Occasional Paper

FINDING A PATH IN THE SUSTAINABILITY JUNGLE.
A FRAMEWORK FOR CORPORATE ACTION

Christian Seelos*

* President, Sustainable Strategies Consulting Group

FINDING A PATH IN THE SUSTAINABILITY JUNGLE
A FRAMEWORK FOR CORPORATE ACTION

Abstract

Collective concerns about sustainable development and proposals about how to achieve sustainability have produced a confusing body of terminology that is more like a jungle of issues than a framework to enable focused action. Businesses, in particular, with their global reach, influence, capabilities and supposed deep pockets, are expected to contribute more towards sustainability; and yet the lack of clear definitions has left a vacuum of corporate guidance. Corporate Social Responsibility (CSR) has become a synonym for corporate action towards sustainability, but companies continue to struggle to understand how to deal with this issue. This paper looks at some important drivers that link the overall discussion of sustainability with the business world. It presents a framework for corporate action that facilitates a practical approach grounded in existing market realities. By separating social responsiveness (social compliance) from social responsibility (CSR), it provides a two-phase approach that gives priority to credibly implementing social compliance without missing opportunities for leadership and excellence. The importance of social compliance in legitimizing, strengthening and building trust in market regulatory institutions is emphasized. It is argued that experimenting with unfocused CSR often is a zero-sum game for society, and that CSR without an explicit social compliance framework lacks credibility. From the basis of a convincingly implemented social compliance framework, corporations may express their social responsibility as a voluntary measure and create social value more directly, without compromising their ability to create economic value. Because of the urgency and need for prioritization to achieve sustainable development it is proposed that corporations shift their CSR focus towards developing countries. Three models that have been identified as opportunities for corporations to contribute to this goal are discussed.

FINDING A PATH IN THE SUSTAINABILITY JUNGLE
A FRAMEWORK FOR CORPORATE ACTION

Introduction

Ever since the term "Sustainable Development" was first introduced in the 1980s (WCED, 1987), a global discussion about what constitutes "sustainability" and how to achieve it has given birth to a vast and bewildering set of terminology that seems a wild jungle of issues without clear definitions. Yet, the collective efforts and the urgency of achieving sustainability have permeated all aspects of social life, from demands on private citizens to rethink their consumption behavior, to expectations on corporations to change the way they do business, to public institutions and their ability to orchestrate a society that allows a more sustainable development.

Corporate social responsibility (CSR) has become synonymous with the response of the business world to these new demands. CSR describes a phenomenon that appears to have gained almost as much attention as past management "fads", although this time it may not simply go away. It still lacks a clear definition – a reflection of the ongoing discussion about what constitutes sustainability and the many possible views of corporate roles in and obligations to society. In general, CSR appears to address the expectation of society that companies should take on responsibility for the full economic, social, and environmental costs of their operations, but also create more directly social value, and even contribute to global sustainable development. CSR is not a new phenomenon (Frederick, 1994), yet it seems to have reached a critical point where it increasingly appears at the top of the agendas of corporate boards, as well as at high-level business gatherings such as the World Economic Forum (World Economic Forum, 2002a).

Understanding what sustainability and CSR mean necessitates discovering the many driving forces that underlie the emergence of this issue from a complex set of global problems and demands for responses that are formulated at the interface between corporate, social and environmental affairs and stakeholders. This paper is structured along the following topics: chapter 1 introduces the term "sustainability" and makes some important distinctions between who is trying to sustain what; chapter 2 explores the bright and the dark sides of economic development, which is one of the main drivers of the sustainability debate; in chapter 3, corporate social responsibility as the term used for corporate responses to sustainability challenges is discussed; and in chapter 4 the foundations are laid for the definition of a management framework for social responsiveness and social responsibility; lastly, chapter 5 discusses three of the main areas that have been identified as opportunity spaces for corporations to contribute more directly to the pursuit of sustainable development goals.

1. The Quest for Sustainability

"Sustainability", or "Sustainable Development", frames the collective concern that our current growth rates, in terms of population and resources used in our modern lifestyles, may not be sustainable. This and the growing inequality between those that are in the boat of global development and those that are not have prompted efforts to find new social and organizational designs to reverse this trend (Meadows *et al.*, 1992).

Sustainability – what are we trying to sustain? The current state of the world? Some future state of the world? A past state of the world to which we must revert? While infinite growth in a closed system such as this planet is not sustainable, it is difficult to define a level or range at which parameters such as population growth or depletion of certain resources should be kept. Even from a more dynamic perspective it is a challenge to define the best balance between ecosystems (here understood as the natural environment) and human systems, i.e. society, particularly because of their very different properties (Step *et al.*, 2003). There is no linear causality that allows us to predict with certainty the outcomes of changing the balance between the two systems. According to Sara Friedman (2002): "In the absence of a unified scientific theory that captures cyclic causal relations, people's belief systems will tend to construct conspiracy theories and witchcraft hypotheses, science will lead to interventions which are self-destructive in the long term, and we will lack definite and coherent knowledge of how to create sustainable causal cycles between human societies and ecosystems". The major guiding principle may lie in the fact that ecosystems are not dependent on but are impacted by society, while societies are both dependent on and impacted by ecosystems. This may mean that societies are more vulnerable and thus have an important incentive to define a balance that sustains their survival.

What are the ramifications of the above arguments for the interdependence between society at large and individual private businesses? Businesses strive after their own sustainability, and the ultimate corporate dream may be to achieve monopoly status. However, modern society is built on a competitive market system that produces new companies in a dynamic process of creation and destruction over time. New companies replace those that fail to create products and services that society values, or those that fail to operate in a way that is adaptable to and compatible with society's changing value systems. The dramatic increase in the replacement rate of corporations from the market system is witness to this dynamic (Foster and Kaplan, 2001). Companies must understand that the "sustainability" discussion is not about *their* sustainability – an important distinction that is often not made explicit. Along the lines of Holling's (2001) panarchy theory, businesses can be seen as functional parts of society. The diversity of many different types of businesses gives resilience to society. As with sustainability, corporate resilience (Hamel and Välikangas, 2003) is not a necessary condition for social resilience and may not even be in the best interest of society. Entrepreneurial and corporate experimentation, innovation and frequent failure are all necessary to sustain renewal and to generate learning, which is then institutionalized into laws and rules and makes social development sustainable. Says Holling (2001): "The panarchy describes how a healthy system can invent and experiment, benefiting from inventions that create opportunity while being kept safe from those that destabilize because of their nature or excessive exuberance." From this perspective, corporate sustainability looks very different and the ultimate questions for a company may thus be: "How can we replicate experimentation, innovation, and learning within our structures better than society or markets can. How can we prove that we are the best bet for society to be the provider of current and future products and services that society values"?

2. Economic Development as a Challenge to Sustainability

Businesses as the main agents of economic development are at the core of the discussions about sustainability. In the last few decades, "globalization", driven by the efficiencies of increasingly free and open markets, has created tremendous wealth for developed countries, and also for many developing countries, in particular China and India (Chen and Ravallion, 2004). However, it has failed to produce much positive development in the many countries that have been left out (Stiglitz, 2002). Globalization has also made more visible and reminded us of those areas where markets fail to create value. Environmental pollution, resource depletion, a tendency towards the building of anti-competitive monopolistic structures, erosion of social morality, social diversity, and loss of social capital are examples of possible negative side-effects of capital market systems (Hirschman, 1986; Hirsch, 1987; Daly and Cobb, 1989; Roepke, 1992; Putnam, 2000). Aggressive demonstrations by anti-globalization and anti-free trade activists, in particular since the World Trade Organization meeting in Seattle in 1999, are a sign of changes in the levels of trust that society has in capitalist market structures.

