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Managing the Psychology of Morality

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Increasing Corporate Social Responsibility Through Stakeholder Value Internalization (and the Catalyzing Effect of New Governance): An Application of Organizational Justice, Self-Determination, and Social Influence Theories

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> Societies and organizations are not persons, but function through the agency of their individual members—present and past—and the social norms and cultural products they create. (Kelman, 2006, p. 19)
>
> [B]y failing to provide supports for competence, autonomy, and relatedness of employees, socializing agents and organizations contribute to alienation and ill-being. (Ryan & Deci, 2000, p. 74)
>
> The operation of rules, roles, and values in socialization and social control is illustrated in an analysis of people's emotional reactions when they find themselves deviating from societal standards in the domain of responsibility or propriety. (Kelman, 2006, pp. 12–13)

This chapter is about the *psychology* of corporate social responsibility (CSR). CSR (more recently given the broader term *organizational responsibility*), refers to "context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance" (Aguinis, in press; see also Bowen, 1953; Caroll, 1979; Waddock, 2004). CSR as an area of inquiry has served to shift the view of the firm as existing for the purpose of shareholder profit maximization to a view of the firm as a global citizen whose actions should be accountable to many stakeholder groups (e.g., local communities, the environment, employees, consumers, etc., in addition to stakeholders). As such, organizations are being held accountable as conduits of social justice more than ever before (Fortanier & Kolk, 2007).

This trend has led sociologists, anthropologists, and law scholars to uncover a dizzying array of issues that speak to the complexity of corporate social responsibility as a potential catalyst for positive social change. In the organizational behavior literature, a great deal of research has focused on the seemingly incongruent goals of wealth maximization and social responsibility. This research has suggested that these goals are not necessarily incompatible and that CSR may actually be leveraged to serve a strategic advantage. That is, empirical research has sought to determine if there is a significant link between corporate social performance and corporate financial performance. The first of these studies was conducted by Bragdon and Marlin (1972) who found a positive relationship between these two variables. Thirty-five years and over 200 studies later, we still do not seem to have a clear answer.

For example, a meta-analysis by Orlitsky, Schmidt, and Rynes (2003) considered 52 studies comprising over 30,000 observations and concluded that there seems to be a relationship between social performance and firm performance, although it really depends on how both are operationalized and measured. Their moderator analysis showed that effects are more likely to be observed when social performance is measured via reputation as compared to other indicators, and when firm performance is measured via accounting-based indicators as opposed to market-based indicators. Mackey, Mackey, and Barney (2007) have shown mathematically that CSR initiatives might be funded in publically traded firms that, although not maximizing the present value of the firms' future cash flows, might still maximize the market value of the firm. In the most recent meta-analysis of the social performance–firm performance link, Margolis, Elfenbein, and Walsh (2009) show, using a sample of 251 studies, that the overall CSR effect on firm performance is positive, yet small (mean $r = .13$, median $r = .09$, weighted $r = .11$). Further, they were unable to show that any of the moderators explored in past research made a notable difference on this effect (with the exception of the effect of revealed misdeeds on financial performance). These authors conclude that firms should be engaging in CSR for the sole purpose of enhancing social performance itself and avoiding harm, and that a continued search for a *business case* for CSR is futile.

In the legal literature, there has been a focus on the effects of "new governance" or "soft law" structures on corporate social responsibility (Williams, 2004). New governance refers to a shift from governments requiring compliance to various regulatory standards, to one where stakeholder pressure leads to the formation and adoption of voluntary, transnational standards for conducting business. Thus, we see organizations complying with evolving standards of social responsibility, not because they are legally required to do so, but because of social pressures imposed on them by consumers, industrial associations, intergovernmental entities, corporate interest groups, some kinds of institutional investors, and nongovernmental organizations (Conley & Williams, 2005).

It has recently been pointed out that organizational and social psychology is a discipline that might have much to contribute to the CSR discourse, but it has been slow to take up that challenge (Aguinis, in press; Rupp & Aquino, 2009). Whereas law, strategy, and organizational behavior have been instrumental in defining the domain of CSR and uncovering its placement within broader business practices and global governance frameworks, there is still much uncharted territory in areas where a more psychological perspective could be fruitful. Such a perspective would seek to uncover the phenomenological processes that explain *why* various stakeholders care about CSR, the *motivational* structures that lead to the engagement of socially responsible or irresponsible behaviors by organizations, and the *internalization* processes by which CSR stops being a set of practices organizations feel pressured by external groups to carry out and starts becoming a set of practices that represent a manifestation of the organization's and stakeholders' shared values.

