



## DOES SUSTAINABLE DEVELOPMENT MAKE GOOD STRATEGIES FOR CORPORATE ACTORS?

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### Abstract

The concepts of Corporate Social Responsibility (CSR) and Sustainable Development (SD), stuck in academia for decades, are now mainstream in the corporate world in rich countries, and growingly in emerging and developing ones. Though these two terms are open to interpretations and may have very different meanings, they refer to the broad idea that corporate actors (CA) should or do take into account a growing range of stakeholders in their activities above shareholders, should or do extend the scope of their strategies so as to incorporate non financial aims such as protecting their employees' health or improving working conditions in their community, and should or do widen their perspectives in order to include long term stakes such as environmental protection or reduction in social inequalities in their daily activities. The purpose of this article is not to investigate the many interpretations given to these two terms, but to answer two simple questions on the basis of a (partial) survey of the recent literature dedicated to the role of CSR and SD in corporate actors' strategies. These questions are "why do CA adopt such CSR or SD strategies", and "how do they implement them"?

**Keywords:** Corporate Social Responsibility, Sustainable Development, Firm strategies

**JEL Classification:** M14, M20, Q01

## SÜRDÜRÜLEBİLİR KALKINMA KURUMSAL AKTÖRLER İÇİN İYİ STRATEJİLER ÜRETİYOR MU?

### Özet

Yıllardır etki alanları akademik çevrelerle sınırlı kalmış Kurumsal Sosyal Sorumluluk (KSS) ve Sürdürülebilir Kalkınma (SK) kavramları, günümüzde gelişmiş ülkelerdeki kurumsal dünyada ana akım haline gelmiş durumdadır ve bu ülkelerin gündemlerinde de artan şekilde kendine yer bulmaktadır. Her ne kadar bu iki kavram yoruma hayli açık olsa da, ve birbirlerinden hayli farklı anlamlara gelebilseler de, her ikisi de genel olarak kurumsal aktörlerin (KA) aktivitelerinde sadece hissedarlarını değil gitgide genişleyen bir paydaşlar topluluğunu da göz önünde bulundurmalarının, stratejilerinin kapsamını çalışanlarının sağlığını korumak veya toplumun çalışma koşullarını iyileştirmek gibi

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finansal olmayan hedefleri de içerecek şekilde genişletmelerinin, ve gündelik aktivitelerinde çevrenin korunması veya toplumsal eşitsizliğin azaltılması gibi uzun vadeli menfaatleri de gözeten bir bakış açısı geliştirmelerinin gerekliliği üzerinde durmakta(dır). Bu çalışmanın amacı, Kurumsal Sosyal Sorumluluk ve Sürdürülebilir Kalkınma kavramlarının farklı yorumlarını incelemek değil, kurumsal aktörlerin stratejilerinde KSS'nin ve SK'nın rolüne ilişkin ortaya konmuş yakın zamanlı literatürü tarayarak iki basit sorunun yanıtını aramaktır. Sorular şunlardır: “Kurumsal Aktörler neden KSS ve SK stratejileri benimsemektedirler?” ve “Bu stratejileri nasıl uygulamaya koymaktadırlar?”

**Anahtar kelimeler:** Kurumsal Sosyal Sorumluluk, Sürdürülebilir Kalkınma, Firma stratejileri

**JEL Sınıflaması:** M14, M20, Q01

## I. Introduction

The concepts of Corporate Social Responsibility (CSR) and Sustainable Development (SD), stuck in academia for decades, are now mainstream in the corporate world in rich countries, and growingly in emerging and developing ones. Though these two terms are open to interpretations and may have very different meanings, they refer to the broad idea that corporate actors (CA) should or do take into account a growing range of stakeholders in their activities above shareholders, should or do extend the scope of their strategies so as to incorporate non financial aims such as protecting their employees' health or improving working conditions in their community, and should or do widen their perspectives in order to include long term stakes such as environmental protection or reduction in social inequalities in their daily activities. The purpose of this article is not to investigate the many interpretations given to these two terms, but to answer two simple questions on the basis of a (partial) survey of the recent literature dedicated to the role of CSR and SD in corporate actors' strategies. These questions are “why do CA adopt such CSR or SD strategies”, and “how do they implement them”? The “why” question investigates whether CSR or SD truly reflect a new way for CA to shape their activities, or whether they are just catchphrases to adapt CA discourse to something topical at the moment. Answering it will allow us to understand the extent to which we should consider an ethical dimension in the adoption of such strategies, and whether these strategies are transforming the nature of the firm or are just new ways to conduct business as usual.

The “how” question refers to the manner in which these strategies are being incorporated in CA activities. Answering it will allow us to estimate the concrete contribution of CA strategies to environmental or social improvements, to distinguish the role of big companies and small firms in this regard, to see the extent to which the level of development surrounding CA activities plays a determining role, etc.

