ENTERPRISE LOGIC: EXPLAINING CORPORATE ATTENTION TO STAKEHOLDERS FROM THE ‘INSIDE-OUT’

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Why are some firms more effective than others at addressing stakeholder concerns? Conventional stakeholder theories focus on variables in the external environment and cannot adequately explain variance across firms operating in the same context. Our matched-pair study of eight global corporations goes inside the firm and investigates the role of managerial cognition on corporate attention to stakeholders. We find that top management’s conceptualization of the firm’s relationship with society—which we name enterprise logic—prompts distinct foci of attention and potentially constrains how well a single firm can simultaneously attend to multiple stakeholders. These findings highlight the value of an ‘inside-out’ perspective, centered on managerial cognition, in explaining why some firms address stakeholder concerns more effectively than their peers.

INTRODUCTION

Why are some firms better than others at addressing stakeholder concerns? Attention to stakeholders is emerging as a critical strategic issue. While a recurrent topic in stakeholder management (Freeman, 1984), organizational theory (Mitchell, Agle, and Wood, 1997) and ethics (Jones, Felps, and Bigley, 2007), corporate attention to a wide group of stakeholders is being increasingly linked to sustainable competitive advantage (Kacperczyk, 2009).

The explanations for why certain stakeholders—‘any group or individual who can affect or is affected by the achievement of an organization’s purpose’ (Freeman, 1984: 53)—become salient focus primarily on exogenous influences, such as legal or other institutional arrangements (Kacperczyk, 2009) or the capacity of stakeholders to control resources (Pfeffer and Salancik, 1978; Sharma and Henriques, 2005). In other words, the explanations go from the ‘outside-in.’ Yet, when we center our explanations on external influences, how do we account for variance in attention to stakeholders? Firms that operate in similar contexts confront similar stakeholders and institutional arrangements. Relying on external influences to explain the scope of attention to stakeholders fails to account for heterogeneity—an important oversight in the strategy literature.

The objective of this study is to propose an ‘inside-out’ explanation that accounts for heterogeneity in corporate attention and, by extension, in performance. We explore the possibility that attention to stakeholders is not only the result of objective external influences but also that it rests on how managers conceptualize their firm and its relationship to society. This requires a cognitive explanation, anchored in the notion that firms’...
actions are shaped by how managers conceive their environments (Porac, Thomas, and Baden-Fuller, 1989). Cognition is used to study a variety of strategy-related issues, including the identification of competitors (Porac et al., 1989), positioning (Reger and Huff, 1993), and industrial and technological change (Barr, Stimpert, and Huff, 1992; Kaplan, 2008a, 2008b). Yet, cognition is also pertinent to understanding how managers conceptualize transactional partners and, potentially, an even broader range of stakeholders. Managers interpret information about stakeholders (Henriques and Sadorsky, 1999), and their reading involves ambiguity about whether the pressures in their external environment pose threats or opportunities for the firm (George et al., 2006).

We propose that the firm’s dominant logic (Prahalad and Bettis, 1986) plays a critical role in directing attention to stakeholders. Dominant logic is a collective cognitive construct that reflects how top managers conceptualize their business. It affects strategic decision making and directs attention (Bettis and Prahalad, 1995). Dominant logic has conventionally been used to explain strategic variety within the firm (Prahalad and Bettis, 1986). Yet, firms also face the challenge of variety outside the firm as they deal with the problem of simultaneously attending to various kinds of stakeholders. At its core, this challenge involves ‘understanding the role of a particular firm as a whole and its relationships to other social institutions’ (Freeman, 1984: 91) and defining an enterprise strategy (Schendel and Hofer, 1979) that articulates the firm’s relationship with society. To date, there has been little investigation of how managers conceptualize their firms’ relationships with society and address the concerns of multiple stakeholders.

We take a step toward filling this gap. Specifically, we extend the concept of dominant logic to situate the firm in an environment that comprises economic, social, and political actors (Post, Preston, and Sachs, 2002). Following earlier theorists (Freeman, 1984; Schendel and Hofer, 1979), we use the term ‘enterprise logic’ to denote this form of dominant logic and suggest that distinct enterprise logics result in different levels of attention to stakeholders. We also address questions about how enterprise logics become translated into corporate attention to stakeholders. Using case methods combined with analytical induction (Bansal and Roth, 2000; Becker, 1958), we conducted a multimethod matched pair study of eight global corporations in four industries that includes 88 interviews with executives, textual analysis of extensive archival documentation, and cognitive mapping techniques (Barr et al., 1992; Huff, 1990; Tyler and Gnyawali, 2009).

Our principal finding is that some firms are better at addressing stakeholder concerns because their managers have fundamentally different ways of conceptualizing the firm and its relationship to society. We identify three distinct logics ranging from a ‘firm-centric’ logic that conceives of stakeholders as parties in contractual transactions, to an ‘extended’ enterprise logic that emphasizes the interdependence of stakeholder interests and the sustainability of the firm. We link dominant logic (Prahalad and Bettis, 1986), individual and organizational attention (Cho and Hambrick, 2006; Nadkarni and Barr, 2008) and strategic issue classification (Dutton and Jackson, 1987) into a model that not only explains heterogeneity across firms in similar contexts but also provides a new way of thinking about the purposes of the corporation in society, especially related to the contested territory of shareholders versus non-shareholding stakeholders. Our cognitive approach offers an alternative explanation for why some managers perceive relationships with stakeholders as involving risk, conflict and trade-offs, while others see opportunity, interdependence, and mutual benefit.

**THEORETICAL GUIDEPOSTS**

Attention denotes ‘the noticing, encoding, interpreting, and focusing of time and effort by organizational decision-makers [sic] on both (a) issues: the available repertoire of categories for making sense of the environment: problems, opportunities, and threats; and (b) answers: the available repertoire of action alternatives: proposals, routines, projects, programs, and procedures’ (Ocasio, 1997: 189). In the context of stakeholders, corporate attention represents the firm’s efforts to support the interests of shareholding and non-shareholding stakeholders, such as employees, customers, communities, or the natural environment (Kacperczyk, 2009).

In starting our investigation, we drew on two theoretical resources to guide our work. First, we conceived of attention to stakeholders as a strategic issue—one that required interpretation. Our second starting premise was that the firm’s dominant
logic would aid in this interpretation and would ultimately be reflected in the firm’s efforts to attend to its stakeholders.

Stakeholders and strategic issues

Attention to stakeholders is a strategic issue for the corporation. Strategic issues are a stream of events or trends that potentially affect the attainment of organizational objectives (Dutton and Jackson, 1987). Strategic issues involve problems, opportunities, and threats that are often ill-structured and ambiguous, requiring interpretation.

