Sensemaking and Reframing: Enabling Socially Responsible Decision Making

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Abstract

Corporate social responsibility is broadly defined as corporate choices and behaviors that go beyond firm-specific economic benefit. Decisions, whether considered socially responsible or socially irresponsible, are typically constrained by past corporate practice, government regulation, and stakeholder or stockholder expectation, yet are still founded on managerial discretion. The decision-making and sense making of corporate executives must be examined to understand how these processes influence corporate social responsibility.

This paper seeks a synthesis from the literatures on sense making, decision making, and corporate citizenship to examine how corporate executives interpret and understand underlying forces and constraints regarding corporate social responsibility. A fundamental re-framing of the decision-making context and sense making seems necessary to change corporate focus to include more awareness of social, moral, and political factors. Understanding that these *soft* forces often translate and transform into *hard* economic forces is a sense making translation that may encourage corporate decision makers to make socially responsible decisions. This paper concludes by discussing the implications of sense making and fundamental reframing to corporate decision making and corporate social responsibility.

INTRODUCTION

Corporate executives are challenged to balance and satisfy the demands of various stakeholders (Mitchell, Agle, and Wood, 1997), yet all firms face economic and other demands that constrain their willingness or ability to undertake socially responsible behavior. Corporate social responsibility is generally defined as corporate choices and behaviors that go beyond firm-specific economic benefit, although it is important to acknowledge that these *corporate* choices are in reality choices made by individuals or groups of individuals. The decision-making and sense making processes of corporate executives must be examined to understand how these processes influence corporate social responsibility. This paper seeks a synthesis from the literatures on sense making, decision making, and corporate citizenship to further understand corporate social responsibility

SENSE MAKING

Stories are often the only information we have to explain or understand corporate behaviors or decisions (Wilkins and Thompson, 1991). Employees make sense of phenomena in their workplace by telling stories to explain their experience (Bruner, 1990). Stories assist in describing and making sense of corporate practice (Boland and Tenkasi, 1995), although individuals often offer personal interpretations of the reasoning behind corporate behaviors, which may or may not have any foundation in *reality* (Tenkasi and Boland, 1993). Shared organizational stories are a primary means of collective sense making in most organizations (Boyce, 1995), creating a shared sense of reality for many, especially if the events are complex, perhaps contradictory, and open to multiple explanations (Brown, 1994). Significantly, because stories themselves can have multiple meanings, organizational members and other stakeholders have choices in how they interpret the stories they hear (Thatchankary, 1992), and organizational leaders have choices in how they *spin* organizational behaviors (Berry, 2001).

Sense making is the "process of reflecting on experience and interpreting the meaning of events" (Gephart, 2004: 23), and this process is relevant to understanding how corporate behaviors are envisioned and accepted by various stakeholders. Sense making plays a role in environmental management, stakeholder management, and decision making regarding corporate social responsibility. Many corporations are challenged in finding congruency with stakeholder expectation, especially as these expectations are confounded by constantly shifting economic, social, and political norms (Reich, 1998). Corporate executives need to tell convincing stories regarding corporate behavior to satisfy most if not all stakeholders, although satisfying all stakeholders all of the time is not possible, or probably even desirable. Organizational decision makers usually have some discretion in how the organization satisfies stakeholder expectations, although in some instances, as with some government regulation, the behavioral expectation can be very specific. This flexibility in how to interpret corporate behaviors, and in what stories are told about the meaning of corporate behaviors, assists corporate decision makers in managing this myriad of stakeholder expectation and demand.

Different stakeholders hear different stories

Corporate responses to stakeholder demands can be formulated in social, political, and ethical terms, as well as in economic terms. Organizations have "a plurality of stories and story interpretations in struggle with one another" (Boje, 1995: 1001), and so multiple interpretations seem inevitable for any given behavior by organizations. Because stories reflect individual or collective sense making (Weick, 1995), dissimilar stories or expectations may coexist or even compete for dominance within an organization (Boje, 1991). Different stakeholders apply distinct criteria in evaluating corporate performance; issues or behaviors that are significant to some stakeholders may be irrelevant to other stakeholders. One action can have multiple explanations and meanings and thus several stories about a single behavior can be told, and if told convincingly these different stories can satisfy several audiences. For example, a reduction in smokestack emissions may be explained to stockholders as proof of improved efficiency in the production process (thus less waste and less cost), yet this same reduction in smokestack emissions may be explained to community or environmentally activist stakeholders as a socially responsible desire to reduce odor and smoke. The single action is explained as purely economic to some stakeholders, but as an ethical or social concern to other stakeholders. Unanimous stakeholder endorsement of corporate behavior is not required to achieve organizational effectiveness (Elsbach and Sutton, 1992), so organizations can be selective regarding which stakeholders they respond to as well as the actions they undertake or stories they tell to satisfy these stakeholders.

