Behavioural Insights in Corporate Sustainability Research

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1. Introduction

With the shift from a shareholder to a stakeholder perspective, businesses are called upon to be more involved in a wide range of social and environmental issues. Specifically, they are expected to contribute more to environmental protection—reducing emissions and natural resource depletion, and contributing to social equity and well-being. Governments and international organisations are working on interventions that would effectively promote corporate sustainability. Although different approaches to define, theorize and measure corporate sustainability have been used, there seems to be an implicit consensus that corporate sustainability (CS) refers to a multidimensional concept that entails creating stakeholder value, in short and long term perspectives, with a focus on environmental integrity, economic prosperity and social equity (see more on defining CS: [1]).

It follows that achieving corporate sustainability involves addressing many issues (economic, social and environmental) at different levels of organisational decision making, and recognizing the interactions between these issues in differing arenas. Current CS scholarship, however, is dominated by a focus on the external drivers of corporate sustainability and explanations as to why companies become more sustainable from a macro-level perspective [2]. That is far from sufficient to discover the underlying complexity and dynamics of sustainable decision making.

Given that a plethora of sustainability challenges are rooted in human behaviour [3], a paper is to develop a conceptual framework that brings behavioural insights to the forefront in corporate sustainability research [4]. Taking the behavioural approach means making realistic assumptions about human cognition, emotions and social behaviour. It "opens up the black box of the firm and accumulates theory and evidence on how a firm behaves as a result of lower-level processes" [5] (p. 3). The ABCD (attention, belief formation, choice, determination) approach [6], which is meant to assist policy-makers in analysing and diagnosing behavioural problems at an individual level, has been adopted in the corporate context.

2. Changing Behaviour to Improve Sustainability—Taking the ABCD Approach

Applying behavioural insights to influence behaviour change moves gradually beyond changing the behaviour of individuals (citizens, consumers or end-users) to influence collective and organisational behaviour [7][8][9]. Businesses are made up of people making choices and decisions that are affected by many psychological factors. Managers and owners of small and large businesses, in many circumstances, rely on mental shortcuts, because of cognitive limitations, time pressure and the susceptibility to behavioural biases. The fundamental question of behavioural interventions aimed at businesses is: what can make these people use their power and influence to direct their firms towards sustainable business conduct? As the interactions between individuals within the firm, the organisational culture and hierarchy all play a role in organisational decision making and implementation, the implications of the relevant organisational theories can help us to better understand why some companies are more sustainable than others.

Premised on the notion that business decisions are fundamentally behavioural [10], the ABCD approach [6] has been employed to identify literature that: (a) focuses on one of the behavioural aspects included in the ABCD framework (i.e., attention, belief formation, choice, determination), (b) is in the context of corporate sustainability and (c) provides explanations for CS drawing on a specific organisational theory.

3. Channelling and Distributing ATTENTION towards Sustainability Concerns

Organisational behaviour is determined by the way decision makers in an organisation direct their attention. Attentional processes in an organisation can be top-down, i.e., goals, schema-driven, or bottom-up, i.e., stimulus-driven by situational and environmental factors [11][12][13]. Organisational theories of the determinants and consequences of attention in organisations mostly focus on the former. Theories underpinning this stream of research are: upper echelon theory and managerial cognition. The former posits that a key determinant of a firm's attention is the power of key players, in particular the CEOs and the senior executives. The likelihood that a given piece of information will trigger the desired organisational response depends largely on the characteristics of a firm's top management team, demographic factors related to individual managers as well as structural issues related to the board. The educational/research background, prior experience, foreign exposure, female gender, young age and independence of managers, and a larger and more diverse board are considered to positively affect CS.

However, simply using the top management team's demographic features may not be enough to explain organisational behaviour, in particular in terms of an organisation's adaptability or strategic renewal to achieve sustainability. Although managerial background characteristics—their personal traits such as age, ethnicity, education or previous experience—shape the way managers interpret environmental cues and how they respond to those cues, these characteristics should be treated rather as an antecedent, not a proxy, for the managerial cognition that ultimately drives organisational behaviour [14]. Managerial cognition denotes both what managers know, assume or believe, as well as the cognitive processes involved in acquiring and processing information, such as scanning, sense making and interpretation. They are described as mental models or frames that individuals (managers) impose to the information environment to give meaning to complex and ambiguous issues, such as sustainability. They direct attention towards signals that fit existing frames while ignoring those which are inconsistent with the frames.

On the other hand, it should be noted that employees or lower-level managers are closer than top management to customers and suppliers and because of that they hold the potential to identify issues that offer opportunities for making a company more sustainable. The issue selling perspective concentrates on senior managers, however, not in terms of top-down processes, but bottom-up processes and more specifically on "an early component of the change process in which higher-level managers are influenced to pay attention to issues" [15] (p. 352), where organisational actors compete for the attention of higher-level managers.