Capitalism is still considered by many scholars as the best model yet invented by society to maximize the production of wealth (Rajan and Zingales, 2003). The creation of social wealth as a byproduct of the creation of economic wealth is witnessed as the improvements in quality of life for the current generation compared to our parents' generation. Social development and the increase in the ability of democratic institutions to provide for basic needs such as health, education and employment have been dramatic and closely linked to economic development. Nevertheless, the implicit link between economic and social progress as manifested by unfettered competition either appears to be out of sync, or else the scale of economic development and progress has pushed associated areas of market failure beyond an acceptable threshold. The gap between the lifestyles that can be achieved by a majority of people living in developed countries compared to those in poor countries, particularly in South Asia and Africa, continues to widen (UNDP, 2003). This may signal an inherent flaw in our global development and economic strategies. It appears that the forces of free markets have driven globalization at velocities that make it impossible for local governments or society to adjust or to impose regulations that balance negative and positive impacts in a timely manner. Free markets depend on credible institutions to regulate property rights and capital flows, and to establish legal frameworks that set boundaries to individual freedom. Unfortunately, there is no "Invisible Hand" that creates a fair balance between commercial, environmental and societal interests. There is not even an agreed standard that would define what "fair" means.

An illustration of the dangers of overestimating society's ability and willingness to change comes from the natural sciences, where the same dynamics have created huge controversy. The speed of scientific progress, as evidenced by the latest breakthroughs and capabilities in the life sciences, has challenged society's ability to agree on the relative importance of the threats versus the opportunities of new inventions. The unresolved issues of cloning and genetic engineering have prevented Monsanto, at great cost, from commercializing many of its genetically modified crops. In May 2003, for example, the Canadian Wheat Board (CWB) called on Monsanto Canada to withdraw its application for an environmental safety assessment of Roundup Ready® wheat, a genetically modified wheat variety. According to the president of CWB "Customers in over 80 per cent of our markets have expressed serious reservations about genetically modified wheat. For us, the customer is always right. We cannot jeopardize our ability to maximize returns to western Canadian farmers through the introduction of a product our customers do not want" (CWB, 2003).

The success story of globalization does not fully reflect the costs accrued by economic development when measured as GDP growth. It does not account for the depletion of natural resources or the environmental impact of business operations as an operating cost. This has led to serious deterioration of environmental measures, and inequality in poor countries attempting to raise their GDPs through programs that drive fast economic growth, as witnessed in some East-Asian economies. The German Advisory Council on Global Change (WBGU, 2001) refers to this as the "Asian Tigers Syndrome". A new focus on "outsourcing", in particular so-called non-core business processes, effectively externalizes negative social impacts upstream and off the balance sheets of corporate value chains, while traditional financial accounting externalizes negative social impacts of products and services downstream of corporate boundaries of responsibility.

Hardin has highlighted the "Tragedy of the Commons" (Hardin, 1968). Common goods are those that are shared by society at large and where there cannot, or at least should not, be an individual property right to the good. Clean air and water, undisturbed nature, natural resources, space to live in, are examples of common goods. The tragedy lies in the fact that the marginal benefit of using common resources is larger for the actor than for the common owners of the resource, society. In fact, the actor still has a marginal benefit if there is a negative benefit to society, i.e. a cost. This is so because the benefit from the use of a resource accrues to one person, while the costs, e.g. resource depletion, environmental pollution etc., are spread over all current and future claimants. A rational profit-maximizer will thus produce as long as his marginal benefit is higher than his marginal cost. Common goods need institutions that balance short-term and private interests against long-term conservation for, and a fair distribution across, current and future generations.

This link between current and future needs was expressed in the definition of sustainable development formulated by the World Commission on Environment and Development (WCED, 1987): "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The value individuals and societies put on the ability of future generations to satisfy their needs is discounted to inform current priorities and actions. The discount rate is expected to be very different in wealthy societies from those with significant inequalities of wealth distributions or widespread poverty. The present value of future resources such as clean water might very much depend on society's current ability to satisfy basic social needs. It is thus unlikely that countries such as Ethiopia, where 98% of the population live on less than $2 income per day, will spend much effort on environmental issues.

Meanwhile, information technology is empowering people to have real-time awareness of what is going on in the world and to understand better the long-term consequences of our collective actions or omissions. Marginal costs of global communication are trending towards zero and information that is very visual and thus significantly more emotional is feeding a value chain that transforms mere information into triggers for people to act (Forum for the Future, 2003). Information and communication technology has dramatically scaled down the hurdles to people orchestrating their efforts so that everyone can participate. As a result, customers, employees, suppliers, and investors are increasingly conscious of having a choice, are voicing their concerns or anger, and are organizing themselves in ever more powerful ways. Already a significant loss of trust in traditional institutions has been documented. Multinational corporations are among the organizations least trusted to "act in the best interest of society" (World Economic Forum, 2002b). Many episodes of individual or collective action against corporate behavior or corporate passivity are witness of this new dynamic. The more than 40,000 non-governmental organizations (NGO) are leveraging their status as among the most trusted social institutions and often put

the most severe pressure on companies. This is evidenced by a poll commissioned by the World Economic Forum, which in 2003 asked Environics International to survey people across 15 nations about how much they trusted various leaders "to manage the challenges of the coming year in the best interests of you and your family". Of the eight leadership categories tested, leaders of non-governmental organizations (NGOs) were the only ones that enjoyed the trust of a clear majority of citizens across the countries surveyed. The stickiness of the debate about CSR may indicate that the impacts of market failures or the failure of markets are collectively perceived as painful.

3. Businesses Respond – Corporate Social Responsibility (CSR)

The issues surrounding economic and social development provide for a very complex set of causes, drivers and challenges of the CSR phenomenon. In light of the sustainability discussion, it helps to recognize an overall goal to which all parties might agree. This goal is to achieve a form of economic growth that is sustainable because it does not limit development today or in the future. But is this goal sufficiently characterized so that corporations will be able to operationalize it? The ambiguity of the "sustainability jungle" and the lack of clear definitions is frequently not appreciated enough. Consider the following list of issues that refer to sustainability:

- Sustainable Business Strategies
- Corporate Social Responsibility
- Corporate Philanthropy
- Global Corporate Citizenship
- Triple-Bottom-Line Reporting
- Socially Responsible Investment
- Sustainable Development
- Sustainable Growth
- Ecosystem Resilience
- Biodiversity
- Global Warming

All the terms in the above list are the subject of intense debate amongst academics and public and private institutions: what they mean, their significance, and priorities and needs for individual and/or collective action. As a result, the last decade has produced a large set of "guiding principles" as frameworks for corporate action (Business for Social Responsibility, 2003). However, this has created the opposite of what is needed; it has created artificial complexity where corporations seek clarity and focus. This is reflected in intense discussions amongst scholars about what companies are supposed to do (Smith, 2003).

Many still consider that the most important social function of corporations is to provide employment, pay taxes that are much needed to stabilize our social welfare systems and invest in the development of poorer countries. The IMD World Competitiveness Yearbook states as one of two key findings in its 2003 report: "Nations should concentrate once again on sound infrastructure: for economic purposes such as Communication, Administration, and Sciences, and for social purposes, such as Education, Health, and Security. Governments cannot escape this ultimate responsibility, even if implementation is sometimes delegated to the private sector".