Stakeholders are strategically important actors (Frooman, 1999) who can present both opportunity and threat to a firm. Threats can come from control over resources (Henriches and Sadowsky, 1999; Pfeffer and Salancik, 1978) and can affect firm survival and performance. Opportunities can take the form of social capital (Krause, Handfield, and Tyler, 2007) and knowledge creation (Dyer and Hatch, 2006). The impact of specific stakeholders is not always clear (Coff, 1999). To handle ambiguity, executives tend to categorize situations as threats or opportunities (Chattopadhyay, Glick, and Huber, 2001; Dutton and Jackson, 1987), which then become salient in decision making (Jackson and Dutton, 1988). A threat involves a negative situation where loss is likely and over which the manager has little control, while an opportunity is a positive situation where gain is likely, and where there is a degree of control (Dutton and Jackson, 1987).

While the stakeholder literature points to the opportunities and threats that stakeholders pose, to date, stakeholder theorists have not focused on how strategic issue classification might direct attention to stakeholders. Instead, stakeholder scholars have emphasized the attributes of stakeholders—their power, legitimacy, and urgency (Mitchell et al., 1997)—as the key factor in making stakeholders salient to managers. At the same time, they do acknowledge that the attribution of salience ultimately depends on managerial judgment (Mitchell et al., 1997). This acknowledgement serves as a point of departure for our investigation.

Stakeholders and dominant logic

The second theoretical resource we draw upon is dominant logic. A dominant logic is ‘a mind set or a world view or conceptualization of the business and the administrative tools to accomplish goals and make decisions . . . stored as a shared cognitive map (or set of schemas) among the dominant coalition’ (Prahalad and Bettis, 1986: 491). It acts as a filter, enabling managers to process substantial quantities of information (Reger and Huff, 1993) and to deal with complex strategic issues (Lampel and Shamsie, 2000). A dominant logic originates within the firm, reflecting a variety of internal factors such as the characteristics of managers (Ginsberg, 1990), their shared experiences, and organizational history (Von Krogh and Roos, 1996). Firms—even within the same industry—are likely to vary on these dimensions. Early work on dominant logic was centered on understanding the scope of the business. By reducing strategic variety, the dominant logic may restrict possibilities for growth and diversification (Ginsberg, 1990; Grant, 1988). More recent studies include investigating how dominant logic affects participation in ventures and alliances (Lampel and Shamsie, 2000; Lane and Lubatkin, 1998), that is, in relationships that span markets and hierarchies. Our study opens the door to understanding how managers conceptualize the firm and its relationships with other societal actors (Freeman, 1984).

We define enterprise logic as the way in which top managers conceptualize their firm and its relationship with actors in the firm’s economic and sociopolitical environment.1 In doing so, we shift the focus of dominant logic beyond the boundaries of the firm. Stakeholder theorists are critically concerned with the creation and allocation of value across different parts of the firm’s environment. Their starting point is to describe the corporation as a ‘constellation of cooperative and competitive interests possessing intrinsic value’ (Donaldson and Preston, 1995: 66). Some theorists conceive of a hierarchy of stakeholders, with shareholders taking precedence (Jensen, 2002). Alternatively, the corporation can be seen as an extended enterprise (Post et al., 2002) with obligations to multiple stakeholders (Freeman, 1984). Proponents of

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1 Strategy researchers often distinguish the firm’s task and general environment. The task environment refers to sectors closest to the organization where relationships are established through direct transactions, for example, with customers. The general environment refers to sectors that affect the organization indirectly (Nadkarni and Barr, 2008) and can include social and political actors, such as governments (Duft, Sormunen, and Parks, 1988).
shareholder primacy focus on creating economic value for shareholders. Proponents of the corporation as an extended enterprise focus on creating economic and social value for a broad range of stakeholders (Kacperczyk, 2009). Social value may include increasing social capital through health, education, and environmental stewardship, or reducing social misery through, for example, human rights initiatives (Margolis and Walsh, 2003).

**METHODS AND DATA**

As existing theory is poor at explaining why firms facing the same environments might differ in their attention to stakeholders, we used case study methods because they can address how or why something occurs when current perspectives seem inadequate (Eisenhardt, 1989). Our approach involves analytical induction that combines theoretical insight and inductive reasoning (Bansal and Roth, 2000; Becker, 1958). Analytical induction accommodates existing theories (Manning, 1982) and can involve enumeration and provisional testing.

**Sample selection**

We employ a matched-pair design (Martin and Eisenhardt, 2010) to control for dominant external influences such as industry and stakeholder characteristics. We select eight cases arranged in pairs from four industries—chemicals, extractive, food, and high technology. In each pair, both firms are active in the same industry, have the same headquarter location, and are of a similar size. Two pairs are headquartered in Northern Europe and two in Anglo-Saxon countries.

To guide our sample selection, we draw on Innovest social ratings. Social ratings result from different patterns of corporate attention to stakeholders (Kacperczyk, 2009). Innovest ratings measure performance across domains including labor, supplier relations, human rights, community development, and the natural environment. In each pair, the higher performer receives a triple-A rating, the highest possible, for the year 2006. Lower performers in our sample receive, on average, a triple-B rating. An overview of our cases appears in Table 1. We note that each pair has one firm with higher social performance and one with lower performance.

**Data sources**

We combine data from two sources: archival documentation and executive interviews. Archival documentation, focused principally on annual reports, was used to identify and map enterprise logics. Annual reports reflect executives’ collective interpretations of the environment (Barr et al., 1992; Cho and Hambrick, 2006) and provide valuable data on organizational cognition (Kaplan, 2008a; Nadkarni and Barr, 2008). They are suited to our study because dominant logic is an organizational knowledge structure (Schneider and Angelmar, 1993).

We conducted a total of 88 executive interviews (between seven and 14 in each firm) to obtain evidence on attention to stakeholders and strategic issue classification, as well as on the history of the company in this area and policies and programs put in place to attend to stakeholders. Our focus on top management is justified by their

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2 Innovest is now part of MSCI ESG Research (see http://www.msci.com).
importance in shaping dominant logic (Prahalad and Bettis, 1986), interpreting environments, and directing attention (Cho and Hambrick, 2006; Nadkarni and Barr, 2008; Ocasio, 1997). Executives were selected on the basis of functional and geographic criteria. Within each firm we interviewed the directors responsible for major functions, the director or senior manager overseeing sustainability initiatives, and country managers from North America, Europe, and Asia. The interviews, each lasting between 60 and 200 minutes, were semi-structured. They were conducted between late 2005 and mid-2007. Eighty-two were recorded and transcribed. Detailed notes were taken in the remaining interviews.

Methods

Consistent with analytical induction (Bansal and Roth, 2000), we iterated between the data and literature to refine our constructs and to build our model. In the first stage, we analyzed the content of the firms’ annual reports based on a coding scheme developed from the literature. In the second stage, we analyzed our interviews with managers to build measures of attention. Using these data, we conducted eight within-case analyses, establishing the logic within each firm and assessing any links to managerial attention and social performance. We then conducted cross-case analyses to assess patterns within pairs of firms and, finally, across the four pairs.