The answers to the first two questions will lead us to the conclusions that CA do have CSR or SD strategies (but not all), and that these strategies can be highly rewarding (but not always), in the sense that they allow CA to increase their performances while contributing to environmental/social improvements. A last question ensues from these conclusions: if CSR or SD strategies

can create shared values for CA and their stakeholders, why are they not more pervasive and spontaneously adopted by all CA? We propose some answers at the end of our investigation, which will be structured along the three questions previously asked.

## 2. Why Do CA Adopt CSR or SD Strategies?

One issue that will not be investigated here is the necessity to regulate CA behavior so that they internalize the social and environmental costs of their activities. This view is rooted in the classical externality and common resources theories, according to which there is a need for a strong regulatory framework to limit the negative social and environmental impacts of CA activities. Though an obvious and growing part of the answer to the “why” question<sup>1</sup>, we don’t intend to dig this issue since our purpose is to understand whether CA adopt CSR or SD strategies on a voluntary basis, and not as a result of regulatory constraints. Otherwise the answer to the question “should CA adopt such strategies?” would simply be “yes, because they are compelled to do so”, a tautology of not much interest for us in the framework of this article.

Moreover, this extremely reduced view of CA behavior constrained by law is embedded in the (classical) neoclassical paradigm of the firm according to which there would be an unavoidable trade-off between environmental-social protection goals and the creation of value for shareholders, since firms have a natural tendency not to take into account the collective costs of their activities. But this view describes a depressingly static world, in which firms have already made their cost-minimizing choices, and where environmental regulations inevitably raise costs and decrease CA capacity to create value<sup>2</sup>. Markets are not static environments, and firms adapt their strategies to ever evolving consumer preferences, competition characteristics, products and producing processes, be they driven or not by new regulatory features. In this regard, the rise of CSR and SD concerns over the last two decades has broadened the scope of conception on what CA could or should do to contribute to social-environmental goals, to shape what John Elkington<sup>3</sup> has coined “the triple bottom line of the firm” (the social, environmental and financial dimensions of their activities and their impacts). In this context, it is of crucial importance to understand whether CA have a spontaneous tendency to adopt this triple bottom line approach, above what is required by law and decency. The limits imposed by law are quite explicit and should be discussed along their potential failure to control harmful misdeeds by CA. For example, the law should not allow firms to enslave their labor force, for obvious reasons. Should it forbid them to emit carbon in the atmosphere? It could, but setting a proper limit would be open to discussion. The limits imposed by decency are more implicit, but need not be less obvious. For example, if multinational CA

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1 B. Horrigan, “21st Century Corporate Social Responsibility Trends – An Emerging Comparative Body of Law and Regulation on Corporate Responsibility, Governance, and Sustainability”, *Macquarie Journal of Business Law*, 4, 2007, s. 85-122.

2 M. Porter and C. Van der Linde, “Towards a New Conception of the Environment-Competitiveness Relationship”, *Journal of Economic Perspectives*, Vol.9, No.4, Fall 1995, s. 97-118.

3 John Elkington, *Cannibals With Forks – The Triple Bottom Line of 21st Century Business*, Oxford, Capstone Publishing Ltd., 1997.

conduct activities in countries where enforcing laws on child work proves to be difficult (or where is no such laws), they should restrain themselves from resorting to such ignominious practices. As defined by most scholars, CSR implies a spontaneous tendency by CA to adopt strategies going beyond these limits.

If CSR (or SD, more about the distinction between the two terms latter) strategies should be adopted on a spontaneous basis by CA to be significant<sup>4</sup>, the main problem is to define what is behind the “should” term. Is it a moral imperative from the part of CA? Or is it a new opportunity to create value that CA should seize in a competitive context? This is the core of our “why” question. In a much cited, much debated and often criticized article<sup>5</sup> advocated the idea that there cannot be such a thing as corporate social responsibility, since corporate actors are not guided by moral principles as individual persons can be, and have as a sole responsibility to create value for their shareholders. More precisely, his point is that corporate executives are employees of business owners, and as such should conduct businesses in accordance with their employers’ desires. It may be the case that in some instances, these desires imply establishing a corporation for eleemosynary purpose (a hospital or a school for example), in which case the objective is not monetary profit. In his view, deviating from this line of behavior for the sake of “social responsibility” would lead corporate executives to act in some way which is not in the interest of their employers, which would amount to spending someone else’s money for the sake of a so-called general social interest. This view has often been doomed narrowly economic. Our contention is that it is exactly at the core of the CSR issue. To take a simple example proposed by Friedman, should a corporate executive “make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment”<sup>6</sup> Is there a moral imperative to act accordingly? The answer is far from obvious, for the simple reason that moral obligations imply absolute mandates, while most (if not all) corporate social choices involve balancing competing values, interests and costs<sup>7</sup>. As argued by Porter and Kramer, “moral principles do not tell a pharmaceutical company how to allocate its revenues among subsidizing care for the indigent today, developing cures for the future, and providing dividends to its investors”<sup>8</sup>. There may be situations in which moral principles can guide CA behavior in a non ambiguous way. For example, refusing to invest in a country where human rights are not respected may be part of a CA strategy. But in this case the company may reorientate its activities towards other countries, without necessarily facing losses of revenues. Profit-sacrificing choices must be part of CSR strategies if the moral argument is to be retained, which would be the case if a company decided for example to give up one of its

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4 Significant in the sense that in this way, CA would be driven by enduring forces, and not regulatory constraints, to contribute to environmental/social goals.

