization of a disclosure procedure. At the same time, large corporations are extremely visible, and visibility may motivate them to behave responsibly, so that the intrinsic characteristics of the sample under observation may have affected the same results. We left to future investigation the generalizability of our findings to small and medium-sized enterprises.

Finally, a note is due on the potential endogeneity risk arising from the way disclosure structure and corporate social performance were respectively measured. We cannot completely exclude that rating assigned by the agency to firms may have relied upon information disclosed through nonfinancial reports. If so, one could ask himself/herself whether disclosure measures and performance are actually the same. In order to minimize this risk, we referred to previous studies using rating score as a measure of performance (Abbott & Monsen, 1979; Clarkson et al., 2008; Waddock & Graves, 1997a, b). They

converge on recognizing rating as most indicated secondary source to measure social or environmental performance. Moreover, we went into the details of AccountAbility's rating process. As explained in the methodology section, though reporting is one of the source used by the agency to formulate its judgments, it is not the only one. As all the other social and environmental rating agencies, AccountAbility enrich evaluation process with self-produced information, direct interviews in each firm, other secondary sources (e.g., reports released by NGOs and other institutions) and direct engagement with stakeholders to triangulate company information. As such, the process is deeper and richer than exclusive reliance upon formal disclosure made by firms through social, environmental and sustainability reports.

In sum, this study seeks to revisit the relation between nonfinancial disclosure and corporate social performance, responding to the need for more rigorous measures of nonfinancial disclosure (Clarkson et al., 2008; Patten, 2002). It goes beyond the level of disclosure as a comprehensive proxy of firm-stakeholder dialogue and demonstrates how a finer-grained analysis of the structure of disclosure can be a better predictor of superior performance.

In other words, the contribution of our study to mainstream research is threefold. First, our research provides insight into the trends emerging in the practice of nonfinancial disclosure and in reporting with specific reference to who and what counts for our sample of firms. Content analysis allowed us to identify who the relevant stakeholders are to which nonfinancial reporting is addressed and what dimensions provide the basis for firms that are increasingly measuring and communicating their responsible relationship with their social context of reference. Second, beyond this descriptive contribution, the paper provides an empirical test of the impact of nonfinancial disclosure on corporate social performance. Though it is well established that nonfinancial reporting can concretely support firms in managing their network of social relationships, thus leading to improved performance, this relationship has so far remained mainly anecdotal. Results provide a first answer as to the major differences between disclosing the most information possible and providing an appropriate structure for this disclosure. Accordingly, findings suggest not only the importance of structuring the report in a comprehensive way, and extending coverage to multiple stakeholders and related issues, but also the need for balance between informative

needs, thus avoiding concentrated structures. In this sense, companies that report on more themes, presenting a balanced and comprehensive product, have a better chance to at superior performance (Gelb & Strawser, 2001). Finally, the paper provides further corroboration of the extent to which firms use reporting to represent what they do and are opposed to voluntary disclosure that does no more than portray themselves as they would like to be seen. Different from Gray's theories (1995a) and proved by Hughes, Anderson, and Golden (2001), nonfinancial reporting is not necessarily a tool to dissimulate poor performance, motivating poor performers to provide more extensive reports to gain legitimacy in their social context (Clarkson et al., 2008). On the contrary, the lack of a positive, significant relationship between nonfinancial disclosure and performance can be attributed to the need to go beyond all-inclusive measures of disclosure and associate the "what to disclose" question with the "how to organize the disclosure" question in order for firms to benefit the most.

CHAPTER 4

Learning dynamics of corporate sustainability integration: A process-based view

4.1 Introduction

Since Bowen (1953) wrote his seminal book *Social Responsibility of the Businessman*, claiming that the obligations of businessman are ‘to pursue those policies, to make those decision, or to follow those line of action which are desirable in terms of the objectives and values of our society (1953: 16), the field concerning the role and responsibilities of business in society has grown significantly, with corporate social responsibility (CSR) and sustainability (CS) activities increasingly on the agenda of corporate boards and audit committees. A growing number of social and ethical investment funds enlarge the offering for farsighted investors, as well as the number of companies that voluntarily report their own social and environmental interactions with surrounding communities or adopt codes of conduct and certifies accountability systems is on the rise. But is this trend supported by real benefits to the companies that adopt these practices?

Shouldn't resources devoted voluntarily to social welfare be put to better use improving the efficiency of the firm or being more simply returned to shareholders? Skeptics continue to support this argument against CSR and CS, contending the failure of existing quantitative studies in validating a universal rate of return to CSR (Barnett, 2007). In fact, despite the huge amount of portfolio analyses, event studies or multivariate analyses examining the associations between different measures of social and economic performance (for a review: Margolis & Walsh, 2003; Orlitzky et al., 2003; Salzmann, Ionescu-Somers, & Steger, 2005), there is a shared consensus that any conclusion that the business case is now established because more empirical studies have been published in support of it than against it is *illusory* (Margolis & Walsh, 2003: 278).

Thus, the overwhelming preponderance of evidence indicating that high levels of social performance are associated to high levels of economic and financial performance does not calm down criticisms, since results are subject to research bias, exhibit great variation and are ambiguous regarding the causal relationship between the two constructs.

Yet, why, in the face of often-fierce competition, do for-profit firms voluntarily allocate additional limited resources to social welfare as an almost universal practice (Barnett, 2007: 795)? Rather than justifying CS as significantly and positively correlated to corporate financial performance, CS proponents justify the business case for social responsibility as an unavoidable consequence of the critical interdependencies that exist between a firm and its employees, customers, investors, communities, and constituencies in general (Donaldson & Dunfee, 1999; Perrini, 2006a). In this sense, engaging in CS allows firms to stake a claim for being trustworthy and, consequently, of being able to deliver profitable growth in the long haul (Berman, Wicks, Kotha, & Jones, 1999; Post et al., 2002a; Preston & Post, 1975).

In summary, although the importance of understanding the effects of CS on firm performance cannot be neglected given the huge interests by firms in this area, the apparently contrasting conclusion on the business case for CS makes it necessary to look for contingencies and attempt to develop theories able to explain such heterogeneity.

Looking backward at the bulk of quantitative studies examining how acts of CS affect corporate financial performance, they all refer to corporate social performance as a predictor of financial one. However, as explained in Chapter 2, CSP refers to an aggregate social posture that firms obtain at a certain point in time, resulting from a process of responsiveness by which firms integrate more or less explicit requests made by stakeholders into their operations, practices, values and beliefs. But how does this process occur?

Based on early studies on firms' responsiveness to societal demand (see for example Carroll, 1979; Epstein, 1987), there is an emerging interest in the literature presenting CSR and CS as intrinsically process-based. Though using different words to name and define the stages of the process, these studies tend to share an understanding of corporate commitment to CSR and CS as ranging from low, responsive levels to proactive and strategic responses (Basu & Palazzo, 2008; Porter & Kramer, 2006; Zadek, 2004). In other words, depending on both organizational and contextual dimensions firms may vary in the extent to which they

integrate CSR and CS into daily operations and interactions with stakeholders at the different levels of the organizations: from single plant operations to strategic planning.

Despite such increasing recognition of the importance to adopt a process lens when looking at firms' responses to social and environmental issues, existing research often limits itself to descriptive, anecdotal accounts of the differences between merely reactive and strategically proactive responses in terms of implemented CS activities. Moreover, there seems to be a tendency towards the prescriptive conclusion that the ability to gain from CS is inextricably linked to the integration of CS into business operations, strategies and systematic interactions with stakeholders. Yet, how is this feasible? What are the challenges for firms who decide to reshape their business around sustainability and social responsibility? What are the drivers leading to the shift between spot activities and formal operating procedures? Recent debate still shies away from asking itself what may be happening inside corporate black box (Sharma & Vredenburg, 1998). In fact, the spasmodic attention to the outcome as led to by-pass the question of "how to get there".

Organizational learning offers the potential to provide theoretical bases to explain the shift from the decision to act responsibly and the actual CS posture and related performance. In fact, for firms the shift from a traditional management paradigm to a social and environmental-oriented one requires unlearning old assumptions that exclude social and environmental considerations from business decision-making and, on the other hand learning new ones that include stakeholder-related issues in the underlying value systems of management. Put it differently, the decision to conform to a certain CS portrait will require new ways of organizing at some extent consistent with the intended outcomes (Porter & Kramer, 2006).

Starting from these premises, the purpose of this qualitative study is to build and enrich theory about learning dynamics for organizations experiencing the shift to new managerial models that challenge their established *modus vivendi*.

Companies are going to have to unlearn a lot of their past – and also to forget it! The future will not be an extrapolation of the past (Hamel & Prahalad, 1994).

In this sense, organizations learn by both discarding, replacing and reducing established ways of doing and encoding new understandings into their processes in a way that modifies their range of possibilities. In the context of CSR and CS, the term learning is used here to

refer to a process in which relatively stable changes are brought about in the collective understandings held and activities performed by organizational members about the relationship of their business to social and environmental issues (Halme, 2002; Williams, 2001).

Routines are the locus of organizational learning process. Although with different premises and definitions (see Becker, 2005) the whole body of understating on routines seems to share the central assumption that organizations change what they are doing and how they are doing it by changing their routines (Becker et al., 2005).

Though traditionally associated with stability and inertia within organizations (Cyert & March, 1963; Nelson & Winter, 1982), research on organizational routines is building on its initial premises, increasingly associating them with organizational adaptation (Feldman & Rafaeli, 2002) and change (Feldman, 2000; Feldman & Pentland, 2003), evolution (Miner, 1991), flexibility (Adler et al., 1999; Pentland & Reuter, 1994) and learning (Cohen & Bacdayan, 1994; Feldman, 2000; Levitt & March, 1988; Miner, 1990). As a whole, these contributions tend to look within the black box of organizational routines and strengthen the role of participants performing them.

Accordingly, in analyzing variation into organizational processes due to the introduction of CS practices, my study adopts the recent view of organizational routines as multi-part dynamic systems composed of

- abstract understanding of what should be done to perform a routine (i.e., ostensive part);
- actual performances by specific people, at given time and places (i.e., performative part);
- physical manifestations of organizational routines such as formal rules or standard operating procedures.

Acknowledging that certain phenomena may have divergent impacts on different aspects of given organizational routines, change is explained as a result of routine variability in its constituent parts. As a consequence, the processes by which specific learning dynamics emerges and objects of learning consolidate start with a closer observation of the changes occurring in different aspects of an organizational routine (Pentland & Feldman, 2005) as internal and external individual learning starts to be encoded. Unlearning and relearning

processes are described in term of alignment or misalignment in routine components. Moreover whether or not and to what extent this potential misalignment hinders or facilitates overall learning is highlighted.

4.2 Research questions

The purpose of my study and the related attempt to investigate the learning antecedents of CS integration lead me to formulate the following broad research questions, from which to start empirical investigation.

RQ 1: How has corporate approach to CSR evolved over time?

In order to understand the dynamics of learning underlying the decision to act differently from the past it is necessary to start from a longitudinal reconstruction of the ways the organization interpreted societal pressures to behave responsibly and translated them into organizational artifacts, such as a specific procedure, a code of conduct, a certification process, a strategic renewal and so on. This descriptive analysis of CS content over time allows identifying changes in corporate posture, shifts to renewed ways of doing daily business, and so on. In other words, the first research question is meant as a description of the intrinsic *process-based nature* of corporate social and environmental responsiveness.

The first research question has been further detailed as follows:

RQ1a: How have commitments to changed objective been reflected into corporate activities?

RQ1b: Which events and developments did appear to be related to the introduction of stable changes in shared interpretations of CS?

The reconstruction of the evolutionary path of CS portrait has to be considered not only as an attempt to trace back the stages of the process, but also as a way to describe the key CS-related events that have challenged established *modus vivendi* and identify the antecedents of the decisions to implement specific interpretations of CS.

This posited the basis for the second general research question:

RQ2: How has the commitment to a certain change objective been reflected into organizational routines?

Moving away from the macro-perspective emerging from the first research question, the second one aimed at opening corporate responsiveness black box and understanding the routine-based micro dynamics of learning in the process of implementing actions related to a specific change objective. Different from RQ1, RQ2 narrows down the view, detailing the content of each stage of the process in terms of reconfiguration of organizational roles, responsibilities and procedures.

In more details, exploring the evolution of how organizations interpreted their social and environmental responsibilities toward society was meant to identify both the locus of learning in terms of specific routines for study and the organizational variables linked to change in the ways routines were enacted (Howard-Grenville, 2005).

Even the second research question can be further detailed as follows:

RQ2a: How were decisions implemented at the different levels of the organizational structure? Which artifacts were introduced in order for the decisions to be implemented?

RQ2b: How has new artifact implementation impacted on prevailing organizational understandings and related performances (i.e., actual ways of performing a sustainability-related task)?

The answer to these sub-questions was meant as an attempt to show up the specific routine-based drivers of change, and, in particular, the extent to which each stage of CS evolution, following the introduction of a new artifact, resulted into alignment or misalignment between CS-related understandings and the way artifacts were enacted by organizational members. In so doing, it was possible both to describe corporate responsiveness process in terms of dynamics of change in routine components and highlight the driving factors underlying the attainment of alignment vs. misalignment in routine components at each stage.

4.3 Context of inquiry

Empirical research so far has generally considered social and environmental practices as resulting from a constellation of factors including regulatory requirements, competitive and economic pressures, evolving social demands and institutional norms and technological innovation and adoption (Hoffman, 1999; Porter & Van der Linde, 1995; Vogel, 2005). Over time, scholars have argued that companies experience a wide variety of external pressures shaped by their community, location, economic sector and interaction with critical external stakeholders (Berkhout & Rowlands, 2007; Eesley & Lenox, 2006; Gunningham, Kagan, & Thornton, 2003). Even those addressing the process-based nature of CS have concentrated their attention toward the changing societal expectation and how stakeholder requests shape paths of corporate response (Mirvis & Googins, 2006; Mirvis, 2000).

Though rich, these explanations are incomplete, however, because they fail to take account of the fact that firms operating under similar regulatory, competitive and social pressures can develop starkly different CS-related practices. In other words and in order to paint a more comprehensive picture, it is necessary to open organizational boundaries and look at what happens within the organization as the decision to integrate new managerial models based on social and environmental voluntary responsibilities is taken.

Given these premises and the aim of my work, one of the critical challenges that confronted me was identifying an organization, the observation of which could have provided insights into unlearning and relearning organizational dynamics, following the decision to shift to more integrative approaches to CS (i.e., operating models in which CS is integrated into daily operations and interactions with stakeholders) coming out from within the firms and not from external shocks, crisis or explicit requests for change. This could have allowed me to disentangle theoretical implications predominantly related to internal, organizational factors.

According to the explorative aim of my work, I searched for a context that could serve as an “extreme case” (Pettigrew, 1990), to be investigated longitudinally. Extreme cases facilitate theory building because, by being unusual, they can illuminate both the unusual and the typical (Patton, 2002). In other words, in extreme cases, the dynamics being examined tend to be more visible than they might be in other contexts.

In order to select the case, I followed the procedure described below:

- 1) Identification of an industry characterized by both the most critical social and environmental impacts and the highest relevance of CS issues and CS pervasiveness. This step relied on the comparison between preliminary studies conducted by the author on the content of public social, environmental and sustainability documents released by firms (Perrini & Vurro, 2007) and cross-industry reports published by CSR institutions and rating agencies (e.g., KPMG, Business&Human Rights Research Center or AccountAbility, Global Reporting Initiative). CS-based sectors were identified based on their association with a wide range of CS issues, such as environmental impacts, product liability issues, community development and transparency, and so on.
- 2) Identification of cases having received third-party acknowledgements as outstanding cases of CSR and sustainability implementation.
- 3) Selection of the case presenting the following characteristics:
 - a. Information richness in term of depth and scope of commitment to CS in the following areas:
 - i. Governance and stakeholder engagement
 - ii. People
 - iii. Environment
 - iv. Territory and local communities
 - v. Customers and suppliers
 - vi. Technological innovation for sustainability
 - vii. Climate change
 - b. Clearly identifiable stages in sustainability implementation. This in order to both provide the opportunity to investigate threats of various intensity to established ways of doing and allow for comparison across different experiences even in the same empirical setting, thus improving generalizability of observed results.

- c. Presence of both ended and on-going change processes. This in order not to rely exclusively on retrospective question-and-answers but also on direct observation of changing processes during their course of action.
- d. Possibility to control for external, potentially confounding, driving factors, such as shocks, scandals, boycotts, and so on.
- e. Ease of access to primary and secondary information.

Given the conditions above, the process has resulted in the purposeful selection of Eni Spa – the largest Italian company in the Oil&Gas industry. The reasons justifying the selection of both the Oil&Gas industry as an ideal context for inquiry and Eni Spa as the extreme case for empirical investigations are detailed below.

4.3.1 Social responsibility and sustainability in the oil & gas industry

Global trends in the oil & gas industry. The Oil Industry is dominated by a few large vertically integrated companies sharing many features. In fact, most of them are large, integrated multinationals with comparable strategic capabilities, and they possess production and distribution operations throughout North America, Europe, and the Middle East. Overall, the industry shares a high degree of globalization, with mainly undifferentiated products (Levy & Kolk, 2002).

A shift from diversification to focus strategies characterized the industry by the late nineteen eighties. In this context, the industry suffered subsequent waves of restructuring, in which a strong focus on shareholder value pushed companies toward share repurchase and the construction of lean, low cost operations in order to increase the return on capital (Grant & Cibin, 1996). The shift of direction from growth to operational efficiency led to a reduction of management layers and divisions, and a move from geographical to product-based divisions, usually defined as upstream, downstream and chemicals. Vertical deintegration was accompanied by decentralization as companies sought more flexibility in adjusting to volatile market conditions. Management increasingly saw companies as asset portfolios to be actively managed and displayed willingness to trade within core business areas. Shell was the first to allow refineries to purchase oil outside the group, and all

companies established oil trade divisions. Downstream operations become profit centers rather than captive markets.

The collapse of oil prices in 1998 triggered a wave of mergers and acquisitions. There was a general recognition that only *megamajors* enjoying economies of scale would have been able to survive, along with smaller specialist players in exploration and production (Levy & Kolk, 2002). As a result of these trends, the companies are all highly internationalized, in terms of their assets, employment and revenues.

However, since the World Commission on Environment and Development Report of 1987 (commonly known as the *Brudtland Commission Report*) was published, corporate managers have been grappling with a further, previously ignored, question. In fact, the Brudtland Commission Report coined the term *sustainable development* and explicitly postulated a positive role for the business corporations in furthering the cause of environmental protection and social cohesion by integrating them with economic performance (Hart, 1995; Sharma & Vredenburg, 1998).

Thus, together with the search for efficiency able to improve the bottom line, companies have started to witness an increasingly pervasive social and environmental conscience. Climate change resulting from the enhanced greenhouse effect is amongst the most important global environmental threats today.

This became evident in 1988, when together with the evidence of thinning of the Earth's ozone layer due to the emissions of so-called greenhouse gases resulting from burning of fossil fuels, the Exxon Valdez oil spill moved public attention to the natural environment risks due to corporate activities (see Table 4.1 for details on International Regulation and Legislation on Climate Change).

Since then an irreversible awareness that the way oil & gas industry behaves may be determinant for the future of our society has definitely emerged.

Despite the presence of a scenario that already incorporates policies aimed at a more efficient energy use compared to the past, the energy world needs are expected to grow by 29% between 2005 and 2020, with an annual growth rate of 1.7%.

Fossil fuels still continue to represent the main energy sources due to availability, flexibility and cost effectiveness. As a result, oil will remain the most frequently used fuel, while natural gas will represent the fossil source with the highest growth. With the

exception of hydroelectricity and biomass, the renewable source is expected to contribute only marginally to the global energy demand in the same period. High costs and low productivity still characterize renewable technologies.

Table 4.1 – *International legislation and regulation on climate change*

2005	The Kyoto Protocol came into effect in early 2005, and over 165 countries have now ratified the protocol, with the notable exceptions of the USA and Australia
	The European Union Emissions Trading Scheme (EU ETS) was launched in early 2005, and created an EU-wide market for emissions trading linked to the Kyoto Protocol
	The so-called Linking Directive was introduced in the EU in 2005 to link the EU ETS to the Kyoto Protocol and allow credits generated under the protocol to be used in the EU
	In mid-2005 six major countries signed the Asia-Pacific Partnership on Climate Change, an initiative aimed at deploying technology to constrain and reduce greenhouse emissions
2003	The global greenhouse gas emissions trading market increased from almost zero in 2003 to approximately 18 billion Euros by 2006, according to data from PointCarbon
	In the USA, the states of California and a group of nine states on the Eastern Seaboard (The Regional Greenhouse Gas Initiative) have been introducing regulations on greenhouse gas emissions, and similar regulations have been proposed by state governments in Australia

The complexity of balancing the need for eco-efficiency and sustainability with a growing energy demand is made even higher due to trends in the offer. In fact, international oil & gas companies are subject to growing competitive pressures both from national oil companies, which win more space in all business segments, and also from midstream and downstream operators, which show increasing tendency to upstream integration in order to win spaces in the market.