In some industries or individual firms, stakeholder demand for pro-environmental or improved corporate citizenship behaviors represents an expectation for behavioral changes. The corporation may view these demands as easily resolved through new explanations and stories, without a change in behavior or practice being required. Importantly, the corporate behaviors may or may not change even though the stories or explanations about these behaviors do change. Part of the sense-making process is in determining which stakeholders are important and relevant to the corporation, or to the decision makers of the corporation (Mitchell, Agle and Wood, 1997), so changing perceptions regarding who or what is important may result in changing behaviors and/or stories to satisfy the stakeholders perceived as important. Stakeholders concerned with influencing corporate behaviors and actions regarding corporate social

responsibility, corporate citizenship, or environmental management must be considered relevant and important by corporate decision makers to have their concerns *heard*.

SENSE MAKING AND THE DECISION MAKING PROCESS

Corporate behavior is often constrained or compelled by government agencies and regulators, but behaviors considered socially responsible generally go beyond the minimum regulated requirements. Socially responsible behaviors are often discretionary behaviors, yet stakeholders with social, political, or ethical concerns often have a difficult time in gaining sufficient power or attention to gain executive awareness of their issues.

The Decision-Making Process

The generic decision-making process has four common steps. Problem definition is usually identified as the first step in decision making (Nutt, 1993), and this initial framing provides focus for the rest of the decision-making process. The decision maker or decision-making team must be careful to identify the core problems and not merely focus on symptoms. Because problems are rarely well defined, decision makers need to understand key features of the problem or problem context before generating hypotheses or formulating options, and especially before reaching conclusions about action. Sense making affects this first step by constraining or expanding the context considered relevant or important, and in determining the goals or the stakeholders to be considered during the decision-making process.

The usual second step in decision making is to identify criteria and evaluate alternative solutions to the problem (Nutt, 1998). If the sense making about problem definition is faulty, it is unlikely the alternatives chosen or the ultimate decision itself will be satisfactory. Evaluation criteria commonly used at this stage include measurable benefits, costs, timeliness, and acceptability to significant stakeholders, although classical decision theory suggests that maximization of expected economic utility still overshadows all other considerations (Beach and Mitchell, 1996). This second step can be confusing because decision makers are typically are driven by multiple goals, and may make sense of data in idiosyncratic ways depending on their vested interest in decision outcomes. Decision making can be a

disorderly and confusing process, but the critical reality of step two is that final decisions are only as good as the quality of the alternatives generated, which in turn are only as good as the understanding of the problem itself in step one. Sense making affects the second step because of the differing perceptions of stakeholder significance, and the consequences or outcomes anticipated by the decision maker or the decision-making team.

A common third step in the decision-making process includes sharing information and building consensus among stakeholders regarding decision criteria and alternatives (Gruenfeld, et al., 1996). The choice of decision criteria often equates to final decision choice. Depending on the number of people on the decision-making team, this step enhances the possibility of successful implementation because all decision makers understand the choices or alternatives available, the reasoning for the criteria chosen, and thus are more accepting of the decisions made. Sense making affects the third step because different stakeholders consider different criteria or outcomes as significant, and will weigh their criteria accordingly.

Implementation of the decision is the fourth and final step in this simplified decision-making model (Schneider and Shanteau, 2003). The effectiveness of the implementation process and the decision itself may be evaluated during this step, which may also include a feedback loop that informs any and all prior stages. Different stories may be told at this stage to different stakeholders even if explaining the same chosen behavior. Sense making affects the fourth step because results and consequences of a given decision are also filtered through the lens of personal sense making, and different stakeholders may well view the same corporate behavior in significantly different ways.

Broadly speaking, decision making involves choice between identified alternatives, as well as choice between various decision criteria. Executives or decision-making groups have at least some autonomy in terms of choosing alternatives or criteria. The choice of criteria by decision makers is the most critical factor in understanding how decisions affecting corporate social responsibility are made. Decisions processes that include consideration of social, political, or ethical forces or factors should result in increased corporate social responsibility. Conversely, if corporate decision makers are concerned with

criteria only supportive of economic goals, then it is unlikely the corporation would pursue socially responsible outcomes, except incidentally.