Apart from that, there is a considerable amount of literature to attest to the fact that cultivating closer stakeholder relationships is a critical element for an organisation to operate in a sustainable way [16][17][18]. Stakeholder engagement, internal and external, might contribute to enhanced decision making by incorporating diverse perspectives and ensuring a more holistic view on how organisations conduct business. Firms tap into the expertise and creativity of stakeholders to stay informed about emerging trends, discover new opportunities and innovative approaches to problem-solving, as well as to mitigate risks that may have otherwise been overlooked.

Whereas the theories mentioned above focus either on top-down or bottom-up attentional processes in an organisation, the attention-based view (ABV) of the firm is a theory that aims to capture them both. One of the core premises on which it is based is that how firms respond to changes in their environment or internal processes, how they anticipate them and what decisions and actions they undertake depend on how firms channel and distribute the attention of their decision makers. Due to the limited attentional capability of humans, not all of the aspects of a situation can be attended to, some of them must be ignored and organisations influence individual decision processes by allocating and distributing stimuli in this respect. Hence, decision making in organisations results from both the limited attentional capability of humans and the structural influences of organisations on an individual's attention. Importantly, attention in the ABV perspective is contextually situated and socially structured. This means that the focus of attention of the individual firm's decision makers depends on the characteristics of the situation they find themselves in.

One of the studies that draw on the ABV to explain why some companies are more sustainable than others is Galbreath [19], who investigated the attention structures through which boards of directors influence corporate sustainable development. He found that these are: environmental scanning by board members and stakeholder debate in the boardroom that links boards of directors with CS. Moreover, the presence of women on boards was found to have a moderating effect on the relationships between environmental scanning, stakeholder debate and CS.

Another point to note is attention sequence and attention variety (its breadth and depth), as attention is not a unitary concept. The performance feedback theory suggests that attentional engagement is triggered by a failure to meet a firm's aspiration levels and that firms often shift their attention from one goal to another only when they have achieved the first goal. This idea is based on the process of problemistic search in the behavioural theory of the firm [20] and is closely related to the cognitive frames concept mentioned above.

4. BELIEF FORMATION on the Accurate Assessment of Business Environmental and Social Impact

Sustainable performance is a complex, three-dimensional concept that causes problems with the evaluation of a firm's performance. Its measurement is an under-researched topic in corporate sustainability and is viewed as one of the biggest opportunities for researchers to advance the field of corporate sustainability [21]. There are two main implications of this. First, it is argued that ambiguity surrounding performance assessment often leads to self-enhancing interpretations of diverging performance measures and lower responsiveness to performance below aspiration levels. Secondly, the ambiguity surrounding a firm's performance increases the costs to reveal the true value of inter- and intra-organisational exchange (e.g., social aspects of production, freshwater inputs, or carbon footprint) [22]. This aspect will be discussed in more detail in the next paragraph.

The key premise of transaction cost theory (TCT) is that firms make decisions in which activities they should engage based on an evaluation of the total economic costs of the activity. Originally applied to 'make-vs.-buy' decisions, the application of the theory has expanded to explain a vast range of organisational phenomena, such as horizontal diversification, strategic alliances or supply chain relationships [23]. Transaction costs is a broad category that includes: search and information costs, bargaining and decision costs, as well as policing and enforcement costs. The basic idea is to align transaction characteristics (the frequency of a transaction, uncertainty involved, asset specificity) and governance choices (hierarchies, markets or hybrids, e.g., alliances) to minimize transaction costs which arise due to bounded rationality and the possibility of opportunistic behaviour. In light of TCT, it can be presumed that firms will adopt sustainable solutions if the economic rationale for doing so is clear to firms' decision makers.

Whereas the traditional TCT views economic transactions as a choice, or a continuum, between markets and hierarchies, Benkler [24][25] introduced a new form of economic transaction, that is, social production, also referred to as peer production. With the technology advances and democratization of digital tools such as the internet, new forms of economic organisation have emerged: crowdsourcing, idea competitions or user innovation. This new form of production is distinct from markets and firms which are competitive in nature and motivated entirely by monetary rewards, as it is more cooperative and also motivated by non-monetary rewards [26]. It is increasingly debated in the context of attaining sustainable development goals.