These are the phenomena on which we will focus in this paper. We will begin with an account of why CSR is important to stakeholders. For this discussion, we will pull from the organizational justice literature, specifically, the multiple needs theory of organizational justice (Cropanzano, Byrne, Bobocel, & Rupp, 2001), as well as our previous work, which has applied this model to CSR (Aguilera, Rupp, Williams, & Ganapathi, 2007). Second, we consider the contextual factors that lead CSR to be valued by stakeholders. For this, we apply self-determination theory (Ryan & Deci, 2000) to show how structures that increase feelings of competence, relatededness, and autonomy lead to CSR being internalized and integrated into stakeholders' value frameworks and sense of self. Third, we consider the contagion properties of CSR—looking specifically at how CSR values might be internalized at the institutional level, and spread to other practices internal and external to the organization.

The final section of our paper describes a case through which we hope to illustrate the propositions made in the first three sections. Here we describe how global banks have become global sustainability regulators through their commitment to the Equator Principles, a voluntary set of standards that global financial institutions have developed for evaluating and managing social and environmental risk in privately financed development projects. We hope to show, as both an illustration and as a stimulus for future empirical research, how the motivational and social influence processes described in the paper have led to the reconfiguration of transnational governance in this instance.

Third-Party Justice and the Motives of Stakeholders

Our foray into the psychology of CSR begins with the identification of stakeholders, and in particular, what motives they might have for putting pressure on firms to be more socially responsible. Corporate social responsibility is often viewed as an organizational-level construct. Scholars write about the socially responsible or irresponsible acts of the *firm*, metrics of social impact and sustainability involve audits of organizational *practices*, and empirical analyses of the relationship between social and financial performance place the organization as the unit of analysis. Our work, however, has argued that although CSR generally refers to the social and environment consciousness of the firm, it is individuals who ultimately make decisions on behalf of the organization, and individuals who evaluate and respond to organizational decisions (see also Kelman, 2006). For this reason, it behooves the organizational sciences to consider research relevant to individual perception formation and decision making to fully understand how and why socially responsible and irresponsible decisions are made, and how and why they are perceived of as such and reacted to by those witnessing their effects.

As previous research has argued, a particularly well-suited literature in organizational psychology that would allow for such an investigation is that of organizational justice (Aguilera et al., 2007; Rupp, Ganapathi, Aguilera, & Williams, 2006). Research in this area has shown very certainly that individuals care about fairness. It is an evolutionarily-based response to react with emotion when treated unfairly and to seek justice when mistreated. Thus, it is not surprising that meta-analytic evidence indicates that individuals' perceptions of how fairly they are treated significantly predicts a wide variety of attitudinal and behavioral outcomes such as job performance, citizenship behavior, organizational commitment, and the like (Cohen-Charash & Spector, 2001; Colquitt, Conlon, Wesson, Porter, & Ng, 2001). It seems that individuals care about fairness both because it serves a self-protective or outcome maximization function (Adams, 1965), and because being treated fairly gives individuals certainty regarding their status and standing in groups (Tyler & Lind, 1992).

The story doesn't end there, however. More recent research has shown justice is about more than the self, and that people (and some animals) have visceral reactions not only when they themselves are treated unfairly, but also when they witness others being treated unfairly (Folger, 1998). Indeed, both laboratory experiments and field studies have shown that individuals show a willingness to sacrifice their own resources to punish a party who has victimized another in some way—and individuals need not identify with the victims in any way to show such tendencies. The research evidence to date suggests that in addition to being a means to an instrumental and relational end, justice is also an end in itself—that people care about justice for justice's sake, and will go to great lengths to uphold it (Kahneman, Knetsch, & Thaler, 1986; O'Reilly, Aquino, & Skorlicki, 2010; Rupp & Bell, 2010; Turillo, Folger, Lavelle, Umphress, & Gee, 2002).