5 M. Friedman, “The Social *Responsibility* of Business is to Increase its Profits”, **The New York Times Magazine**, September 1970.

6 Friedman, **Ibid.**

7 M. Porter and M. Kramer, “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, **Harvard Business Review**, December-2006, s. 78-93.

8 Porter and Kramer, 2006, **Ibid.**

key markets for the sake of not contributing to the breach of human rights (what for example Google did not do in China where access to the Internet is severely controlled by the government). There seems to be numerous examples of shareholders' activism in environmentally or ethically oriented proposals for corporate activities<sup>9</sup>, but it remains to be demonstrated that this activism leads to profit-sacrificing measures.

Without moral imperatives to guide CA CSR strategies, we are left with the idea that corporate executives, acting as individuals that may be guided by moral principles, can decide to dedicate part of their company's revenues to environmental or social goals, but probably at the expense of their shareholders' interests (unless their views converge on the issue), and maybe at the expense of the company's position on markets where competitors do not adopt the same behavior. The moral imperative argument to answer our "why" question is not compelling. That does not mean that corporate executives never take decisions based on such principles, but that the answer to the question "should CA adopt CSR strategies on such grounds?" is not a definite "yes". Is the other potential answer, the market opportunity argument, more convincing?

A first part of the answer should lead us to distinguish between CSR and SD. The first concept is tainted with moral imperative, which is of poor help to guide CA behavior in a non ambiguous way and incidentally to answer our "why" question, as we have just argued. SD, though a much vaguer concept, is less so and can guide us in our investigation. Libraries are full of books trying to define what could be a SD. Though stimulating, we will not enter this debate, and will just retain what seems to be a consensual approach of the principle of SD, invoking the so-called triple bottom line of social, environmental and economic performance<sup>10</sup>. As pioneered by the 1987 report of the UN World Commission on Environment and Development, this concept points to a capacity to sustain long term economic growth in an inclusive way (so that growing prosperity can be shared among inhabitants of the planet) while protecting the environment. But this is a macro concept, alluding to parameters and indicators such as GDP per capita, international Gini coefficients, the protection of biodiversity, limits to global warming, etc. How this concept should be translated at the CA level is far from obvious, but is certainly part of our investigation. The only possibility to conceive CA SD strategies without going back to the morally tainted view of CSR is to consider issues that coincide with a company's economic or regulatory interests. As an example, it would be difficult to imagine that CA would adopt climate strategies for the only sake of protecting the environment (unless, of course, they are compelled to do so by a regulatory scheme, like the European emissions trading system for example). But it is a fact that some CA do have such strategies<sup>11</sup>, which can be difficult to interpret if we consider that climate change impacts are externalities that prove almost impossible to internalize in a company's activities,

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9 Horrigan, *Ibid.*

10 Even this approach is challenged by some scholars considering that economic performance is not compatible with environmental protection. The "zero growth", or even "degrowth" theories, do not consider the possibility to articulate the triple bottom line. Obviously, there is no place for CA SD strategies in this perspective, since the main purpose of CA is to create value by increasing the provision of goods and services.

11 See Peter Newell and Matthew Paterson, **Climate Capitalism. Global Warming and the Transformation of the Global Economy**, Cambridge University Press, 2010.

because of the pure public good nature of protecting the climate. Thus CA do not adopt climate strategies to protect themselves from climate change impacts (though they will be affected by these impacts), since they have no capacity to control the phenomenon, but for many other different reasons : to decrease their consumption of fossil fuels and reduce their operating costs; as a protection against future liabilities and potential costs (of impacts of natural disasters for example); in response to growing societal demand and search of legitimacy; by anticipation of coming regulatory pressures in this domain, so as to become leader on their market; globally as a market strategy to seize potential future opportunities.

In this regard, it is safe to assume that governmental and regulatory pressure is likely to play a more significant role when it comes to dealing with environmental or social issues which are not key strategic stakes for CA. In other cases, a look at the literature leads us to conclude that CA do adopt SD or CSR strategies<sup>12</sup> for two broad categories of reasons: in a responsive way to protect themselves from external or internal threats, in a proactive way to seize new opportunities.

### 3. Responsive CSR/SD Strategies

The previous climate strategy example makes it clear that even in public good situations where the environmental/social issues seem remote from the core strategic stakes of a CA activity, there may be some channels by which a company may find itself compelled to take into account these remote issues in its strategy. But these channels are the result of an evolving business environment, and obviously there has not always been pressures to take into account climate stakes for example.