Organisational path dependence is the next theory worth mentioning in the context of belief formation biases, as it can help us to understand organisational phenomena by overcoming the ahistorical rational choice approach. Sydow et al. [27] identified three phases in organisational path dependence that are governed by different mechanisms. The first phase, called "preformation", is a largely unrestricted scope of action. At this point in time, choices are still reversible. A single choice, a 'small event' gains importance if it sets self-reinforcing processes in motion. In the second phase—"formation"—dynamics triggered by the initial choice increasingly narrow down the options available. In the end, a dominant organisational solution, i.e., a "path", emerges. The whole process is neither accidental nor fully converges to a fixed point of distribution. There are several types of self-reinforcing dynamics: coordination effects, complementarities, learning effects and adaptive expectations. The third and last phase is an organisational lock-in. This state indicates a loss of organisational flexibility as an organisation is no longer capable of responding to potential changes. A given technology, once a source of an initial advantage over competitors due to the increasing returns to adoption, can turn out to be inefficient when new circumstances emerge. Considering eco-innovation, path dependence and the lock-in problem are particularly critical. Many existing dominant technological trajectories have been shown to have detrimental effects for the natural environment. In view of the organisational theory of path dependence it can be said that a firm is endowed with a set of routines and capacities that define and bound their behaviour and strategies. Therefore, behaviour change interventions need to identify the starting dispositions of the targeted firms (see, e.g., [28]).

5. The Role of Institutions and Networks in CHOICE-Making

Firms do not operate in isolation. They function within a network of relationships with other organisations and groups and are influenced by the institutional environment in which they are embedded. Since they do not fully control all the conditions necessary for achieving an action or obtaining a desired result, firms encounter interdependence. As a consequence of this interdependence, a firm's behaviour is a result not only of the intentions and capabilities of the firm itself, but also the intentions, capabilities and relative positions of the organisations and groups on which it depends. The natural desire of people to belong and fit in, at an organisational level, is expressed in the isomorphic tendencies of organisations.

The original impetus for an institutional perspective in organisation studies was to explain organisational founding and change, less through functional considerations and more by symbolic actions and external influences (i.e., the institutional context) [29]. Institutional theory provides a theoretical lens through which researchers can identify and investigate influences which promote the survival and legitimacy of business practices. Its focus is on the intersection of socio-cultural forces and entrepreneurial agency. In light of this approach, societies have developed many institutionalized rules that create a framework under which organisations formulate their strategies and make their decisions. These institutions, either formal or informal, serve as the 'rules of the game' to determine which firms' actions are allowed or constrained and what payoffs will be attributed to those actions. Thus, social norms and shared expectations are viewed as key sources of organisations' structures, actions and outcomes. Work based on this perspective deals with the problems varying from the processes that are involved in producing isomorphism to institutional change—the emergence of new laws and regulations, products, services and occupations [30].

Form the policy perspective, it is imperative to identify institutional barriers to and enablers of the adoption of sustainable business practices. Moreover, to increase institutional pressure towards sustainability there is a need to complement a top-down approach that involves sanctions through the legislative framework with a bottom-up approach by shaping pro-environmental social norms, which arise from expectations about how others will behave and the consequences of confronting or departing from them.

Although institutions and networks are usually studied as separate phenomena, as Opper [31] notes, each of them also defines the capabilities of the other. Institutions affect social network contacts and structures as they, for example, define opportunities of affiliation, whereas social networks are instrumental in advancing institutional innovation and change. Hence, it can talk about the co-constitutional nature of institutions and networks (see also: [32]). Exploring networks provides additional insights for behaviour change interventions because the interconnectedness of firms, i.e., the structural integration of actors into the network, influences their communication and interaction, the access to and flow of information, ideas and resources across social clusters and therefore holds valuable information for firms with regard to various corporate issues [33].

6. Strengthening DETERMINATION through Corporate Targeted Transparency

The idea behind corporate targeted transparency is that disclosing environmental or social performance of a company will motivate the company to make extra effort to improve its practices in the disclosed areas. Two theories, legitimacy theory and signalling theory, are often proposed to explain the association between a firm's disclosure and performance.

First, corporate disclosure has been viewed in the literature as a tool of legitimation [34][35]. Legitimacy theory is based on the notion that there is a 'social contract' between an organisation and society. The idea of the 'social contract' has been expressed aptly by Shocker and Sethi [36]: "Any social institution—and business is no exception—operates in society via a social contract, expressed or implied, whereby its survival and growth are based on: (1) the delivery of some socially desirable ends to society in general; and (2) the distribution of economic, social or political benefits to groups from which it derives its power" (p. 97). Hence, legitimacy theory is primarily concerned with the congruency between the value system of an organisation and the value system of society, and whether the objectives of organisations are to meet social expectations. An organisation is considered to be legitimate if it pursues socially acceptable goals in a socially acceptable manner. However, although legitimacy is created subjectively, it is possessed objectively [37], which means that whether organisational goals and actions are considered legitimate or not depends also on what is observable for others.

Against this backdrop, signalling theory deserves mentioning. The theory is fundamentally concerned with reducing information asymmetry between two parties. It describes behaviour when one party must choose whether and how to communicate the information not known to the other party, who in turn must choose how to interpret the communication. When applied in organisational research, signalling theory concentrates on how one organisation (a firm) may undertake actions to signal its underlying quality to others, be it investors, customers or prospective recruits. To be effective, signals must be observable and costly to imitate. Otherwise, other parties would be tempted to use fake signals to gain advantage in a dishonest way.

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