Game theory within the science of business strategy has developed the framework of "value added", meaning that the value a corporation adds to its industry is the total value of the industry with the corporation minus the total value without the corporation (Brandenburger and Nalebuff, 1995). Applying this economic term to global sustainability may mean, for any given corporation: "Is this planet better off with the corporation or without the corporation?" But what measures should be used to answer this question? Social and economic values are measured in fundamentally different currencies unless they are clear substitutes for each other. It is difficult to balance qualitative and quantitative measures against each other to produce a measure of net value created. The Global Reporting Initiative (GRI) currently defines standards for reporting on a "triple bottom line" that evaluates corporate operations from an economic, social, and environmental perspective. From the value-added perspective, the basic intention makes sense; in practice, however, GRI demands that corporations spend considerable time and effort on producing complex reports whose significance is highly questionable. Even mere financial reporting according to strict accounting standards is subject to wide areas of interpretation. It is often said that profits do not exist but are merely an opinion of management. Recent corporate accounting scandals involving companies at the forefront of economic development such as Enron, WorldCom, Tyco, Parmalat and many others are evidence for the difficulties of measuring the outcomes from complex operations through evaluation of corporate reports. Triple-bottom-line reporting may significantly increase complexity and thus our collective inability to link action and reports in any manageable and resource-efficient way. It is questionable whether GRI efforts will become a recognized standard rather than just a voluntary activity undertaken by only a few companies.

We still live in a market-based reality where companies cannot expect to be rewarded for merely doing good beyond recognized and codified standards of behavior (King and Lenox, 2001). It is not entirely clear whether stakeholders value CSR merely as an issue that creates a perception of "doing something" or whether they critically evaluate what companies actually do. Mallen Baker (2004) writes: "The fact is that CSR reports are most impressively defined by who does not read them. Customers don't read them. Mainstream shareholders don't read them. Often, employees don't read them either – although some will". Systematic studies on the link between CSR and financial returns remain inconclusive (Griffin and Mahon, 1997; Margolis and Walsh, 2001). CSR laggards, like Exxon, continue to produce exceptional value for their shareholders. What shareholders may intuitively grasp is the tendency that customers are also unlikely to reward corporations for social generosity. When we think about our daily lives and the things we buy – how often do we consider company sustainability reports as a purchase criterion rather than price and quality dimensions? However, there is evidence that customers tend to punish corporations for misbehavior due to non-compliance, e.g. customer boycotts of Shell gas stations during the Brent Spar episode in the 1990s, when Greenpeace prevented Shell from disposing of an old oil rig. It appears that we cannot sufficiently define the causality, the exact conditions and expected outcomes between social performance and corporate benefits so that a testable theory could be produced.

The context of the discussion of CSR

At the center of the discussion about CSR is the question of to what extent a corporation can be held responsible. Interpretations of the nature of the corporation include a legal recognition view, a stakeholder view, a social contract view, and views of the corporation as a social institution and as a moral/legal person (Klonoski, 1991). The choice of

view largely determines the scope and scale of social responsibility of the corporation or its agents. However, there is a lack of agreement about the appropriate view of corporate roles in and obligations to society.

An important issue underlying CSR discussions is whether the corporation should focus on acting in the interest of shareholders or stakeholders. The question of which objective function corporations should maximize, i.e. return to shareholders or return to stakeholders, is being intensely debated amongst scholars (Freeman and Philips, 2002; Jensen, 2002). Existing literature suggests the existence of two very different worlds that are hard to integrate. However, it also appears that the differences are more over terminology than substance. No company can maximize the return to shareholders merely by focusing on profits. Profits are not a goal but a measure of success. Thus, successful companies focus on producing products and services that people value and are willing to pay for. Profits and returns to shareholders are outcomes of value creation and the ability of companies to capture part of this value. Very successful companies such as Johnson & Johnson explicitly put shareholders last in their corporate credo. Only if all other stakeholders are being serviced well will shareholders receive a fair return on their investment. Recognizing the stakeholders that need to be serviced well to maximize the return to shareholders is by all means part of the traditional view of corporate strategy and governance.

The lack of consensus about the exact nature of the corporation of the 21st century seems to be reflected in a bewildering variety of CSR-related efforts that range from pure philanthropy as an expression of the normative or "moral case" to social projects that are justified by a "business case". The moral case for CSR is a difficult area because morality is largely dependent on cultural context and thus varies significantly across the globe. The question of whether the availability of corporate resources and capabilities that enable them to act against human misery translates into a responsibility and obligation to act cannot be answered rationally. Another critical issue is the observation that corporations may have satisfied the wrong needs. Kasser (2002) argues that our focus on materialism fueled by strong economic development has not increased our sense of well-being or personal satisfaction. This finding is corroborated by earlier empirical studies that failed to detect a link between economic development and "satisfaction with life" (Worcester, 1998). It is painful to imagine that costly market failures, e.g environmental pollution, are the price we have to pay for satisfying mainly material needs that did not make us happier despite dramatic economic development. Undoubtedly, these are critical issues that cannot be discussed within the scope of this paper.

Many companies are thus struggling to get it right and to integrate all the –often conflicting– demands set out in various resolutions by governments, environmental groups, NGOs, UN, EC, and many others, or the demands made by customers, employees, unions or shareholders. Some companies believe they can benefit from being proactive about CSR, e.g. as a means of differentiation. Others are waiting for resolution of the situation and remain focused on their core business. While some form of CSR may become a minimum expected standard for staying in the industry, the potential value of CSR as a differentiating factor may then decrease, due to imitation, for example. It will be interesting to see to what extent there are strong first-mover advantages such that CSR pioneers will be able to occupy a unique position in consumers' and investors' minds, which may have a sustainable impact on corporate reputation.

The sustainability jungle is also filled with traps for corporations. Experimentation in the absence of clear CSR frameworks may lock companies into community projects from which it may be difficult to exit because they build expectations and perceived rights over

time. The cost of running these projects may become significant and management should be asked whether company resources are being put to best use, given the problems society faces on a global scale. Sometimes, the total value created by corporate CSR efforts seems more like a zero-sum game for society. For example, if, in 2002, British Telecom (BT), a CSR leader in its industry, made a seven-figure donation to sponsor a technology fair for school children in Ireland as part of their CSR community activities, but in the same year laid off several hundred employees of a company it had acquired in Germany to meet the publicly announced EBIT goals – what is the total value created for society (BT Betterworld, 2002; Eiro, 2002)? It also appears that for some company managers CSR is just another pet project or a personal marketing instrument that may create significant agency costs. However, the "social" nature of these projects may provide a powerful shield from criticism of such activities. It should be permissible to critically evaluate the actual social value-added of CSR programs. The increase in membership of various 1% or 5% clubs, i.e. corporations that give between 1% and 5% of their EBIT to charity or CSR programs, raises questions about the opportunity costs of their views of social value creation. The recent results of the Copenhagen consensus project indicate that, given the limited resources available, prioritization in tackling our global problems is greatly to be preferred over unfocused experimentation with "social projects" (Copenhagen consensus project, 2004).