In this scenario, the oil & gas sector is witnessing important, concurrent challenges:

- Innovation in the approach to partnering between oil companies and producing countries, towards the attainment of a shared understanding of each other needs and challenges to be faced. Partnerships are becoming crucial in allowing both the development of the core businesses and the social and economic development of the host countries.
- Greater availability of hydrocarbons on the market in order to satisfy a growing energy demand. This represents an incentive to both innovating in exploration

- stage and developing non-conventional hydrocarbons. As a result, skills development and innovation are becoming key to success in the competitive arena.
- Higher security in the supplies of natural gas. The expected growth in the gas demand requires considerable development of infrastructures (e.g., regasification terminals, new gas importation and interconnection pipelines, the enlargement of the storage capacity) and the consolidation of partnerships with the countries having gas reserves.
 - Mitigation and control of the impact on the environment, especially reducing greenhouse gas emissions to counter climate change with measures improving energy efficiency, promoting the use of renewable sources on a larger scale and developing Carbon Capture and Storage projects to reduce gas flaring².

Sustainable responses to a changed context. Given the trends described above, how have the players in the sector been answering to such new challenges? As a whole and paralleling the progressive awareness spreading about issues related to sustainability, corporate responses are converging due to common location in an industry increasingly global. Moving beyond initial perceptions of climate change and ecological problems as a serious business threats, over time companies have become less pessimistic, turning to perceive threats as competitive opportunities.

British Petroleum (BP) is widely considered to be the most responsive company among the oil & gas majors. John Browne's landmark speech in May 1997 was the first public acknowledgement in the industry of a case for precautionary action despite scientific uncertainty. Moreover, BP was the first company to leave the Global Climate Coalition (GCC), the major industry association opposing emission controls. In 1997 BP established a partnership with Environmental Defense to develop an internal carbon trading scheme and joined the Pew Center for Global Climate Change, which advocates for early actions on the issue. Just as an example, in 1998 the company committed to reduce internal emissions by 10% by 2010, even while output was expected to grow 50%. Additionally, BP's acquisition

² Information on industry trends, as described above, represent a summary comparison between provisional analyses by the US Department of Energy, the EU Directorate-General for Energy and Transport, and the data released by oil majors.

of Amoco greatly increased its investment in solar energy, making BP-Solarex the largest photovoltaics company in the world (Levy & Kolk, 2002). BP sought to redefine itself as an energy company and believed that competitive advantage could be secured through a positioning that is “distinctive in the eyes of governments, consumers and regulators” (Reinhardt, 2000). This new profile became explicit with the launch of a new green starburst logo and the slogan “BP = N Beyond Petroleum” in July 2000.

Shell has broadly followed BP’s strategy, though with a lower public profile and a stronger commitment to sustainable development rather than an explicit focus on climate change. Since the Brent Spar case in 1995 followed by the presumed Shell’s complicity with the Nigerian Government in 1998, Shell has gone through a complete transformation: from organizational restructuring to stronger accent on public accountability and open dialogue with critical stakeholders (Mirvis, 2000). An increasingly strong commitment by the senior leadership, together with sustained investments over a considerable period of time, formal practices of stakeholder engagement and cross-fertilization at the different levels of the organizational structure, and specific performance measures beyond the mere bottom line have favored the evolution of Shell’s CS profile from a simply responsive company to a leading player in setting the bases for sustainability (Post et al., 2002b; Wei-Skillern, 2004).

Different from European companies’ approach, U.S.-based ones have aggressively challenged climate change science, stressing the potentially high economic costs of greenhouse gas (GHG) controls and lobbying against mandatory emission controls (Bartsch & Muller, 2000). Exxon Valdez, for example, has taken the firmest stand in the industry against GHG controls. In addition to citing scientific uncertainties and the exclusion of developing countries from emission controls, the company has warned of the potentially negative consequences of Kyoto commitments. Despite such opposition, Exxon advertised its own efforts to promote internal energy efficiency, fuel cell research, and carbon sequestration.

Texaco began to shift position in 1999 toward a more European approach. Its managers acknowledged that the debate was moving beyond science toward policy prescription. Table 4.2 presents a summary of the initial positions of oil majors toward climate change.

Despite this initial variety in oil companies’ responses to issues related to sustainable development, over time there has been a convergence toward more supportive attitudes,

based on the value of cooperation and openness. Institutional and organizational changes have been the main source of this shift toward less defensive behaviors. New international regulations and legislation, public awareness of the social and environmental impacts of business activities, the shift from geographical structure to globally integrated business units, global competition and interdependence and the participation in industry associations and climate change meeting have progressively sensitized companies to each other's actions (Levy & Kolk, 2002). The efficient use of energy, the competitive potential of renewable sources and the need for strengthening the ability to dialogue with stakeholders and local communities in order to promote shared pattern of societal development are the new *zeitgeists*.

Table 4.2 – *Oil majors and climate change: The beginnings*

Company	Public recognition of the climate problem	View on climate science	View on Kyoto Protocol	Membership of Global Climate Coalition	Type of climate measures
BP	May 1997	Precautionary principle	Supported	Left in 1996	Measurement and external monitoring of emissions; Renewable investments especially solar and hydrogen
Exxon Mobil	NA	Uncertain	Ineffective	Stayed until the end	No climate measures; Points at emission reductions in refineries and research expenses
Shell	September 1997	Precautionary principle	Considered to have real policy commitments	Left in April 1998	Measurement and external monitoring of emissions; Renewable investments in solar, wind, biomass and hydrogen
Texaco	February 2000	Need to move beyond "protracted debate on science"	Will not responsibly fulfill its objectives	Left in February 2000	Measurement of emissions; Renewable investments, especially hydrogen

(Source: Kolk & Levy, 2001: 502)

Recent surveys on social and environmental voluntary practices by corporations show the leading role played by oil and gas companies both in reporting on social and

environmental issues and in their awareness about the need to search for new growth pathways. In more details, oil, gas and energy companies are the most extensive social and environmental reporters after financial institutions (KPMG, 2008). Moreover, compared to other industries, oil & gas players are those who report the most on strategic opportunities from climate change and who share the higher awareness of the future risks related to energy consumption (GRI & KPMG, 2007).

In summary, the initial pessimistic tendency to consider climate change and sustainable development as threatening business ongoing operations has progressively moved from waste prevention to the broadening of business portfolio, passing through both a re-envisioning of core competences and the integration of sustainability issues into competitive strategies (Porter & Kramer, 2006; Sharma & Vredenburg, 1998).

Table 4.3 - *Future challenges in the oil & gas sector*

Maintaining the health and integrity of ecosystems through responsible operations, including the prevention of pollution and dealing with the legacies of past pollution
Researching and developing emerging technologies, to help achieve diverse, secure and clean energy supplies
Addressing the risks and opportunities of operating within an uncertain and fragmented global climate regime
Operating responsibly in countries with problematic human rights, fragile rule of law and poor governance records
Improving the social dimension of business in meaningful and measurable ways to broaden the benefits of wealth creation and so help alleviate poverty
Mitigating any negative impact of large-scale infrastructure projects
Liaising with key stakeholders to form lasting partnerships that result in operations with greater transparency and accountability and better use of resources

(Source: IPIECA & OGP, 2006)

Summary. Oil & gas industry was selected as the locus for extreme case search because it is an ideal example of an industry based on nonrenewable inputs, under pressure from its external stakeholders to change its social and environmental practices. The combustion of oil-based fuels accounts for nearly half of the GHG emissions in industrialized countries, yet oil companies control substantial technological, financial and organizational resources that

could be mobilized to address the problem. In other words, it is a context in which not only sustainability concerns matter for firms, but also consolidated, long-lasting practices have been continuously challenged to the attainment of targets for which there were no previous experience (Le Menestrel, van de Hove, & de Bettignies, 2002; Mirvis, 2000; Sharma & Vredenburg, 1998). For these reasons, the opportunity to observe learning processes by which old practices and beliefs are at least partially replaced in favor of renewed ones incorporating social and environmental concerns is high in such a context.

Finally, the global nature of the industry and the similarities among players in terms of external pressures put over them reduce the potential risk of observing context-dependent dynamics. In other words, economic, technological, and contextual characteristics of the companies in the industry make them similar in profile, such that, despite obvious differences, there is a higher chance to generalize observations based on single-case analysis.

4.3.2 ENI - Ente Nazionale Idrocarburi

“It would be naïve to propose Mattei’s style anew and to face the challenges of today the way he did those of the past. The true legacy Mattei has left us is, therefore, the message, the foresight, the ability to face up challenges and even to defeat in an innovative way, the will to make bold choices to build the future. And this message – still present in the genetic heritage of Eni – is worth investing in again to infuse fresh blood into the development of tomorrow”

Paolo Scaroni, Eni CEO (2006)

As anticipated in the introduction to this section (§ 4.3) Eni Spa – Ente Nazionale Idrocarburi Spa is the purposefully selected case study on which I investigated. What follows is an account of why Eni represents an extreme case for the analysis, based on its history and involvement into CSR and sustainability debate.

Eni's way: From foundation to present days³. Since its foundation in 1953 as a National Agency for Hydrocarbons (a public-sector, state-owned body though managed with private-style criteria), Eni (*Ente Nazionale Idrocarburi*) has gone through waves of transformation. Over time the company has kept on growing and getting stronger. Today Eni, which is a private company listed on international markets, is a completely different company: it is much larger, it operates in over 70 countries, it is more integrated and focused on the oil and gas business.

Despite its evolution and growth, Eni is trying to carry on, in a very different international context, the basic principles its founder and first chairman – Enrico Mattei – established. Looking backward to the start, until his death in 1962, Enrico Mattei embodied the company setting the basis for future developments. Everyone recognizes that Eni results throughout years are the fruit of ideas and ambitions that flourished in the early years of the company's history.

The so-called *Eni's Way*, which has modeled its strategic decisions and growth, is still based on three pillars: the view of natural gas industry as a fruitful business and growth opportunity, the cooperative approach to the relationships with producer countries, and an entrepreneurial formula based on innovation and modernity.

Box 4.1 - *Eni's way through years: An historical account*

The Start and the Early Post-War Years

In 1920/30's Italy launches an oil and gas policy with the incorporation of AGIP. Exploration begins in Italy, together with the initiation of foreign expansion in Romania, Albania and Iraq.

Enrico Mattei is appointed Special Administrator to close down Agip. However, after discovery of the Caviaga gas field in the Po Valley, the process to liquidate Agip is halted.

1926	Establishment of AGIP (Azienda Generale Italiana Petroli) – Italian General Oil Company
1929	Discovery of the Fontevivo reservoir (Parma)
1931	Agreement with the Soviet Union for direct supply of crude oil
1934	New drilling technique with rotating drills; Agip can now reach 2,000 meters
1936	Agip enters into the refining and petrochemicals business
1938	Natural gas discovery at Podenzano in the Po Valley
1939	First natural gas pipeline in Italy between Petramala and Florence
1941	The Ente Nazionale Metano, Agip, Salsomaggiore Regie Terme and Surgi merged to become the

³ The historical account is based on the analysis of documents released by Eni and on a number of corporate histories: Clò, A. 2004. *Eni 1953-2003*. Bologna: Editrice Compositori, Colitti, M. 2008. *Eni: Cronache dall'interno di un'azienda*. Milano: Egea, Corduas, C. 2006. *Impresa e cultura: L'utopia dell'Eni*. Milano: Mondadori, Magini, M. 1976. *L'Italia e il petrolio tra storia e cronologia*. Milano: Mondadori, Sapelli, G., & Carnevali, F. 1992. *Uno sviluppo tra politica e strategia: Eni (1953-1985)*. Milano: FrancoAngeli.

	Società Nazionale Metanodotti (Snam) to construct and operate pipelines and to distribute and sell the gas
1942-43	Construction of Snam's first natural gas pipeline, which carried gas from the Salsomaggiore wells to Lodi and Milan
1944	Discovery of the Caviaga field near Milan
1945	Enrico Mattei is appointed Provisional Administrator of Agip
1948	Natural gas field discovered at Ripalta (Cremona)
1949-52	Natural gas is discovered in the Po Valley. Between 1946 – 1950 Italian natural gas production increases from 20 million cubic meters to 305 million and the Italian natural gas transmission network expands from 354 km to 1266 km between 1949 and 1951

The 50s/60s: incorporation of eni and expansion of activities in italy and abroad

The goal is for eni to supply energy to Italy and consequently contribute to the country's industrial development. Agip breaks the monopoly of the major oil companies by introducing a new contractual formula with the producer countries. this formula, which is first applied in egypt and iran, enables the local state authority to share in the profits of oil and gas development.

In this period the first european offshore gas field under the adriatic sea near ravenna is discovered, together with the discovery of the "el borma" field in tunisia, one of the largest reservoirs in africa.

1952	The "six-legged dog" becomes the symbol of Agip
1953	Eni (Ente Nazionale Idrocarburi) is established; Enrico Mattei is the first Chairman
1955	Agreement signed to participate in oil exploration in Egypt
1957	Agreement signed with Iran and the revolutionary "Mattei formula" is launched which involves the producer country in the management of its oil resources
1958	Fuel distribution facilities established in Libya, Ethiopia and Somalia
1959	The first offshore well in Europe is drilled : Agip's "Gela mare 21", offshore Sicily
1960	Agreement signed with the Soviet Union to import oil; new discoveries in Iran and in the Persian Gulf
1961	Discovery of oil in the Gulf of Suez. Work starts on building the Central European oil pipeline (CEL). Eni's first refinery in Africa begins operations in Morocco
1963	Refineries at Sannazzaro de'Burgondi and Gela come on stream. Major oil field found at El Borma, Tunisia.
1964	Together with other oil companies Agip takes part in the search for oil in the North Sea and the Persian Gulf
1965	Agreement reached with Libya for the supply of natural gas. Major oil field found in Nigeria
1967	TAL, the Transalpine Oil Pipeline linking Trieste to the Ingolstadt refinery, comes into operation
1969	Agreement reached with the Soviet Union for the supply of natural gas. The Ekofisk giant-field discovered in the North Sea

The 70s/80s: Gas as a solution to the oil crisis and the Algerian gas pipeline

Eni identifies natural gas as an energy source that can meet the crisis resulting from the first oil embargo.

Agreements are signed to import gas from the Soviet Union and the Netherlands. Using a new "gravity" platform, Agip discovers and then brings into production the "Loango" field in offshore Congo. Agip drills to a record depth of 5,500 meters at the Malossa field (near Milan) and discovers a new reservoir. The first remote controlled platform is installed by Agip in the "Perla" field, offshore Sicily.

Snam inaugurates the Transmediterranean pipeline, transporting gas from the Hassi-R-Mel field in Algeria to the Po Valley. The more than 2,500 km-long gas pipeline starts in the Algerian desert, crosses Tunisia, the Sicilian Channel (at a water depth of over 650 metres) and proceeds through Sicily and up the length of the entire Italian peninsula.

A new record in offshore drilling at sea-depths of over 800 metres is established with the discovery of a new field in the Otranto Channel. Onshore, a new record is achieved with the discovery of the "Villafortuna" reservoir at a depth of 6,000 metres near Novara in Northern Italy. The new SWACS system, using acoustic signals to operate underwater production valves, is put into operation.

1970	Agreement reached with the Netherlands for the supply of natural gas. Gas imports in Italy reach
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	12 billion cubic metres.
1971	Agreements signed for gas pipeline construction to transport natural gas from the USSR and the Netherlands. New Agip technology: floating platforms offshore Congo; first Libyan LNG gas arrives at the Panigaglia regassification terminal.
1973	The oil crisis favours the implementation of a policy based on natural gas as an alternative source to meet Italian energy needs. Agreement reached with Algeria for the supply of natural gas.
1976	First remote-controlled platform in Italy for crude oil production at Perla 1 in the Sicily Channel.
1977	Thanks to the technology used by Agip, the Malossa field near Milan, with a formation pressure of over 1,000 atmospheres, comes into production.
1983	The Transmed starts operations: a 2,200 km long pipeline brings Algerian gas to Italy via Tunisia and across the Sicily Channel.
1984	Agreement with Libya for the exploitation of the Bouri field, the Mediterranean's largest oil field. Oil found in the Villafortuna field, Novara, in Italy.
1985	In Nigeria the gas re-injection plant at Obiafu Obrikom starts operation.
1988	Major oil reservoir discovered in the Val d'Agri, Basilicata, Italy.

The 90s: Eni becomes a joint stock company

From being a public corporation Eni is now transformed into a joint stock company. Most of Eni's Share capital is put on the market in four successive public issues.

Agip's international activities expand with new acquisitions in Algeria, China, Angola, the North Sea and Egypt. Important new agreements are signed with Kazakhstan, Azerbaijan and for the Nigerian and Angolan deep water offshore. The "Aquila" deepwater field (Otranto Channel) is brought into production. Eni incorporates Agip, Thus becoming directly an oil and gas producer. Eni's daily oil and gas production reaches 1 million barrels of oil equivalent.

1992	The law is passed to transform Eni into a joint stock company.
1993	Contracts and agreements signed for oil exploration in Kazakhstan, China and Russia.
1995	First issue of Eni shares on the stock market.
1996	In Egypt the Port Fouad offshore gas field starts production.
1997	Two major agreements signed with Kazakhstan: Karachaganak Project and Caspian Project.
1998	Azerbaijan: exploration, development and production agreement in the Caspian Sea offshore. Thanks to SAF (Sistema Alti Fondali – Deep Seafloor System) the Aquila offshore field in southern Adriatic comes into production. Eni incorporates Agip thus stressing its core business (oil and gas exploration and production). Following the fourth public issue on the world's leading stock markets, a majority of the company's shares are now held by private investors.
1999	Eni-Gazprom agreement for the Blue Stream Project: this is a gas pipeline which will link the Russian coast on the Black Sea to Turkey and involves laying gasline beneath the Black Sea at water depths of up to 2,100 meters

The new millennium: An energy company

Eni's main strategic objectives for the coming years are:

- Growth in core business
- Continue the integration of core activities
- Focus on operating efficiency
- Full integration of sustainability issues into daily operations
- Developing proprietary technologies to support Eni's growth process
- Maximize return for shareholders

2000	British Borneo acquisition. Agreements for the development of oil and gas fields in Iran
2001	Lasmo acquisition: Lasmo's daily production in 2001 (201,000 boe) up 6% on 2000. This operation strengthens Eni's position in key areas, such as North Sea and North Africa, and also establishes a significant presence in Asian Market and Venezuela. Kazakhstan. Eni is named sole operator of the North Caspian Sea project in the Kazakh Offshore
2002	February 1, 2002: Eni absorbs Snam. The new Gas & Power division manages gas and power activities in Italy and abroad.

2003	January 1st: AgipPetroli is merged into Eni. The new Refining and Marketing Division will manage refining and marketing activities in Italy and abroad.
	On the 27th of January, the public offer for all the ordinary shares of Italgas SpA, Eni already owned 44% of the share capital, was concluded positively. The transaction, approved by the Board of Directors on November 25th and launched on December 16th, 2002, gives Eni to 100% control of the company. Italgas, with 7 million customers and 2001 gas sales of approximately 12 billion cubic meters, is one of the largest retail distributors in Europe.
2004	February: Eni starts again upstream activities in Saudi Arabia where it had operated in the early 1970s.
	February: the development plan of Kashagan, the giant field in the Kazakh offshore of Caspian Sea, was approved. Production plateau is targeted at 1.2 million bbl/d with a planned expenditure of US dollar 29 billion (5.4 billion being Eni's share).
	October: Start up of the Western Libyan Gas Project, the first major project to valorize the gas produced in Libya through export and marketing in Europe.
	December: the Damietta LNG (Liquefied Natural Gas) plant, constructed by Union Fenosa Gas (Eni's interest 50%), started production for the Egyptian natural gas export and sale.
2005	August: one year after the start-up of the Wafa onshore field, the first well in the offshore Bahr Essalam gas field came onstream within the integrated Western Libyan Gas project.
	August and September: Eni acquired the exploration license for 104 blocks onshore and offshore Northern Alaska for a total acreage of 1,718 square kilometers and the exploration license for two blocks located onshore and offshore India for a total acreage of 14,445 square kilometers.
2006	Eni publishes its first sustainability report. It's the first formal public commitment to sustainable development
	February: Eni defines the sale of Snamprogetti to Saipem. The integration of Saipem and Snamprogetti will create a world leader in engineering and oilfield services constructions, both onshore and offshore.
	June: Eni and its partners signed a framework agreement for doubling the capacity of the Damietta liquefaction plant in Egypt by means of the construction of a second train with a treatment capacity of 7.6 bcm/y of gas equal to approximately 5 mntonnes/y of LNG.
	June: Eni agreed with the Turkish company çalik Enerji a project for the construction of an oil pipeline linking the Turkish coast of the Black Sea at Samsun with the Ceyhan commercial hub on the Mediterranean coast.
	14 November: Eni and Gazprom signed in Moscow an agreement that sets up an international alliance enabling the two companies to launch joint projects in the mid and downstream gas, in the upstream and in technological cooperation.
2007	Eni is listed in the FTSE4Good index and DowJones Sustainability Index (DJSI)
	April: as part of the liquidation procedure of bankrupt Russian company Yukos, Eni purchased a 60% interest in OAO Arctic Gas Co, ZAO Urengoil Inc and OAO Neftegaztehnologia which are engaged in the development of hydrocarbon reserves, mainly consisting of natural gas reserves. Eni also acquired 20% of OAO Gazprom Neft.
	April: Eni acquired an additional interest in the Nikaitchuq field in Alaska, thus achieving a 100% interest. Production start-up is expected by end of 2009.
	May: Eni finalized the purchase of proved and unproved oil and gas properties onshore Congo from the French company Maurel & Prom for cash consideration of U.S. \$1,434 million (equivalent to approximately euro 1 billion). Acquired properties brought in an incremental production of 17,000 BOE/d.
	June: a gas sale agreement was signed between the consortium conducting operations at the Karachaganak field and KazRosGaz, a joint venture established by the Kazakh and Russian companies KazMunaiGaz and Gazprom. This agreement lays the foundations for the development of field gas reserves.
	Eni signed a framework agreement with Gazprom to build the South Stream pipeline system which is expected to import into Europe volumes of natural gas produced in Russia across the Black Sea. Eni acquired a 27.8% interest in Altergaz, the main independent operator in the French gas market.