We used the annual report of each firm to create a cognitive map of its enterprise logic. A cognitive map ‘shows how elements of the environment are categorized and evaluated’ (Huff, 1990: 41) and how concepts are causally linked (Tyler and Gnyawali, 2009). Cognitive maps permit an analysis of cognition in terms of both content and the meaning it embodies as well as configuration, including its complexity (Calori, Johnson, and Sarin, 1994). To create the maps, we used a nomothetic approach (Tyler and Gnyawali, 2009) that involves a standardization of concepts that can be used to code reports (Barr et al. 1992). This type of mapping is a ‘form of content analysis that isolates the key assertions within a document that deal with causality, existence, or categorization’ (Barr et al., 1992: 20) of a set of concepts.

The selection of constructs to code the maps was both deductive and inductive. This fits with our methodology of analytical induction (Manning, 1982). Guided by prior literature, we derived an initial list of constructs. The initial list centered around two key meta-constructs—strategic intent and mode of interaction with stakeholders. Strategic intent denotes the long-term goals of management (Lovas and Ghoshal, 2000) and reflects core premises about the purpose of the firm in terms of its stakeholders (Kacperczyk, 2009). Under the heading of strategic intent, we identified constructs related to economic value capture (Lepak, Smith, and Taylor, 2007), economic value creation (Amit and Zott, 2001), and social value creation (Margolis and Walsh, 2003). The second meta-construct used in deriving the initial list was mode of interaction with stakeholders. Post et al. (2002) distinguish between transactional and relational modes of interaction. ‘A transaction involves a direct quid pro quo and could be a one-time occurrence’ (Post et al., 2002: 7). A relational view sees corporate-stakeholder relationships as a complex web of interactions (Post et al., 2002) with open-ended partnerships and collaborative arrangements.

We pretested this initial list on two firms that were not part of our sample and used the results to refine our set of constructs and merge the categories into a parsimonious list (Barr et al., 1992). This pretest resulted in the addition of a third meta-construct, namely external constraints such as legal compliance, fiduciary duty, and license to operate, that denote the external forces on the firm and frequently shape strategic intent or modes of interaction. The final list, which incorporates 20 constructs, is the result of iterating between theory and evidence. Using this list, two coders independently analysed the 2007 annual report of each of the eight firms in our sample. Assertions containing the construct (i.e., the map node) were identified, as were causal relationships between it and other nodes. Interrater reliability was 93.2 percent, and consistent with prior research (Barr et al., 1992), differences were resolved through discussion. We created an adjacency matrix (Langfield-Smith and Wirth, 1992) for each firm. We transformed the qualitative evidence into a quantitative measure, with +1 signifying a positive causal tie, −1 a negative causal tie, and 0 signifying no causal relationship between the constructs.

We used UCINET 6.0 (Borgatti, Everett, and Freeman, 1999) to identify central nodes and calculate measures of comprehensiveness and connectedness for each map. Degree centrality (Freeman, 1979), the number of ties to and from a given
node, measures the node’s immediate influence on other nodes. Comprehensiveness is the number of predefined nodes that appear in the firm’s map. It represents one dimension of cognitive complexity (Calori et al., 1994) because it describes how differentiated the map is in terms of its content. Connectedness, the number of actual links in the map divided by the maximum possible number of links, represents a second dimension of complexity (Calori et al., 1994) because it describes how integrated the map elements are. Together, the representation of the map, identification of central nodes, and measures of connectedness give an indication of the content and complexity of the enterprise logic (Calori et al., 1994).

We obtained measures of attention to stakeholders through our interviews. We asked interviewees to identify the stakeholders that they viewed as relevant to their firm’s long-term performance. Managers were free to name as many (or as few) stakeholders they deemed to be important. As our goal was to elicit a ‘top of mind’ list of salient stakeholders, we did not provide a specific definition of stakeholder. This approach is consistent with prior measurements of attention by asking managers to identify phenomena without prompting (Walsh, 1988).

We then combined the individual lists, ensuring that idiosyncratic responses (e.g., naming a specific customer) or interchangeable labels for a specific stakeholder group (e.g., customer/consumer) did not affect our measures. We were informed by the Global Reporting Initiative3 guidelines in identifying stakeholder categories, including shareholders, customers, employees, suppliers, communities, governments, and civil society organizations. We aggregated scores across managers to calculate an organizational measure of attention. Large scores imply that a firm’s managers, on average, attend to many distinct stakeholders. In addition to this simple aggregation, we also took into account the distribution of attention across individual managers.

We have argued above that attention to stakeholders is a strategic issue, which managers tend to classify as a source of opportunity or a means to manage potential threats. In line with our approach of analytical induction, we used the interviews to collect data on managers’ perceptions of risk and opportunity. We presented interviewees with four

3 https://www.globalreporting.org/Pages/default.aspx

statements about the potential threats and opportunities associated with attending to stakeholders and asked them to allocate a total of 10 points across these statements, based on their perceived relevance of each. Two statements focused on gaining opportunity (‘selling more at higher margins,’ ‘increasing new market opportunities’), while two focused on reducing threats and resource pressures (‘reducing firm risks,’ ‘reducing costs’). We aggregated the points across the managers in each firm, and converted the totals into a threat/opportunity ratio. In addition, we also asked managers during the interviews for examples and evidence of their rationales.

A LOGIC-BASED MODEL OF CORPORATE ATTENTION TO STAKEHOLDERS

The evidence suggests that the enterprise logic—the logic about how top managers conceptualize their firm and its relationship with society—plays a key role in explaining the scope of corporate attention to stakeholders.

The enterprise logic exerts its influence through two related mechanisms. First, it affects attention by shaping how managers classify the issue of attention to stakeholders. Second, the enterprise logic affects the degree of within-firm differentiation in attention to stakeholders. Some logics are associated with cognitive control that restricts differentiation. Others are consistent with autonomy for managers that results in specialization at the individual level and, at the organizational level, a capacity to attend to a variety of stakeholders in different parts of the environment. Taken together, the mechanisms provide insight into the relationship between the enterprise logic and the scope and differentiation of attention to stakeholders. Since attention is a precursor to action (Ocasio, 1997), we further suggest that enterprise logic plays a role in the firm’s level of social performance. The model is presented in Figure 1 and developed below.

Enterprise logics

The mapping process provided the starting point for identifying different enterprise logics. Table 2, which presents the summary results and measures, shows that the mapped logics differ across the
firms in each pair in terms of both content and complexity (Calori et al., 1994). While similar in their comprehensiveness, there are important differences in the centrality of specific nodes, the degree of connectedness among nodes, and the prevalence of negative ties that represents perceived trade-offs (e.g., between social value and economic growth). The maps of the two firms in the chemicals industry are displayed in Figure 2.  