## 4. A Management Framework – Response versus Responsibility

To cut through the complexity of CSR, we can separate two domains, one of corporate social *responsiveness*, which is not optional, and one of corporate social *responsibility*, which is a matter of choice. In this context, responsiveness defines the area of "social compliance", which refers to existing and emerging standards for business conduct that are formulated in recognized international declarations, national and international legal systems, and changes in social expectations of corporate behavior, which may, for example, be articulated by customers and employees. The domain of responsibility reflects a voluntary contribution by a company to social issues and is referred to as "CSR" (see Figure 1). It ranges from activities of a philanthropic nature to efforts that involve unique corporate resources and capabilities, such as when doing business at the "bottom of the pyramid" (see below).

Social compliance is the minimum corporate governance standard expected from corporations and defines a level playing field for sustainable competition. The many failures of markets to achieve optimal aggregate social wealth through economic progress call for decisions to be guided by the precautionary principle. The downside risk of these failures is obvious and significant – as witness, for example, pollution, climate change, and depletion of natural resources such as forests and oceans that provide much needed environmental services for the planet and its inhabitants. The dual role of managers and other employees as agents of corporate owners and the principles of this planet may guide inspired thinking to reshape how a corporation interprets social compliance for its operations, e.g. through adaptation of corporate codes of conduct (see below).

It has frequently been stated that companies must go "beyond compliance". However, the accounting scandals of recent times and other corporate scandals indicate that credible social compliance may still be a stretch goal for many corporations. Social compliance, understood as social responsiveness (i.e. responding to a new understanding of what is in the best interest of society that gets codified in legislation and rules by trusted public institutions), is critical for the functioning of free markets. When companies

acknowledge the importance and authority of institutions, they strengthen their ability to maximize value for all of society. Without credible institutions markets cannot function efficiently or effectively (Rajan and Zingales, 2004). Monitoring legislation and imposing sanctions are costly to institutions and society (Janssen and Ostrom, 2002). Proactive and transparent social compliance is therefore an important social contribution by companies in that it lowers collective compliance costs. Janssen and Ostrom (2002) conclude: "[…] we find that levels of trust are important forms of social capital and groups that have made costly investments in building mutual trust are more likely to utilize their resources at close to optimal conditions over a long time frame". Social compliance thus makes a coherent story, one of authenticity that builds trust and makes markets and resource utilization more efficient.

Figure 1. Two domains, social compliance and CSR, represent the normative case of social responsiveness (social compliance) as distinct from the voluntary case for social responsibility (CSR). While social compliance is structured along relevant legal and company-specific codes of conduct, CSR reflects an opportunity space for social and economic value creation outside the realm of "business as usual". Some issues representative of a wide variety of activities as part of CSR programs are listed
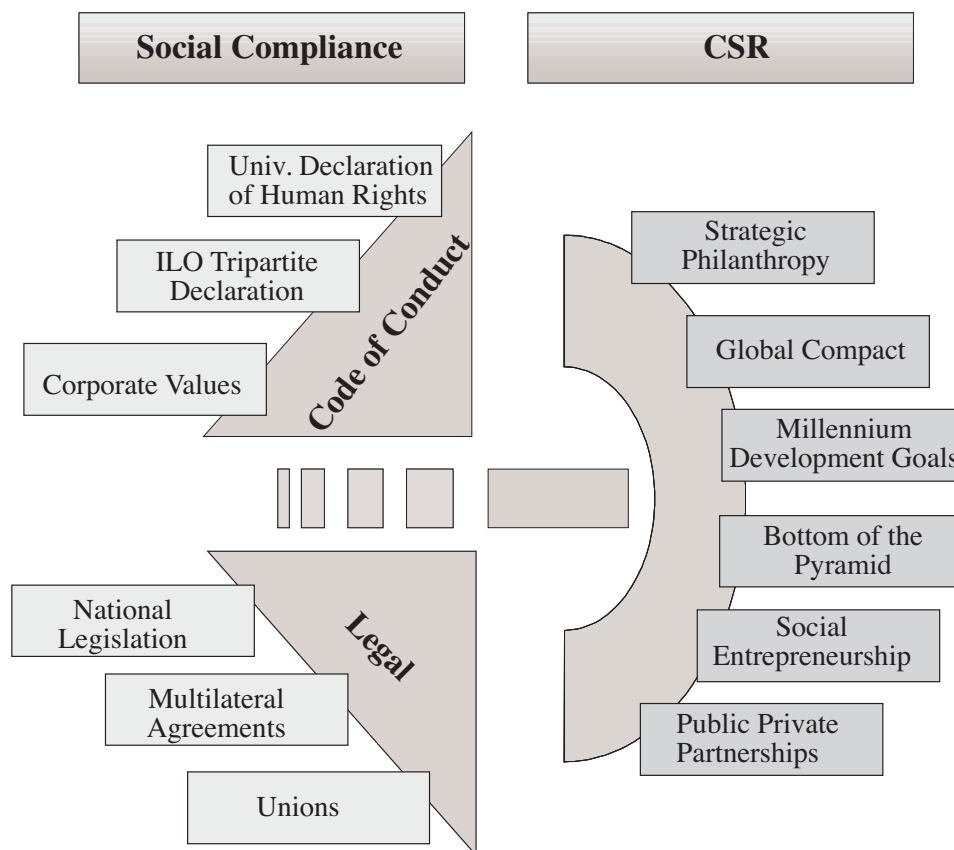
Although research has been unable to establish a clear link between going beyond compliance and increasing shareholder value (Diltz, 1995; Guerard, 1997; Moore, 2004), this may reflect the nature of unfocused corporate social activism rather than an inherent flaw with causality. As described below, CSR, rather than compliance, is an opportunity space for action that may also reward shareholders. Nevertheless, there is an opportunity for leadership and proactive excellence in the domain of social compliance as well, by pushing the boundaries of current compliance legislation. Furthermore, social compliance can be a

valuable framework for cost savings and short-term profits from increasing resource efficiencies and management of sources of reputational risk (Porter and van der Linde, 1995; Brown *et al.*, 2001). Case studies performed at Entropy International with new web-based social compliance management tools have demonstrated significant opportunities for cost savings (Entropy International, 2003). Most importantly, compliance is a language that is familiar to top management, unlike the sustainability terminology. As shown in Figure 2, by starting the implementation of responsiveness or compliance frameworks before jumping on a variety of "social projects", internal as well as external awareness and credibility can be built in a first phase that can serve as a strong foundation for a focused social responsibility strategy in phase 2. CSR refers to voluntary efforts that aim to create social value more directly. While the realm of corporate responsiveness or social compliance is a reminder of the "corporation as a problem for sustainable development" view, CSR is an opportunity to shift public perception towards "corporations as part of the solution" view. To avoid the notion that CSR is just a cost of doing business, CSR should be perceived as corporate efforts to create social value without compromising the ability to create economic value. This eliminates the dependence on necessarily formulating a business case for CSR because corporations may have many underutilized resources that allow them to contribute at zero marginal cost. That way, corporations will be actually creating value and not just redistributing value from shareholders to society. A business case for CSR lies in the fact that sustainability solutions may become big business for companies (Hart, 2003). Using the sustainability jungle as a source of business opportunities may give new meaning to the term sustainable competitive advantage. While corporate responsiveness is an opportunity for short-term cost savings, social responsibility is a corporate opportunity for long-term innovation, growth and acceptance by society. Together, and implemented consecutively, they provide a holistic framework for managing sustainable business success as well as corporate contributions to achieve social and environmental sustainability (Figure 2).