	<p>July: Eni closed the acquisition of oil and gas properties from U.S. Company Dominion Resources in the Gulf of Mexico for total cash consideration of U.S. \$4,757 million (equivalent to euro 3.5 billion).</p> <p>October: Eni signed a major agreement with NOC, the Libyan National Oil Corporation. The agreement provides for the extension of the duration of Eni's mineral rights in Libya, for oil properties until 2042 and for gas properties until 2047, and the launch of large projects aiming at monetizing substantial gas reserves and overhauling offshore exploration activities.</p> <p>November: Eni announced the terms of a recommended cash offer to acquire the entire issued share capital of the UK-based oil company Burren Energy Plc. This acquisition closed in January 2008.</p>
2008	<p>January: the international partners of the North Caspian Sea Production Sharing Agreement (NCSPSA) Consortium and the Kazakh authorities signed a Memorandum of understanding to settle a dispute commenced in August 2007 regarding conditions and rights for developing and exploiting the Kashagan field.</p> <p>February: Eni and the Venezuelan authorities reached a final settlement over the dispute regarding the expropriation of the Dación field that occurred in April 2006. Under the terms of the settlement, Eni will receive cash compensation in line with the carrying value of the expropriated asset.</p> <p>Eni and the Venezuelan State oil company PDVSA signed a strategic agreement for the development of the Junin Block 5 located in the Orinoco oil belt. According to management's estimates, this block covering a gross acreage of 670 square kilometers holds an important resource potential.</p>

Source: Elaboration on Eni's history (http://www.eni.it/it_IT/azienda/storia/la-nostra-storia.page)

The start of natural gas industry in Italy: Despite the opposition of Italian government and the lack of reference models in other oil companies who considered the discovery of natural gas a piece of bad luck, Mattei decided to launch a process of *gasification*, which made Italy a first mover in the industry, at least a decade ahead of the rest of Europe. The availability of low cost energy became a catalyst for development in the early post-war years, supporting the economic miracle that made Italy one of the Europe's fastest growing companies between 1957 and 1962.

“A strategy [*natural gas strategy*, a.e.] which the large oil companies used to loathe and almost made fun about in those times. They preferred to burn it in the atmosphere, or walk away from fields where they found it, because it was too expensive. Spending money this way was, in their opinion, a real waste: something only State utilities could afford to do. Half a century later, everyone considers natural gas the *energy source of the future*, with most of the advanced countries reconverting their energy balances towards it” (Clò, 2006: 52).

Though the weight of midstream and downstream gas assets in Eni's operating profits has decreased over time, early year experience has fostered the development of a corporate ability to transfer domestic achievements both to the global scale, through offering large-

scale integrated projects to countries which have hydrocarbon reserves but not the necessary resources for developing their industry, and in new, high-potential markets which lack the required infrastructure.

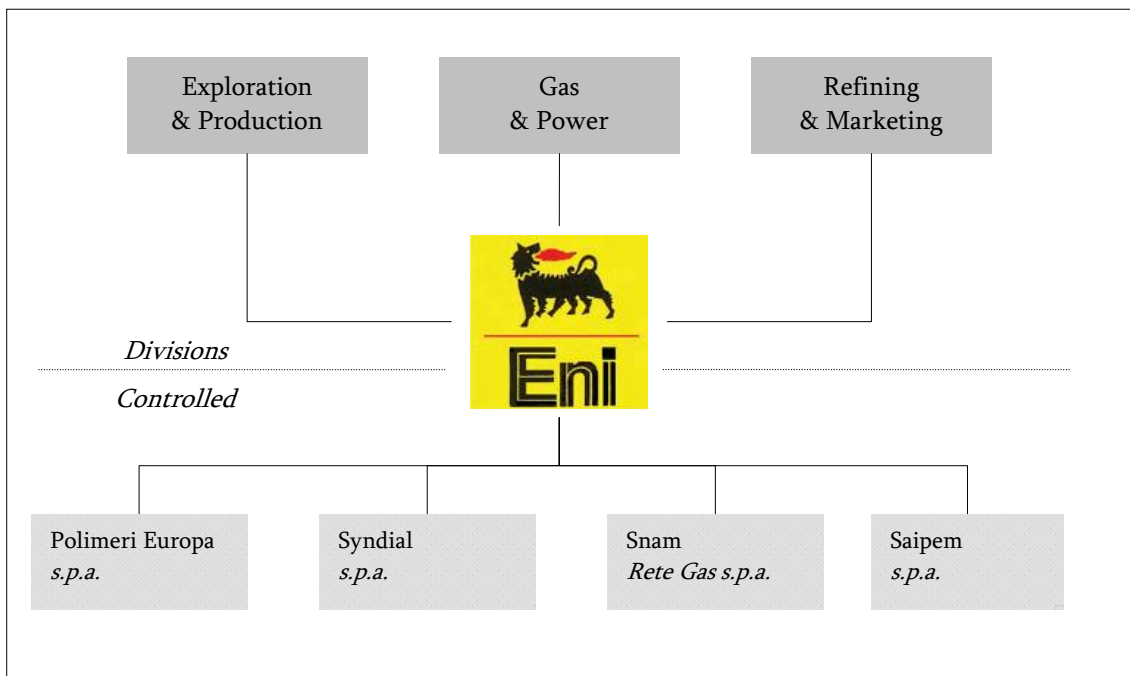
The cooperative relationships with producer countries: at foundation, Italy had only a marginal role on the world scene dominated by the “Seven Sisters” – seven Anglo-American oil companies which had a de facto monopoly of the crude oil supply to Western Europe. To find out a place in such an oligopoly, Mattei proposed a new system of contractual relationships with oil producing countries, which guaranteed the latter both a large portion of profits from oil production and a stronger involvement in managing oil production and sales. Such cooperative approach, based on a balance between access to hydrocarbon resources and producer countries’ industrial development, allowed Eni to realize large integrated projects in the oil and gas industry, gaining reputation as a different company. In 1962, upon Mattei’s death, Eni produced less than 160,000 boe per day of hydrocarbons, of which 120,000 were Italian natural gas. Early in 2006, Eni produced over 1.8 millions barrels a day in over 20 countries, based on solid, long-lasting relationships with producing areas presenting the highest development potential in the world.

The entrepreneurial formula: different from mainstream approach at that time, Mattei designed the entrepreneurial formula around modernity, innovation, and path-breaking orientation. Such approach embodied every facet of the company’s life. For example, Mattei designed the organizational structure in accordance with the most up-to-date tenets of organizational approach developed in EU. In assembling his team, Mattei looked for the brightest minds of the time, stressing the competitive importance of skills and technical know-how. He devoted a great deal of attention to the specialized training of the staff and, in 1957, founded the School for Higher Studies on Hydrocarbons (Scuola Superiore per gli Idrocarburi).

To give form to his vision, Mattei looks to the resource he knows best, that he knows how to use: he bets on people, the only energy source – ho would often say – that he knows with certainty that Italy is very rich in (Lomartire, 2006: 36)

To summarize, in over fifty years of history, Eni has greatly changed paralleling the changes in the competitive, geo-political and business context. In Mattei's time it was a state-owned company, financed by the government; now it is one of the largest oil companies in the world⁴, listed in the stock exchanges in Milan and New York. Table 4.4 presents Eni's selected consolidate financial data between 1998 and 2007. Eni currently operates in the oil and gas, power generation, petrochemical, oilfield services construction and engineering industries. In all these businesses it has a strong edge and leading international market position. Figure 4.1 presents Eni's structure, in terms of divisions and controlled companies.

Figure 4.1 – *Eni's structure*



Source: www.eni.it

As shown in Figure 4.1, Eni's activities are mainly performed through three divisions:

1. Exploration & Production (E&P): Eni operates in the exploration and production of hydrocarbons in Italy, North Africa, West Africa, the North Sea, the Gulf of Mexico and Australia. It also operate in areas with great exploration and production potential such as the Caspian Sea, the Middle and Far East, India and Alaska. In 2007

⁴ Eni is included in the Top 10 privately held integrated oil & gas companies, as indicated by the Petroleum Intelligence Weekly 2007 ranking of global oil companies together with Exxon Mobile Corporation, Oao Lukoil, BP, Chevron Corporation, Petrôleo Brasileiro, Royal Dutch Shell, Total, Conoco Phillips, Oao Surgutneftgas.

oil and natural gas production averaged 1,736 mmbbl/d, while net proven reserves at December 31, 2007 stood at 6.37 bboe. E&P activities are mainly carried on based on the quality of Eni's assets, the long-term partnerships with producer countries and a robust investment portfolio, rich in opportunities and ongoing projects.

Table 4.4 – *Eni's selected consolidated financial data*

(million €)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net sales from operations	28.341	31.008	47.938	49.272	47.922	51.487	57.545	73.728	86.105	87.256
operatine profit	3.810	5.480	10.772	10.313	8.502	9.517	12.399	16.827	19.327	18.868
<i>Exploration & Production</i>	<i>594</i>	<i>2.834</i>	<i>6.603</i>	<i>5.984</i>	<i>5.175</i>	<i>5.746</i>	<i>8.185</i>	<i>12.592</i>	<i>15.580</i>	<i>13.788</i>
<i>Gas & Power</i>	<i>2.513</i>	<i>2.580</i>	<i>3.178</i>	<i>3.672</i>	<i>3.244</i>	<i>3.627</i>	<i>3.428</i>	<i>3.321</i>	<i>3.802</i>	<i>4.127</i>
<i>Refining & Marketing</i>	<i>730</i>	<i>478</i>	<i>986</i>	<i>985</i>	<i>321</i>	<i>583</i>	<i>1.080</i>	<i>1.857</i>	<i>319</i>	<i>729</i>
<i>Petrochemical</i>		<i>-362</i>	<i>4</i>	<i>-415</i>	<i>-126</i>	<i>-176</i>	<i>320</i>	<i>202</i>	<i>172</i>	<i>74</i>
<i>Engineering & Construction</i>	<i>198</i>	<i>149</i>	<i>144</i>	<i>255</i>	<i>298</i>	<i>311</i>	<i>203</i>	<i>307</i>	<i>505</i>	<i>837</i>
<i>Others</i>					<i>-214</i>	<i>-293</i>	<i>-395</i>	<i>-934</i>	<i>-622</i>	<i>-444</i>
Adjusted operating profit				10.482	8.959	9.958	12.582	17.558	20.490	18.986
Net profit	2.328	2.857	5.771	7.751	4.593	5.585	7.059	8.788	9.217	10.011
Adjusted net profit				5.757	4.923	5.096	6.645	9.251	10.412	9.470
Cash flow from operations	6.864	8.248	10.583	8.084	10.578	10.827	12.500	14.936	17.001	15.517
Fixed assets	5.589	5.597	9.815	11.270	9.414	13.057	7.815	7.560	7.928	20.502
Shareholders' equity										
including minority interests	17.390	19.749	24.073	29.189	28.351	28.318	35.540	39.217	41.199	42.867
Net borrowings	7.070	6.267	7.742	10.104	11.141	13.543	10.443	10.475	6.767	16.327
Net capital employed	24.460	26.016	31.815	39.293	39.492	41.861	45.983	49.692	47.966	59.194
<i>Exploration & Production</i>	<i>6.862</i>	<i>9.279</i>	<i>12.646</i>	<i>18.252</i>	<i>17.318</i>	<i>17.340</i>	<i>17.937</i>	<i>20.206</i>	<i>18.590</i>	<i>24.643</i>
<i>Gas & Power</i>	<i>8.289</i>	<i>8.481</i>	<i>10.721</i>	<i>12.777</i>	<i>12.488</i>	<i>15.617</i>	<i>18.387</i>	<i>18.978</i>	<i>18.906</i>	<i>20.516</i>
<i>Refining & Marketing</i>	<i>4.186</i>	<i>4.028</i>	<i>4.563</i>	<i>4.476</i>	<i>5.093</i>	<i>5.089</i>	<i>5.081</i>	<i>5.993</i>	<i>5.631</i>	<i>7.675</i>
<i>Petrochemical</i>	<i>2.956</i>	<i>2.604</i>	<i>2.581</i>	<i>1.075</i>	<i>2.130</i>	<i>1.821</i>	<i>2.076</i>	<i>2.018</i>	<i>1.953</i>	<i>2.228</i>
<i>Engineering & Construction</i>	<i>392</i>	<i>1.103</i>	<i>1.395</i>	<i>1.635</i>	<i>2.335</i>	<i>2.119</i>	<i>2.403</i>	<i>2.844</i>	<i>3.399</i>	<i>4.313</i>
Return on Average Capital Employed (ROACE %)										
Reported	10,7	12,5	21,5	23,9	13,7	15,6	16,6	19,5	20,3	20,5
Adjusted	15,9	20,5	22,7	19,3						
Leverage	0,41	0,32	0,32	0,35	0,39	0,48	0,29	0,27	0,16	0,38
Market capitalization										
EUR (bl)	44,8	43,5	54	54	57,5	56,4	69,4	87,3	93,8	91,6
USD (bl)	52,5	44	50,7	48,1	60,4	71,1	94,9	104	117,8	264,9

Source: Eni Fact Book, 2007

- Gas & Power (G&P): Eni operates in the supply, transport, distribution and sale of natural gas, with an integrated business model. In this field, Eni is the first player in the European market in term of sales. Such result is based above all on the partnering ability with producer countries, the wide consumer base and a long lasting experience in the field. In 2007, natural gas sales were up to 99 bcm. In Italy,

EniPower produces electric energy in the power stations at Ferrera Erbognone, Ravenna, Livorno, Taranto, Mantova, Brindisi and Ferrara. In 2007, electricity production sold was 33.19 terawatt-hour.

3. Refining & Marketing (R&M): Eni is the first operator in the refining business in Italy. In the marketing of refined products with its Agip brand, Eni is market leader in Italy and holds relevant positions in a number of countries in the rest of Europe. In 2007, Eni's sales of refined products totaled 50.15 million tonnes. The processing capacity of Eni's wholly owned refineries was 37.15 million tonnes. The R&M growth plans are based on the adoption of increasingly strict environmental standards and an increase in efficiency.

Other related activities are performed through controlled companies. In particular, Eni operates in offshore and onshore drilling and construction and in the field of engineering services to the oil, refining and petrochemical industries through the controlled *Saipem* and *Snamprogetti*. Through Polimeri Europa, a wholly-owned petrochemical company, Eni manages the production and marketing of petrochemical products such as olefins, aromatics and intermediates, styrene, elastomers and polyethylene.

Sustainability at Eni. The acknowledgement of a social role, beyond mere economic value creation, is a constant in Eni's development throughout waves of restructuring and change. Due to both Eni's origin as a state-owned, public sector organization and the managerial philosophy of its founder, issues such as CSR and the relationship with stakeholders have never been completely at odds with Eni's ways of doing.

He [*Enrico Mattei*, a.e.] was in the habit of repeating that oil is a resource for cooperation, for the well-being of those who have it as a gift from nature and those who use it for the strength of their industry. He believed in industrial development and in economic growth, which he considered tools to rescue people from poverty and social inferiority. He was aware that Italian industry had to rejuvenate its culture, getting out of the confines of the *industrial triangle*, to enhance the role of workers, to create wealth and distribute it in a system of social solidarity (Valgimigli, 2006: 136).

In line with this approach, Eni launched the first Employee's social fund in 1970 and entered in the renewable energy sector between 1978 and 1986, together with the launch of energy saving operating programs.

However, the first effort in formalizing a so far mainly implicit sense of responsibility toward society beyond legal requirements and economic responsibility was made in 1994. Eni is the first European large company to adopt a code of conduct. Over time it has been constantly updated, until it turned into ethics code.

In 1996 Eni started to publish a Health, Safety and Environment (HSE) Report, though with internal aims, that is, to keep trace of activities addressed toward employees' health and safety and environmental protection.

In 2001 Eni has adhered to the Global Compact initiative, formally starting its path to sustainability.

In 2002, for the first time, a Corporate Social Responsibility Unit is created, together with the creation of a HSE Corporate Office and the plan for a HSE management model. The main rationale was to make HSE more integrated into daily operations at the plant levels and facilitate information flows.

In 2003 the integrated HSE system is implemented, strengthening the operating role of the organizational units devoted to HSE management at the different levels: from divisions to plants. In 2003, Eni also voluntarily sign the Kyoto Protocol for the use of flexible mechanisms, and starts release division-based HSE reports.

In 2004, paralleling the formal launch of the Kyoto Protocol, Eni autonomously develops an internal procedure for greenhouse gas accountability.

In 2005 former CEO – Vittorio Mincato - is replaced by Paolo Scaroni. His firm belief in the need for extending Eni's engagement into social responsibility and sustainability, determines a first gradual then radical renewal in Eni's approach to CS. In 2005, HSE activities start to be extended to the whole supply chain. Moreover, the Global Reporting Initiative standard is adopted to guide the release of HSE information through the reports. Moreover, a sense of urgency for the need to explicitly address stakeholder requests starts to become relevant.

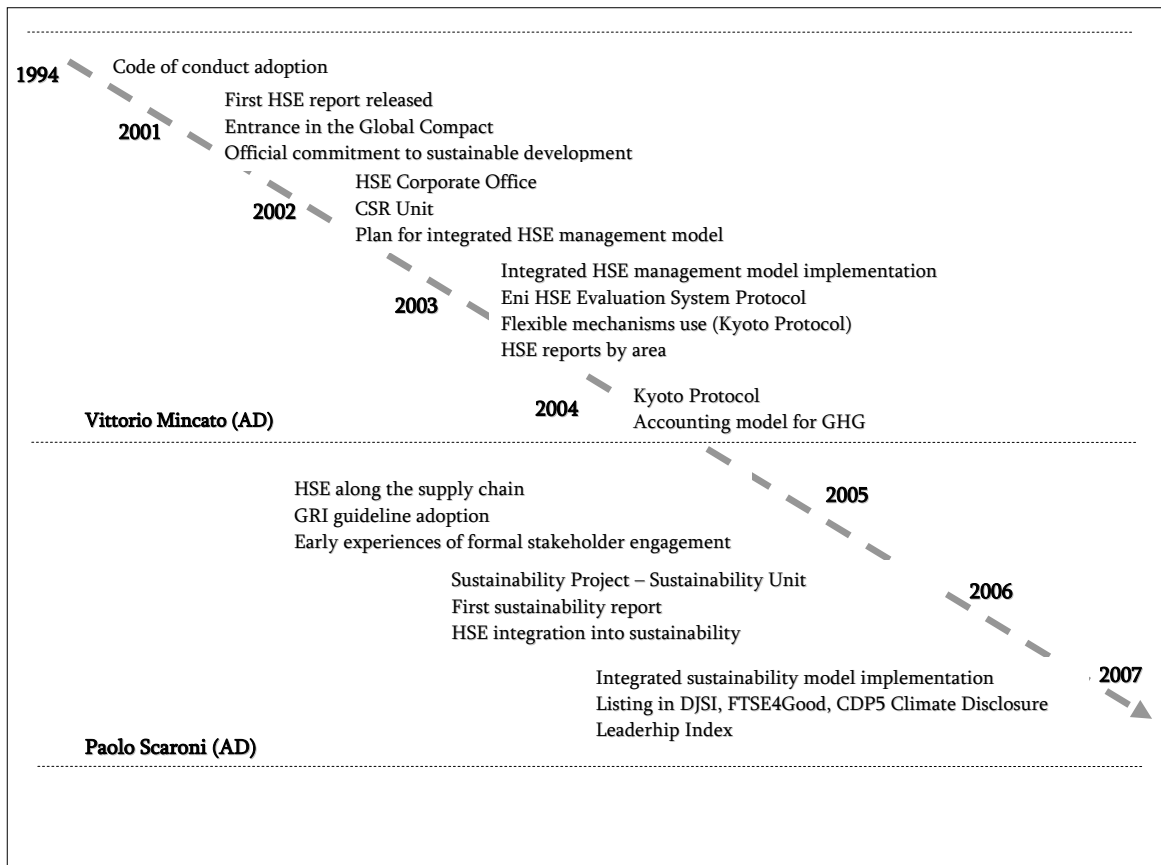
In 2006, the CSR Unit within the Communication and Public Affair Corporate Direction is replaced with the Sustainability Unit, extending the attention well beyond HSE issues.

Moreover, for the first time, HSE reports are replaced with Sustainability Reports, accounting on a broader and deeper set of CSR and sustainability-related issues, toward a broader set of stakeholders. Finally, in 2006 a new model aimed at integrating sustainability across all divisions and hierarchical levels starts to be planned.

In 2007, the implementation of the integrated sustainability model is brought to an end, and Eni officially enters in the DowJones Sustainability Index and in the FTSE4Good Index, which have come to represent for the market important instruments for assessing the overall performance of the companies listed on the stock exchange. These indices are increasingly being used as a reference by operators of the international pension funds and by ethical investment funds.