Our analysis of the maps reveals three distinct enterprise logics to conceptualize the firm and its relationship to society. Table 3 provides an overview of the logics, describing strategic intent (Lovas and Ghoshal, 2000), favored mode of interaction with stakeholders (Post et al., 2002), and logic structure, which reflects how the distinct components are connected.

The first logic involves a firm-centric conceptualization of the enterprise. Three firms—BASE, DIG, and PEPPER—exhibit this logic. Compared with their matched pair peers, these firms have

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**Table 2. Cognitive map measures**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Firm</th>
<th>Comprehensiveness</th>
<th>Connectedness</th>
<th>Negative Links</th>
<th>Central nodes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>Acid</td>
<td>17</td>
<td>0.166</td>
<td>3</td>
<td>Environment; innovation; social development; sustainability; collaboration</td>
</tr>
<tr>
<td></td>
<td>Base</td>
<td>18</td>
<td>0.118</td>
<td>10</td>
<td>Economic growth; efficiency; sustainability; compliance; market power</td>
</tr>
<tr>
<td>Food</td>
<td>Salt</td>
<td>17</td>
<td>0.132</td>
<td>2</td>
<td>Reputation; economic growth; social development; sustainability; codes</td>
</tr>
<tr>
<td></td>
<td>Pepper</td>
<td>18</td>
<td>0.105</td>
<td>7</td>
<td>Economic growth; compliance; codes; social development; efficiency</td>
</tr>
<tr>
<td>Extractive</td>
<td>Drill</td>
<td>20</td>
<td>0.147</td>
<td>2</td>
<td>Sustainability; economic growth; competitive advantage; codes; communication</td>
</tr>
<tr>
<td></td>
<td>Dig</td>
<td>19</td>
<td>0.113</td>
<td>8</td>
<td>Economic growth; codes; environment; social development; compliance</td>
</tr>
<tr>
<td>High tech</td>
<td>Digital</td>
<td>19</td>
<td>0.153</td>
<td>3</td>
<td>Social development; economic growth; innovation; efficiency; collaboration</td>
</tr>
<tr>
<td></td>
<td>Wired</td>
<td>17</td>
<td>0.132</td>
<td>5</td>
<td>Economic growth; innovation; market knowledge; collaboration; competitive advantage</td>
</tr>
</tbody>
</table>

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4 In the interests of space, we include maps for only one pair. Maps for the other pairs are available from the authors.
relatively simple enterprise logics. Measures of connectedness are consistently below their counterparts: visually (illustrated in the chemicals pair in Figure 2), the maps have more white space. The most central node is economic growth, and efficiency ranks high for BASE and PEPPER. Capturing value for shareholders (Lepak et al., 2007) is a key concern. Salient social value constructs are negatively associated with economic growth. For example, in both DIG and PEPPER, environmental stewardship and social development are both negatively connected to economic growth. For BASE, there is a negative tie between social development and efficiency.
<table>
<thead>
<tr>
<th>Description</th>
<th>Firm-centric</th>
<th>Industry network</th>
<th>Extended enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic intent</strong></td>
<td>Value capture (Lepak <em>et al</em>, 2007)</td>
<td>Value creation through relational rents (Amit and Zott, 2001)</td>
<td>Positive-sum strategies (Post <em>et al</em>., 2002) that create benefits for firm and stakeholders</td>
</tr>
<tr>
<td>Implementing programs will reduce our impact on the environment, but will cost money [...] Everything is a trade-off, a balance between one thing and the other. (Pepper)</td>
<td>To be in business, people need to trust you and your products. If we work together with stakeholders, we have a way to meet their needs. (Wired)</td>
<td>We have a responsibility to deploy our capabilities for the common good. As you improve the educational background of a country, you contribute to its economic viability. (Digital)</td>
<td></td>
</tr>
<tr>
<td><strong>Mode of interaction</strong></td>
<td>Transactional Stakeholders are people with a vested interest in what you are doing. That’s a shareholder ... they have a right on paper. An employee has a contract .... NGOs express a norm ... but they do not have anything on paper. (Base)</td>
<td>Transactional-relational Partnership is a way of describing it. Much of what we do with third parties is about some form of partnership. We can contribute to what they’re doing, in a way that continues to support sustainability and the development of the business model. (Salt)</td>
<td>Relational Conducting business is about relationships, not just transactions. You have to earn trust. You have to be deeply connected, collaborating with governments, communities, suppliers and seeing their points of views. You assist them in reaching their goals—not only your own ground. (Digital)</td>
</tr>
<tr>
<td><strong>Structure of relationship</strong></td>
<td>Sparse, negative ties representing trade-offs between economic and social value We have developed a standard way to audit the issues around operations, and a way of identifying key stakeholders and assessing whether the local manager is aware of the stakeholders concerns. (Dig)</td>
<td>Moderately dense ties emphasizing role of partners in economic value creation If there are no consumers, then shareholders get nothing. Our mission statement mentions stakeholders but does not rank them in a hierarchy. Stakeholders all come together in terms of purpose. (Salt)</td>
<td>Dense, positive ties emphasizing common interests between firm and stakeholders Relationships are becoming ones with understanding and interdependency. In the future, there will be more links among stakeholders and fewer discontinuities. (Drill)</td>
</tr>
</tbody>
</table>

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Table 3. Enterprise logics

3 We provide extracts from executive interviews to provide added depth for the description of the logics, which were mapped from the content of annual reports.
It is hard to balance commercial pressures with pressures for social engagement. . . . We cannot meet the demands of all stakeholders simultaneously (PEPPER, annual report).

External requirements and obligations, which constrain other strategic goals, figure importantly in this logic. In BASE’s map, legal compliance is negatively related to both market power and efficiency. In DIG and PEPPER, compliance is negatively associated with perceptions of economic growth. The principal mode of interaction with stakeholders is transactional (Post et al., 2002), reflecting a ‘traditional production function view of the firm’ (Agle, Mitchell, and Sonnenfeld, 1999: 520). Working to contracts, codes, and standards is important in all three firms.

The second logic we distinguish involves an ‘industry network’ conceptualization of the enterprise where strategic intent focuses on economic value creation through relational rents (Amit and Zott, 2001). Structurally, this logic is more complex than the firm-centric logic, with more ties among nodes. Importantly, there are more bidirectional links and fewer negative ones—suggesting strategic interdependence in the pursuit of corporate goals. SALT and WIRED exhibit this logic. The underlying strategic intent is to use collaboration with stakeholders to create value and, in doing so, to gain competitive advantage (WIRED), reputation (SALT), and a capacity for innovation (WIRED). Modes of interaction other than simple contracting are appropriate. While SALT and WIRED do enter into formal contracts with partners, they also pursue alliances with outcomes that are not preordained. Managers emphasize relationships that imply continuity, collaboration, and possibly conflict (Post et al., 2002) with their stakeholders rather than one-off transactions. Stakeholders are partners rather than mere contractors.