Sahlin-Andersson<sup>13</sup> describes a slow move from situations where states and international organisations played a key role in promoting CSR/SD, to situations where demands for socially and environmentally responsible behavior are channeled through non-state actors, and lead to the emergence of soft law and self-regulatory schemes. At a very global level, these demands can be seen as the result of two intertwined long term trends: the rapid acceleration of economic development after WWII in Western countries that led to increased pressures on the environment and more recently to increased within-country inequalities, and thus to concerns regarding these trends; the concomitant increase in standards of living that allow people in rich countries to dedicate a growing part of their resources to solving these issues<sup>14</sup>. CA cannot long isolate themselves from these growing demands in countries where these trends are the most powerful, and this is no coincidence that CA CSR/SD strategies are becoming mainstream in rich countries. CSR/SD discourses and practices are pervasive in rich countries, and almost absent

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12 The previous discussion would have led us to drop the CSR terminology, but since it is used by scholars and CA themselves, we keep it as synonymous with SD.

13 K. Sahlin-Andersson, "Corporate Social Responsibility: A Trend of What and for What?", *Corporate Governance*, Vol.6, No.5, 2006, s. 595-608.

14 The consumption theory would thus qualify the protection of the environment as a superior good whose demand increases in growing proportion of income, a reason why this is not a priority in developing/emerging countries.

in developing ones Amaeshi<sup>15</sup>, which says a lot about the triggers behind the adoption of such strategies by CA, and the role of institutions in their maturation. In fastly emerging countries like Turkey, CSR practices are mainly conducted by philanthropic actions and adopted by firms with family ownership Robertson<sup>16</sup>, which makes them dependent on the personal profile of the owner/manager. These are not the kind of CSR strategies involving long term environmental and social objectives, but the growing globalization of Turkish firms and the bid to EU membership will arguably change this situation.

Hoffman<sup>17</sup> distinguishes 4 periods to describe the slow integration of CSR/SD issues as strategic concerns by CA in US industries: industrial environmentalism in the 1960s, with a focus on internal resolution of environmental problems as an adjunct to operations; regulatory environmentalism in the 1970s with a focus on compliance with growing regulatory framework; social responsibility in the 1980s with emphasis on pollution prevention and waste minimization driven by voluntary initiatives; strategic environmentalism in the 1990s with proactive strategies integrated by managerial practices. This categorization reveals a clear tendency for CA to incorporate CSR/SD issues in a growingly proactive manner, but that the main drivers are still the necessities to adapt to an evolving environment: firms that do not comply with this new requirement risk losing ground against competitors, or risk losing what is called a “license to operate”. This explains why much of CSR/SD strategies still rely on risk management of all kinds: environmental risks, as some studies show that environmental risks have a negative impact on companies’ long term shareholder value<sup>18</sup>; more globally risks affecting a company’s reputation when consumers are ever more sensitive to environmental/social concerns. In this regard, advertising on SD is a way to compete on markets, all the more when activists, NGOs and the like add pressure on corporate actors to take into account their (supposed) responsibility in various issues: obesity for the fast-food industry; Aids for pharmaceutical companies (to ease access to therapy); child labor in the garment sector; etc.

Depending on the level of exposure to these pressures, CA may adopt different strategies to adapt to different stakeholders’ demands<sup>19</sup>. In the nuclear industry, Banerjee and Bonnefous<sup>20</sup> report three kinds of stakeholders and three different strategies: a strategy of communication to reassure about the risks of nuclear energy addressed at “passive stakeholders”; a strategy highlighting the opportunities of carbon emission reductions for “supportive stakeholders”; a strategy aiming at

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15 K. Amaeshi, “International Financial Institutions and Discursive Institutional Change: Implications for Corporate Social Responsibility in Developing Economies”, **Journal of Change Management**, Vol.11, No.1, 2011, s. 111-128.

16 D. Robertson, “Corporate Social Responsibility and Different Stages of Economic Development: Singapore, Turkey and Ethiopia”, **Journal of Business Ethics**, No.88, 2009, s. 617-633.

17 Andrew J. Hoffman, **From Heresy to Dogma: An Institutional History of Corporate Environmentalism**, San Francisco, New Lexington Press, 1997.

18 P. Dobers and R. Wolff, “Competing with ‘Soft’ Issues – From Managing the Environment to Sustainable Business Strategies”, **Business Strategy and the Environment**, 9, 2000, s. 143-150.

19 Pressures need not come exclusively from external sources. Among stakeholders pressuring on companies to adopt CSR strategies are employees in some instances, who want to share the values of the firm they work for.

20 S. B. Banerjee and A. M. Bonnefous, “Stakeholder Management and Sustainability Strategies in the French Nuclear Industry”, **Business Strategy and the Environment**, 20, 2011, s. 124-140.

establishing a forum and communication campaigns to reaffirm the commitments on safety and reduction of ecological footprint dedicated to “obstructive stakeholders”. In a slightly different perspective, Kolk and Pinkse<sup>21</sup> explore CA responsive strategies to climate change stakes according to parameters such as the location of multinational firms in countries having ratified the Kyoto Protocol or not (higher probability of climate change strategy in the former case), the level of vertical integration of the firm (the higher this level, the lower the probability they adopt measures to reduce greenhouse gas emissions), the customer-oriented (higher probability) vs commodity-oriented (lower probability) characteristics of the company, etc.