Figure 4.2 summarizes Eni's path to sustainability.

Figure 4.2 – *Eni's path to sustainability*



Summary: To conclude, Eni's represents an ideal case to analyze learning dynamics underlying the decision to shift to new managerial models based on the systematic integration of CSR and sustainability into daily operations. Eni is the largest Italian company in the Oil & Gas sector and has received third-party acknowledgements as an outstanding case of CSR integration. It is the first Italian firm and the third at the global level in 2007 according to AccountAbility rating⁵. Moreover, in 2001 Eni received another important recognition by the financial community regarding CSR. In fact, the European Investment Agency (EIA) awarded Eni the best ethical rating (with an EEE-) among the companies listed on the Mib30. Additionally, in 2004, Eni obtained, for the third consecutive year, the highest ethical rating among the companies listed on the Italian Stock Exchange, in spite of its commitment to a number of ethical principles set by the United Nations, OECD, ILO and the European Union in the ranking drawn up by the European Investment Agency.

In 2003, the rating agency Oekom Research, based on a survey conducted on social and environmental sustainability in the oil and gas industry, indicated Eni among the most active companies in putting into practice their commitment for sustainable growth models.

Moreover Eni has gone through subsequent waves of change toward an integrative model of sustainability management. For this reason it is an extremely information-rich case in term of depth and scope of commitment to CSR and sustainability, thus improving the likelihood of observing different subsequent and concurrent learning dynamics. In other words, Eni has implemented a number of different CS-related practices (from information systems to integrated management systems), thus providing the opportunity to investigate threats of various intensity to established ways of doing.

Finally, Eni's evolution has not been punctuated by crisis and scandals in stakeholder dialogue, as for other companies in the industry (e.g. Royal Dutch Shell or Exxon Valdez). This allowed us to isolate better internal dynamics, leading learning paths.

⁵ AccountAbility Rating measures the extent to which firms have been able to take into account both the impact of their business operations on their social and environmental context and the needs and requests from stakeholders.

4.4 Methods

4.4.1 Data collection

Data collection was designed to allow us to gather information for the purpose of developing a theoretical framework on the learning dynamics underlying the shift to an integrated model of sustainability management, that is, the learning foundation of the shift to a proactive CS posture, not to test hypotheses. Accordingly we followed the procedure as detailed below:

Phase 1 – Orientation and overview: in order to build a preliminary knowledge base concerning CS issues in the selected industry and related case, archival data were collected from publicly available sources (e.g., press and analyst coverage), including official company communication tools (e.g., annual reports, HSE reports, sustainability reports and all the other documents available from Eni corporate website), corporate histories (see footnote 3) and web-search for debates and external evaluation concerning companies' activities.

Secondary data collection conducted concurrently to gaining entry into Eni by contacting people in charge of sustainability issues to solicit participation. Once obtained, an initial interview was conducted with the Director of the Sustainability Unit and with one of the managers who run the operations of the unit. These were intended to clarify the project and discuss the research logistics. After having obtained company availability to participate in the study and having signed a confidentiality agreement, a fact-finding visit was conducted with the aim to collect general information about firm-level characteristics, such as its origin, strategic posture, organizational structure, governance and leadership style, key change events, ongoing and still to be implemented CS initiative. The fact finding visit was addressed toward narrowing down empirical focus, and identify a within-the-company setting in which procedural changes were likely to be observable. A structured protocol was defined to guide such preliminary data collection stage.

After these interviews were completed, the researcher participated in a series of briefings to validate procedures and identified processes.

Phase II – Focused exploration: After identifying specific processes through which observe routine-based changes, semi-structured retrospective interviews were scheduled on how processes had changed and were changing in the shift to the integrated sustainability management model. Informants were selected moving from purposeful to theoretical sampling logic (Locke, 2001). First, people who could provide rich and insightful information on the overall evolution in the company (e.g. managers with direct responsibility for CSR and sustainability related-issues) were selected moving from Corporate Offices to Divisions to plants. Several of those interviewed became regular informants with whom the researcher was able to follow up informally, filling in gaps in data, and checking discrepancies arising from multiple sources.

Then, informants were selected theoretically on the basis of specific emerging issues and areas affected by ongoing changes (e.g. managers with direct responsibility on strategy setting, marketing strategy, HR, finance, and organizational members involved in performing CSR-influenced activities). In this way, the top-down macro view was complemented with a bottom-up one, more addressed toward specific processes and routines. The interview protocol was developed according to the research questions identified above and centered around a description of the procedures followed in operating specific processes, the actual changes in performance occurred because of the integrated sustainability management model, the drivers of those changes and the perceived nature of those changes. Moreover, when discrepancies were highlighted between old and new ways of operating, the difficulties in reconciling old and new practices and the factors perceived as having constrained/facilitated change were asked.

Informants were introduced to the topic under investigation by the interviewer. Ethical issues were made explicit at the beginning, in order to make the interviewee feel comfortable. In particular, the informants were given the opportunity to ask questions regarding the study's purposes and were assured that their individual responses were entirely confidential. They were also informed that they could refuse to answer any question during the interview. Interviews were tape recorded only with the permission of the subject; the informants were given the opportunity for the tape recorder to be turned off at any time during the interview. Whenever tape recording was not permitted, detailed field notes were taken.

Phase III – Member checks: In addition to interviews, supplemental data, documents and member checks were used. Specifically, archival data was collected in the form of newsletter, internal communication tools, handbooks, third-party reports and videos produced by the companies and available on their intranet. This information was collected to enable additional insight into the analyzed processes, to triangulate the information gathered from the informants and to validate our interpretations of the interview data.

4.4.2 Data analysis

The data analysis was carried out in two main stages. The first stage was a pre-analysis following a narrative account (Eisenhardt & Bourgeois, 1988; Langley, 1999), aimed at establishing a chronology of key events and facts that have shaped the steps thought the implementation of the integrated sustainability management model and attain a sense of the competitive, organizational and cultural context in which the learning processes could have took place. Archival materials, corporate histories, and reports allowed me to trace such evolution. I confirmed that my understanding of the events was correct by checking the reports corporate offices' managers who could provide broader views. This pre-analysis phase was particularly important to provide an answer to the first research question centred on the evolution of corporate approach to CS over time in term of events related to the introduction of stable changes and the reasons underlying change objectives. To this end, I used press releases by the company and other external sources for triangulation.

Once I had identified the macro process of development, I went into the organizational details of the shift, in order to identify routine-based changes and related drivers. Internal documents and interviews with relevant informants allowed me to reconstruct the extent to which changes in formal procedures, roles and responsibilities were mirrored by changes in understandings, as well as the drivers hindering and facilitating alignment between actual performances and underlying understandings. In this stage, I read my field notes, interview transcripts, and relevant documents for recurring themes, developing a general sense of emergent information and start with a coding process in an iterative fashion by travelling back and forth between data and emerging theoretical categories. First-order codes were

generated using “in-vivo coding”, by identifying statements regarding my informants’ perceptions about the implications of changes in the managerial structure for sustainability on their role within the company, as well as about the processes and related drivers by which new ways of doing old work were implemented. As first-order codes become consolidated across interviews, I started aggregating them and moving from open to axial coding.

Theory was created iteratively from observation and data, but also comparing emerging ideas with archival data and existing literature in order to validate findings and inform interpretations.

4.5 Findings

Empirical findings from documental analysis and interviews with Eni’ informants are presented in this section. They are organized around the two research questions. Accordingly, first the evolution of Eni’s sustainability portrait is presented, with an accent on the evolving content associated to the company’s interpretation of what responsibility and sustainability are. Second, shifting the focus from content to organizational processes, the routine-based learning dynamics of each sustainability portrait are presented. Finally the drivers leading to the shift from one stage to the other are analyzed.

4.5.1 Eni’s path to sustainability integration: An evolving portrait

Ideally, Eni’s path to sustainability can be divided in three periods, characterized by different sustainability postures, that is, key disposition behavior of the organization with respect to the expectations, demands or criticisms of others (Carroll, 1979; Epstein, 1987). The first one – from 1995 to 2002 – is characterized by a sustainability portrait almost exclusively linked to internal compliance in those areas where the impact of business activities was more evident and measurable. The second period – from 2003 to 2005 – corresponds to awareness rising on the opportunity for external acknowledgement regarding commitment to sustainability-related activities. Though sustainability posture still

remained linked to those areas on which business activity exerts the highest impact, the organization shows a stronger attention to recognition from critical stakeholders, based on the empirical maxim that *firms are what they manage and communicate*. Finally, the third period – from 2005 to 2008 – is characterized by a shift to a broader definition of what it means to be responsible, with the progressive integration of sustainability-related issues into all business activities.

The broadening and deepening of sustainability portrait clearly emerge at different levels, the most evident ones being the typology of social and environmental reports released by the company, their related structure, and the functions associated to them. In fact, from 1995 to 2005 formal and systematic information sharing with stakeholders on those areas beyond economic and financial ones was limited to the annual release of environmental reports first (until 1996), health, safety and environment reports (HSE reports) then. Such reports were characterized by an almost exclusive focus on the environmental management aspects of business operations and on the way companies managed to control and reduce risks associated to employees' health and safety at work. For these reasons, environment, human resource and marginally local community were the sole stakeholder categories addressed in depicting company responsibility portrait. On the contrary, from 2006 to 2007 HSE reports were completely integrated into sustainability reports, characterized by a more comprehensive description of the company engagement with stakeholders beyond those areas in which impacts are more evident (i.e., environment and employees). In other words, the traditional HSE reports were progressively extended, with Eni's covering now the following CSR-related themes: corporate governance and stakeholder engagement; people; environment; territories and local communities; customers and suppliers; technological innovation for sustainability; climate change.

Such change in the typology of report published and released has been paralleled with an evolution in the structure of the reports themselves and functions associated to them. Figure 4.3 compares the structure of the reports released at the beginning, just before the shift to sustainability and the most recent one.

Figure 4.3 *Reporting structure in shift*

HSE Report 1995	HSE Report 2005	Sustainability Report 2007
Eni at a glance	HSE at a glance	Operational activities and commitments for sustainability
Guidelines for HSE and public safety	HSE governance	Eni and the future of energy
Health	Model of environmental sustainability	The model of sustainability
Safety in the workplace	HSE policies	Governance of sustainability
Environment	Commitments, achievements and goals	The relations with stakeholders
	HSE governance and management systems	The system of corporate governance and corporate ethics
Training	Certifications	Corporate governance
HSE Training	System and technical audits	Control system
Other training activities	HSE knowledge management	Protection of human rights
	Opinion sharing	Application of principles to the supply chain
Main projects and actions taken	Health	People
	Global approach, local attention	Safety
	Assessment and prevention	Health
	Management, Monitoring and reporting	Value and development of Eni's people
	Information technology for health services	Training, knowledge management and people involvement
	Health promotion initiatives	The Welfare of Eni's people
	Management of health emergencies	Diversity as a resource
	Expenditure and investments	Industrial relations and labour standards
	Safety	Environmental protection
	Industrial risk assessment and management	Environmental management
	Plants and products	Operational activities and the environment
	Transport	Ecosystem protection and biodiversity
	Injury prevention	Water management
	Emergency management	Air quality protection
	Expenditure and investments	Waste management
	Energy and environmental sustainability	Soil protection
	Energy	Territories and local communities
	Air	Eni's policies and tools for territories
	Water	Expenditure for territories and local communities
	Habitat, territory and landscape	Country initiatives
	Expenditure and investments	Sponsorships
	Commitments	Contributions to associations and foundations
	Climate change and energy	Customers
	Biodiversity	Brand value
	Transport system	Our fuels
	Eco-friendly products	Gas and electricity sales
		Focus on specific projects

Over time, reports have been increasingly characterized by methodological strictness, accuracy in data collection, traceability of data sources and completeness. Going beyond traditional themes, like the environment and worker safety, there is a clear trend toward broadening the boundaries of the reports (e.g., extending the report to the whole supply chain) and including a progressively wider range of stakeholders, such as customers, suppliers, governments and nonprofits. In other words, reports show an evolving interest to

enlarge corporate vision concerning its sphere of responsibility, within the social, global context. Over time, CSR and sustainability have moved away from mere compliance towards a sort of corporate citizenship, strictly linked to multiple-relations with stakeholders, environmental interest groups, and communities in order to address important and shared social and environmental issues: from maximizing safety at each level (e.g., product and service safety to working conditions) to product quality and innovation, environmental protection, dialogue with stakeholders, attention to skill development and contribution to societal development paths.

Such change in view is even more evident in the functions associated to the reports over time. Early HSE reports were mainly viewed as monitoring tools, independent from economic balance sheets with the purpose of showing compliance to above average environmental and safety targets. As a result, such reports were scarcely integrated with annual reports and company-wide communications, mostly based on quantitative indicators directed more to experts in the field than to a broad audience of stakeholders and aimed at supporting internal decision-making. In other words, such reports seemed to be more inside-oriented tools than aimed at managing dialogue with stakeholders. After 2005, the previously dominant monitoring view of reporting has been progressively replaced with a managerial approach, in which sustainability reports began to be viewed as stakeholder-oriented tools, the basis for firm-stakeholder dialogue aimed at providing effective guidance for company progress. Sustainability started to be perceived as a strategic priority having an economic impact. As a result, integration with annual reports and other communication tools became higher, with quantitative indicators made readable through qualitative descriptions and explanations of technicalities, all with a clear outside orientation.

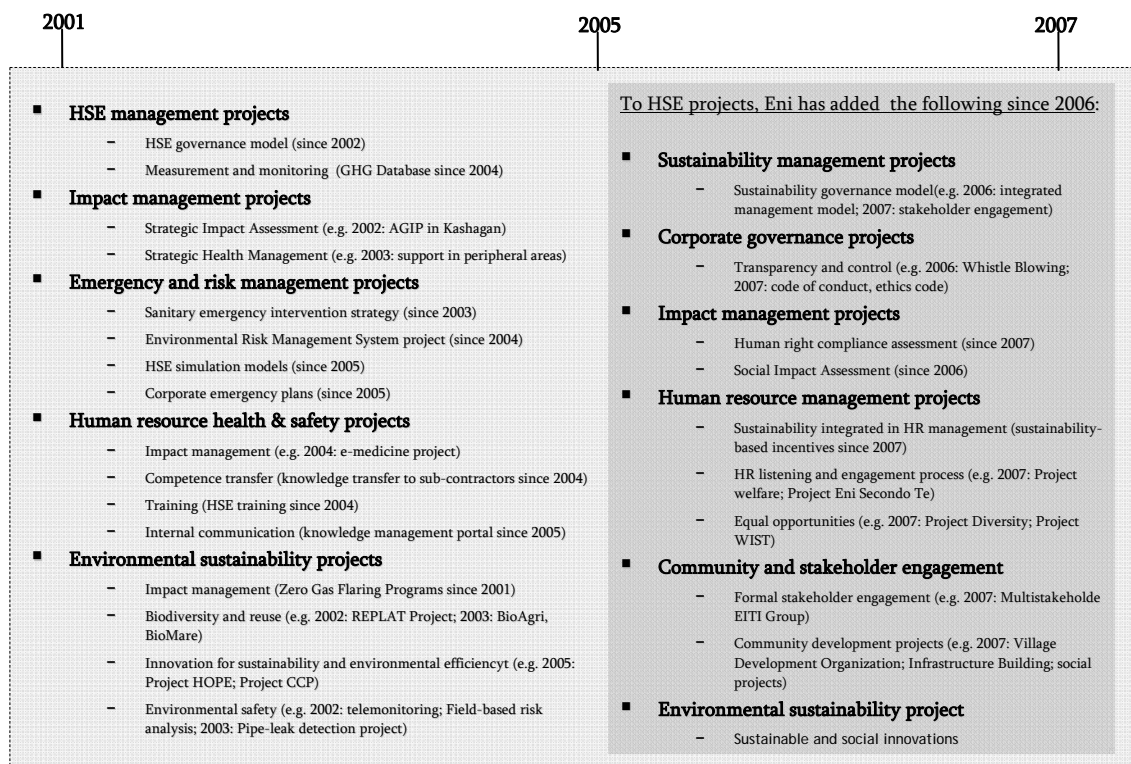
The evolution of corporate approach to sustainability also emerges from the typology and number of projects included into the sustainability agenda. They are presented in figure 4.4. It is immediate to see a different root shared by the projects before and after 2005. In the first period, most of the projects implemented under the sustainability agenda rest on risk-reduction plans and policies and health, safety and environment initiatives.

We have five fundamental objectives: (1) to reduce the environmental impact of production activities, which among other things, involves promoting the use of natural gas and the

construction of combined cycle power stations; (ii) to reduce specific consumption of fossil fuels; (iii) to develop clean processes and products; (iv) to minimize industrial accidents and work-related ill health; (v) to learn more about critical environmental issues.

(Eni HSE Report 1999: 1)

Figure 4.4 – *Evolution in sustainability projects: Examples*



Since 2002, concurrently with Eni's shift to a divisional organizational structure, a preliminary management system for HSE is implemented, aimed at monitoring and measuring environmental and health & safety performance consistently across organizational divisions. Accordingly, accent shifts from internally-developed projects to the implementation of third-party managerial tools and certification processes, able to be compared over time and with other organizations in the oil & gas industry. Such tendency also emerges from the guidelines and methodologies adopted to develop HSE reports. While in the first period, reporting was based on internally-developed guidelines specific to Eni, after 2002 third-party indicators (e.g., indicators developed for oil & gas sector by

international organizations like the Global Reporting Initiative) start to be introduced in the reports, together with a formal verification process by external auditors certifying data and information released through the reports.

However, after 2005, risk management is integrated into a broader sustainability view, covering engagement, dialogue, and community development projects. The same concept of risk assessment is extended to social aspects, previously excluded from the analysis. Prevention and protection are replaced with management and listening, showing a tendency both to look at social and environmental issues more as ordinary managerial challenges than risks to be minimized and to open corporate boundaries to collaboration and dialogue with stakeholders.

Finally, the main changes in Eni's posture towards sustainability emerge if a deeper look into the reasons underlying the adoption of sustainability-related projects is taken. In fact, different from the strong emphasis on efficiency improvement leading project and initiative selection in the first period, the ability to answer to stakeholder requests become the priority in the second period, due to the perception of increased demand for transparency, access to relevant information and involvement into company decision making coming from the context. In other words, while in the first period environmental sustainability and health & safety initiative are perceived as unavoidable to improve firm competitiveness, this predominantly self-referential approach is superseded in the subsequent period, in favor of openness to interaction with the external, increasingly complex world.

With a flexible and pragmatic approach, we are constantly seeking to improve our efficiency and competitiveness, intensify our commitment to health, safety and environment and make a concentrated effort in the field of scientific and technological search, because we are convinced that the availability of new technology is a key to the company's success.

Vittorio Mincato, Eni Managing Director, HSE Report 1998

We have also taken important decisions and implemented actions in 2002 to make the management of our industrial activities more efficient and improve our ability to respond to our stakeholders' expectations concerning environmental and social sustainability.

Vittorio Mincato, Eni Managing Director, HSE Report 2002

Therefore, in the second period early drivers of corporate accountability, that is avoidance of risk from sensitive environmental issues and staff recruitment and retention, become to be associated with protection of license to operate.

However, a further development characterizes the shift from the second to the third period. Though efficiency and ability to interact with stakeholders remain, they start to be part of a renewed view of the need for sustainability: not an addendum to ongoing corporate activity but the distinguished feature of the way Eni operates its businesses.

In appreciation of the positive ties existing between creating value, boosting intangible wealth, and building strong, constructive ties with the local realities in which Eni operates, we have introduced a new, integrated and global system for the management of sustainability, which traces out a distinctive and independent approach, and focuses on the real aspects of importance for us and our stakeholders.

Spearheading action will be the increasingly greater emphasis placed on people, on contributing to the development and well-being of the communities with which we work, on environmental protection, on investing in technological innovation, energy efficiency, and on mitigating the risks of climate change.

Paolo Scaroni, ENI CEO, Sustainability Report 2006

In this context, benefiting from a simple *license to operate* becomes not enough to posit the basis for long-term company and societal sustainability. The shift from being accountable for the impact on sustainability and being sustainable passes through a more intense commitment to sustainability challenges, changing the way company performs its daily activities and promoting affirmative actions able to anticipate future changes and set the basis for new developmental paths.

4.5.2 Learning dynamics shaping sustainability portrait

In contrast to the content-based analysis of Eni's path to sustainability presented above (§ 4.5.1) here I map organizational developments underlying the decision to implement different corporate postures and sustainability responses. In particular, I first analyze changes in procedures, roles and responsibilities for sustainability and then reconstruct the learning dynamics characterizing each stage.

Organizing for sustainability. As Eni proceeded through steps of broader and deeper sustainability interpretation, underlying managerial models changed as well shaping the organizational structure and the distribution of roles and responsibilities across hierarchical levels.

In the first period, predominantly project-based HSE was managed almost exclusively at the site and plant level, according with the aim of risk reduction and efficiency improvement. Scarcely integrated across group companies, HSE management system was based on roles and responsibilities assigned at:

- Corporate level: HSE Technical Direction, placed within the Planning and Control Corporate Department, was assigned the definition of group guidelines, HSE coordination and planning, information and best practice dissemination and the consolidation of data coming from group companies.
- Group company level: planning, execution and control were assigned completely to group companies, in that they were those with the highest awareness of and control over operating activities' risks and impacts.