Decision quality and process is also influenced by various organizational characteristics including structure, culture, leadership style, and time constraints (Chu and Spries, 2001; Hedlund, Ilgen, and Hollenback, 1998). Decision makers often work in uncertain and dynamic environments. Necessary data may not be available in a timely manner, or at all (Lipshitz and Strauss, 1997). Data accuracy may be questionable, ambiguous, or conflicting (Orasanu and Connolly, 1993; Schmitt and Klein, 1998). Time is often a critical factor in a dynamic task environment (Schneider and Shanteau, 2003), and a shortage of time at any step of the traditional four-step process typically results in less than optimal results.

Sense making and group decision making

Group decisions often have superior quality because groups collectively possess greater amounts of information, knowledge, and expertise, and are able to examine a greater numbers of alternatives (Nahavandi and Aranda, 1994). Groups can solve the problem of having too much information for a single person to collect or understand, as well as the problem of individuals being too personally vested in protecting their own territory or power to fairly evaluate options (Beach, 1997). Groups often have a stronger influence over their collective environment and command more resources than do individuals, and so can aid implementation because all decision-making group members have better understanding of the problems and alternatives available. Additionally, group members sometimes have a synergistic effect on each other as they correct and amplify ideas put forward by others.

The disadvantages of group decision making generally result from the difficulties common to group process, including social pressures to conform and minority domination. Importantly, a single individual can significantly affect a group socially responsible decision, either positively or negatively, but only if they are able to withstand group indifference or pressure. Groups incur coordination costs including the time required to schedule meetings and to coordinate and manage the contributions from group members. Given the seemingly constant need for speed in decision making, this factor looms large.

Increasing diversity in the group should result in an increasingly broad array of perspectives brought forward by these individuals, a significant benefit in the second step of the decision-making process, but can also result in added difficulty in reaching consensus (Hedlund et al., 1998). Simplistically and typically, the larger the decision-making group the larger these process issues loom.

STAKEHOLDER THEORY

Stakeholder theory suggests that corporate decision makers should attempt to satisfy the demands of multiple stakeholders and not necessarily focus exclusively on profit demands from their stockholders (Clarkson, 1998). Stakeholder theory also encourages a broader social and political perspective from decision makers as they examine and justify their behaviors (Pichardo, 1997). A stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984: 46). Clearly, stakeholders are not only affected by corporate practice, but can have influence on corporate practice. Of course, some stakeholders are only acted upon, while others only act upon the firm, but most stakeholders fall somewhere between the extremes of this continuum.

Primary stakeholders are identified as those "without whose continuing participation the corporation cannot survive" (Clarkson, 1995: 107). Organizations need to satisfy a majority of the concerns of primary stakeholders if they expect ongoing success (Logsdon, Wood, and Benson, 2000; Carroll, 1995). Secondary stakeholders are often identified as those who self-identify an interest in the processes or outcomes of corporate behavior and may include unions, government agencies, the media, and activists. The relevance or importance of any specific primary or secondary stakeholder shifts as organizational needs or priorities change (Mitchell, et al., 1997). Stakeholder theory is a useful management tool because it assists with understanding the relationship firms have with various constituents, and suggests attitudes, structures, and practices to meet the needs and expectations of these constituents (Donaldson and Preston, 1995).

The corporation does not control who their stakeholders are, although executives often have choices regarding how they manage the stakeholders they recognize and consider salient. To be considered

important by corporate decision makers stakeholders must be considered legitimate by these decision makers, and have sufficient power to create a sense of urgency about their concerns (Mitchell, et al., 1997). Power is "inextricably tied up with the capacity … to make a difference" (Orssatto and Clegg, 1999: 276), and thus without the ability to affect or sanction corporate behaviors, a stakeholder is powerless. Consequently, many stakeholders including those with social, political, or ethical demands are often ignored because they are perceived as powerless or illegitimate as corporate decision makers focus on their more powerful economic stakeholders.