It is the fact that individuals react strongly to how *others* are treated (also known as third-party justice; DeCremer & Van Hiel, 2006; Ellard & Skarlicki, 2002; Skarlicki & Kulik, 2005) that is essential to understanding the psychology of corporate social responsibility. In fact, CSR can be conceptualized as multistakeholder third-party justice. In other words, a large number of parties may judge the actions of the firm and subsequently retaliate (or support) perceived acts of social irresponsibility (or responsibility). This observation pushes the scope of organizational accountability beyond its current conceptualization in the organizational behavior literature. It suggests that organizations are not only being judged by stakeholder groups regarding practices that support or threaten the best interest of the group that is making the judgment, but that each stakeholder group also has concern for the greater good and also reacts to how they perceive the firm is treating each other stakeholder group.

As theorized by Aguilera et al. (2007), each stakeholder group (e.g., employees, consumers, shareholders, top management, nongovernmental organizations (NGOs), governments, local communities) has instrumental, relational, and ethics-based motives for caring about CSR and will evaluate the actions of the firm through the lens of their unique motive structures. Further, they will apply this lens when evaluating not only the actions that affect them, but also the actions that affect other stakeholders. Thus, a complex web of judgments is created, which influences a complex web of behaviors (that can be very broadly categorized into commitments and retaliations), which collectively have the potential to affect *both* the financial and social performance of the firm. This increases the complexity of CSR phenomena beyond current treatments, and might explain many of the inconsistent findings in the social performance–firm performance literature. Future research is certainly needed to test these propositions.

Contextual Influences on CSR: Competence, Relatedness, and Autonomy

Just as it is important to consider the perceptual processes of stakeholder groups who evaluate and react to an organization's CSR-related decisions, it is also important to understand more fully the psychology behind those decisions themselves. That is, what leads organizations to engage in socially responsible behaviors? The field of social psychology is especially relevant here in that it is rich with theories about how the social context affects decisional processes. Particularly germane for the current investigation is that of self-determination theory (Deci & Ryan, 1985, 1991; Ryan, 1995; Ryan & Deci, 2000).

Self-determination theory (SDT), considered among the most influential theories of human motivation, shows that humans, at their psychological best, are motivated and responsible. However, given certain conditions, "the human spirit can be diminished or crushed [leading] individuals [to] sometimes reject growth and responsibility" (Ryan & Deci, 2000, p. 68). SDT scholars have equated irresponsible behavior with nonoptimal human functioning and noted the abundance of such tendencies in modern society. They argue that the decisions of individuals to be either constructive or irresponsible reflect more than personality or genetic differences—that irresponsible behavior may certainly be construed as a reaction to elements of the social environment. Thus, in essence, self-determination theory is a theory about the conditions that either foster or undermine positive human potential. We feel such a theory, and the tomes of empirical evidence supporting it, are quite illuminating in understanding socially responsible decisions in organizations.

At the foundation of self-determination theory are three psychological needs, namely, *autonomy*, *competence*, and *relatedness*. The meeting of these needs has been shown to be essential for facilitating growth and constructive social development. Although the term *constructive social development* is generally used in psychology to refer to the social development of a person, this theory lends itself nicely to considering social development at the level of the organization or society. Said differently, we are proposing that the level of social responsibility inherent in the decisions made and policies set by organizational actors will be influenced by the extent to which the decisions are self-determined; that is, that the acts are seen as either externally valuable or intrinsically rewarding—which is determined by the extent to which the organizational context meets the competence, relatedness, and autonomy needs of the actors.

Thus, the questions become: (a) What would the optimal context be that would motivate socially responsible decisions among organizational leaders? and (b) What structural variables, within the domain of ethics and social responsibility, would not only give leaders a sense of competence, relatedness, and autonomy, but would also motivate them to promote social responsibility throughout the organization (which we will see in the next section has the power to catalyze value internalization and integration)?

Applying self-determination to this context would suggest, first, that more CSR is likely when decision makers have discretion over the ethicality of their judgments. Although this may at first sound counterintuitive, it suggests that more "good" is possible if decision makers feel they are doing good because they want to, not because they have to (i.e., increased *autonomy*). Thus, whereas required compliance (e.g., environmental protection laws) may be necessary to ensure a certain level of responsibility by organizations, allowing autonomy in policy making may have the potential to catalyze more transformative CSR than a strict, legalist framework may be capable of accomplishing.