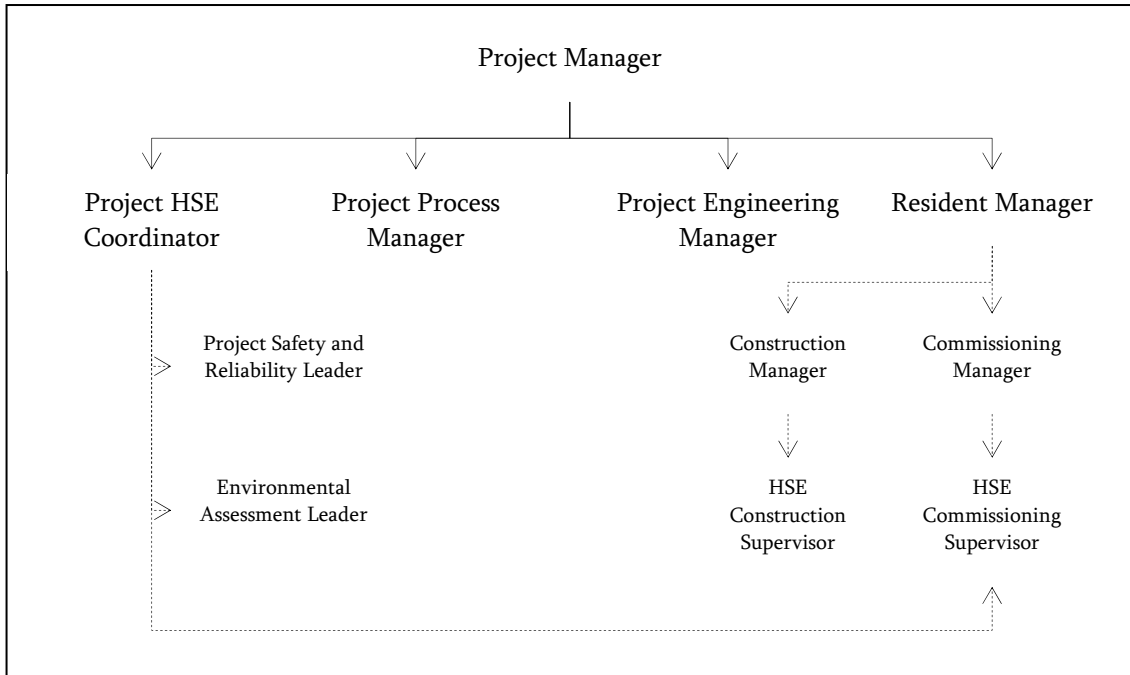
Figure 4.5 presents an example of the integration of HSE management system at the construction project level.

The leading criteria driving integration process in this phase were consistency and adaptability to each single unit's operating processes. Accordingly, guidelines and corporate plans were broad enough to allow flexible adaptation at the plant and site level. Despite flexibility and autonomy in defining customized sustainability agenda, locally-based processes hindered a uniform integration, so that it was hard to present a uniform, corporate level HSE portrait to external audiences.

As anticipated above, the reconfiguration of corporate-wide organizational structure into multi-divisional integrated operating company challenged early managerial systems, and the lack of uniformity in views:

“In a divisional structure the management of health, safety and environmental protection must necessarily be more uniform, coordinated and able to receive and transfer complete and precise information rapidly”⁶.

Figure 4.5 – HSE at project level



Source: Eni HSE Report 2001

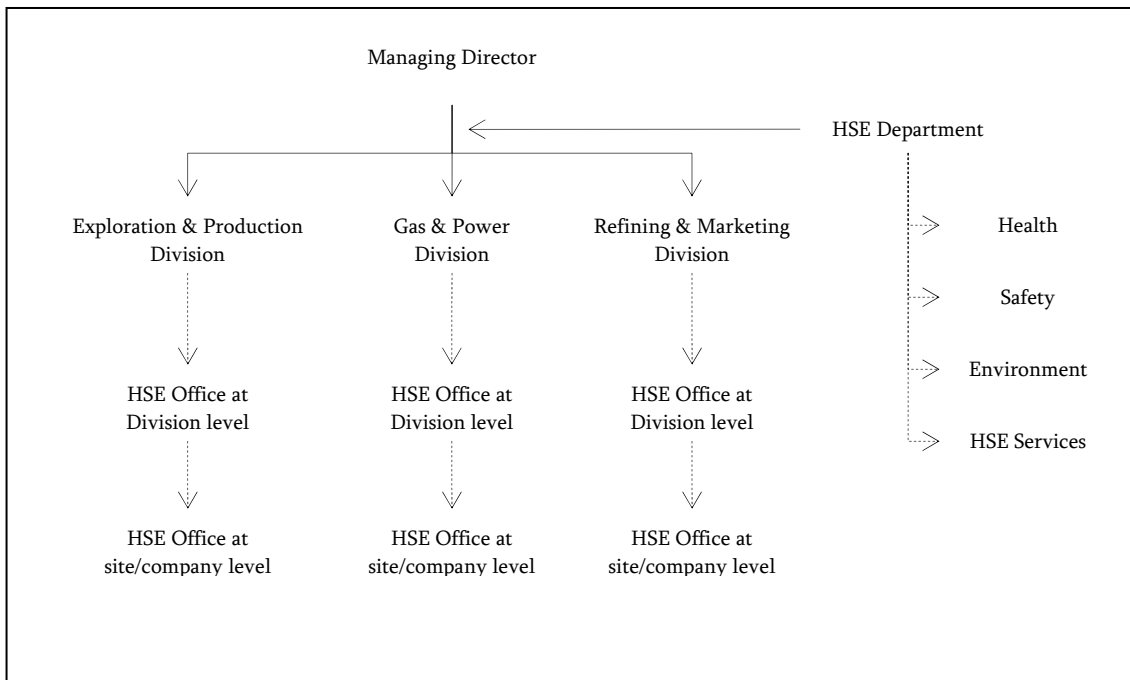
Accordingly, Eni went through a transformation process which involved the reorganization of business activities and the redefinition of the organization, decision-making processes, operating mechanisms, designation and responsibility framework, planning and monitoring systems, with the establishment of operating service companies to support the businesses.

Such considerations led to the decision to create a HSE Department, reporting directly to the Managing Director with the responsibility for designing and implementing the reorganization of HSE management, through the definition of a model able to promote corporate-wide responses to challenges faced by Eni core business. Figure 4.6 shows the new organizational structure for HSE.

⁶ Quotations from interviews conducted by the author are reported, through the finding sections. For anonymity reasons the identity of the interviewee is not reported. Whenever specified differently, quotation between quotation marks are from personal interviews with the authors. Quotations from other sources are also reported together with their source.

Accordingly, HSE management model turned into the so-called integrated HSE management system, in which early bottom-up processes were associated to top-down interventions aimed at creating uniformity of views. In more details, the HSE Corporate Department was assigned a stronger role in planning HSE priorities, together with the realization of audits at the level of single-business units' management systems in order to verify compliance with corporate-level guidelines. The management system operated cyclically through stages of planning, implementation, control and corrective action, as well as management reviews. Figure 4.7 presents the HSE model planned in 2002 and implemented in 2003.

Figure 4.6 – 2002: The reconfiguration



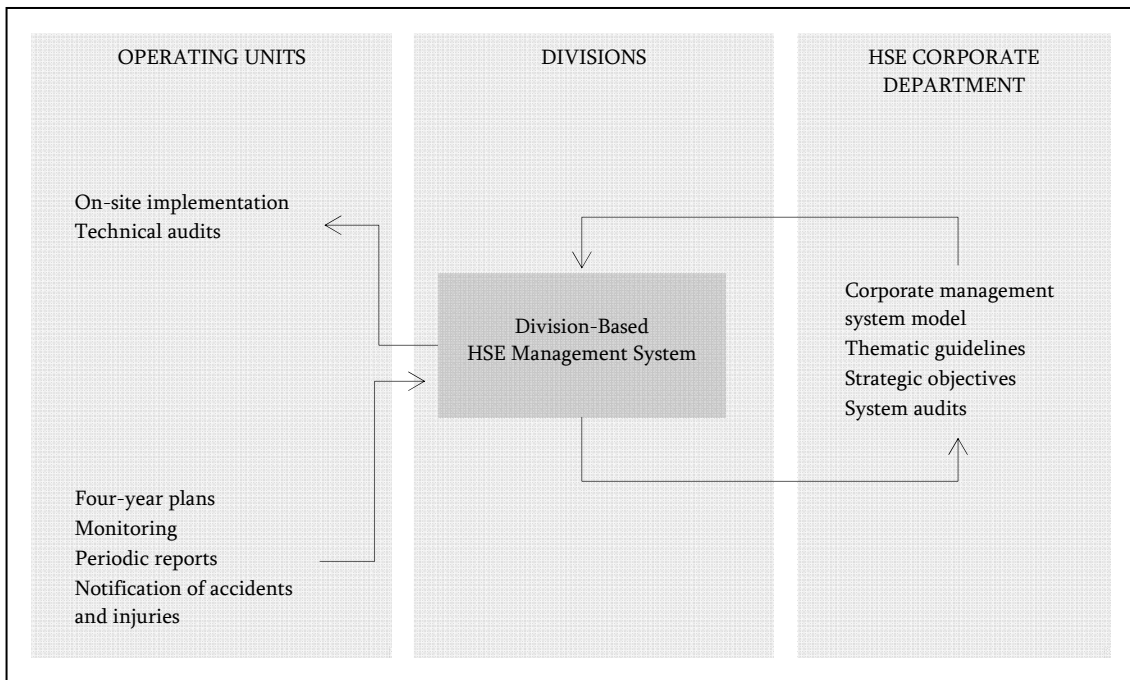
Source: Eni HSE Report 2002

However, despite intentions and the shared understanding of the need for uniform, integrated approach to HSE management, sustainability agenda continued to be defined locally, based on the specific needs and priorities of each single division and division-based operating unit. In other words, the new corporate department continued to be assigned a promoter and facilitator role as in the early phase, though with higher visibility within the organization due to its direct link with the Managing Director and corporate strategic

policies. Moreover, as in the first period the management systems of the divisions and units continued operating entirely autonomously, though in harmony with pre-established information flows.

Finally, in 2002 the CSR Unit was created, reporting to the Corporate Department for Communication and Public Affairs. However, such Unit had a marginal role in defining a uniform CSR policy integrated with the activities of the HSE department. In other words, the CSR Unit operated marginally compared to the performance of consolidated HSE activities, predominantly on local development projects but scarcely on systematic basis, as for HSE activities in the previous period.

Figure 4.7 – *Integrated HSE Management System*



Source: Eni HSE Report 2003

The misalignment between the perceptions of being a unique company with an integrated culture and a common language and the way of operating led to a new change not only in the interpretation of what meant to be sustainable but also in the way sustainability was managed across organizational units. The third period is marked by planning and implementation of an integrated sustainability model, the HSE activities become just part of.

The process started with the creation of a Sustainability Unit, within the Corporate Department for Communication and Public Affair, as the operating engine of the reconfiguration process.

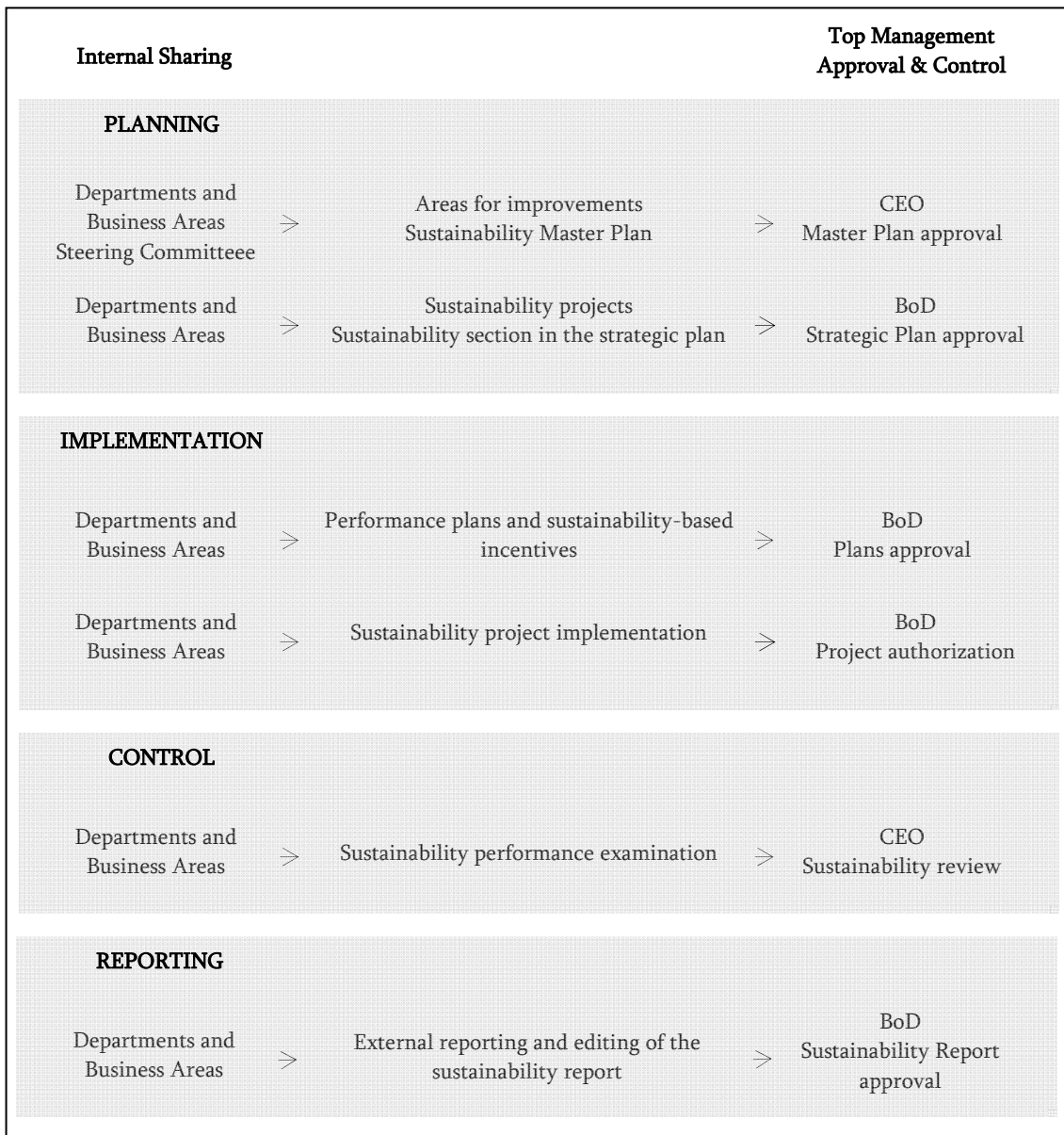
Two pillars guided the implementation process: the attainment of the highest sharing and collaboration between corporate departments and business areas (i.e. divisions) and the need for approval and enforcement by the top management of policies, programs and results related to sustainability. Figure 4.8 presents the integrated management model for sustainability.

In more details, the implementation of a renewed organizational model for sustainability has been based on the following sub-processes:

1. *Planning process for sustainability*: the Sustainability Unit in cooperation with Corporate Departments and involved business areas defines objectives and areas for improvement with regard to sustainable development, and identifies the sustainability projects to be included in the Eni Strategic Plan, based on approval by CEO. Different from the past, the ordinary Eni planning and control processes deal now directly with sustainability issues. The definition of sustainability projects is not self-referential, but based on priorities set by governments and international organizations and on dialogue with different stakeholder categories recognized as relevant based on a process of stakeholder mapping.
2. *Implementation*: selected sustainability projects are then managed by the operating unit managers from the business areas involved in the project and with the supervision of the Sustainability Unit, especially in case of specific initiatives not run by corporate departments, such as community development projects and stakeholder engagement.
3. *Control and reporting*: specific control and reporting processes were introduced, designed to check the extent to which objectives were reached and reorient activities in case of discrepancy between targets and attainments. Control and reporting dealt also with internal and external communication of corporate performance in sustainability and related areas. Accordingly, financial and non-financial accounting systems concur with all company departments involved in the measurements of jointly defined key sustainability indicators. In this context, the

Sustainability Unit is held responsible for the preparation of internal and external reports (i.e., sustainability reports) and coordination with similar reporting tools provided by the CFO.

Figure 4.8 – *The integrated management model for sustainability*



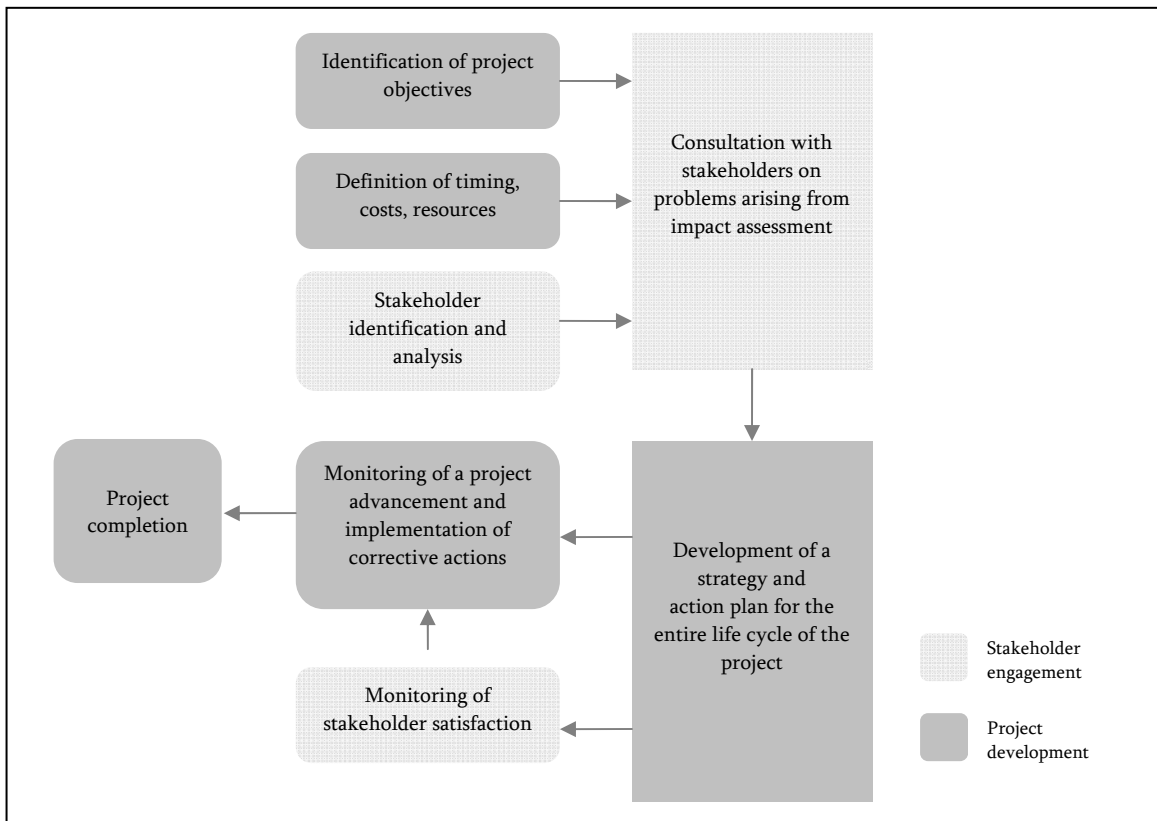
Source: Eni Sustainability Report 2007

4. *Communication*: communication process was disentangled in different sub-areas. First of all, the reorganization process allowed enriching information flows with the financial community. Accordingly and based on the information needs identified by

the CFO, the Sustainability Unit cooperates with the CFO in managing the relation with the rating agencies for sustainability and in coordinating activities related to the listing process in related indexes. With reference to internal communication and training, the Sustainability Unit collaborates with the Human Resource Corporate Department in defining internal communication and training programs. Finally, with reference to external and institutional communication the Sustainability Unit collaborates with the Corporate Department for Communication and Public Relations in defining the content to be spread and shared with external stakeholders.

5. *Stakeholder engagement*: the definition of methodologies, programs and methods for stakeholder engagement becomes explicitly linked to sustainability implementation, based on the cooperation between the Sustainability Unit and the Corporate Director and Business Areas explicitly involved in the relation with specific stakeholders (the stakeholder management model is presented in figure 4.9).

Figure 4.9 – *Stakeholder engagement model*



Source: Eni Sustainability Report 2006

Different from the local effects exerted by the managerial models implemented in previous stages, the integrated model for sustainability determined more extensive changes at different levels to ordinary business process, as well as stimulated the integrated management of previously autonomously performed activities. Such changes are summarized in figure 4.10.