Figure 2. An operational view of implementing social compliance and CSR strategies over time. Starting in 2004, the focus is on building a credible social compliance framework. Increasing social compliance management excellence and decreasing returns from resource efficiencies –in this example, after two years– warrant a shift in focus towards CSR as a long-term strategy. By 2008, the corporation's main social and environmental focus is on building competitive advantage from sustainability challenges as a source for long-term growth
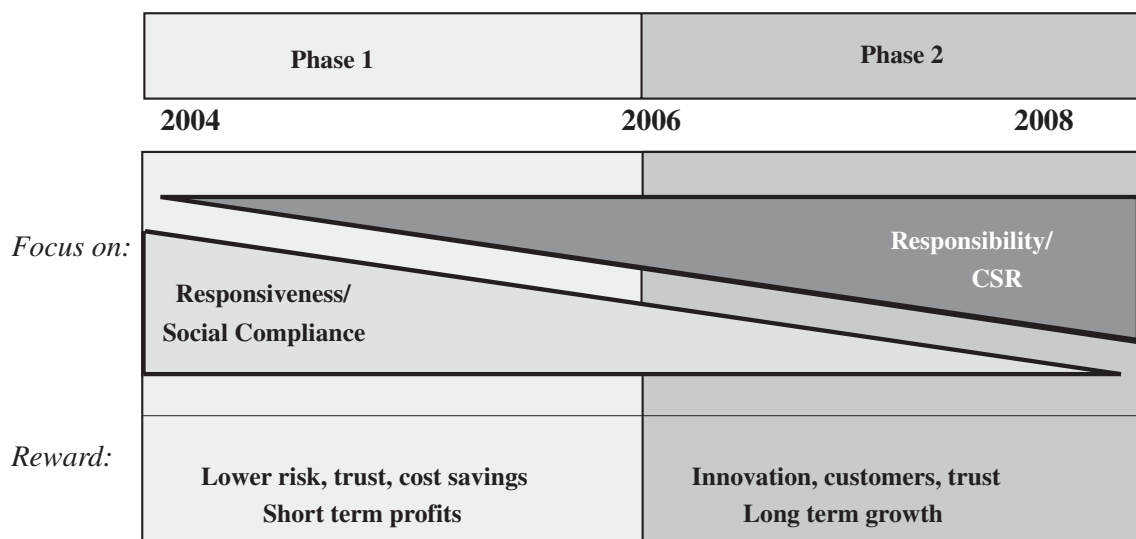
Social compliance

Legislation is complicated and constantly changing. Nevertheless, expected corporate behavior on a global scale, particularly when it is grounded in a sense of ethics, e.g. fairness, equality, sensitivity towards the natural environment, may not be sufficiently regulated by legislation. What should companies thus comply with in their everyday operations? A company needs to make the area of social compliance explicit and tangible for all stakeholders, so that it becomes a guiding instrument for decision making, particularly in the "grey areas" such as locally accepted forms of bribery, local legislation that does not meet the stringency of legislation where corporations are headquartered, and many others. Companies thus need to translate legislation and areas of voluntary standards into a set of rules that people can understand and use as guidance for decisions and actions. In practice, the starting points are the relevant legal frameworks and multinational/multilateral agreements in the countries where the company does business. It is vital that this includes a map of the whole value chain from suppliers to customers, since stakeholders increasingly expect companies to internalize their externalities either up or downstream. Nike, Gap, Gucci and several other high profile clothing brands were accused of links to "sweatshops" and child labor and faced angry demonstrations outside stores across Europe and America. Nike has attracted high-visibility outrage. A website called "Boycott Nike" is still running in 2004 to protest against labor rights in Nike's supply chain, mainly in Southeast Asia. Oxfam, an influential NGO, is running a campaign called "NikeWatch". From March until August 2004 "NikeWatch" is part of "Play Fair At The Olympics" – an international campaign to persuade the whole sportswear industry to live up to the Olympic ideal and take human rights seriously (Oxfam, 2004). Similar accusations were made against The Gap. Owned by Pinault Printemps Redoute (PPR), Gucci was accused in relation to Redcats, the mail order catalogue side of PPR's business. Protesters claimed that certain Redcats suppliers and sub-contractors paid sweatshop wages to workers in Asia and failed to comply with international standards (Ethical Corporation, 2002).

From this legal view, many companies formulated a "Code of Conduct" that translates global principles into business principles by adapting International Regulations and Declarations, such as the *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy* of the International Labor Organization (ILO), to the needs and specific stakeholders of a company. As such, the Code sets a global framework for social compliance in social, economic, and environmental dimensions, as well as standards of behavior that are in line with explicit corporate values (Figure 3). It is an opportunity to emphasize those areas in which the company wishes to take on leadership and excellence in its industry as a reflection of its fundamental and strategic values.

Figure 3. A framework for social compliance. Global principles are translated into a code of conduct, e.g. "How We Work". This code is translated into several business policies, which are implemented in a set of programs according to local circumstances
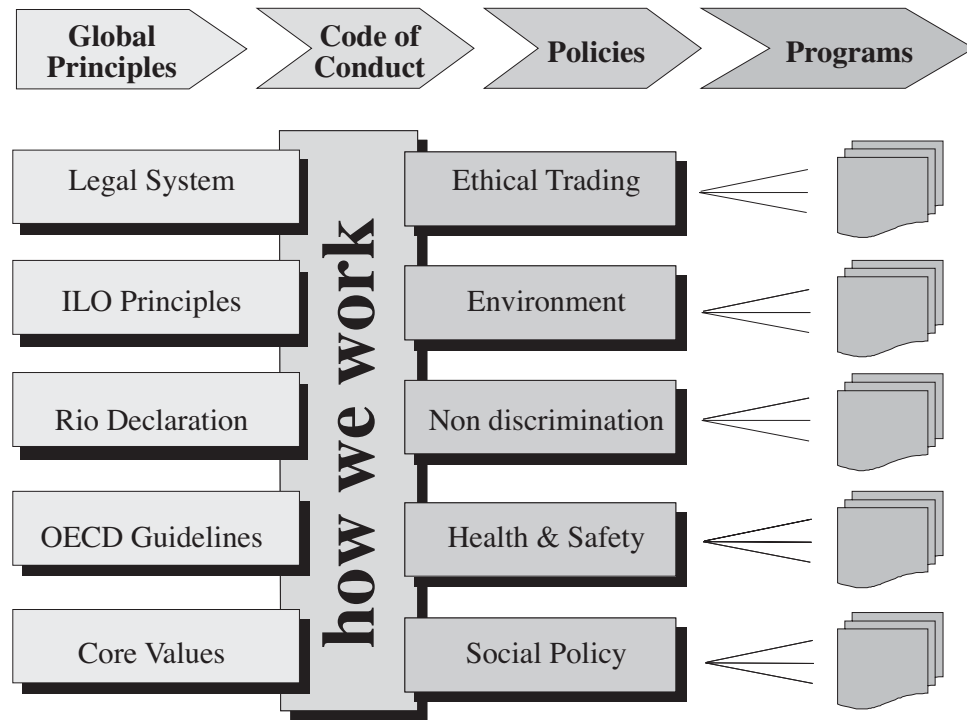
An example of the issues covered in a code of conduct is BT's code "The Way We Work". It includes rules for appropriate behavior and decision criteria in the following areas (Table 1):

Table 1. British Telecom's code of conduct "The Way We Work"

Legal	Communication	Compete fairly
Inducements	Health & Safety	Conflicts
Commitments	Diversity	Risks
Assets	Environment	Information

The code is translated into several policies, covering areas such as Equal Opportunities, Ethical Trading, Health and Safety, and Environmental Policy, and is implemented in programs such as "Sourcing with Human Dignity", a supply chain initiative which seeks to ensure that the working conditions in BT's supply chain meet accepted standards.