The level of economic development seems to be a key driver of CSR/SD strategies, but we observe huge differences between countries that are comparable from this point of view, which illustrates the role of institutions as shapers of these strategies. There are indeed differences in CSR practices and discourses between American and European CA. Matten and Moon<sup>22</sup>: US CA are for example more vocal on their contributions to social assistance (what the authors call the “explicit” model of CSR) as compared to European ones (the “implicit” model), probably because of the role of social protection systems in Europe.

To what extent can these responsive strategies be considered as effective? Put differently, do they have a measurable impact on CA performances, if the goal is to get protected against external threats? The literature is not clearcut on this issue, neither to identify a positive nor a negative link. According to Porter and Kramer<sup>23</sup>, the link between reputation investments made by CA and customer purchasing preferences or stock market performances is difficult to assess, and studies on this issue are still inconclusive. But according to some studies, there is a positive link between CSR strategies and market valuation indicators like the Dow Jones sustainability index Lopez and *et al*<sup>24</sup>, though it is always difficult to isolate a clear causality between these two parameters.

The conclusion may be that whatever the outcome of such studies on this issue, the logic is that CA must adjust to external or internal pressures, and have to adopt CSR/SD strategies to avoid losing ground against competitors, regardless of the contribution of these strategies to their market value. We could say that CSR reporting plays the same role as advertising in this regard, in the sense that CA incur a risk of loss if they don’t advertise, but have no guarantee of gains if they do. This probably explains the role of voluntary CSR reporting in which some CA engage when the law does not oblige them to report on such issues<sup>25</sup>. Voluntary CSR reporting is exclusively adopted by big companies for very specific reasons: as part of a complex web of varied stakeholders, they are more exposed to risks of losses than other CA; regarding these risks and

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21 A. Kolk and J. Pinkse, “Towards Strategic Stakeholders Management? Integrating Perspectives on Corporate Responses to Climate Change”, **Corporate Governance**, Vol.7, No.4, 2007, s. 370-378.

22 D. Matten and J. Moon, “‘Implicit’ and ‘Explicit’ CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility”, **Academy of Management Review**, Vol.33, No.2, 2008, s. 404-424.

23 Porter and Kramer, 2006, **Ibid**.

24 V. Lopez, A. Garcia and L. Rodriguez, “Sustainable Development and Corporate Performance: A Study Based on the Dow Jones Sustainability Index”, **Journal of Business Ethics**, 75, 2007, s. 285-300.

25 Many countries adopted mandatory CSR reporting for CA above a given size.

big CA financial capacities, this kind of reputation investment makes sense, even when reporting does not reflect concrete actions taken on CSR issues (which can be suspected in many cases); in this regard, greenwashing or ecological window dressing reports cannot be considered as free-lunch PR strategies, since these reports imply costs, sometimes huge costs<sup>26</sup>.

Responsive CSR/SD strategies are currently dominant in the CA world, which can be explained by the fact that companies have not yet incorporated these issues as key stakes for their activities. A simple fact corroborates this finding: while some CA may slowly adopt CSR/SD discourses, if not practices, they engage in lobbying activities against regulatory pressures in these domains at the same time, reflecting the fact they would prefer to be submitted to lower external pressures, so that they can dedicate less resources to CSR/SD issues. But we observe a slow move towards proactive strategies by which CA embrace CSR/SD as a way to increase created value, without needing external pressure (other than market trends) to do so. This move is crucial, as if it reflects a strong underlying tendency, it means that incentives instead of constraints may take the lead in driving CA behavior towards more effective strategies in terms of CA economic performances and sustainable development as well.

#### **4. Proactive CSR/SD Strategies**

What distinguishes responsive from proactive CSR/SD strategies? First, the latter have to be endorsed by companies in a self-interested way to increase their competitiveness while having a positive impact on society/environment, and not as a way to cushion external pressures so as to avoid additional costs or reduced revenues from their activities<sup>27</sup>. This way to conceive CSR/SD strategies rejects the zero sum game vision of responsive strategies that envisages only tensions between companies and society, and see them as a positive sum game with shared values based on interdependence between CA and society. As Porter and Kramer<sup>28</sup> put it, CA need a healthy social and natural environment to operate, and a healthy society needs successful companies.

Second, proactive strategies have to be fully integrated in CA activities in such a way that they match their long term strategic stakes while contributing to environmental/social goals. This means that CSR/SD strategies have to be tailor-made so as to exploit the best opportunities of shared value for CA and society, and thus need to be conceived along companies' characteristics of activities, and not in a generic way as is the case with responsive strategies that react to broad pressures from stakeholders (which by definition can only have a fragmented vision of a company's strategic position). This is of course a huge organizational challenge.

Third, proactive strategies need to be forward looking to anticipate future opportunities, as responsive strategies come by definition in reaction to external pressures. Curiously not

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26 Some authors estimate a cost of up to 1 million dollars for the publication of a CSR report for big companies.

27 The worst being situations where CSR "strategy" is just a CA response to stakeholders' pressure to placate them, in this case a defensive reaction with minimal value for society and no strategic benefit for the business.