Figure 4.10 – *Map of changing processes*

PROCESSES	CHANGES
Strategy formulation	Definition of a strategic plan for sustainable development
Corporate governance	Involvement of the Board of Directors in setting out policy and drawing up the Sustainability Report
Project development	Integration of stakeholder engagement processes (see Figure 4.10 below): <ul style="list-style-type: none"> – Stakeholder survey – Dialogue and engagement with stakeholders at the: <ul style="list-style-type: none"> – <i>corporate level: in policy and guideline setting</i> – <i>local level: in developing joint projects that have direct and concrete impact on the territorial community</i> – Organized dialogue with local stakeholders; – Social impact assessment implementation – Initiatives for the communities and for partnerships creation and development
Performance reporting system	Sustainability reporting Improvement of the HSE performance reporting systems to produce quarterly reports
HR Practices	Whistle Blowing Procedure Sustainability indicators in management objectives and performance Training projects on sustainability
Supplier management	Change in the selection process: <ol style="list-style-type: none"> 1. supplier selection criteria: compliance with fundamental ILO conventions, adoption of management systems and certifications based on internationally recognized standards, compliance with Eni's Code of Practice (on Human Rights and environmental protection). 2. qualification process: integrated qualification process on the basis of criticality and risk level of supplies. 3. monitoring and control: after 36 months suppliers undergo verification/updating. Each supplier has Supplier Capability Profile, presenting its performance in terms of quality, accuracy, competitiveness and conduct (procurement management – Procurement Division has the responsibility based on the feedback provided by corporate departments, questionnaire, documentary verification and on-site inspections. 4. verification of procurement process compliance: procurement process is also subject to control internally by Procurement Division and the externally by the Internal Audit Department.
Technological innovation	Reorganization of research centers around sustainability holistic projects
Climate Change	Carbon Management Strategy: <ol style="list-style-type: none"> 5. Active participation in the Emission Trading Systems by promoting emission reduction in its industrial plants; 6. Implementation of reduction-oriented projects based on the Clean Development Mechanism (CDM) and Joint Implementation (JI) flexible mechanisms envisaged by the Kyoto Protocol designed to develop energy systems with the best technologies available and the utmost efficiency in the hosting countries; 7. Preferential development of low-carbon-content fossil fuels, especially natural gas; 8. Gradual reduction of gas flaring associated with oil production by developing local and international market outlets; 9. Development of technologies for CO2 separation and geological confinement; 10. Development of more efficient hydrogen-producing technologies; 11. Creation of a sustainable energy system based on multiple highly efficient sources and technologies; 12. Gas-electricity integration to exploit the high efficiency of gas in electricity generation and cogeneration; 13. Production, use and distribution of innovative fuels; 14. Start up of R&D to use solar energy sources.

Compared to the previous two periods in which sustainability was considered as an addendum to corporate activities, the shift to a renewed interpretation of corporate role in society as a way of operating rather than a theme to be managed, is reflected into a new approach to managing processes affected and affecting social and environmental performances. Different from the past, the role of corporate level in setting priorities and coordinating activities becomes stronger and even more visible to internal and external audiences. This allowed stronger coordination and initiated the development of a corporate-wide responsiveness attitude to sustainability challenges. As explained by a manager:

“Having access to the most relevant documents – the annual report, the sustainability report and the strategic plan – and having systematic contacts with the steering committee and the BoD, the Sustainability Unit has gained an extraordinary relevance within Eni. Different from past, now business and operating unit have a strong interest in cooperating with us rather than acting independently. They know that, due to our responsibility to evaluate consistency of each and single project with Eni’s strategies, cooperating among them and with us to identify the right projects is the only way to make their commitment visible and their plans carried on.”

In other words, the implementation of the sustainability model has allowed for a stronger coordination among organizational members with an overall improved ability to be attentive and responsive to external changes. In this context, top-down information richness has started to be combined with bottom-up specific knowledge, facilitating information sharing and the alignment between behaviors and perceptions across levels and divisions.

Learning paths: sources and dynamics of routine change. Over time, the changes in structure, depth and breadth of the managerial models for sustainability and related procedures have had an impact on both organizational members’ views of their role within the company and the way their tasks had to be performed.

“Before the decision to shift to the integrated sustainability model, the three main areas on which our business activity had the strongest impact – environmental impacts, relationship with local territories and human resource management – were performed mainly independently from each other. Those responsible for each one the areas tended to behave as there weren’t links with the others. Now the core responsibilities related to those areas have pushed to coincide into one and move away from one-way thinking, as in the past.”

This section moves even beyond content-based analysis of CSR and sustainability, trying to reconstruct the impact of subsequent waves of formal managerial tools and procedures on sustainability-related processes' understandings and actual ways of implementing them.

In the first stage of Eni's path to sustainability, HSE policies and projects were mainly implemented without aggressive changes in established organizational structure, and, above all, on the firm recognition of the legacy of the past.

“Since foundation, Eni has been intrinsically responsible towards communities and stakeholders. The whole bunch of themes that we now recognize as part of the sustainability definition, were all in Eni since the early beginning, summarized by the “Mattei Formula”.

Though declaring openness to external feedback and third-party interaction, social and environmental issues were mainly faced according to an established *modus operandi*, with new procedure introduction left to site and plan autonomy. In other words, in the first period the legacy of the past hindered deliberate, sustainability-based learning, considering it unnecessary in spite of track-record of past responses perceived as successful.

The change in organization-wide structure, the increasing public visibility of the themes related to environmental protection and sustainable development, as well as the related interventions by public institutions and international organizations spread the awareness of the need for stronger, evident openness to the external world.

We are very aware that the context in which business, in particular energy businesses must merit the license to operate, is subject to rapid and radical change.

Vittorio Mincato, Eni Managing Director, 2002 HSE Report

The need for developing the ability to be truly accountable to stakeholders translates into the decision to both create a corporate reference for HSE-related themes and introduce an ad hoc integrated managerial system for HSE. However, as explained before, the managerial models had the merit of strengthening the visibility of sustainability-related themes across hierarchical organizational levels, leaving unchanged autonomy and independence to business areas and operating units as in the previous periods for HSE-related decisions and behavior.

“HSE managers at division and site level continued to develop their own way to interact with external partners, stakeholders, competitors, their own way to develop, in particular, policies and perspective to answer, for example, to development in HSE legislation: “There is a new

law, I perfectly know how to face it, how to develop tools to support the compliance process!” There was a natural tendency to maintain the status quo”.

Integration across the structure remained low with the concurrence of both established patterns of behavior and new understanding of the need for a renewed ways of operating.

The reconfiguration of roles and responsibilities and the need for combining themes’ visibility with actual integrated behavior led to the decision for a change in the integrated model for sustainability management. Starting with the decision to be acknowledged from outside, the implementation of the integrated model for sustainability has been complemented with a comprehensive analysis of the processes concurring at reaching sustainability objective, in order to reach a corporate-way responsiveness posture, rather than site- or plan based responses as in the past.

“Before the renewal, each one with a responsibility for HSE behaved according his/her own needs, especially plant managers. For the first time now they have to evaluate not only project consistency with plant-specific characteristics, but also with corporate-wide objectives. For the first time, we are able to talk about an Eni’s sustainability profile.”

Moreover, compared to the past, the introduction of the new artifact has come along the corporate-wide ability to respond to alternative perspectives offered by others, sharing not simply self-developed solutions to problems but also perceptions about issues, as well as discuss the nature of ongoing transformations both internally and externally.

For example, social and environmental commitments have started to be explicitly introduced into the Memorandum of Understanding before an agreement is signed with a producer country (see box 4.2 for an example).

In summary, the last stage of the Eni’s path to sustainability has determined a stronger integration of sustainability issues in ordinary processes and across organizational levels and functions, realigning corporate-wide understandings and actual process performances.

4.5.3 Drivers of change

How has been possible to shift from an emerging, localized reactive responsiveness posture to an integrated, proactive posture able to actively contribute to societal changes through generating deliberate, organization-wide responses?

In an attempt to answer the question above, this section aims at identifying the main drivers of change that allowed Eni to pass through subsequent learning stages.

Box 4.2 – The Memorandum of Understanding in Libya

In the last few years, the development of exploration and production in Libya has taken on a strategic role in Eni's business. Thanks to the oil production in the traditional fields and the gas' one in the new fields Eni is the first foreign producer in Libya. The complexity of the context that, may represent a critical issue able to significantly influence the progress of the activities and Eni's ability to satisfy the commitments taken with the National Oil Company has made the requirement of redesigning the approach to the cooperations for Libya emerge on a corporate level. The new paradigm of the "technical assistance to the development" has been drawn up, which includes the creation and development of professionalism and local capacities among its significant elements. The strategic objective is to act within the country with the double function of Development Agency (for Sustainability) and Structural Fund for Sustainability) covering progressively a co-policy-maker role with the local governmental authorities, being constantly involved, through specific representative organizations, defining priorities and development objectives. The practical implementation of the new strategy is represented by the **Memorandum Of Understanding** signed between Eni, the Gaddafi Foundation and the National Oil Company (NOC) on 22 September 2006. This envisages a program of activities lasting for 8 years (from 2006 to 2014) worth \$150 million. It covers activities in the health, education and training sectors, as well as the recovery of local cultural heritage. The MOU also includes a pilot project in the Zwara area on the recovery of urban waste for which a feasibility study is underway, and which is also to be extended to industrial and sanitary wastes.

Source: Eni Sustainability Report 2007

In 1995 environmentalism was erupting in collective minds, accelerated in the wake of two controversies surrounding Royal Dutch Shell: the intense protests from Greenpeace, consumer boycotts and attacks on service stations in Germany following the planned sinking of the Brent Spar – an oil storage buoy in the North Sea – and the significant criticisms for Shell's failure to intervene sufficiently on behalf of Ken Saro-Wiwa, a human right activist, environmentalist and the leader of the Movement for the Survival of the Ogoni People in Nigeria. These two reputation-destroying events and the related, still slow, emergence of sustainable development in the political and institutional agenda sparked growing concerns not only on environmental protection per se but also on the need for a more active business role into the process.

The situation described above represented the background for Eni's decision to embark in a process of sustainability integration, though linked almost exclusively to HSE themes. However, differently from oil majors and mainly because of the legacy of the well established "Mattei Formula", the changes in the institutional context did not directly

posited the basis for the definition of tight, acknowledgeable social and environmental targets. Commitment to HSE was considered as a way to strengthen competitiveness and improve efficiency, as any other ordinary business target. In this context, perpetuating established pattern of behaviors was perceived as reasonable enough.

As time passed by, the come into force of objective measures for social and environmental protection at the political level (e.g. the Kyoto Protocol or the Declaration for Human Rights), the increasing convergence in competitor strategies toward a procedure-based approach to sustainability integration, represented stronger external signals of the need for a different, more visible approach to sustainability-related themes. However, the recognition of the need for a formal engagement into a different decision-making approach formalized in the introduction of the integrated managerial model remained linked to already known HSE-based procedures, still perpetuating established patterns of behavior. Organizational units continued to be given maximum autonomy in HSE-related decision making, without enforced, shared objectives. In such a situation each one was justified to perpetuate its own cause, and its own vision of how to interpret sustainability-related problems. In other words, despite the recognition of the need for a more visible, integrated engagement into sustainability, target setting remained linked to established ways of doing, as well as the way the new artifacts were translated into actual performances.

However, a change occurs at the beginning of 2006. For the first time, Eni starts setting the basis of renewed organizational model for sustainability, in which HSE becomes a part of a whole, not the whole.

In 2005, Eni achieved the best operating and financial results in its history. During the first part of 2006, we improved them even further, laying the foundations for a new year of growth and the creation of value. We believe that this is the best scenario for redefining the framework of our commitments and initiatives, so as to ensure the sustainability of our results over time and to contribute to sustainable development. For this reason, in February of this year, we initiated a project that further strengthens and integrates our sustainability objectives into our business model.

Paolo Scaroni, Eni CEO, (Eni, 2006: 5)

It was not only the perspective on sustainability content to change but also that on how sustainability had to be implemented. Moreover, the legacy of the past started to be

considered not just a way to assure external stakeholders about the company ability to be compliant and responsible, but the base for organizational model innovation, the assurance for internal stakeholders about company ability to sustain successful change processes.

In details, in February 2006, Paolo Scaroni – current Eni CEO – announced the decision to become eligible for the FTSE4Good Index and Dow Jones Sustainability Index in one year (see box 4.3 for details of the two indexes).

The need for an objective aligned with institutional priorities on environmental protection, climate change and social sustainability remained high, but, different from past, this objective mapped the new sustainability conception and was tightly enforced at the corporate level. In other words, its attainment would have required the coordinated intervention of all hierarchical levels and business functions. At the same time, failure in attaining the sustainability target would have been extremely objective and clearly visible to all.

“For the first time, there has been a strong commitment from the top. Entering in the indexes imposed a new conception of sustainability and sustainability-related aspects: as components of the same corporate agenda, rather than site-specific, self-defined targets.”

Though similar to the HSE Corporate Department, in term of organizational position and role, the new Sustainability Unit acted as an organizational change agent exactly because of the strong enforcement by the top toward a challenging but clearly defined, visible objective.

“The definition of a clearer, more understandable role for sustainability caused people to think that it was a serious thing for all. As a result, those who had been autonomously in charge of social and environmental issues until that moment – the HSE Corporate Department and the HSE units at the division level – started to perceive the opportunity to reconfigure themselves in order to take a more active part of the process, interacting with the Sustainability Unit”.

Together with the new target, also the underlying managerial style for sustainability started to change. Different from the past, the key role for the Sustainability Unit became the support of dialogue within the structure and with external stakeholders in order to identify objectives and opportunities for improvement based on shared priorities.

Box 4.3 – *FTSE4Good and DJSI*

Dow Jones Sustainability Index (DJSI)

Launched in 1999, the DJSI includes a number of global indexes tracking the financial performance of global companies who are distinguished themselves for sustainability performance.

Sustainability is defined as a business approach to create long-term shareholder value by embracing opportunities and managing risks deriving from economic, social and environmental developments.

Eligible companies are evaluated based on the Corporate Sustainability Assessment of SAM Research, on a defined set of criteria and weightings which includes consistently with the sustainable development definition:

- Economic dimension (Codes of conduct, compliance and corruption & bribery; Corporate governance measures; Risks & crisis management; Industry-specific criteria)
- Social dimension (corporate citizenship programs; Labor practice indicators; Human capital development; Social reporting; Talent attraction and retention; Industry-specific criteria)
- Environmental dimension (Eco-efficiency; Environmental reporting; Industry specific criteria)

Information is collected through questionnaire completed by companies aiming at participating, company and third-party documents, personal contacts between DJSI analysts and companies, and external assurance reports.

Based on a ranking performed after corporate sustainability assessment within an industry group, companies are selected if belonging to sustainability leaders in their field.

Source: <http://www.sustainability-indexes.com>

FTSE4Good

Launched in 2001, the FTSE4Good Index Series aim at measuring the performance of companies that meet globally recognized corporate responsibility standards, in order to guide investment decisions. To criteria based on existing international standards, the FTSE4Good Index Series add new ones based on widespread consultation with stakeholders and approved by an independent committee.

For inclusion, eligible companies have to meet requirements in five impact areas:

- Environmental sustainability;
- Stakeholder engagement;
- Human rights;
- Supply chain labour standards;
- Bribery.

Beyond positive screening criteria, negative screening is applied to companies interested in entering in the indexes. In details, those who have been identified as having a business interests in the following industries are excluded:

- Tobacco producers;
- Companies manufacturing either whole strategic parts or platforms for nuclear weapon systems;
- Companies manufacturing whole weapon systems;
- Owner or operators of nuclear power stations;
- Companies involved in the extraction or processing of uranium.

Information is collected through questionnaire completed by companies aiming at participating, company and third-party documents, personal contacts, and external assurance reports. Defined criteria are not fixed over time, but change based on the emergence of sustainability-related themes.

Source: http://www.ftse.com/Indices/FTSE4Good_Index_Series

This has facilitated change. In fact to the initial mistrust due to a reconfiguration of responsibilities and internal visibility toward the newly formed Sustainability Unit and a

fear of losing consolidated position, a need for cooperation emerged across the organization, sustained by the opportunity – intrinsic in the new target and in collaboration with the Sustainability Unit – to clearly see individual contribution to a shared cause.

How did it turn out?

2007 has been an important year. Sustainability has become an integral part of corporate processes and has qualified Eni to enter the Dow Jones Sustainability World Index, the FTSE4Good Index and the Climate Disclosure Leadership Index.

The awareness that the results obtained are not a point of conclusion and the general scenario outlined in this Report have led us to identify the actions which are still to be taken, using dialogue and innovation capacity as a way to promote a sustainable development.

Paolo Scaroni, Message to Stakeholders, ENI 2007 Sustainability Report

4.6 Discussion

Heading the call for a deeper understanding of the organizational dynamics underlying the shift from emerging, localized reactive responses to integrated, proactive corporate sustainability behaviors, this section aims at answering the initial research questions, extracting a learning-based model of social responsiveness based on the findings presented above.

The case shows that looking at how a sustainability artifact is mapped into organizational structure, roles and procedures can help understand the ability of an organization to reach a fit between the commitment to a specific change objective and expected results (Pfarrer et al., 2008). In other words, different sustainability responses imply different organizational change processes that are more or less pervasive into ongoing performances and understandings depending on the extent to which required changes challenge old ways of working. Accordingly, the learning challenges for an organization who decides to take a spot initiative to respond to a specific, well defined stakeholder requests will be necessarily different from those acting upon an organization who decides to adopt an integrated model for CSR and sustainability management. The shift from reactive to proactive CS behavior

implies that companies must shift from fragmented, defensive postures to integrated, affirmative approaches:

While responsive CSR depends on being a good corporate citizen and addressing every social harm the business creates, strategic CSR is far more selective. Companies are called on to address hundreds of social issues, but only a few represent opportunities to make a real difference to society or to confer a competitive advantage. Organizations that make the right choices and build focused, proactive, and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack (Porter & Kramer, 2006: 91).

Before we present our model, it is important to clarify two points. First of all, as suggested by the literature, learning is intrinsically multi-level (Crossan & Berdrow, 2003; Miner & Mezias, 1996). Consequently, processes can be observed and described at different levels of analysis: from individual to institutional changes (Aguilera et al., 2007). We decided to look explicitly at learning occurring at the organizational level, identifying it as the combination of processes of discarding, replacing and reducing established routines (i.e. unlearning sub-process) and processes of encoding new understandings in organizational routines (i.e. relearning process), thus modifying the range of possibilities for organizations involved in a learning process. This is not to say that the other levels of analysis are neglected; rather they are acknowledged as the loci of those aspects that can enable or hinder the process under observation.

We present our learning model of social responsiveness below, specifying a four-stage process that explains how an organization can shift from decoupled to integrated CS approaches (Weaver et al., 1999) through the extent to which it is able to challenge consistently established ways of doing and understanding. Since corporate responses unavoidably imply a mix of structural, behavioral and cognitive changes in order to attain expected results, the responsiveness process is essentially learning driven (Basu & Palazzo, 2008; Greening & Gray, 1994; Strand, 1983). In other words, organizations need to change their range of beliefs and behaviors as conceptions of corporate responsibilities become more complex at successive stage of development, action requirements are more demanding, and the organizational structures, processes, and systems used to manage responsibilities are more elaborate, broader and deeper in scope (Mirvis & Googins, 2006; Zadek, 2004).

4.6.1 A learning model of sustainable responsiveness

Figure 4.11 brings together the factors identified above, depicting how routines are enacted through the stages of a responsiveness process that shift from merely reactive to open and proactive.

Each cell represents the learning dynamics following the introduction of a new artifact and leading to the corresponding sustainability posture: from reactive to affirmative. Accordingly, at each stage, learning is described in term of expected changes occurring at the shared understandings and current procedures. While in reactive and proactive learning processes there is alignment between understanding and actual behavior, instrumental and accommodative processes distinguish themselves for misalignment between the two routine components due to the introduction of an artifact acting just on one of the components.

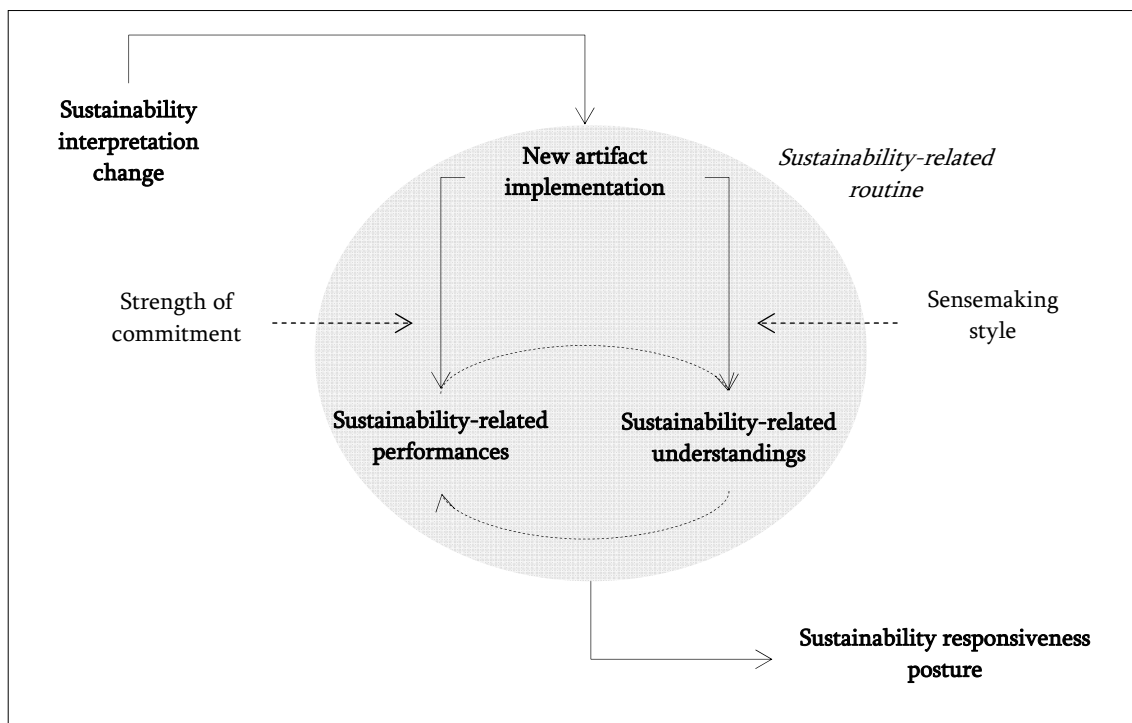
Figure 4.11 – *Content and drivers of sustainability learning*

		<i>Sense-making style</i>	
		Self-referential	Collaborative
<i>Strength of commitment</i>	Vague	<p>REACTIVE POSTURE</p> <p><i>Resisting learning process</i></p> <p>↓</p> <p>Absence of change in both understandings and performances</p>	<p>ACCOMMODATIVE POSTURE</p> <p><i>Accounting learning process</i></p> <p>↓</p> <p>Change in understandings Absence of change in performances</p>
	Tight	<p>INSTRUMENTAL POSTURE</p> <p><i>Engaging learning process</i></p> <p>↓</p> <p>Change in performances Absence of change in understandings</p>	<p>AFFIRMATIVE POSTURE</p> <p><i>Embedding learning process</i></p> <p>↓</p> <p>Changes in both understandings and performances</p>

Learning processes are driven by a specific combination of two dimensions: one side includes the strength of commitment to a sustainability objective while the other concerns the way organizational members make sense of a changed situation. In more details, the commitment to a change objective varies between two extremes: from a vague impression of the need for change to a tight, clearly visible and enforceable target. At the same time, the subsequent stages toward the integration of sustainability into business operations and interactions with stakeholders are driven by the prominent sensemaking style across divisions and business functions. As for commitment, style may range between extremes. One side includes localized, self-referential sensemaking processes by which interested organizational members give sense to emerging issues predominantly based on past experience. The other side includes organization-wide, collaborative sensemaking processes by which competing perspectives interact in order for a shared solution to emerge.