We work to drive social and economic advancement through partnerships with public and private sector organizations. We support efforts to expand access to technology, provide training that gives people skills to thrive in today’s economy, and nurture local software economies that open the door to greater prosperity (WIRED, annual report).

The moderate connectedness in the maps reflects an awareness of interdependency where ongoing collaboration with stakeholders might be a prerequisite for sustainable value creation (Wang, He, and Mahoney, 2009). This view is consistent with the network view of organizations that extends the relationships between the corporation and its stakeholders beyond dyadic ties. Relational ties channel the flow of resources among stakeholders. For managers, the central challenge is dealing with the interdependencies (Rowley, 1997).

The third logic we identify involves an ‘extended’ conceptualization of the enterprise. The underlying strategic intent concerns value creation not only for the firm but also for other actors in society. Social value creation (Kacperczyk, 2009; Margolis and Walsh, 2003) is one of its distinctive features. Structurally, this is the most complex logic with the greatest number of ties among nodes and fewest negative links. The prevalence of bidirectional and positive links between social and economic value creation suggest interdependence between the well-being of the firm and the well-being of society. One manager expressed this as ‘we all swim or sink together.’ DIGITAL, DRILL, and ACID show this logic. Strategic intent explicitly incorporates social value creation, with the most central nodes including social development (DIGITAL), environmental stewardship (ACID), and long-run sustainability (DRILL). Creating social value as an end in itself—and not just instrumental to the firm’s economic goals—differentiates the enterprise logic from the industry network logic.

DRILL’s sustainability is closely connected to the well-being of society. Our decisions affect our investors, employees, and partners, and the communities in which we operate around the world. Through our history we have emphasized the importance of taking account of their well-being (DRILL, annual report).

This perspective is consistent with conceptualizations of corporation-stakeholder relationships as complex webs of interactions (Post et al., 2002). Transactional ties are in the background, and the challenge for managers is to understand the entire
set of relationships and manage them in ways that create synergies (Post et al., 2002). In contrast to the legal basis for stakeholder relationships inherent in the firm-centric logic, ties in the enterprise logic go beyond business transactions and extend to relationships with a wide range of stakeholders.

Business is about relationships, not only transactions. You have to engage deeply. You have to earn trust. You have to strive for integration, working closely with suppliers, governments, and communities, and understanding their points of view. You have to help them advance their agenda, not just your own (DIGITAL, annual report).

We note that the three underlying dimensions of strategic intent, mode of interaction, and structure of firm-stakeholder relationships are closely interrelated. The firm-centric logic is the simplest of the three logics, with the fewest connections and the most trade-offs. The enterprise is seen as being in a situation of constrained independence from society, where relationships are transactional. Strategic intent is aimed at capturing and retaining economic value; social value creation is seen as detrimental to this. The industry network version situates the corporation within a more complex system, with interdependence between the firm and its stakeholders. Economic value creation is central and interactions with stakeholders provide the basis for this. The extended enterprise situates the corporation in a yet more complex system, with significant interdependencies between the firm and a wide range of economic, social, and political actors. Strategic intent centers not only on economic value creation but also on the creation of social value. Looser and more indeterminate ties open the possibility to many diverse sets of relationships among the corporation and its stakeholders that enable this to occur.

Corporate attention to stakeholders

We now assess how different enterprise logics prompt distinct scopes of attention. Scope of attention refers to the number of stakeholders identified as being salient. Table 4 provides measures of corporate attention across the eight firms and links these to the enterprise logics. Figure 3 displays the box plots of corporate attention across the pairs, depicting the inter-quartile range within each firm. We find industry differences: high technology shows the broadest scope of attention, while chemicals exhibit the lowest. This is not surprising; industries differ in their structures or regulatory requirements that may prompt attention to different stakeholders (Daft, Sormunen, and Parks, 1988). However, the industry effects do not explain the within-pair differences in attention and the heterogeneity in performance of our matched-pair sample.

The firm-centric logic is associated with a narrow average scope of attention compared to the industry network and extended enterprise logics, which are associated with broader average scopes of attention. Most managers in BASE and DIG have a narrow scope of attention restricted to the production-function set of stakeholders, especially shareholders and employees. Managers in firms showing the extended enterprise dominant logic, such as DRILL and DIGITAL, are likely to attend to stakeholders in the social and political arena, such as governments and communities. These differences are significant in three of the four pairs (cf. Table 4).

We also find redundancy in firms BASE and DIG: the majority of their managers attend to the same, narrow range of stakeholders—predominantly shareholders, employees, and customers. In contrast, in ACID and DRILL we note substantial differentiation of attention. In general, we observe a positive relationship between aggregate scope and differentiation. These correlations permit a preliminary conclusion that the enterprise logic influences attention to stakeholders without providing insight into why this is the case. We now turn our attention to the mechanisms that translate enterprise logics into corporate attention to stakeholders.

Issue classification and the scope of attention

One of our starting premises was that enterprise logic, like a dominant logic, would shape perceptions of risks and opportunities of attending to stakeholders (Lampel and Shamsie, 2000). Our data reveal that firms with broader scopes of attention to stakeholders put greater emphasis on opportunity than do firms with narrower scopes of attention, which emphasize threat reduction. All firms see threat reduction as important, but it is a matter of where the balance lies.
Table 4. Corporate attention to stakeholders