Second, more CSR is likely when decision makers receive feedback, communication, and rewards (as well as freedom from demeaning evaluations) that induce feelings of *competence*. Decision makers will show more motivation for engaging in CSR when they feel empowered, competent, and efficacious in creating policies, and can see that the success of their decisions is due to their competence rather than external factors. In psychology, this is known as *perceived locus of causality*. When leaders see a positive social effect resulting from their CSR-directed behaviors, and similarly when other stakeholder groups see the positive social effects resulting from organizational decisions and policies, this should have a motivating effect that should not only increase social performance, but also aid in the internalization and integration of CSR values among various stakeholder groups—a process that we will discuss in more depth later in this chapter. We propose that it is via transparent management, coupled with voluntary social auditing and reporting, that such effects can be revealed.

Finally, the organizational context can influence CSR motivation to the extent that it meets *relatedness* needs. Psychological research has found that the motivational effects of relatedness are evident even in infancy, with intrinsic motivation higher among babies with secure attachments to a parent (Bowlby, 1980). In adults, a great deal of research has shown that the social (in our case organizational) environment can facilitate or forestall motivation. Thus, we propose that CSR motives will be stronger for decision makers who feel secure in their attachment and identification with the organization. Again drawing upon the social psychology literature, characteristics of such a relationship would include feelings of emotional closeness, comfort with mutual dependence, and feelings of acceptance by the organization (Fraley & Shaver, 2000). Research would suggest that securely attached leaders would have positive views of both themselves and the people with whom they work, and feel satisfaction from their relationship with the organization.

In organizational psychology, we would describe this set of characteristics as representative of a positive social exchange relationship between employees and employers (Blau, 1964), and the contextual element shown most likely to produce relatedness is a climate for justice (Cropanzano & Rupp, 2008). Thus, our analysis has led to a conclusion that a key to motivating corporate social responsibility (a macro-operationalization of justice) is organizational fairness (a micro-operationalization of justice).

If our propositions are correct, it would suggest that justice begets justice. Such a statement implies multilevel justice/CSR as having contagion properties (e.g., Degoey, 2000; Masterson, 2001), which is relevant to our next set of propositions.

Stakeholder Internalization and Integration of CSR Values

Motivation is not only about the choice to engage in a set of behaviors (in our case socially responsible behaviors on the part of organizational decision makers), but it also involves persistence with and commitment to a chosen goal over time (Kanfer, 1990; Latham & Locke, 2007). Further, implied in our discussion above was that the *goal* that is pursued in the quest for corporate social responsibility is commitment to a set of values that influences major organizational decisions. Thus, given our multilevel and multistakeholder perspective of CSR, our next set of challenges becomes one of understanding both the creation and spreading of CSR value commitment among all stakeholders who have influence over the creation, regulation, and implementation of CSR policies.

Self-Determination Theory Revisited

SDT provides an initial set of insights on this matter. That is, SDT research has shown that motivation toward a particular goal (e.g., social responsibility in decision making) can range from a motivation or unwillingness, to passive compliance, to active personal commitment (Ryan & Deci, 2000). The theory has introduced the concepts of *internalization*, which refers to "taking in" a value, and *integration*, which refers to the transformation of the value such that its embodiment emanates directly from one's sense of self. In other words, individuals with integrated CSR values will not promote corporate social responsibility because they feel pressured to do so, or because they are mandated to abide by a set of standards. Instead they will act to embody CSR values because the values have been internalized and integrated into their self-concept. In this way, goal-consistent behaviors come more automatically without a great deal of processing on the part of the decision maker.

What is especially important here is that research has shown that when behavior is regulated through these sorts of processes (i.e., identified, integrated, and intrinsic motivation), effort, quality of decisions/outcomes, volitional persistence, social assimilation, and well-being are increased (Miserandino, 1996; Ryan, Kuhl, & Deci, 1997). Consequently, a key to increased and lasting CSR in organizations lies in the motivational structures of individuals. Organizational contexts that allow for autonomy, competence, and relatedness needs to be met can lead to the internalization and integration of CSR values, which can lead to heightened levels of ethical decision making and social performance in organizations (e.g., see Green-Demers, Pelletier, & Menard, 1997). On the flip side, when behavior is externally regulated, the internalization of CSR values is less likely and individuals would be expected to respond with alienation and low goal commitment because the values are not necessarily accepted as one's own (i.e., they are not assimilated into the self and do not allow for the experience of autonomy in action).