28 Porter and Kramer, 2006, *Ibid.* s.5.

emphasized in the literature, this feature is crucial since it points to the necessity that proactive strategies rely on forward looking managers, another organizational challenge.

Seen from this perspective, it seems that proactive CSR/SD strategies offer plenty of “win-win” opportunities<sup>29</sup>. There are classical examples in the way CA use energy and other resources, since there is a huge range of possibilities for CA to increase production while reducing inputs use. Kabongo and Boiral<sup>30</sup> propose an extensive analysis of the diversity of CA practices in the domain of residual material reclamation for recycling, whose purpose is exclusively raw material cost reduction, but which brings huge environmental benefits. But these examples are much too restrictive, as they point to a very specific part of the value chain in very specific sectors relying on very specific inputs.

As brilliantly argued by Porter and Kramer<sup>31</sup> in a seminal article, there is a much more integrated way to conceptualize CSR (they even propose to replace the term “Corporate Social Responsibility” by “Corporate Social Integration”), which implies to identify the points of intersection between a company’s activity and the society surrounding it. These points of intersection are mainly the value chain as an inside-out link (comprising hiring and training practices, waste disposal practices, energy use, etc.), and the competitive context of the CA as an outside-in link (the quality of available business inputs-human resources, the local availability of supporting industries, etc.). CA can have an influence on these links, which creates opportunities for CSR/SD strategies in almost infinitely numerous domains, going from health care provided to employees to decrease health care costs for a company (in the case of Johnson and Johnson for example)<sup>32</sup>, to risk management that can decrease future environmental or social liabilities (what CA did not do in the asbestos case over the last few decades for example, at huge social/environmental costs for society and huge economic liability costs for CA today, up to bankruptcy in some instances). In this regard, CSR/SD strategies cannot be viewed in macro-terms, since they have to be conceived as close as possible to CA strategic concerns. Put differently, CA cannot solve social/environmental issues by themselves, but can contribute at their level while improving their own performances. This is why, as previously noted, choices of CSR strategies must depend on companies’ respective activities<sup>33</sup>. Porter and Kramer<sup>34</sup> provide a good example with the Aids pandemic in Africa that may be “a generic social issue for a US retailer like Home Depot, a value chain impact for a pharmaceutical company like GlaxoSmithKline, and a competitive

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29 M. Porter and M. Kramer, “How to Reinvent Capitalism – and Unleash a Wave of Innovation and Growth”, **Harvard Business Review**, January-February 2011, s. 62-77.

30 J. Kabongo and O. Boiral, “Creating Value with Wastes : A Model and Typology of Sustainability Within Firms”, **Business Strategy and the Environment**, 20, 2011, s. 441-455.

31 Porter and Kramer, 2006, **Ibid.**

32 This example is of course relevant in the US Health Maintenance Organization system where companies have to provide private health insurance to their employees.

33 M. G. Arnold and K. Hockerts, “The Greening Dutchman: Philips Process of Green Flagging to Drive Sustainable Innovations”, **Business Strategy and the Environment**, 20, 2011, s. 394-407. provide a good example for the case of the Dutch company Philips.

34 Porter and Kramer, 2006, **Ibid.** p.6.

context issue for a mining company like Anglo American that depends on local labor in Africa for its operations”. Reputation investments like philanthropic actions which are still dominant in responsive CSR lack this integrative perspective: they may not be part of the core business of a company, and thus may not generate the feedback able to create shared value; without this feedback, companies lack the incentives to track the long term impacts of their actions, and may not even be able to measure them; the end result is a loss of opportunities for the company and the recipient of the program as well. At the macro level, these lost opportunities amount to a huge waste of potentially mutual benefits for CA and their stakeholders, and globally to lost opportunities in terms of sustainable development.

What these examples demonstrate is that what “enlightened” companies and their managers try to do is integrate a wider spectrum of CA environment in their activity for the sake of gaining more legitimacy, giving more purpose to employees’ work, ... globally improve the company’s performance and make it sustainable in the long run. Scholars call it institutional grounding, business ethics, corporate social integration, etc. Inspired by Ronald Coase’s seminal article on the nature of the firm (1937), an economist would say that what CA do in this instance is simply internalize a wider spectrum of their activities’ external parameters, because the benefits of doing that are slowly exceeding the costs. In this perspective, the answer to our “why” question is that these parameters are less and less considered as externality parameters, and more and more parameters to be internalized so as to improve the company’s performance. That may imply forward looking capacities from the part of corporate executives, because the costs of internalizing are thought to be offset by long term gains, and some decisions can lead to apparent short term financial losses for the sake of long term benefits. Thus the role of visionary individual actors in transforming corporate behaviors should not be underestimated<sup>35</sup>. But if shared value opportunities created by CSR/SD strategies are as pervasive as some think they are, such strategies should rely less and less on individuals’ sightedness and more and more on day-to-day business, so that in the end the best proactive strategies would be difficult to distinguish from business as usual activities<sup>36</sup>. Some go as far as saying that SD or CSR departments flourishing in big companies at the time should be condemned to disappear in the long run, and that the proper job of a CSR/SD manager should be to make his job redundant.