Figure 4.12 below presents a generic responsiveness process, as it occurs in each of the cells presented above.

Figure 4.12 – *Inside the black box: a process-based view of sustainability learning*



At each stage, a firm-specific interpretation of what sustainability means translates into the implementation of an artifact, differing from one stage to the next in term of the extent to which it is new to the organization and consistent with the change in the sustainability interpretation. Such artifact can range from a single operating procedure within a single organizational unit to a complete set of procedures, pervading more processes than the activity it was designed for. Looking at sustainability changes as mere transformation of hard routines (i.e., physical manifestations or artifacts) could be misleading, in that the attainment of expected results could be hindered because of mistaken, unchanged understandings of how to run new operating procedures or perpetuating behaviors in spite of changed background understanding of what should be done.

In this sense and according to the model, insights could emerge from a deeper look into the impact of new artifact introduction on the extent to which both related behaviors and understandings change in the same direction. Such impact is not straightforward, but driven by factors acting upon it. Accordingly, the extent to which the introduction of a new artifact is supported by the definition of an appropriate target may help explain how the former translated into a change in the way procedure is performed. On the other side, a change in artifact has to be accompanied by processes through which the need for that change is made understandable to organizational members. The way sensemaking is promoted across the structure can help explain how artifact changes translate into a consistent change in the abstract understanding underlying that procedure.

4.6.2 The path to sustainability integration

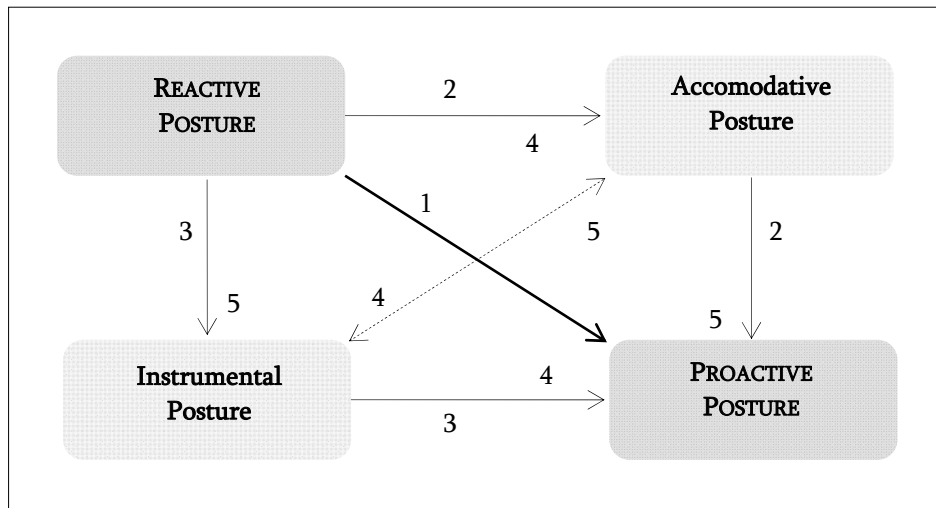
Starting from the summary view of the learning-based responsiveness process presented in the previous paragraph, what follow is a more detailed account of each cell's content and drivers of change.

Before presenting the model a clarification is due. Processes, usually far from straightforward, do not easily lend themselves to division into phases. At any rate, for the purpose of structure and systematization, organizational learning is assumed linear and sequential. Hence, our model may not necessarily apply to other contexts or at different levels of analysis, since events may occur at the same time or in a different order. Moreover,

it is not necessarily true that all firms necessarily experience all the stages of the theoretical model. The case I analyzed did not do it. To exemplify the theoretical categories introduced above and exploited in the section that follows, Eni shifted from a reactive posture where HSE responses were enacted into a mainly unchanged organizational context to an accommodative one where the need for strengthening the visibility on sustainability engagement was not followed by a consistent change in actual behavior. From the accommodative stage, the company shifted directly to the implementation of a proactive one, renewing sustainability portrait, commitment to attain it, and sensemaking style.

However, processes may occur following a different order (see figure 4.13) depending on the extent to which drivers exist that lead increasing layer of organizational complexity. For the same reason it is not necessarily through that a process has to start from reactive to proactive posture. There are cases in which the process stops even at the reactive stage or in one of the intermediate stages (i.e. accommodative or instrumental). In such cases, the lack of appropriate ways of sailing the change may cause persistence in misalignment among routine components and the inability to reach expected results.

Figure 4.13 – *Sustainability paths*



For clarity reasons a linear order will be followed in explaining a general path to sustainability integration, based on the findings of my exploratory research.

Reactive posture through resistance learning: though agreeing with a pro-social attitude toward the appropriateness and usefulness of sustainability, organizations in this preliminary responsiveness stage share an interpretation of sustainability as made of specific activities to be performed additionally to business activity in response to changes in institutional and political context, or to emulate competitors. In so doing they tend to give for granted their ability to satisfy market requests (Clarkson, 1995) and deny the need for taking sustainability into explicit account (Mirvis & Googins, 2006). Still based on the bottom line as an all-inclusive measure of success (Jensen, 2002), reactive firms act with the presumption of sailing in the right direction and even in case of criticisms from stakeholders, take a defensive stance toward outside pressures, insulating themselves from changes in their context of reference. In other words, potential feedbacks from the context in the field of social and environmental responsibility are not recognized or merely rejected as not justifiable (Basu & Palazzo, 2008). Based on a “it is just how business works” motto, resisting firms view voluntary engagement into sustainability as limited to specific themes and perfectly attainable based on existing capabilities and legacy of the past, when this is considered as evidently successful.

Firms in this stage have no justifiable reasons to challenge established ways of working and underlying understandings. Stakeholder pressures represent a generic background and reaction is taken unilaterally, leaving cognitive frameworks and behaviors mainly unchanged, at least apparently. In fact new knowledge acquisition occurs mainly through congenital learning, with actions greatly influenced by the attitude and nature of both decision makers and the whole organizations until that moment (Huber, 1991). Regardless of the effectiveness of past actions, the organization remains anchored to established ways of working and interacting with the context, taking marginally into account social and environmental issues as ad hoc addenda.

In such a situation, specific initiatives consistent with the broad sustainability paradigm can be rarely acknowledged by external audiences, unless in the field of process improvement efforts such as energy conservation, waste reduction, and pollution abatement (Hart, 1995; Klassen & Whybark, 1999).

Social welfare gains can certainly arise from corporate efforts to improve processes and so lessen waste and harm to the natural environment. However, the link sought between the

investment and the financial return is direct. [...] That is, the gains to CFP are sought through cost savings achieved from improving the efficiency of operations, not from improvement in stakeholder relations (Barnett, 2007: 800).

This is to say that, apparently sustainability-based activities are actually grouped within the investments in technology and process innovation aimed at improving operational efficiency. In terms of learning there are neither new frames nor new artifact or behavior related to sustainability in that such activities are run based on existing organizational frameworks.

Instrumental posture through engaging learning: engagement represents the second stage in the learning process of sustainability responsiveness. It finds its roots in the awareness of firms about having a role in society and the related need to gain reputation and legitimacy in order to preserve the “license to operate” into a certain context (Mirvis & Googins, 2006). Engagement often means nothing more than compliance with law or with requests coming from critical stakeholders, that is, stakeholder groups whose actions have the potential to constrain firms’ behavior (Donaldson & Preston, 1995; Frooman, 1999; Mitchell et al., 1997).

Accordingly, sustainability is interpreted in a more conservative way, as a cost to be sustained in order to avoid harmful consequences due to business potential impacts on social and environmental contexts. For this reason and different from the resistance stage, activities aimed at process improvements (e.g. waste reduction and so on) are associated to activities that go beyond mere efficiency consideration but are addressed toward risk management with respect to employment health and safety and environmental impacts (Zadek, 2004). The aim is to assure stakeholders who are primarily affected by firm operations, that potential harms are under control and firms will do everything to avoid or at least manage risks. In other words, firms in this stage share a substantially passive attitude towards CS matters, due to their unfamiliarity with the issue and a certain level of skepticism due to lack of understandings. However, different from companies in the resistance stage, the engaged ones are not at all suspicious, rather they recognize that certain economic and relational motivations (e.g., relations with trade unions, collaborations with public and local authorities) may induce them to implement protection programs. It is easier that such companies will be more attentive to external stimuli than the previous ones, so

that a boost from the external environment could encourage them to adhere to social and environmental programs (Perrini et al., 2006).

Preliminary engagement resulting from a process of awareness raising is still based on locally bounded learning processes, limited to “at risk” areas, such as, for example, production processes that have the most visible environmental impacts or the highest risks for employees’ health. However, firms at this developmental stage still tend to be reactive to emerging social and environmental issues rather than systematically anticipating changing situations (Clarkson, 1995).

When formulated, responses are typically adaptive, involving ad-hoc adjustments of procedures and behaviors to avoid known mistakes or take advantage of recognized opportunities (Post et al., 2002b). In other words, activities are implemented based on trial-and-errors exercises (Cyert & March, 1963), with changes in behavior in response to perceived feedbacks from the environment. Learning is mainly spontaneous rather than analytical, and often not governed by detailed plans (Miller, 1996). This does not mean that deliberate search is excluded; rather it is conducted remedially, opportunistically and in those areas in which external and internal requests for learning are more pressing (Lant & Mezas, 1992). As in the previous stage, experimental learning does not come together with shared understandings and common frames. Rather since action sometimes precedes analysis, it results in knowledge that is still local, fragmented, and thus harder to integrate (Miller, 1996).

Though locally bounded, adaptation challenges established ways of working at least partially. Since activities derive from stringent stakeholders’ needs and requests and are iteratively adapted to changing contexts, underlying modifications of routinized behavior is mainly small-scale, incremental replacements, with a limited departure from structural coherence (Akgün et al., 2007; Huber, 1991).

Accommodative posture through accounting learning. The entrance in the accommodative stage results in a shift from a “trust me” culture, in which stakeholders are assumed to place an implicit faith that corporations will act in their best interests, to a “tell me” culture, in which the needs of stakeholders to be reassured that firms will do what they claim is perceived (Perrini, 2006a). In this stage, organizations start feeling the duty to provide an

account or reckoning of those actions for which they are held responsible (Gray, Owen, & Adams, 1996).

Based on internal mapping of corporate impacts on social and environmental contexts and external scanning of the most relevant issues for stakeholders, firms start broadening their agenda by embracing more comprehensive concepts of CS as the ability to be held accountable for performance in areas other than purely economic ones (Wartick & Cochran, 1985).

Planning, funding and launching of social and environmental programs are typical of this stage. They typically start in ad hoc functional units and include internal and external inputs, an analysis of needs and opportunities, a plan for action, and proposals on budget and staff, all buttressed by a business case to sell the benefits to management (Mirvis & Googins, 2006: 113).

In an attempt to give credibility to their activities, firms certify their plants, adopt third-party accountability or reporting standards (e.g. AccountAbility 1000 or the Global Reporting Initiative), and start requiring statements and certifications from their suppliers (e.g., ISO certifications, product quality certifications, and certification of proper waste disposal). Moreover, codes of conduct and policies for human rights protection flourish.

Despite the increase in the breadth and depth of involvement, sustainability responses at this stage tend to be still accommodative, advanced on pressing requests from stakeholders and based on one-way stakeholder mapping in which the firms itself interpret requests from the context just based on its own understanding of what is happening outside. Moreover, requests tend to be accommodated using established organizational processes, since they are still emerging and thus do not posit enough pressure on organization behavior to change.

In fact, most firms at this stage simply collect and present data prepared locally by operating units who experience first-hand problems (Sharma & Vredenburg, 1998). These locally-bounded experiences are than just translated into organization-wide postures (Mirvis & Googins, 2006).

In other words, as a result of their inexperience with social and environmental issues and in order not to challenge too much operating practices, firms' responses are still mainly tentative, leading them to displaying both established patterns of behaviors and new one directed at redressing perceived misdeeds (Basu & Palazzo, 2008).

In this context, spontaneous learning emerging from direct experience and adaptive adjustments is associated with more systematic forms of learning, based on information gathering both from within and outside the firm (Miller, 1996). Operations are analyzed and the environment is scanned to discover key problems and opportunities, though still at staff level (i.e. at the level of CS unit or teams responsible for health, safety and environment issues). Moreover, the integration of new performance indicators or specific changes in order to be consistent with the requirements from certification institutes give raise to replacements of existing organizational routines (e.g., supplier selection processes, information gathering operating procedures). Such artifactual unlearning is not necessarily associated to fundamental changes in existing procedures since new information on sustainability-related issues is still locally bounded (Akgün et al., 2007) and disconnected from business. Finally, due to inexperience in dealing with responsibilities beyond merely economic ones, firms start to scan external environment to gather information on competitors' behavior and to enter into contact with experts through participation in forums, conference, and professional meetings (Mirvis & Googins, 2006).

Affirmative posture through embedding learning. The lack of internal coherence due to still locally bounded learning processes combined with an increasingly demanding competitive environment, push firms toward the embedding stage in which sustainability philosophy is integrated and institutionalized from top-to-bottom and throughout businesses (Weaver et al., 1999). Beyond mitigating existing adverse effects from business activities, firms start developing formal, boundary-spanning programs able to anticipate and systematically manage potential social and environmental impacts (Porter & Kramer, 2006). Different from what happens in the accommodative stage, responsible efforts are not limited to the adoption of external standards and certifications, but become more proactive and tailored to internal processes (Mirvis & Googins, 2006). As explained by Zadek when describing the changing attitude by Nike towards its responsibilities:

Nike and other leading companies in the apparel and footwear industries increasingly understand that compliance with agreed-upon labor standards in their global supply chain is difficult if not impossible without changes on how they set procurement incentives, forecast sales, and manage inventory (Zadek, 2004: 126).

Accordingly, former decoupled social and environmental programs become integrated into the structure and daily operations from top-to-bottom and throughout business, through assigning responsibilities for problems and solutions to managers of the core business (Greening & Gray, 1994).

Beyond such proactive attitude aimed at anticipating business impact on the context, organizations in the affirmative stage also become more attuned to evolving social concerns, through developing a systematic ability to interact with the environment not just to share possible solutions but also perceptions of the relevant issue with others, both internally and externally, in order to shape transformation collaboratively (Basu & Palazzo, 2008).

In other words, firms start developing a systematic, organization-wide ability to manage stakeholders: from mapping them to integrating requests and providing answers (Post et al., 2002b). They start from achieving an organizational understanding of who stakeholders are in their business environment. Such mapping is perceived as a necessary precondition of the ability to develop concrete, useful responses, customized to the context and its specific players. Moreover, given unavoidable resource constraints, mapping allows firms to set priorities in order to develop appropriate responsiveness programs that would take stakeholder instances into consideration. Finally, programs are monitored on a continuative basis, in order to make such orientation a continuous process and not just a spot activity. In other words, and different from previous stages, firms move beyond simply specifying a check, toward clear, measurable goals, with results monitored over time (Sharma & Vredenburg, 1998).

Such open, affirmative sustainability posture comes along with enrichment in underlying learning styles, in which self-referential analytic processes are paralleled by frequent interactive learning by bargaining and trading with peers, internal and external stakeholders (Cohen, March, & Olsen, 1963). As a results, learning processes based on direct experience becomes to be paralleled by forms of vicarious learning which stimulate competition between established frames and new ones coming from comparisons with the experience of others (Levitt & March, 1988). Open posture are supported by organizations' willingness to listen and respond to alternative perspectives offered by others. But this is not enough since interactive learning brings with it the risk of aiming at local objectives (Cyert & March, 1963), thus in contrast with a view of sustainability as integrated in daily business

operations. This is why it is often combined with more pervasive forms of learning involving changes and subsequent reconfiguration of organizational routines. Structural learning is fundamental in that it is not only able to guide behavior toward renewed organizational objectives but it can also help develop a shared understanding underlying the objective of learning (Hedberg, 1981; Nelson & Winter, 1982). Structural learning comes along with fundamental changes in all routines components, from artifacts to performance to understandings by organizational members performing them (Daft & Weick, 1984; Fiol & Lyles, 1985). This is the only way to take organizations away from their familiar domain into new operating paths (Greenwood & Hinings, 1996; Starbuck, 1996). Figure 4.14 presents the stage learning model of sustainability responsiveness described above.

Figure 4.14 – *A learning stage model of sustainability responsiveness*

Learning process	Key corporate response	CSR interpretation	Learning source	Possible artifacts	Routine – based dynamics	Organizational impact	Sustainability Posture
Resisting	It is just how business works!	Operational challenge	<i>Learning from direct experience.</i> Congenital learning Locally bounded	Efficiency-driven policies and programs	Absence of change in both understanding and performances	Local effect Operative levels	Defensive
Engaging	We won't do it, trust us!	License to operate	<i>Learning from direct experience.</i> Experimental learning Operative unlearning	Risk-reduction plans and policies Health, safety and environment initiatives	Change in performances Absence of change in understandings	Local effect Operative level	Instrumental
Accounting	Go ahead, ask me!	Managerial tool	<i>Learning from direct experience.</i> Analytic learning Adjustative unlearning	Monitoring and measuring tools Certifications and third-party standards	Change in understanding Absence of change in performance	Local effect Bottom-up	Accomodative
Embedding	It is just how we are!	Way of life	<i>Learning from direct experience.</i> Reinventive unlearning Analytic learning Structural learning <i>Vicarious learning</i>	Integrative managerial models	Change in both understandings and performances	Boundary-spanning Bottom-up Top-down	Affirmative

It summarizes the nature of the four stages by depicting the stage title, the corresponding key organizational response and sustainability interpretation, the related learning source and micro-dynamics (i.e. possible artifacts and related changes in performances and understandings), the impact of implemented artifact on organizational change and the corporate sustainability posture emerging from it.

4.6.3 Intervening dimensions and the shift from one stage to the next

External and internal forces interact at each stage, challenging firm's credibility, thus moving it to develop progressively more comprehensive and integrated social and environmental agenda. So far, theoretical and empirical research has identified different dynamics shaping corporate activities and the way firms interact with their stakeholders (Bies et al., 2007). Such dynamics refers to individuals, institutional and environmental dynamics and can be mainly grouped into two categories: one side includes what is within organizational boundaries and mainly refers to individual dimensions affecting the shift from one stage to the other; the other side includes what is outside organizational boundaries, that is, the whole set of external forces ranging from CS issues' maturity or prominence to policies, institutions, competition.

Despite relevant, the explanatory potential of such contingencies limit itself to explain internal and external "incentives" to behave in a certain way, or broadening and deepening responsibilities to a certain extent. They are more related to the decision to act and interpret CSR and sustainability in a certain way rather than to learning dynamics subsequent to a decision to act, determining changes in routine components.

Eni case gave me the opportunity to deepen my understanding about the factors predicting the shift in sustainability postures, putting emphasis on the strength of commitment to a change objective and the prevailing sensemaking styles at each stage.

The main underlying assumption is that factors can have an impact on specific routine components, so that it would be misleading to identify drivers of routine change without referring to specific components (i.e. artifact, understanding and performance). For example, the attainment of affirmative postures acting exclusively on target setting and related commitment would be not enough in that it would act on performances rather than

on both performance and understandings. At the same time, the initiation of collaborative sensemaking processes would not be enough in explaining the shift to an engaging learning process, given the fact that sensemaking style mainly act upon understandings rather than on actual behaviors.