Kelman's Three-Process Model of Social Influence

A second major theory within social psychology that is highly relevant to our consideration of what might lead to the creation of authentic CSR values among stakeholder groups is Kelman's theory of social influence (1958; 2006). This theory is especially well-suited, and a nice next step beyond SDT, because it allows us to look more specifically at what can move individuals and groups of individuals from public conformity to CSR policies to internal acceptance and commitment to CSR (which SDT suggests is essential for optimal social performance). Further, the model has been shown to be valid both at the level of the individual, as well as the level of the organization and nation/society (Kelman, 1968). In fact, Kelman is well-known for his application of the theory to the promotion of social responsibility in the social sciences as well as international conflict resolution (e.g., the Israeli–Palestinian conflict, 1979).

Kelman's "three-process model" argues that behavior is significantly affected by social influences. As such, the behaviors of individuals, groups, organizations, and societies are influenced through three major processes. *Compliance* occurs when an individual or group seeks to attain a favorable reaction from an influencing party. This typically involves pursuit of some type of reward or the avoidance of some type of punishment that is controlled by the influencing party. *Identification* occurs when an individual or group accepts the influence of another party in order to establish or maintain a self-defining relationship with them. *Internalization* occurs when an individual or group accepts the influence of another party because the values of the two parties are congruent, and as a result, accepting the influence attempt allows the individual or group to both maintain consistency and reinforce the alignment between beliefs and actions.

Research has shown that the social context (e.g., an organization's structure, its history and culture, its formal policies) can have a strong impact on how influence is wielded. These structural variables create a context that leads to the formation of *system orientations*, which essentially shape motive structures of system actors. In other words, the context shapes how, when, and why individuals will be motivated to act in various ways. In the words of Kelman and Hamilton (1989, p. 87), "Many social influence situations are ... thoroughly embedded in the organizational or societal context. ... They represent ... part of the process whereby the society or organization ... socializes and controls its members and carries out its daily business, and whereby the members advocate policies, protest against existing practices, or seek to advance their personal or subgroup interests." So just as SDT allowed us to map the contextual elements of autonomy, relatedness, and competence onto the internalization and integration of motives, Kelman's model shows us what types of influence structures are most effective within varying system orientations and why (Kelman, 1974).

Compliance (interest) orientations are created and reinforced through the enforcement of formal rules and norms, and are empowered via social fear and the threat of embarrassment. Identification (relationship) orientations are created and reinforced not through behavioral requirements, but through the creation of role systems and are empowered via the avoidance of guilt and shame (or the promotion of pride and affiliation). Internalization (identity) orientations are created and reinforced through shared social values and are empowered via the avoidance of regret and self-disappointment (or the promotion of self-integrity and the adherence to personal standards). Kelman explains that these three orientations serve as both "the process and criteria by which perceived legitimacy is generated, assessed, and maintained" (2006, p. 15). In other words, influence attempts based on threats and bribes are likely only to induce change at the level of compliance. Attempts based on maintaining relationships between parties are likely to only induce change at the level of identification. Stable, enduring changes at the level of internalization are only likely when influence attempts are targeted at transformative change, creating a state of shared values and mutual problem solving among parties (Kelman 1996, 1997, 2006).

Putting the Pieces Together and the Illustrative Case of New Governance and Equator Principles

To recapitulate, we have presented three theoretical perspectives with which to encourage further thinking about the psychology of corporate social responsibility. First we discussed organizational justice theory to argue that stakeholders not only react to how they see the firm treating *them*, but also hold organizations accountable for the treatment of other stakeholder groups. We highlighted that individuals and groups, both

TABLE 4.1

Psychological Processes Influencing the Internalization of CSR: Insights from Theories of Multiple Needs, Social Influence, and Self-Determination