For a code of conduct to constitute a framework that credibly defines actions that collectively achieve social compliance there are three important practical considerations:

i)   Awareness of "How We Work" and what it means must exist throughout a corporation, for example by being an integral part of the new employee intake and annual performance review processes.

ii) A natural person must own a policy and be responsible for its implementation, integration into standard processes, monitoring, and performance measurement. Owners are expected to be able to communicate to internal and external stakeholders how the firm is living a certain policy in its day-to-day business on a global scale and what the firm is doing to ensure social compliance with this policy.

iii) If it is not reasonable for a natural person to own a policy, a best effort must be made to create and reinforce awareness and collective commitment by the workforce. It needs to be constantly reinforced in communication and actions by top-management and this must be documented to allow for communication with stakeholders about issues related to this policy.

In reality, companies must constantly test for the level of awareness of their code of conduct within their workforce as well as among important stakeholders. They must also ensure an understanding of the underlying international regulations/declarations and implement and refine local policies that cover the set of business principles outlined in the code of conduct. Social compliance then tests for levels of implementation of business principles, focusing on internalization, monitoring/auditing and penalties. The overall goals of such an effort are twofold: i) to be able to demonstrate credibly that a company is in compliance with its own sets of values and existing legal frameworks, and ii) to create a social compliance baseline from which a company can make an effort towards continuous incremental improvements and implement best practices to maintain standards of excellence in this area.

An illustration of the dangers of relying on a sophisticated code, without credible implementation processes and/or ignoring corporate culture and how values are actually lived, is the BT code of conduct mentioned above. BT claims that its principles apply world-wide, to all employees, agents, contractors and others when representing BT, and that "as individuals and as a company we will always follow these principles". However, BT's online CSR report (BT BetterWorld, 2004) says that in the UK only 83% of employees are even aware of these principles. The corresponding figure outside BT's UK operations is expected to be much smaller. Even worse is BT's self-reported "People Satisfaction Index", measuring the overall satisfaction of people with their working life in BT. It remains at 67%. This indicates that "The Way We Work" perhaps is not being implemented to reflect the real life experience and perception of BT's employees and is not being leveraged as a tool that unites the whole company around shared sets of values, goals and behavior.

What matters is the sophistication of implementation, not the sophistication of formulation of the code. While BT's code was drafted by a professor from Harvard University, Johnson & Johnson's credo was worded by the founder and adapted over the years in line with the original intention. At Johnson & Johnson there is no mission statement that hangs on the wall. Instead, a simple, one-page document –the Credo– translated into 36 languages guides the actions of its worldwide family of companies. In 1943, General Robert Wood Johnson, who guided the company from a small, family-owned business to a worldwide enterprise, wrote the Johnson & Johnson Credo, just before the company became publicly traded. The Credo outlined "a new industrial philosophy", defined as the corporation's social responsibilities in the following order of importance: to its customers, to

its employees, to its management, to the community, and finally to the stockholders. Since its creation, the Credo has been revised several times, but still reflects the original spirit. The Credo starts with the following statement: "We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services" and ends with the following: "Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return". It may not be a mere coincidence that Johnson & Johnson has consistently occupied a top position in the "best places to work for" rankings, while BT does not show up in similar rankings (European Commission, 2003).

Corporate Social Responsibility

CSR, as defined in this paper, is a matter of choice because there is no legal obligation to go beyond compliance. In 2001, the European Commission presented a Green Paper "Promoting a European Framework for Corporate Social Responsibility" (European Commission, 2001). The Green Paper defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". There is no generally accepted normative case for CSR. Thus, the challenge in formulating a credible CSR strategy lies in grounding it in the fundamental and strategic values of a corporation, as expressed in an explicit social compliance framework (see above). That means that CSR as defined here is explicit social and environmental value creation beyond social compliance frameworks.

CSR efforts and activities per se do not require an existing social compliance framework. However, there are several reasons why CSR efforts without such a prior framework are unlikely to be beneficial for the company. First, a credibly enacted compliance framework ensures that corporate values are actually lived and not just words on mission statements. Without values that are made explicit and credibly enacted there cannot be a real sense of responsibility. Secondly, it signals commitment and acts as a confidence building measure that society increasingly expects, given the erosion of trust in corporations. Thirdly, CSR efforts attract the attention of stakeholders and activist groups, exposing corporate weak spots and increasing the risk of corporations being caught in non-compliance or lacking credible arguments.

Enron provides the best example for a situation where CSR is enacted in a vacuum of corporate compliance. Enron was heavily praised as one of the leading companies in the CSR field. It seemed to be the ultimate demonstration of the link between doing good and doing well. As the world's largest energy company, with over a billion dollars in annual revenues, it published a triple bottom line report, noting its social and environmental performance. It won six environmental awards in 2000 and was named one of the 100 Best Companies to Work For in America. Enron created a Senior VP position for CSR, with four full-time staff. However, its CSR efforts were unfocused and grounded in vague definitions. Its 2000 annual responsibility report offered the following definitions: "Enron's approach to social responsibility can be summarized as our commitment to ensuring that our behavior and activities, products and services result in positive returns for our stakeholders. This means that our businesses and projects will strive to engage those affected by our business to better understand how our decisions affect issues such as economic development, indigenous

populations, human rights, and workforce development and diversity. This also means that we will manage and minimize the impacts of our operations; work to invest in our communities; promote diversity within the workplace; strive to attract the best and brightest talent; and identify ways to translate social trends and issues into business opportunities" (Enron, 2001). Events in 2001 that were a result of the accumulation of systematic financial fraud at Enron triggered the total breakdown of the company, with serious social and economic consequences for internal and external stakeholders and whole markets.

The efforts of many recognized CSR leaders have not prevented them from being attacked by various interest groups. For example, since March 2001, thousands of activists have taken part in protests outside Starbucks cafés in over 300 cities in the U.S., Canada, New Zealand, and England, over the poverty of Third World coffee farmers and other issues (Obgo, 2003).

Figure 4 depicts a Sustainability-Hexagon that combines the social, environmental, and economic dimensions relevant to sustainability. It is a reminder that in all three dimensions there is a separate space for social compliance and CSR activities, and that CSR efforts, but not social compliance efforts, present an opportunity space for corporations for long-term value creation and value capturing.