The role of commitment to a change objective: The case explored reaffirms the critical role of commitment as critical in developing organization-wide attitudes toward integrating CS in corporate culture and operating routines (Basu & Palazzo, 2008). Research has clarified the role of organizational leadership acting as a driving force (Carlson & Perrewe, 1995; Greening & Gray, 1994; Paine, 1996; Parry & Proctor-Thomson, 2002; Weaver et al., 1999). Moreover, Weaver et al. (1999) have shown the differential impact of merely instrumental commitment, derived from external incentives, and normative commitment, which stems from internal and largely moral consideration. According to the authors, normative commitment is essential in determining firm ability to integrate responsible corporate processes into daily activities.

However, different from what predicted by emerging literature on organizational drivers of CSR and sustainability integration, my analysis shows that even the most enlightened top management cannot be enough in predicting proactive posture. Interviews and corporate documents show how a certain sense of responsibility toward the environmental and the local territories Eni operates in has always been perceived as a constant of corporate behavior. At the same time, this intrinsic orientation is mainly remained implicit and not visible to external and internal audiences since this commitment has turned into the definition of tight targets, concretely enforceable throughout the organization and able to be recognized both within and outside organizational boundaries (Huxham & Vangen, 2000). It is not a vague commitment to a change objective that can simply support the attainment of an expected result, no matter whether the top management is aligned or not. Support from the top is crucial but cannot suffice unless mapped into a visible objective able to mobilize organization-wide engagement (Schneider, 2002).

The strength of commitment to a change objective cannot be enough to drive an organization into sustainability integration. In fact, the opportunity to see its own contribution to an objective recognized and eventually reworded can represent a strong

incentive to behavioral change even without a consistent change in underlying understanding. This makes it necessary to introduce the second driver of change emerging from the analysis.

The role of sensemaking style. As organizations change, organizational members respond to uncertainties and construe their perceptions regarding goals, priorities and problems they should face engaging in a sensemaking process (Lüscher & Lewis, 2008). In fact sensemaking can be interpreted as an effort to create orderly and coherent understandings that enable change (Weick, 1995), since disparities emerges between expectations and new experiences to be faced (Balogun & Johnson, 2004).

In particular, the need for order becomes even more critical when a shift is experienced from tasks requiring only loose collaborations to hardly decomposable tasks, in which collaboration is needed among parts having contrasting interests and interpretations (Hatch & Ehrlich, 1993). This is what happened in the case I analyzed. Shifting through stages of sustainability integration, targets become increasingly demanding in term of required coordination among previously self-defined division- and site- based policies, programs and projects, as well as involvement of external stakeholders in framing problems and related solutions. In fact, different from reactive responses, more affirmative ones act upon broader sustainability interpretations (i.e. interpretations that cover a broader set of themes), thus affecting a corresponding broader set of organizational processes.

In this context, how has the company converged to an organization-wide sustainability portrait? In more details, how have those experiencing the “challenge of grasping a change they did not design and negotiating the details with others equally removed from the strategic decision making” (Balogun & Johnson, 2004: 543) been aligned around a corporate-wide objective?

Looking at the way sensemaking process has evolved through stages could help answering this question. Findings show how organizational sustainability models have evolved accordingly with corporate interpretations of its role in society. In particular, over time there has been a movement towards both considering sustainability as an integrative part of business activities and to collaborative approach to decision making. Accordingly, the increasingly strong effort by corporate departments, divisions and operating units in

contributing to corporate sustainability attainment has been supported by progressive interactions explicitly aimed at enhancing awareness of mutual expectations.

In other words, as tasks become more complex and interdependent, finding more occasions to discuss and negotiate to achieve shared understandings, consensus on a shared representation structure, as well as on the different roles and responsibilities of individuals facilitates change in organizational understanding (Morsing & Schultz, 2006), through managing ambiguity as demands become open to varied, even contradictory, interpretations (Argyris & Schön, 1978; Lüscher & Lewis, 2008).

Therefore, changes in abstract understandings underlying a routinized task increasingly embedded into the organizational structure may be facilitated by a shift from self-referential sensemaking, in which resulting interpretation are hardly more than the sum of single organizational units interpretations, to collaborative sensemaking, in which shared understandings are developed collectively. Different from loosely-coupled, self-referential sensemaking, collaborative one occurs when individuals process information, integrate and interpret it, but relying on social interactions order to support the creation of an organization-wide interpretation.

4.7 Summary and conclusion

CS is increasingly considered a strategic option for firms who are able to integrate it into ordinary processes and interactions with stakeholders (Porter & Kramer, 2006). Despite considering sustainability integration as intrinsically process-based (Mirvis & Googins, 2006; Zadek, 2004), there is still a tendency to take for granted that CS is a corporate-wide disposition, without questioning how certain sustainability portraits have emerged. Such assumption has been both cause and consequence of the progressive accumulation of a number of quantitative studies linking inventories of CS and CSR activities to economic and financial performance measures (Basu & Palazzo, 2008).

As a consequence, content-based approaches have often left unobserved the organizational dynamics occurring after the decision to implement a sustainability-related artifact is taken. Proposing a new direction in CS research, through opening the black box of

responsiveness postures, my paper reconstructs the learning dynamics underlying CS postures characterized by an increasing layer of complexity in term of need for change established ways of performing and understanding sustainability-related procedures.

Starting with a definition of organizational learning as resulting from the dynamic interactions between routine components, we described the process by which an organization shifts from a merely reactive posture toward sustainability to an integrated managerial approach able to propose proactive, affirmative answers to CS issues. In so doing, I associated to a traditional CS content-based account (i.e. the evolution in CS portrait over time), one based on organizational dynamics by which old beliefs and understandings were progressively replaced by new ones resulting from the introduction of subsequent waves of sustainability-related artifacts, based on increasingly broader and deeper CS definitions.

In summary, the analysis shows that integrating CS into business operations is more than adopting managerial or certification tools. The path to sustainability integration can be divided into stages characterized by increasing recognition of the need to move away from the legacy of the past and take deliberate change-oriented actions. Moreover reactive unilateral approaches representative of partial views of what sustainability is and how should be shared with stakeholders are progressively replaced with collaborative responses by which concerted, organization-wide perspectives emerge.

Shifting from a content-based CS analysis to the internal learning dynamics, the study shows that regardless of the CS stage an organization is in, the decision to implement a certain CS artifact does not turn directly into a corporate posture, that is, how firms are likely to respond to sustainability-related challenges and interact with stakeholders. On the contrary, artifacts, mapping a specific CS interpretation, are translated into organizational arrangements, which differ in the extent to which they challenge established procedures, roles and responsibilities. In this context, artifacts may be classified as more or less challenging depending on their impact on how they are enacted, that is on artifact-related understandings and actual performances. Building on recent work on organizational routines (Feldman, 2000; Feldman & Pentland, 2003) as multi-part dynamics systems, my study rejects that view according to which designing artifacts is enough to generate desired patterns of action (Pentland & Feldman, 2008). Eni case showed that despite intentions to be proactive toward sustainability, sharing renewed interpretations was not enough until

consistent changes were implemented into the structure, as to realign understandings and behaviors throughout the organization.

The ability to answer to sustainability challenges is organization-specific and results from a learning path by which experience is accumulated, as well as behaviors and understandings consistently changed. As a result, findings highlight how the attainment of an expected posture greatly depends on the extent to which the organization changes consistently with the decision to act.

This process does not occur in a vacuum, but is affected by specific intervening dimensions. The analysis sheds light on the joint impact of commitment strength and sensemaking styles characterizing the organizational context in which decisions to act are taken. On the one hand, the extent to which CS targets are well defined, clearly visible and tightly enforceable within a coherent organizational structure impacts on the extent to which established behaviors are likely to change following the introduction of a certain CS artifact.

But this cannot be enough to reach true integration. In fact, tight objectives can represent a strong incentive to change behavior even in absence of changes of abstract understandings and cognitive frames underlying changed behavior (Argyris & Schön, 1978). On the other hand, the way organizational members give sense to change process can affect the way they perceive their role and behavior in shifting contexts. In particular, the development of an organizational ability to stimulate collaborative sensemaking acts as a stimulus for shared meaning emergence able to cope increasing complexities due the un-experienced presence of multiple, competing interpretations. The combination of tight commitment and collaborative sensemaking emerges as linked to the ability of firms to definitely shift to open, affirmative postures, through aligning change in both behavior and underlying understandings.

* * *

The qualitative investigation helps clarify a number of still partly unanswered questions, concerning the organizational and managerial challenges of shifting to integrated sustainability approaches.

First of all, the analysis of the evolution of CS over time has allowed me not only to propose an evolving model of CS portrait, but above all, supported the view according to

which simply documenting CS-related activities without understanding what is happening inside is unlikely to reveal differences among firms in term of organizational ability to attain expected results (Barnett, 2007; Pentland & Feldman, 2008; Snider, Hill, & Martin, 2003). Accordingly, simply designing new sustainability managerial tools is more than creating new checklists, rules, procedures, and softwares. A complete picture of the dynamics by which a decision to act is translated into a responsiveness posture cannot ignore those who will enact the new artifacts, their understandings and behaviors. Artifacts are more than pre-defined tools easily adoptable by interested firms regardless of firm-specific conditions and characteristics. On the contrary, they are the result of organizational perceptions about what sustainability means and the antecedents of more or less pervasive learning dynamics by which organizational members' understandings and performances change, either in the same or different direction.

A failure in acknowledging all the routine components and the impact of new artifact introduction on each routine component can hinder a comprehensive understanding of corporate ability to attain expected results and benefit from CS as expected.

Moreover and with specific reference to the learning processes coming out from different decisions to act, this study contributed to clarify the extent to which artifacts engender different learning processes. In particular, the study grouped together reactive and proactive postures, in that characterized by alignment in routine components, as opposed to accommodative and instrumental postures in which a misalignment between routine components prevails.

Finally, in so doing it was possible not only to describe corporate responsiveness process in terms of dynamics of change in routine components, but also highlight the driving factors underlying the attainment of alignment vs. misalignment in routine components at each stage. In particular, differing from previous studies focused on the antecedents of decisions to act or specific CS activities, the role of the strength of commitment to a change objective and the importance to coherently shape sensemaking processes are shown.

Summarizing, this study contributes to existing debates at least in two areas. On the one hand, the analysis of learning processes underlying a certain decision to act responsibly helps clarifying still unexplored contingencies at the basis of the "business case for CS"

paradox. Moreover, beyond theory building, the study has relied on a methodology scarcely adopted in the business and society field (Harrison & Freeman, 1999).

On the other hand, embracing a definition of routines as multi-part systems, my study builds on and extends research on routines as potential drivers of organizational change (Pentland & Feldman, 2005). In particular, introducing a process-based view of routine dynamics, it extends current understandings of both the interactions among routine components and the factors producing alignment or misalignments, thus facilitating or constraining change in the expected direction.

* * *

The study suffers from the usual limitations associated with case-based research, which trades statistical significance for richness, accuracy, and insights into observed processes (Langley, 1999). However, even missing statistical significance, this study has analytical generalizability in that its purpose is to generalize a particular set of results to some broader theory (Yin, 2003). Moreover, triangulation of existing data sources allowed a coherent justification for emerged themes. Finally, despite remaining within the same company, the analysis was performed comparing different corporate responses, thus improving the generalizability of learning-based dynamics, given conditions comparable to those analyzed.

Additionally, it is hard to exclude the possibility that specific traits of my research setting – a leading organization operating in a particularly sensitive industry with highly idiosyncratic historical evolution and interested into the adoption of a specific CS artifacts – had an impact on how the observed processes unfolded. In other words, it is not unreasonable to argue that the history, unique industry and positioning, peculiar organizational features and industry-specific issues have provided informants with a context-specific sense of what has gone and is going on in the company they belong to. It is not unreasonable to argue, however, that such dynamics and distinguishing character may simply increase the visibility of processes that occur less visibly elsewhere.

Finally, organization as a whole has been considered as the locus of organizational learning dynamics formation. However, learning is intrinsically a multi-level phenomenon, so that dynamics occurring at the individual, group, organizational and inter-organizational level could have had an impact on the company-specific sustainability paths. I recognize it as a source of potential bias in the analysis, even in spite of the size, number of different

activities performed and countries in which the company we analyzed operates. Accordingly, I attempted to control, at least partially, this risk by selecting corporate level artifacts to be analyzed and informants who could provide information richness and comprehensive perspectives on change dynamics.

* * *

The learning-based model of CS integration draws from close observation of specific sustainability-related artifacts (i.e., managerial models for sustainability) in one organization, but suggests that strength of commitment and sensemaking style may be key factors in explaining the ability of organizations to shift from postures through their impact on routine dynamics. Future work could look further at the implications of commitment and sensemaking not just on decisions to act responsible but also on routine performance and CSR and CS organizational outcomes. Several questions are opened up for further study.

First, while figure 4.11 simplifies both commitment and sensemaking in two extremes, respectively vague vs. tight and self-referential vs. collaborative, future research could deepen the co-evolution between each one of the dimensions and performances and understandings. Moreover, though sensemaking has been considered as an organization-wide process, it clearly can occur at different levels within the organization, or involve specific organizational units. The contribution of different, coexisting sensemaking styles on routine performance could be disentangled in future studies.

Additionally, this study proposes a longitudinal reconstruction of learning stages experienced by a single organization. However, processes may differ at least in two ways: with respect to both the number of experienced stages and the followed order. Between-case comparison, even in the same industry, among oil majors, could provide further generalizability for the drivers highlighted in this study. Moreover, contingencies affecting the speed of sustainability implementation could emerge.

Beyond between-case longitudinal comparisons, the in depth analysis provided in this study gave a deeper look into the characteristics of each stage of a general responsiveness process, both in term of CS content and underlying dynamics. This could help identify comparable cases, through which designing a quantitative account on the impact of both commitment and sensemaking style on corporate responses.

Finally, my study has been explicitly addressed toward an analysis of learning dynamics underlying sustainability integration. Corporate posture, from reactive to affirmative, has represented my performance outcome. Starting from this, further studies could be interested in deepening the role of alignment or misalignment between routine components on different performance outcomes, such as the ability to answer to specific stakeholder requests, the ability to restore corporate image and reputation after a crisis, or corporate competitiveness compared to pairs.

PART III

CONCLUDING REMARKS

CHAPTER 5

Rewrap and conclusion

Heading the call for reorienting current debate away from the business case for CSR and CS, this study aimed at building on and extending research on the contingencies intervening on how organizations respond to their perceived role and responsibility in the context in which they operate. Accordingly, my work has been divided in two sections, one theoretical and the other empirical.

In particular, following the overview of the thesis and underlying motivations provided in *chapter 1*, *chapter 2* aimed at painting a comprehensive picture of the state of the art in the business and society field, in order to highlight open questions. Two emerging research directions surfaced from literature review. On the one side, debate is moving away from all-inclusive measures of CS to be linearly correlated with performance measures. On the contrary, research aimed at unpacking the CSR-CFP link is growing, in an attempt to remain aligned with increasing heterogeneity in corporate responses to social and sustainability issues. More and more studies are converging toward those mechanisms able to disentangle the contribution of specific CS tools, activities or behaviors on the ability of firms to benefit from them. As a consequence, the underlying drivers of performance impact associated to CS are slowly emerging, showing the multiple levels of analysis at which performance consequences can be appreciated and evaluated. On the other side, a growing concern on the usefulness to continue asking whether and to what extent CS pays off can be noticed. In this context, the sophistication of corporate practices is stimulating questions on the challenges of integrating social and environmental concerns into daily operations and interactions with stakeholders. In this context mainstream literature on organizational learning and change offered the opportunity to open the black box of responsible postures, shedding light on the path that link the decision to act responsibly in sustainability-related areas and performance. Despite growing interest in a process-based view of corporate

sustainability, this remains mainly theoretical and based on anecdotal examples, thus opening the door to further, deeper examination.

Literature review posited the basis for the second part of the thesis, in which two empirical pieces were presented, respectively on the nonfinancial disclosure antecedents of corporate social performance and on the learning dynamics underlying the shift from reactive to affirmative sustainability postures.

In more details, *chapter 3* focused on the role of social, environmental and sustainability reporting (i.e., nonfinancial disclosure) as predictor of corporate social performance. Going beyond definitions of nonfinancial disclosure as a univocal construct, a stakeholder-based model relating the level and structure of nonfinancial disclosure to corporate social performance was presented and tested. In fact, the paper advanced the idea that if nonfinancial reporting is conducive to a stronger ability to manage firm's social context of reference, than the better firms are at systematizing CSR and stakeholder relationships through disclosure the stronger the corporate social performance they are able to obtain. Based on content analysis to obtain disclosure-based measures and on regression analysis performed on a sample of 114 firm-year observations, the quantitative analysis shows how a finer grained view of nonfinancial reporting could be helpful in clarifying how companies should structure disclosure to benefit the most from it. In fact, superior performers are those able to extent their attention over a broader set of stakeholders and related areas, as well as combine high engagement and balanced coverage of diversified interests. The study contributed to existing debate at least in two areas. First of all, it empirically tested the impact on nonfinancial disclosure on performance, highlighting what mattered most between disclosing as more information as possible and giving appropriate structure to disclosure. In this context, despite considering disclosure and reporting as crucial steps toward improved stakeholder-firm dialogue, their performance consequences are still largely matter of open debate. Second, the study provides further corroboration of the extent to which firms rely on disclosure to mirror what they do as opposed to how they would like to be seen. Different from previous research, the analysis showed that the negative impact of disclosure on performance supported by few existing studies may be due to a failure in appreciating the many facets of corporate disclosure.

Shifting to a different yet related perspective, chapter 4 incorporated organizational learning perspective into corporate sustainability responsiveness research. Though sharing an increasing recognition of the need for integrating CS into daily practices, mainstream research has often used social responsibility and social performance interchangeably, neglecting both the path linking certain decisions to act responsibly to the attainment of a related posture and the organizational dynamics underlying the shift from one posture to the next.

On the contrary, presenting the longitudinal reconstruction of a large oil and gas company's experience in corporate sustainability, my study disentangled the different stages of the path to sustainability integration, opened the view on the learning dynamics occurring at each stage, and clarified the drivers hindering or facilitating the process.

By reconstructing the subsequent waves of implemented managerial models for sustainability, findings highlighted the growing sophistication of corporate sustainability agenda in terms of both themes included and organizational processes involved. Early predominantly self-referential, episodic responses aimed at improving efficiency and strengthen competitiveness were progressively replaced by coordinated, systematic actions, integrated into corporate value propositions and addressed towards setting the basis for competition. Passing from reactive, to accommodative to affirmative responsiveness posture the organization upgraded its social adaptation capabilities by changing the configuration of roles and responsibilities, integrating internal decision making and response mechanisms, improving its ability to dialogue with internal and external constituencies in a deliberate, systematic way. In so doing, initial almost exclusive reliance on past successes and experiences left room to the promotion of collective actions aimed at renewing corporate ability to address society's concerns.

Subsequent commitments to attain more or less affirmative postures, mirrored in specific organizational arrangements, were linked to micro-level changes in procedure-related behaviors and understandings. In particular, defining routines as the loci of learning profile formation, sustainability learning process was described in terms of stages of alignment and misalignment among routine components, that is, actual performance by those enacting routines and abstract underlying understandings. In particular, alignment in routine components characterized reactive and affirmative stages, while misalignment appeared as

specific of accommodative and instrumental postures, in which corporate inexperience with the issue favored either cognitive or behavioral change. Two organizational aspects emerged as having diverging impacts on different aspects of routine. In particular, the strength of commitment to a clear, tight change objective was particularly relevant in determining change in sustainability-related performances, that is, actual ways of enacting sustainability-related procedures. On the other hand, collaborative sensemaking was crucial in stimulating cognitive changes and understandings related to corporate attitude toward sustainability issues. The combination of tight objective and collaborative sensemaking was found as relevant in attaining an affirmative posture able to generate open, proactive responses to emerging social and environmental concerns.

Advancing a process-based view of the learning dynamics underlying corporate sustainability integration the contribution of my qualitative account was twofold. On the one hand, adding a process-based dimension to the study of sustainability posture, it highlighted learning-based contingencies underlying the ability of achieving expected outcomes. In this sense, firms interested in achieving an integrated, affirmative posture should be able to coordinate organization-wide responses, combining top-down coherence with bottom-up information richness. On the contrary ad hoc, unsystematic activities based on self-referential decision making would support firms in gaining short-term, situation-, and issue-specific credibility. On the other hand, the paper contributed to the extant literature on organizational learning providing empirical investigation on how learning occurs and evolves in situation characterized by increasing complexity and coordination requirements. In other words, my research contextualizes organizational learning into a firm-specific domain, though purposefully remaining at a specific level of analysis, that is, the entire organization. More in details, building on and extending the most recent debate over routines as a source of change, the paper provided a unique longitudinal investigation of the interplay between routine components, corroborating the need to advance a broader view of routine functioning in order to understand how to design artifacts. In so doing, the drivers of routine components' alignment or misalignment are presented, providing a further hint in dimensions hindering or facilitating organizational change.

Despite offering different perspectives on how business actors can face the daunting challenges posited by an increasingly complex political, social and institutional environment, the studies proposed in this thesis project shared the same assumption. CS phenomenon has achieved such a dimension and relevance both in corporate and political agenda that the shift away from simplistic assumptions over the link between social or environmental and economic-financial performance is increasingly stringent. Reorienting empirical and theoretical investigation toward a deeper understanding of what it means to succeed in CS, disentangling its specific dimensions, would allow keeping academic debate a bit nearer to real world situation, bootstrapping a cultural shift toward *walking the walk* of CS.

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