<table>
<thead>
<tr>
<th>Industry</th>
<th>Firm</th>
<th>Logic</th>
<th>Average scope of attention</th>
<th>Comparison of differences(^7)</th>
<th>Prevalent stakeholders attended to</th>
<th>Differentiation of attention</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chemicals</strong></td>
<td>Acid</td>
<td>Extended</td>
<td>5.3</td>
<td>Acid higher than Base (p &lt; 0.01)</td>
<td>We have customers, employees, shareholders, authorities, NGOs, politicians, society, and of course universities. Stakeholders are all important. Shareholders are the most important stakeholders. If I take society, customers, employees, probably the shareholder is stronger economically.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Base</td>
<td>Firm</td>
<td>3.7</td>
<td></td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td><strong>Food</strong></td>
<td>Salt</td>
<td>Network</td>
<td>6.3</td>
<td>Salt higher than Pepper (p &lt; 0.01)</td>
<td>Without shareholders, there’s no company and without employees no possibility to give a return to shareholders. They are equally important. (It is also important) to play a role with local communities and society. More removed from us are suppliers and trade partners. Universities also deliver knowledge and trained people. First are the consumers and then the financial shareholders are clearly the others to satisfy.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Pepper</td>
<td>Firm</td>
<td>4.2</td>
<td></td>
<td>First are the consumers and then the financial shareholders are clearly the others to satisfy.</td>
<td>High</td>
</tr>
<tr>
<td><strong>Extractive</strong></td>
<td>Drill</td>
<td>Extended</td>
<td>5.8</td>
<td>Drill higher than Dig (p &lt; 0.05)</td>
<td>The company is made up of employees, but shareholders are the owners. The customers are people we serve, and we operate in the local communities. There are families and others who benefit from the businesses. You need to put suppliers there somewhere as well. I’ve never seen people during the annual shareholder meeting say to the shareholders, ‘I’m sorry, I’ve not met my financial targets because I’ve invested money and time in social responsibility or environmental protection ahead of my time.’</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Dig</td>
<td>Firm</td>
<td>5.0</td>
<td></td>
<td>I’ve never seen people during the annual shareholder meeting say to the shareholders, ‘I’m sorry, I’ve not met my financial targets because I’ve invested money and time in social responsibility or environmental protection ahead of my time.’</td>
<td>Low</td>
</tr>
<tr>
<td><strong>High tech</strong></td>
<td>Digital</td>
<td>Extended</td>
<td>6.2</td>
<td>No significant difference</td>
<td>It starts with shareholders and employees, our customers, our suppliers, the people whom we depend on to provide us with capabilities so we can deliver the end solution to the customer. It is the people in the country, in the community. It is a very broad spectrum. Social stakeholders would have a lower priority than the shareholders. However, you have to conduct your business in a way consistent with the established practices that govern the industry you’re in.</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Wired</td>
<td>Network</td>
<td>5.3</td>
<td></td>
<td>Social stakeholders would have a lower priority than the shareholders. However, you have to conduct your business in a way consistent with the established practices that govern the industry you’re in.</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

\(^7\) Wilcoxon-Mann-Whitney nonparametric test.
Table 5 provides an overview of the eight cases, the principal ways in which managers in each firm categorize the issue of attention to stakeholders and their rationales for doing so. We find consistent evidence that the firm-centric logic is associated with threat reduction rationales and, in turn, this is associated with attention to a small number of stakeholders, primarily those related to the production function of the firm (Agle et al., 1999), namely shareholders, employees, customers, and, to a lesser extent, suppliers. The industry network and extended enterprise conceptualizations are more frequently linked to opportunity-based rationales around the creation of collaborative advantage. Managers in these firms generally attend to a larger number of stakeholders, including stakeholders in the sociopolitical environment such as governments, communities, and non-governmental organizations.

We suggest that strategic issue classification plays a mediating role in translating a firm’s enterprise logic into attention to stakeholders. Specifically, the different logics influence the rationales that managers give that result in collective attitudes toward risk (Kahneman and Lovallo, 1993), and consequently the stakeholders that are attended to. The more central the firm is in the enterprise logic, the more likely managers are to classify attending to stakeholders as a means to manage threats. Perceptions of limited control play a key role in this classification, and we note that external constraints—such as regulatory compliance—are an important dimension of the firm-centered logic (cf. Table 2). Our interviews underline the perceived lack of control over certain issues related to stakeholders, especially those in the sociopolitical environment. A DIG manager, for example, describes the difficulty of controlling environmental activists, accusing them of ‘just shouting to us. They don’t listen to us.’ Uncertainty and the potential for conflict exacerbate perceptions of uncontrollability and threat.

(After a scandal last year) we had problems with journalists. Investigative journalists wrote whatever dirt they could find. For three months, we were forbidden to talk to the press because everything we said could have been held against us in the EU and the United States (BASE, interview).

Managers perceive a greater capacity to influence or control the more traditional stakeholders whose cooperation and participation may be attained through the payment of dividends, salaries, or competitive pricing. BASE, PEPPER, and DIG managers emphasize the importance of attending to the interests of these stakeholders:

*The important stakeholders are the consumers to start with. Then, of course, shareholders are clearly the others to satisfy (PEPPER, interview).*  
*Shareholders are extremely relevant. We would not expect anyone to have a different view. It’s very clear. Employees are important (BASE, interview).*

These findings are consistent with prior work on threat classification and risk aversion that suggest that managers turn their attention to internal issues where they perceive they have a greater measure of control (Chattopadhyay et al., 2001; Nadkarni and Barr, 2008). This includes stakeholders that provide the basis for capturing economic value (Lepak et al. 2007), including shareholders (who provide capital), employees (who provide labor, skills, and knowledge) and customers (who provide revenues). In contrast, when the firm is conceptualized as being embedded more deeply in society, managers are likely to classify attending to stakeholders as a means to gain opportunity. Perceptions of opportunity, that is, situations over which managers have a degree of control and the potential for gain (Dutton and Jackson, 1987), produce greater attention to external factors (Chattopadhyay et al., 2001), which is consistent with our finding that perceptions of opportunity...
<table>
<thead>
<tr>
<th>Industry</th>
<th>Firm</th>
<th>Logic</th>
<th>Threat- opportunity ratio</th>
<th>Prevalent rationale for attending to stakeholders’ concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>Acid</td>
<td>Extended enterprise</td>
<td>1.75</td>
<td><em>It reduces risk, yes, but an advantage we have is that we can brand our company—not superficially, but brand it as a specific type of company…. It is a source of motivation and an opportunity to attract the best talent.</em></td>
</tr>
<tr>
<td></td>
<td>Base</td>
<td>Firm</td>
<td>2.22</td>
<td><em>Everything has a cost. I am a firm believer in shareholder value. We are in business to make a return to shareholders.</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><em>[…] It’s an illusion that customers pay more because a company is ‘nice.’</em></td>
</tr>
<tr>
<td>Food</td>
<td>Salt</td>
<td>Network</td>
<td>0.92</td>
<td><em>Today’s generation will only work for companies that set those sorts of standards. So the benefits outweigh the costs, and the challenge is much more how to excite, how to communicate it well.</em></td>
</tr>
<tr>
<td></td>
<td>Pepper</td>
<td>Firm</td>
<td>3.17</td>
<td><em>I have doubts about the business case because all big companies have to follow this approach. It is a non-choice. It is a disadvantage if you do not have it but it is not a competitive advantage.</em></td>
</tr>
<tr>
<td>Extractive</td>
<td>Drill</td>
<td>Extended enterprise</td>
<td>1.43</td>
<td><em>If a company with high emission standards puts in best technology, it becomes more efficient. Higher standards can turn a burden into a competitive advantage.</em></td>
</tr>
<tr>
<td></td>
<td>Dig</td>
<td>Firm</td>
<td>1.67</td>
<td><em>We have a continuous focus on disaster avoidance. Part of what drives our mindset is that we can do serious damage to the environment, to people, to society because of our production. Our competitor is suffering greatly from the fact that it’s had several production disasters.</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><em>Our investments will ultimately be paid back to our shareholders. If you behave decently, that will impact the buying process, which always will have some element of emotional behavior.</em></td>
</tr>
<tr>
<td>High tech</td>
<td>Digital</td>
<td>Extended enterprise</td>
<td>0.86</td>
<td><em>By offering IT training to SMEs, we could extend our network of partners, and that helped us to reduce some costs from problems in the distribution chain.</em></td>
</tr>
<tr>
<td></td>
<td>Wired</td>
<td>Network</td>
<td>1.04</td>
<td></td>
</tr>
</tbody>
</table>
prompt a broader scope of attention to stakeholders, emphasizing a wide range of stakeholders that extend into a wider economic and sociopolitical environment, including suppliers, governments, communities, and civil society organizations.