Figure 4. Sustainability - Hexagon
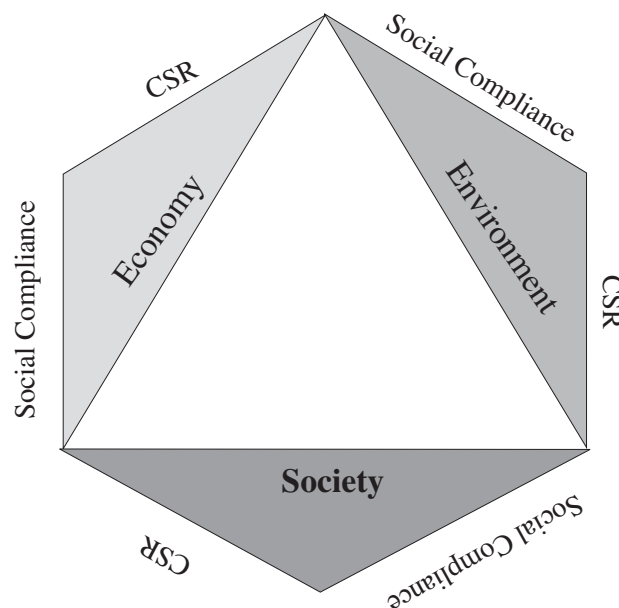
What corporate activities make sense as part of a CSR strategy? The author strongly believes that social value creation should not be a mere redistribution of wealth from shareholders to society at large, but an extension of social compliance frameworks towards more explicit creation of social value, coupled with the creation of economic value for corporate shareholders. One way is to look at corporate resources and see how overcapacities could be used to create value at zero economic cost. For example, huge overcapacities in the telecommunications sector could be a very valuable asset for developing countries, allowing them to build up infrastructure; for example, to connect the people of Afghanistan,
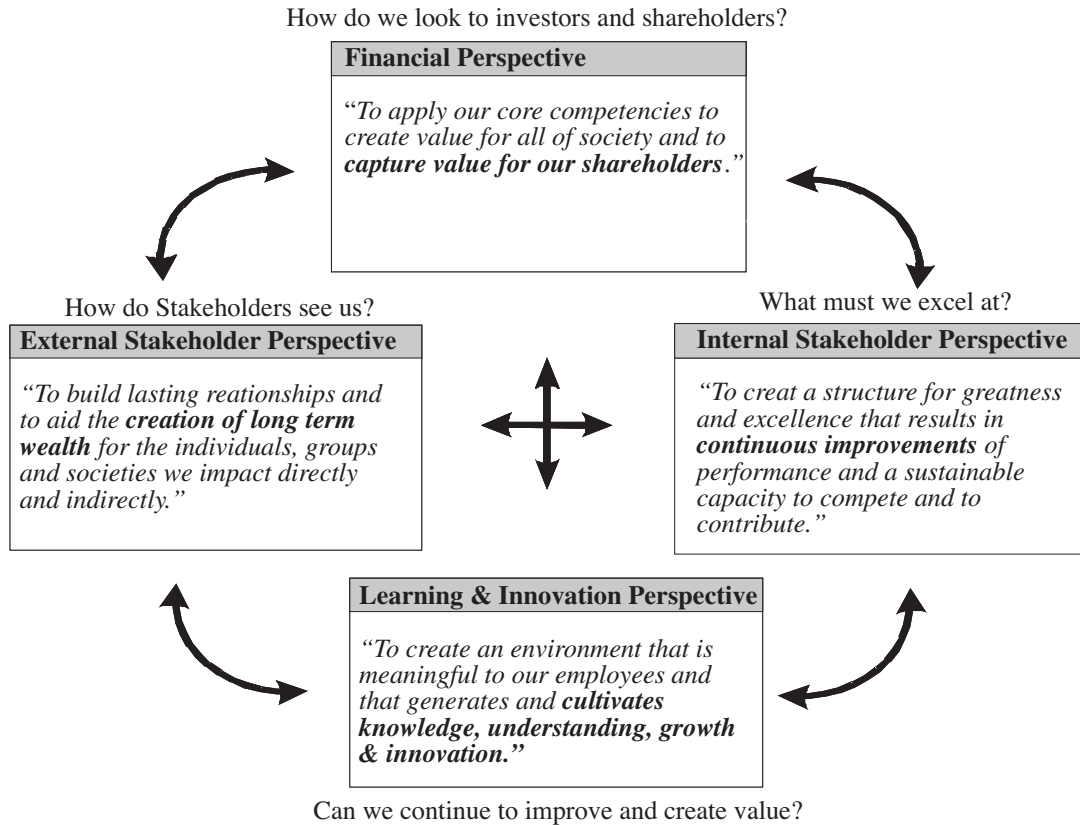
particularly those living in rural areas after the recent war, to a flow of information, education and other forms of electronic engagement.

Porter has recently championed "strategic philanthropy", where corporate giving is seen as a strategic investment in building future resources and capabilities for the corporation (Porter and Kramer, 2002). This is actually in the long-term interest of corporate shareholders and makes business sense as a growth strategy in the long run.

A rich way to find areas for coupled social and economic value creation is to use the traditional strategy frameworks, such as Porter's 5 forces or the Value Net, and assess the roles of market players within the sustainability discussion. What are competitors focusing on? How can co-opetition (Brandenburger and Nalebuff, 1996) be seen in light of sustainability? An example might be co-creation of awareness of industry-specific topics and cooperation in the social compliance field, but competition over issue ownership (e.g. one of the Millennium Development goals) as a means of differentiation. How can sustainability and new legislation be seen as a complementor that increases demand for corporate products and services, e.g. compliance management, risk management, and which resources and capabilities do companies need to build today to serve those needs when demand indeed picks up? This view gives a whole new meaning to the term "sustainable corporate advantage" and may be a rich source of corporate growth and innovation. To discuss the many possibilities for CSR activities, however, is beyond the scope of this paper.

A tool for implementing such a CSR approach that builds on a credible social compliance framework is a modified Balanced Scorecard (BSC) as originally described by Kaplan and Norton (Kaplan and Norton, 1992; Zingales *et al.*, 2003). Figure 5 gives an example for a high-level perspective and the objectives of the four scorecard dimensions. The guiding objectives must then be translated into actionable and measurable projects to bring the scorecard alive. Jensen has strongly criticized the BSC approach and has argued that it gives no guidance for making tradeoffs between decisions affecting various stakeholders that are not clearly linked to maximizing a single objective function for the corporation, which must be to maximize shareholder wealth (Jensen, 2002). Others argue that shareholder value is not a linear function of a set of activities but an outcome of complex relationships and value-creating activities of a multitude of firm stakeholders. Johnson & Johnson's Credo seems to reflect the latter approach, and it may very well depend on the complexities of the business model whether a firm can maximize a single objective function in a linear way, e.g. a simple product business, or whether success is an emergent property of complex behavior of the whole corporate system, e.g. a large pharmaceutical company.

**Figure 5. A balanced scorecard for an integrated social compliance and
CSR strategy – a high level view**

How do we look to investors and shareholders?

Financial Perspective

*"To apply our core competencies to
create value for all of society and to
capture value for our shareholders."*

How do Stakeholders see us?

External Stakeholder Perspective

*"To build lasting reationships and
to aid the **creation of long term
wealth** for the individuals, groups
and societies we impact directly
and indirectly."*

What must we excel at?

Internal Stakeholder Perspective

*"To creat a structure for greatness
and excellence that results in
continuous improvements of
performance and a sustainable
capacity to compete and to
contribute."*

Learning & Innovation Perspective

*"To create an environment that is
meaningful to our employees and
that generates and **cultivates
knowledge, understanding, growth
& innovation."***

Can we continue to improve and create value?

5. Business Contributions to Sustainable Development

The overwhelming complexity of sustainable development has amplified the calls for large corporations to take on responsibility towards social and environmental challenges in a more proactive way and beyond mere legal compliance. The efficiencies of markets, combined with the resources and managerial experience of large multinationals, are considered crucial to tackling many of the global development problems. As Margolis and Walsh (2003) point out: "Manifest human misery and undeniable corporate ingenuity should remind us that our central challenge may lie in blending the two." United Nations Secretary-General Kofi Annan, in his address to the World Economic Forum on January 31, 1999, called on global business leaders to embrace nine shared values and principles in the areas of human rights, labor standards and environmental practices. A Global Compact network was formed –consisting of several hundred companies, dozens of NGOs, major international labor federations, and several UN agencies– to collaborate on creating a more stable, equitable and inclusive global market by making the nine principles an integral part of business activities everywhere (Kell and Levin, 2003).