Active Motives	System Orientation	Method of Influence	Emotional Mechanisms	Psychological Needs
Self-interest	Compliance/ interest	Rules (e.g., government regulation)	Fear/threat	Competency/ control
Social relations	Identification/ relationships	Roles (e.g., professional standards)	Guilt/shame/ pride/affiliation	Relatedness/ belongingness
Ethics/values/ moral obligations	Internalization/ identities	Values (e.g., social policy)	Self-integrity/ regret/self-disappointment	Autonomy/ meaningful existence

internal and external to the organization, have instrumental, relational, and ethical reasons for pushing for CSR, and that research has barely begun to understand how this complex web of motives facilitates or hinders social change. Second, we used self-determination theory to explicate the contextual factors that might maximize socially responsible decisions in organizations. We proposed that decisional contexts that promote competence, relatedness, and autonomy may encourage more responsible actions than will strict regulatory structures that squelch the self-determining potential of socially responsible behaviors. Finally, we described further tenets of SDT as well as Kelman's theory of social influence to more concretely link the social context within which "responsibilization" occurs (Shamir, 2008) through the internalization of values, a process we feel is critical to the authentic and long-term practice of corporate social responsibility.

Table 4.1 lists the major components of the three psychological perspectives we have presented in this paper. In this section, we present a case with which to partially illustrate the phenomena we have described above. It involves an unintended positive consequence of deregulation and privatization within the banking industry.

The Privatization of Public Infrastructure

Prior to the 1980s, large public infrastructure projects such as oil and gas pipelines, hydroelectric dams, mines, and telecommunication facilities were funded primarily by multilateral public development banks. However, this practice changed in the 1980s and 1990s due to structural adjustments by the World Bank and International Monetary Fund coupled with effective activism by NGOs concerning controversial projects with significant environmental and human rights issues associated with them (e.g., the Three Gorges Dam project in China and the Narmada Valley projects in India). The result was significantly increased privatization of public and state-owned services such as energy, water, resource extraction, and basic industries, and a partial withdrawal of the public development banks from these projects (Williams & Conley, 2009). Thus, private Wall Street and City of London banks became much more involved with large-scale infrastructure development than they had been previously.

At first blush, this shift was viewed with great dismay by the NGOs, which had been fighting for at least a decade for increased environmental and social standards to be incorporated into public-sector infrastructure development. Now, with the privatization of the industry, the public-regarding standards developed by the World Bank and its private-investment subsidiary, the International Finance Corporation (IFC), seemed irrelevant. What has unfolded since that time is quite surprising, however, private banks have fully embraced the IFC's Social and Environmental Performance Standards, and indeed global banks have begun to act as quasi-regulators of social and environmental standards across the entire range of transnational development activities.

From Rules to Standards

This has come about through the development of the Equator Principles (EPs), a voluntary set of standards that global financial institutions have developed, which rely upon the IFC's standards for evaluating and managing social and environmental risk in privately financed development projects valued at more than $10 million (www.equator-pinciples.com). The Principles include rigorous requirements for incorporating environmental and human rights protections into management systems and loan covenants, and for incorporating community consultations and dispute resolution systems into project management.

As a first step in highlighting the psychological processes described in our paper, we will begin by pointing out that the initial development and adoption of the Equator Principles was instrumentally motivated. The method for providing private capital for large, privately sponsored infrastructure projects is nonrecourse *project finance*. Since this is nonrecourse lending, the bank providing the loan is only repaid through revenues generated upon project completion. Thus, even if the borrower is a powerful corporation such as Exxon Mobil, if the project is halted in any way, the bank must absorb the loss. Consequently, stakeholder issues such as those involving human rights, labor, the environment, and political unrest can be viewed as potential risks for project derailment and loan default. The development of the Equator Principles did not therefore evolve from ethical or moral concerns on the part of the banks, but out of the instrumental motive to reduce risk and to create a level playing field among competitors within the project finance industry (Lawrence & Thomas, 2004). Yet the establishment of the Equator Principles is changing the social context in which banks that participate in the project finance market operate, leading to the possibility that this social context could start to have a more transformative effect upon both the attitudes and behaviors of a number of stakeholder groups.