If we drop the moral standpoint according to which CA should embrace CSR/SD for ethical reasons, answering the “why” question is relatively easy since it appears that companies are self-interested in adopting such strategies, either to protect themselves from external threats, or to increase their performances. The “how” question is more difficult to answer, because there is an infinite number of strategies that can lead to the ultimate goal. Except working on a case-by-case basis, all we can do is categorize the strategies followed by CA.

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35 M. Rossi, H. Szejnwald-Brown and L. Baas, “Leaders in Sustainable Development: How Agents of Change Define the Agenda”, **Business Strategy and the Environment**, No.9, 2000, s.278.

36 Porter and Kramer, 2006, **Ibid.** p.11.

## 5. How Do CA Implement CSR/SD Strategies?

A first limitation comes from the definition of these strategies, which implies things CA do “above what is required by law and decency”. But there are a lot of things CA do within these limits, and a first difficulty is to separate business as usual activities from CSR/SD strategies. Unless we consider, like some authors do, that CA contributions to CSR/SD should include what companies do on a business as usual basis: producing useful goods and services, providing jobs that increase standards of living, creating value that feed public budget, etc. This is the comfortable way to look at the issue, and the approach advocated by some CA (especially multinational firms) considering that the social parameter of SD relies on increasing social value by reaching more consumers and increasing standards of living for poor people, especially in developing countries<sup>37</sup>. But we need to broaden the perspective if we want to identify new trends in CSR/SD.

Globally, scholars repertoriates three steps in CA behaviors regarding CSR/SD: philanthropic gestures, risk management, strategic CSR/SD. The first two correspond to responsive strategies, the last one to proactive ones. Moreover, these three layers of CA behaviors seem to depend closely on the level of economic development of countries where CA operate: the higher the level of economic development, the more elaborate and proactive is the strategy. Porter and Kramer<sup>38</sup> identify three broad areas of contribution of CA strategies: generic social impacts, relying mainly on good citizenship behaviors; value chain social impacts, relying either on mitigating harms from value chain activities, or on transformation of value chain activities to benefit society while reinforcing the strategy; and strategic philanthropy that leverages capabilities to improve salient areas of competitive context. Out of these contributions, we find again responsive strategies in cases 1 and 2, and proactive ones in cases 3 and 4. These elements confirm findings obtained previously.

When it comes to proactive CSR/SD strategies creating shared values, contributions by CA can be viewed from three different perspectives: reconceiving products and markets; redefining productivity in the value chain; building supportive industry clusters at CA location. In each of these three domains, margins for innovations and decisive contributions to CSR/SD are huge and expanding<sup>39</sup>.

Other findings are that small and big firms have different capacities to conduct CSR/SD strategies, the small ones being more prone to strategic reorientation by individual actors and more flexible, the big ones having more means and interests to engage in CSR/SD. Moreover, the more open to the world economy the country in which CA operate, the more CSR/SD strategies of companies in this country will be similar to those of multinational firms<sup>40</sup>.

Another problem is how to *measure* CA contributions to CSR/SD. This is a fundamental issue as

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37 Rossi *et al.* **Ibid.** and see for example DuPont or Unilever’s view at the 1999 Greening network conference.

38 Porter and Kramer, 2006, **Ibid.** p.11.

39 See Porter and Kramer, 2011, **Ibid.** p.67-75. for numerous examples

40 D. Robertson, “Corporate Social Responsibility and Different Stages of Economic Development: Singapore, Turkey and Ethiopia”, **Journal of Business Ethics**, No.88, 2009, s. 626-627.

what is properly observed and measured can be monitored in an appropriate way. For example, once firms are able to measure their carbon footprint, which is far from easy, they begin to see the easy opportunities to curb their emissions. The issue is fundamental for CA which need to monitor their strategies and advertize on accurate information, and for society as well to be able to appreciate CA contributions to societal issues. Unfortunately, in this respect there is more cacophony and confusion than clarity. There is first a multiplicity of indicators, and difficulties to find a homogeneous framework<sup>41</sup> [see OECD, 2009]: indicators may depend on the industry, the competitive context, the size of the firms, their location, etc. The problem is worsened by the need to add new criteria as CA incorporate news issues in their strategies (the measurement of social parameters is a recent trend for example, so that indicators refer mainly to environmental issues up to now). This gives wide room for manoeuvre to companies for greenwashing and hiding their real CSR/SD performances, an additional source of confusion for stakeholders. However, attempts to harmonize measurement of CSR/SD indicators like the Global Reporting Initiative (the first standardized approach to sustainability reporting, may help make improvements in this domain<sup>42</sup>.

An additional and crucial problem is how to judge whether given criteria have been met<sup>43</sup>. Independent actors (media, NGOs, auditing organizations, ...) whose purpose is to evaluate CA performances don't have enough resources to investigate all of their activities, and rely mainly on readily and inexpensively available data, even if these do not reflect properly the social/environmental impacts they want to estimate.