Consistent with its emphasis on greater interdependence between the firm and other actors, the industry network conceptualization highlights interactions with other industry members that can go beyond those conventionally stipulated in contracts to encompass the creation of shared assets. Intra-industry relationships, for example between a firm and its suppliers (Dyer and Hatch, 2006) or among alliance partners (Tyler and Steensma, 1995), can open up opportunities through the sharing of assets that contribute to innovation and wealth creation. A SALT manager declares:

We grow our business in developing countries by developing our suppliers and our distributors. People who disregard this do so at their peril because it gives us a competitive advantage in terms of giving us business opportunities and giving us an edge over [them and] others who disregard this (SALT, interview).

The extended enterprise conceptualization downplays specific transactional relationships or industry network ties. In DRILL, ACID, and DIGITAL, managers, while still attentive to the economic and social risks that stakeholders may pose, are comparatively more likely to see collaboration with stakeholders as offering opportunities for innovation. In contrast to the industry network conceptualization that focuses on the firm’s competitive advantage, the extended enterprise logic emphasizes solutions that contribute to the well-being of stakeholders that, in turn, contributes to the long-run sustainability of both the firm and society.

Factors that we once dismissed have become crucial. Competitiveness is not only the result of market processes. Rather, it is closely dependent on society. Social and environmental impacts of our activities have become strategic factors (DIGITAL, annual report).

**Differentiation of attention**

It might seem that the average scope of managers’ attention to stakeholders adequately explains why some firms attend successfully to the demands of multiple stakeholders. However, in the course of our analysis, we noted that some firms had highly differentiated attention, while other firms showed much less (see Figure 3). We were puzzled by this and by the pattern of greater differentiation in attention in broad-scope firms. While a possible explanation is that executives in large, multinational corporations face distinct contexts and are influenced by local environments (Elsbach, Barr, and Hargadon, 2005), our matched pair design controlled for this. We returned to both the literature and the data to make sense of these findings.

As a result, we uncover a second mechanism that links enterprise logics to differing levels of social performance. We propose that some logics accommodate greater differentiation in attention than others. Differentiation of attention—where different managers attend to distinct stakeholders—enables specialization and a cognitive division of labor that permits simultaneous attention to a large number of stakeholders, some of whom might have conflicting objectives. This specialization may represent an efficient solution (Postrel, 2002) to the problem of attending to multiple stakeholders simultaneously that, in turn, contributes to superior social performance.

Logics vary in the centrality of key constructs, in their complexity and, we suggest, in the degree of cognitive control (Gavetti, 2005) brought to bear on managers. Cognitive control refers to the organizational capacity to control the premises that managers accept, while managerial autonomy reflects a lack of organizational control (Gavetti, 2005). We argue that less complex logics—such as the firm-based logic—exert greater cognitive control than do the broader-based logics. We link this mechanism of cognitive control to differentiation of managerial attention. Table 3 and Figure 3 provide evidence that the narrow, firm-centric logic is characterized by less differentiation in managerial attention to stakeholders. Most managers in BASE and DIG focus on a similar, relatively narrow, set of stakeholders. In contrast, in ACID, DRILL, and DIGITAL, some managers also attend to a similarly narrow set of stakeholders but, significantly, in these firms other managers focus their attention on a wider range of actors, including those in the sociopolitical environment such as governments, communities, and activist groups.

Our evidence reveals that the centrality of external constraints and the low connectedness in the
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firm-based logic not only narrows the range of salient stakeholders but also prompts consensus within the firm about their salience. Such consensus allows actors to perceive a threatening environment as more predictable and perhaps more controllable (Hardin and Higgins, 1996). Where there is conflict, consensus allows actors to rationalize the dominant viewpoint (Jost et al., 2003).

A focus on threat reduction is likely to prompt autocratic leadership styles (De Luque, Washburn, and Waldman, 2008), that could further reinforce cognitive control.

The three firms with firm-centric logics and low differentiation in attention had become targets of stakeholder activism several years prior to this study. Upon suffering from a well-publicized corruption scandal, BASE institutionalized a legal compliance program, thereby reinforcing the notion inherent in the firm-centric logic that stakeholder relationships are based in law. Similarly at DIG, a major environmental failure that increased stakeholder pressure contributed to a shift from managerial autonomy to demands for internal consensus.

Too many people were in charge, and nobody was in charge. It was at a time when you had multiple governing bodies looking at the same issue and you did not have a unified management structure... (Now) we have a unified command structure. It means that a decision is a decision, and it is a unified decision (DIG, interview).

In general, we propose that the prominence of the external constraints in the narrow logics, coupled with the lower levels of connectedness (see Table 4) serve to control the perceptions of managers about salient stakeholders. Low levels of connectedness imply low integrative complexity (Calori et al., 1994), which may be linked to dogmatism around a single perspective rather than support for diverse viewpoints (Tetlock, 1983). Simpler logics restrict the possibility for multiple interpretations because there is less ambiguity (Jost et al., 2003). The relatively simple firm-centric logic, which has the most rigidly specified, least ambiguous ties between the firm and its stakeholders, is associated with substantial consensus about priorities. For example, senior managers of DIG, characterized by a firm-centric logic, recognize the objective of providing a singular interpretation of the external world to their subordinates.

Key messages are agreed by the senior-most leadership of the company. Those messages are cascaded down and built into our education and training. They're built into our internal media. They're repeated in webcasts. It's a bit like any large institution... the government talking to its citizens (DIG, interview).

In contrast, the more complex the logic, the greater is the possibility for multiple interpretations. With more connections and greater possible diversity in the relational ties, individual managers in these firms may interpret the diverse ties in different ways. At an organizational level, there is a greater likelihood of tolerance for different viewpoints. Greater complexity also facilitates managerial autonomy (Gavetti, 2005), which is also associated with less autocratic leadership styles (De Luque et al., 2008). Our evidence suggests a tolerance of diversity of attention enables a cognitive division of labor across the top management team and, potentially, at other levels of the organization. SALT, a firm with an industry network conceptualization, confirms the importance of managerial autonomy:

Our success depends on innovation, so we do everything we can to ensure that the enterprising people we employ have the freedom to act. We give them all the support and encouragement they need. At the same time, we empower them to make tough decisions, implement new ideas, and use their initiative (SALT, annual report).