The Equator Principles are voluntary, and there are no agreed-upon methods for certifying that a project meets the EP standards, thereby requiring self-enforcement on the part of the banks. The banks that adopt the EPs commit to put in place internal policies that require all firms involved with the project (note that large-scale infrastructure projects often require the collaboration of many firms) to comply with the standards. The bank requires an environmental and social impact assessment of each project involved. Some projects in Organization for Economic Cooperation and Development (OECD) countries may have already had such an assessment conducted by law. However, projects proposed in developing countries may only be involved in such an assessment because the EP-committed banks require it as a prerequisite for project funding. When a project is identified as medium or high risk, EP-committed banks must require the project sponsor to develop a management plan to mitigate the risk, as well as loan covenants that require compliance to that management plan.

The Equator Principles were first drafted in 2003 and had 41 adopters (e.g., Barclays, Citibank, Credit Suisse, HSBC, ING, JP Morgan Chase, and Wells Fargo). A revision to the EPs was drafted in 2006, after the IFC had revised and strengthened their standards. As such, the revised EPs similarly included even stricter standards for issues such as labor, community health, safety, security, and public reporting. As of early 2009, there are 56 global banks and other financial institutions (e.g., export-import credit agencies) signed on to the EPs and it has been estimated that 75% of global project finance is carried out by EP-adopting banks. As a result, the international banking industry has emerged as a "global regulator" for corporate social responsibility and sustainability in project finance. Whereas the EPs are completely voluntary, and the standards do not have the force of law, we see examples of EP enforcement influencing how business is conducted in developed nations, and in emerging economies, importing rule of law and the development of business norms (Williams & Conley, 2009).

From Standards to Values

What we find especially interesting about this case, given our interest in the internalization and institutionalization of CSR motives within and between stakeholder groups, is the effect EP adoption has had on other aspects of banks' operations among some of the adopting firms. The EPs only apply to project finance, and project finance typically only makes up

5% of a financial institution's total business. However, research has shown a marked "CSR contagion" effect in some of the banks that have adopted the EPs, with adoption seeming to catalyze cultural change throughout the firm. Indeed, since signing on to the EPs, banks such as HSBC, Barclays, and JP Morgan Chase have used the Equator Principles as benchmark standards for setting up similar standards for social and environmental responsibility throughout the firm's practices (e.g., underwriting, commercial lending, retail banking, etc.). Further, we see the EPs used as an industry standard in other types of syndicated lending arrangements (e.g., joint ventures, high-value commercial loans, stock and bond underwriting), even when EP banks are not the lead lenders. In the words of Williams and Conley (2009, p. 6), "what began as a change in lending procedures by a number of global banks in an important but limited arena is spreading throughout the industry, and in some cases is starting to transform the values and business practices of the banks across a wide spectrum of lending and underwriting activities."

The Role of Competency, Relatedness, and Autonomy in the Internalization and Contagion of CSR

Thus, "new governance" mechanisms have the potential to create a context in which stakeholders push for CSR, not entirely out of self-interest, but also due to internalized ethical standards, which might catalyze CSR motives to trickle down, up, and across within a firm and between firms. This is a marked extension of traditional theories of both law compliance and the psychology of justice, which have historically been based on models of self-interest and utility maximization. We propose that the reason new governance mechanisms might have unique power in changing firms' actions and culture lies in the psychological processes we have described above.

As our case described, the impetus for the development of the Equator Principles was instrumental. The nonrecourse nature of project finance loans represents financial risk for the banks, and so requiring borrowers to comply with social and environmental standards assists the banks in mitigating such risks. Although self-interest is considered a lower-order motive in the Cropanzano et al. (2001) framework, and a lower-order system orientation in the Kelman (1974) framework, the privatization of public infrastructure and the development/adoption of the Equator Principles changed the social context. That is, the social influence structure in place to constrain banks' activities shifted from an inherently rules-based system of laws and government regulation regarding a wide range of individual transactions to a looser system based on voluntary standards that the banks themselves initiated.

It could be argued, and the three-process model would suggest, that this process led to a shift from an interest orientation to a relationship orientation within those banks with serious engagement with the Equator Principles, where interconnectedness and stakeholder relations became a more dominant motivator. For example, it has been observed that banks that have signed on to the Equator Principles more recently include institutions that are not nearly as exposed to reputational risk as the early-adopting institutions (Williams & Conley, 2009). It seems that the motives for signing on shifted from self-protection to relational normative pressures within the industry.