## 6. Why Are CSR/SD Not More Pervasive?

The strongest argument in the litterature is that CSR/SD strategies can bring huge shared values for CA and society. In some instances, these even seem to be available to CA like low-hanging fruits that just need to be picked up. A simple question, curiously not raised in the litterature, comes to an economist's mind: if these opportunities are such widespread, and if CA find a spontaneous interest in exploiting them in a free-market environment, why are CSR/SD strategies not more pervasive?

We already encountered several answers in previous sections. The most obvious one is that conceiving and adopting these strategies imply huge costs of information, and that filling this information gap takes time and requires experience from the part of corporate executives. CA seize first the easiest opportunities (raw material costs reductions for example), but going

41 See OECD, "Overview of Selected Initiatives and Instruments Relevant to Corporate Social Responsibility", in **Annual Report on the OECD Guidelines for Multinational Enterprises 2008: Employment and Industrial Relations**, Paris, 2009.

42 M. Milne, A. Ball and R. Gray, "Wither Ecology? The Tripple Bottom Line, the Global Reporting Initiative, and the Institutionalization of Corporate Sustainability Reporting", **American Accounting Association Annual Meeting**, 3-6 August 2008.

43 Porter and Kramer, 2006, **Ibid.** p.3.

beyond these opportunities demands increased adjustment capacities. Notice that information requirements concern as much consumers as producers. For example, if consumers are not aware of the environmental private costs they bear while consuming certain goods, firms have few incentives to change their behavior/processes.

A concomitant answer is that since information is costly and difficult to gather, CSR/SD strategies have to rely on a strong leadership to define the shape of things to come, at least in the first steps of the learning-by-doing process. Visionary managers are by definition rare, and most CA still lack appropriate profiles in management positions to develop appropriate strategies. Even when these competences exist, CA internal organization has to be revised so as to incorporate new strategies in the value chain, another kind of costs.

We noticed that the presence of proactive CSR/SD strategies may depend on the level of development of the countries where CA operate. It may be that in developing/emerging countries, opportunities to create value rest mainly on “traditional” ways to conduct business, and that these opportunities need to be used up before CA switch to integrated CSR/SD strategies. The argument can be extended to all countries to say that a lack of market pressures of all kind (consumers’ demand for CSR/SD, etc.) do not push most CA to change their strategies. Only the most forward-looking companies perceive the opportunities in this domain.

There are other potential answers we did not touch upon in our investigation, because the litterature does not mention them. One is that there may be regulatory obstacles bringing costs of transaction that prevent CA to adopt innovative strategies. A famous example in the climate change litterature is fossil fuel subsidies (pervasive in the world economy, mostly in developing countries) that reduce the incentives for CA to switch to renewable sources of energy. Porter and van der Linde<sup>44</sup> explore the reverse idea that the absence of properly crafted regulation brings avoidable environmental costs by deterring firms to seize opportunities to create value by innovating in environmental strategies. At a broader level, one can argue that the absence of an appropriate institutional setting prevents CA from engaging in innovative CSR/SD strategies. The institutional and legal context can greatly modify the cost setting for companies, and play a role in reorientating their strategies. Hoffman<sup>45</sup> explains the diverging paths of environmental strategies followed by US chemical and oil industries in the 1990s by such institutional factors. In such a context, it becomes difficult to distinguish what trends in CA strategies are attributable to internal/industry parameters (cost and strategic concerns) or to the institutional setting.

Another potential answer is that in some circonstances, investing in CSR/SD implies prisoner dilemma effects coupled with public good situations, by which CA can’t appropriate exclusively the benefits of their environmental/social strategy and give up adopting such strategies. This is obviously the case for the management of public goods such as climate protection, but it may be true in value chain management situations as well, when for example the benefits of a company’s investment in the quality of local labor pool leak to competitors.

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44 Porter and Van der Linde, *Ibid.*

45 Hoffman, *Ibid.*

## **7. Conclusion**

We asked two questions at the beginning of our investigation: “why” do CA adopt CSR/SD strategies? “How” do they implement them? We showed that these two questions are best answered by considering that CSR/SD strategies are just another emerging way to do good business (above what is required by law and decency): CA embrace them because they are clearly self-interested in doing so (the answer to the “why” question); their capacity to contribute actively to social/environmental goals depends on their ability to give away responsive strategies and move forward with proactive strategies (the answer to the “how” question). Proactive strategies rely themselves on leverages that CA can use to create shared values, improving their own performances while improving social/environmental conditions around them. But there are numerous obstacles to the adoption of such strategies, which require a certain amount of institutional and market maturation to develop plainly.

We excluded from our investigation the possibility that shared values simply don't exist, because that would make it difficult to explain the huge investments made by leading CA in CSR/SD strategies. Not only shared values exist, but there is no reason to limit these opportunities to the CA world. All kind of institutional actors may generate such shared values along the same principles as those developed in the CSR literature: municipalities, universities, hospitals, etc. This opens a very wide range of opportunities to generate shared social/environmental improvements.

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