We note that the cognitive control and tolerance for diversity in attention to stakeholders do not occur independently of structure (Gavetti, 2005). DRILL, with an extended enterprise logic, explicitly encourages specialization in its structure that enables specific units to focus on the expectations of distinct stakeholders.

There are different channels (to identify expectations) depending on the stakeholder. So for distinct stakeholders, there is a proper channel for identifying needs. (DRILL, interview).

While our findings in this respect are tentative, we are nonetheless struck by the potentially paradoxical effects of stakeholder activism. Our evidence suggests that stakeholder activism—often designed to compel attention to a wider set of
stakeholders (Frooman, 1999)—does not have the intended effects. The three narrow-logic firms with adversarial stakeholder relationships in their recent history appear to have become locked into a risk-averse logic, with more autocratic leadership (De Luque et al., 2008) and limited managerial autonomy (Gavetti, 2005). This control could be reinforced by design as chief executive officers limit the decision rights of subordinates. Complex, turbulent environments can prompt centralization of power (Siggelkow and Rivkin, 2005) and may make enterprise logic and organizational structure mutually reinforcing. For these firms, the events of the past become embedded in the enterprise logic narrowing their scope of attention, increasing redundancies, and weakening social performance.

**DISCUSSION AND IMPLICATIONS**

This study tackles the question of why firms operating in the same environment differ in their attention to stakeholders, and by extension, in their social performance. We propose an alternative to the prevalent ‘outside-in’ explanations of corporate attention to stakeholders, arguing that attention to stakeholders is a consequence of managerial and organizational cognition, where the firm’s enterprise logic plays a critical explanatory role. This ‘inside-out’ perspective provides a new way of investigating one of the most enduring questions posed by stakeholder theorists—namely ‘who or what really counts?’—and responds to recent calls for studies linking managerial cognition to stakeholder salience (Laplume, Sonpar, and Litz, 2008).

**An inside-out explanation**

Our model is based on two causal mechanisms, each of which forges a link between stakeholder theory and strategic management. The first mechanism focuses on the scope of attention, revealing the role that opportunity and threat classification plays in directing attention to stakeholders. The second focuses on the differentiation of attention, showing how different logics affect managerial autonomy and become reinforced by strategic leadership processes in ways that either promote or constrain the specialization of attention by managers. This second mechanism has implications for how firms address competing stakeholder expectations and how they deal with trade-offs. While executives shape the organizational context to enable their firms to address conflicting objectives (Gibson and Birkinshaw, 2004), they must first assess the value of simultaneously pursuing multiple objectives.

The two mechanisms are important individually in explaining attention to stakeholders. But their interaction is even more important. We propose that the extended and more open enterprise logics where managers have a higher degree of autonomy create a virtual cycle of attention to stakeholders and to social performance. Firms with these logics are more likely to be comfortable with a measure of risk taking, seizing opportunities, and innovating in their relationships in ways that lead to new business models that reinforce both social and economic performance (Porter and Kramer, 2006). Firms with more constrained logics concentrate on threat management and are less tolerant of managers who work outside the boundaries of the logic. Since narrow focus of attention is associated with a lack of creativity (Runco, 2004), these firms are less likely to pursue novel approaches for dealing with their stakeholders.

A cognitive perspective also helps explain the persistence of low social performance, especially if broad attention to stakeholders is positive for financial performance (Kacpercyzk, 2009). One explanation is that any relationship between social and financial performance is only moderately positive (Margolis and Elfenbein, 2008) with weak market selection effects against firms with below average social performance. An alternative explanation, consistent with our findings, is that mental models are largely resistant to disconfirmatory evidence (Huff, Huff, and Barr, 2000) and might persist even if attention to non-shareholding stakeholders could be shown to be profitable (Tetlock, 2000). We raise the possibility of punctuated change in mental models once a tipping point is reached (Huff et al., 2000) and would welcome further study of this.

Our focus on logic and attention was motivated by prior studies showing differences in logic across firms and revealing a link between attention to stakeholders and performance. Logic is an organizational knowledge structure, and we therefore used archival data in our mapping. Other types of cognition exist. Future research might obtain direct measures of mental models by involving managers in the mapping (Tyler and Gnyawali, 2009). Direct measures would provide insight into
the consensus with which logic is shared within the top management team. As differentiated attention increases coordination demands, paradoxically there may be greater managerial consensus around the more open logics that facilitate differentiated attention.

**Enterprise logics and stakeholder variety**

Strategic variety is a core concern of scholars of dominant logic. Prahalad and Bettis (1986) introduced it to explain corporate strategy and the limits to diversification, focusing on the internal economic characteristics of the firm. Since then, there has been growing interest in an array of different business forms—including business ecosystems (Christensen and Rosenbloom, 1995) and extended enterprises (Post et al., 2002). In expanding the construct of the dominant logic to include conceptualizations of the firm and its relationship to society, we suggest that logics play a role in determining the variety of stakeholders that firms attend to. Specifically, enterprise logic may constrain or facilitate a firm’s capacities to deal with stakeholder variety and to attend to multiple stakeholders simultaneously.

Our efforts to adapt the dominant logic construct reinvigorate earlier calls for ways to articulate the role of the enterprise and its relationship to society (Freeman, 1984). While the dominant logic literature has remained focused on the corporate level, a pressing issue is to understand how corporations interact with a broad range of social actors (Mahoney and McGahan, 2007). How managers conceive of their relationships with society is not a corporate-, but an enterprise-level problem (Schendel and Hofer, 1979). In focusing on the enterprise level, one of our goals has been to extend the dominant logic construct to enable us to explore the range of business forms that appear to be in the minds of today’s managers.

We have proposed the idea of an enterprise logic that can not only accommodate the more traditional, economics-focused conceptualizations of the firm but also take account of more recent perspectives that see the firm in a broader economic and sociopolitical environment (Post et al., 2002). We offer three different enterprise logics, along with rich descriptions of their characteristics that not only flesh out their attributes but also help to explain why some managers perceive relationships with stakeholders as involving risk, conflict, and trade-offs while others see opportunity, interdependence, and mutual benefit.

We hope that the enterprise logic construct stimulates research into why some firms emphasize the economic environment while others embrace an extended view of the enterprise. We did not explicitly tackle the source of the enterprise logic, but have been informed by prior research that suggests that dominant logics result from shared experiences and organizational history (Tripsas and Gavetti, 2000; Von Krogh and Roos, 1996) and have found tentative evidence of the feedback resulting from negative incidents and stakeholder activism. We welcome longitudinal research to test the causal mechanisms that we propose in our model. In particular, there is more to be done to investigate the firm’s history and prior experiences with stakeholders to shed light into both the origins of an enterprise logic and its evolution.

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