Finally, the "spreading" of the EP-based standards from project finance to other aspects of banks' business might be evidence of an internalization process, where the values of corporate social responsibly have become something that organizational actors identify with and feel are important to carry out, not just to mitigate risk and comply with industry norms, but because CSR is seen as the right thing to do, and acting in accordance to the EPs fulfills individual needs for meaningful existence (Cropanzano et al., 2001). In the word of Williams and Conley (2009, p.23), "it could be the case that the moral and ethical sensibilities of employers and managers are becoming involved."

Why might this have occurred? Self-determination theory would argue that the changes in the social context may have created an increased opportunity for organizational actors to experience autonomy, relatedness, and competence, which past research predicts would lead to an increased motivation for pushing for CSR. Take HSBC, which was awarded the *Financial Times'* first Sustainable Banking award in 2006, as an example. After issuing its first set of environmental risk standards in 2002, it made a decision not to rely on local laws and industry standards in determining risk, but to be "judged on higher global standards." HSBC employees were involved in the drafting of the Equator Principles, and their sustainable banking department has grown from three to 300 employees since 2003 (including prominent climate change economist Lord Nicholas Stern). In addition, HSBC has seen a spreading of EP-level social and environmental standards from project finance to a large number of additional product groups, and shows an *affirmative preference* for doing business with clients that show a commitment to strict CSR standards. We propose that (and invite empirical testing of whether) HSBC emerging as a de facto regulator of corporate social responsibly has come about due to changes in the three pillars of self-determination theory: (1) the *autonomy* employees and other stakeholders experienced during the shift from government regulation to voluntary standards, (2) the *competence* they experienced through participation in the drafting of the Equator Principles, and (3) the *relatedness* experienced through the EP's bringing together banking industry executives in a proactive, socially directed enterprise.

Conclusion

We have made many propositions in this paper, and have offered an illustrative case to more concretely articulate our theoretical ideas. Of course, all of our ideas should be viewed as tentative and subjected to critical empirical testing. We should also note that some have questioned the positive social impact that the Equator Principles have had. The purpose of this paper is not to make solid conclusions about the psychology of corporate social responsibility, but rather to introduce some potentially applicable psychological theories that might lead to greater understanding of the phenomena that leads individuals, groups, and organizations to push for positive social change through corporate responsibility initiatives.

A theoretical perspective from social psychology that might be considered in future research seeking to further integrate the ideas we have presented in this paper is goal systems theory (Kruglanski, Shah, Fishbach, Friedman, Chun, & Sleeth-Keppler, 2002). Goal systems theory argues that motivation is not separate from cognition, and as such, goals and means interact, compete for resources, and combine in complex ways in influencing behavior. Research in this area has shown that multiple goal systems can be activated simultaneously (e.g., financial, reputational, ethical), and that such goal systems can be influenced by environmental primes (e.g., rules, roles, values; Bargh & Barndollar, 1996), which can include structural elements of the environment, as well as social influence by other parties (e.g., the influence of other stakeholder groups; Kruglanski, 1989; Elis & Kruglanski, 1992). Research suggests that goal pursuit is resource dependent and that active goals can pull resources from the attainment of other goals (Kruglanski et al., 2000). This work has also observed that the emotions elicited during goal attainment have the power to shift a *means* to an *end*, such that activities that were initially in play in order to achieve a goal become rewarding in and of themselves, rendering the behavior intrinsically motivating (e.g., self-determined; Kruglanski et al., 2002). Finally, goal-system research has shown behavior to possess the property of multifinality—with desired actions being most likely when they are linked to multiple, dissimilar goals.

As the examples in the above paragraph imply, a goal-systems approach would easily lend itself to the integration of the competing motives presented by Cropanzano et al. (2001), the system orientations and contextual influences presented by Kelman (1974) and the precursors of intrinsic motivation outlined in self-determination theory (Ryan & Deci, 2000). It might also provide insights as to how we might empirically assess the evolution and spreading of CSR motives in organizations over time. Indeed, the methodologies common in social psychology and social cognition might also provide innovative ways to test the phenomena inherent in CSR not previously envisioned. We feel such research is greatly needed and look forward to its unfolding.

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