Communities, for example, are often ignored in corporate decision making even though considered by some scholars as primary stakeholders (Rowley, 1997). Most communities have limited access to political, legal, financial, or scientific resources (Taylor, 1997), and thus do not have sufficient power to force their issues as relevant or important to corporate decision makers (Beamish, 2001; Taylor, 2000). Pragmatically, most corporations deal with their local communities through discretionary efforts at public or community relations, after decisions are made (Jones, 1995). This is not only a loss of opportunity but if corporate decision making about the power of the community or other stakeholders is faulty can occasionally result in serious costs for the organization is permits are lost, or facility construction is delayed or derailed (Berry, 2003).

IMPLICATIONS

This research raises questions about the relative power and control exercised by various stakeholders over corporate decision making, including corporate plans and industrial externalities. Corporations can lose control over their time-lines, planning, and economic strategy if they ignore the possibility of legal, social, or political pressures to force reconsideration of corporate responsibility and behavior. Increased non-economic stakeholder power creates uncertainty for corporations because it broadens the traditional economic and legal sense-making discussion to include social, political, and ethical issues. Decision-making uncertainty could be created by legal challenges mounted by a community, for example, regarding the burden of industrial externalities borne by the community (Berry, 2003). Economic and legal considerations still overwhelm all other corporate decision-making concerns, yet the progressive

organization should acknowledge that the issues and stakeholders to be included in corporate decision making and sense making have expanded. This expanded knowledge base should enable better decision making because of better sense making and problem definition, a wider range of alternatives and factors to be considered, and hopefully more support for implementation. Better decisions, in some cases, should lead to higher levels of corporate social responsibility. The trend seems clear that corporations need to consider more than firm-specific stockholder benefit if they wish long-term corporate sustainability.

CONTRIBUTIONS

Contributions to Stakeholder Theory

Power constantly shifts between multiple stakeholders. Thus, a generic listing of primary and secondary stakeholders is not overly useful as an evaluation tool for any given corporation. The primary stakeholders could be community activists, other environmental activist groups, government agencies, or even the power of the court system, although of course some stakeholders are more significant than others depending on the company or the specific situational context.

Contribution to Understanding Stakeholder and Corporate Interface

Previously ignored stakeholders, such as environmental, media, or community groups who have different values or even anti-development agendas in some cases, and are increasingly able to create sufficient power to challenge corporate strategic plans. Higher standards of responsibility and stewardship toward the natural environment, or being aware of the needs of communities, for example, are commonly becoming an expectation of corporate sense making and decision making. Changes in technology and information have expanded the power of many stakeholders, and communities, for example, now have access to information and networked support including money, knowledge, and organizational skills that was previously not available to them. Some stakeholder groups are much stronger and have gained sufficient power to influence the economic discussion at the corporate level, and this trend seems unlikely to abate.

Contribution to understanding corporate decision making

Simplistic economic-based decision-making models are ineffective and possibly dangerous to corporate well being because a multitude of stakeholders and stakeholder needs are ignored in the stockholder-first model. *Hard* economics and financial calculations may have to share significance in corporate decision making with *soft* social and ethical concern in coming decades, and this means more than just placing additional emphasis on public relations and image management. The classic decision-making model suggests that goals are set, options are identified and criteria set, then analysis is done to determine the choice with the highest economic return. The criteria have changed, and decision-making executives can no longer ignore social, political, and ethical stakeholders. The highest expected return now goes beyond economic considerations only.

LIMITATIONS AND FURTHER RESEARCH

Because corporations and governments consider the needs of capital as a legitimate driver for change, more research is needed on the process of transforming social, political, and ethical concerns into economic concerns. More research is needed to determine how various stakeholders can increase their saliency to corporate decision makers, and one strong possibility seems to be coalition building among stakeholders who share common interests with a focus on social, political, or ethical concerns. A better understanding of corporate decision making is critical, especially understanding decision-maker understanding of stakeholder influence in the non-economic realm.

CONCLUSION

Social, cultural, political, and economic environments are constantly changing (Davenport, 2000), and are increasingly interactive. Given the increasing diversity of stakeholders and the increasing ease of networking and coalition-building opportunities, protest against corporate plans may become more common in our society, especially if corporate plans are perceived to be risky, environmentally or community damaging, or socially irresponsible in some other manner. Decision making and sense making models that focus on economic utility maximization defined as economic factors only are outdated and dangerous for corporations, stockholders, and stakeholders. The prudent corporation is sensitive to multiple stakeholders, and works hard at making sense of stakeholder demands and expectations, not

necessarily through a belief in corporate social responsibility or benevolence, but through a belief in of self-interest. Yesterday's rules no longer apply.

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