As stated earlier, society must prioritize when addressing development problems. For corporations this may mean shifting their social responsibility focus away from convenient community projects in developed countries to the much more difficult challenge of creating value where it is most urgently needed – in the underdeveloped areas of the

planet. Particularly in developing countries, institutions that are acting towards achieving recognized sustainable development goals such as the Millennium Development goals must have credibility, trust, legitimacy and cultural and other local expertise and sensitivity. Thus, corporations should not act independently of institutions such as NGOs or development organizations. The "bottom of the pyramid" model discussed below shows how difficult it may be to realize the tempting notion that there may be a large untapped market waiting for corporate entry. Engaging in mutually beneficial partnerships with public organizations or working with social entrepreneurs may be a better way to formulate and implement a CSR strategy that explicitly attempts to contribute to sustainable development. Following are discussions of three main business models that are considered to contribute directly to sustainable development goals: 1. Public-private partnerships, 2. Opportunities at the Bottom of the Pyramid, and 3. Social Entrepreneurship.

1. Public Private Partnerships

Kofi Annan, a graduate of MIT's Sloan School of Business, became Secretary General of the United Nations (UN) in 1997 and sought to narrow the differences between the UN system and the corporate world, whose increasing power and influence threatened the authority of the UN. In 1999, he announced the Global Compact, a new partnership between public and private organizations in support of sustainable development. However, critics voiced concerns over the efforts to build so called public private partnerships (PPP). UNICEF Executive Director Carol Bellamy, one of the few top UN officials with a substantial background in the private sector, voiced serious doubts. In a speech at the Harvard University International Development Conference on April 16, 1999, she warned: "It is dangerous to assume that the goals of the private sector are somehow synonymous with those of the United Nations, because they most emphatically are not" (Bellamy, 1999).

While the translation of the Global Compact vision into real initiatives was rather slow initially, it now seems to be gaining momentum. TPG and the World Food Programme (WFP) are an example of a public private partnership that may be a role model for such initiatives. TPG, the holding company of Royal TPG Post and TNT, is a global company, with 163,000 employees in 64 countries, providing mail, express and logistics services in over 200 countries. For 2003 the company reported sales of € 11.9 billion. TPG is publicly listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. In December 2002, TPG and WFP launched a partnership where TPG is committed to sharing its resources and know-how in order to help make a lifesaving difference. Set up in 1963, WFP is the United Nations' frontline agency in the fight against global hunger. In 2003, WFP fed 104 million people in 81 countries, including most of the world's refugees and internally displaced people. This meant that 10.2 million metric tons of food had to be delivered by land, air and sea across deserts, mountains and oceans deep into the world's poorest countries. The logistics of that operation are a serious challenge to WFP's resources and capabilities. As TPG's CEO Peter Bakker explains: "While on a flight to Singapore in November 2001, I read a *Business Week* article about the causes and implications of the September 11th outrage. In pointing out the gulf between rich and poor, the writer noted that every few seconds a child dies from hunger. The article ended with the question: 'What are you doing for the world after September 11th?' So I began to ask myself that question." The partnership focuses on five project initiatives: Emergency Response, Joint Logistics Supply Chain, Transparency and Accountability, School Feeding Support and Private Sector Fundraising. In 2004, TPG has committed € 10 million worth of cash and services. It took a year from the initial idea to implementation, as Bakker explains: "By the end of 2002 we'd

arrived at the point where the world's best mail, express and logistics company was ready to make a contribution to help solve the world's greatest logistics problem: food aid. With the scale of the challenges facing WFP, we can neither expect nor claim that we are doing more with our partnership with them than making a contribution. But by contributing in ways that match our competences with WFP's needs, we're at least playing our part."

By committing to one large project, TPG avoided confusing employees and stakeholders with a number of different CSR programs. Often, in large corporations, the annual report is a list of projects around the world that are "managed" from a central staff CSR unit, without a clear theme or focus. A representative example of this is the CSR report of BASF, a leading chemical company, which lists nine "sustainability awards" in 2003 (BASF, 2004). From its 2003 annual report: "The BASF Group spent a total of EUR 13.1 million on the specific sponsorship of humanitarian, cultural and social issues in 2003 (2002: EUR 15.7 million). Of this amount, 41 percent was in the form of donations, with the remainder going toward sponsorship activities and our own community projects. The projects BASF and its employees are committed to are as diverse as the communities in which our sites are located." It is unclear how unique corporate resources are employed by BASF to make a measurable and tangible contribution towards recognized sustainable development goals or to what extent employees are supporting the initiatives. For example, of its 37,000 employees at the German headquarters in Ludwigshafen, according to BASF's report: "In 2003, more than 500 employees at our Ludwigshafen site were engaged in voluntary activities, 250 of them in politics. For the first time, 60 Ludwigshafen trainees have also been given the opportunity to undertake voluntary work and in this way acquire social, as well as professional skills" (BASF, 2004). This indicates a very low level of employee engagement.

In contrast, TPG has made a strong effort to communicate the partnership internally and to get the commitment and support of all its employees to make a significant contribution to one social cause that everyone can believe in. By the end of 2003, as reported by TPG, fundraising by its employees had exceeded 1 million euros. The responsible project manager at TPG reported on the incredible enthusiasm and feeling of pride throughout its workforce at being part of that project (DoingGoodAndDoingWell, 2004). Furthermore, TPG has initiated a "Specialist Support Programme" that delivers specialist skills and knowledge by dispatching employees to WFP country organisations around the world. An effort is made to stimulate the transfer of knowledge between TPG and WFP in both directions. WFP will be able to utilize the specialist knowledge, skills and techniques that TPG experts have gained in a commercial logistics environment. TPG will learn more about transport, IT, warehouse management, air operation and customs support issues in developing countries.

This example points at some success factors for private public partnerships:

– Make a commitment and a significant contribution to solving one big problem rather than spreading yourself too thin to the point of irrelevance.

– Think how your unique resources and capabilities best meet a significant challenge towards sustainable development goals such as reducing poverty (e.g. Millennium Development Goals).

– Make sure your employees know about the project and give it collective support through a sense of ownership and participation.

– Set up structures that translate the projects into valuable learning experiences for all project partners.

2. Opportunities at the "Bottom of the Pyramid"

Human needs and wants are central drivers to companies' decisions about which products and services to produce. While companies struggle to find new markets and value propositions in their existing industries, the very basic needs of millions of people in non-industrialized countries remain unsatisfied. The World Bank (2003) argues that services that satisfy basic human needs, particularly those that contribute to health and education, are failing poor people – in access, in quality and in affordability. The main reason for this failure appears to be the fact that public spending effectively does not reach the poor, and even if it does, service provision is inefficient and of poor quality. The Bottom of the Pyramid (BOP) concept is a new view on doing business in the world's poorest markets. The concept was coined by Prahalad and Hart in a working paper in 1998. Since then a series of papers and reports have been published arguing along the same lines and citing the first case studies – albeit relatively few given the scale of the problem and the scale of the proposed opportunity (Prahalad and Hart, 2000; Hart and Christensen, 2002).

The BOP was defined as a potential market of 4 billion people with annual incomes of up to $1500, or an income of less than $4.2 a day. However, these 4 billion so called "tier-4 customers" that define the bottom of the income pyramid display significant heterogeneity, which may be a significant hurdle towards their being considered a "market". According to latest World Bank data (2004), in Sub-Saharan Africa alone, more than 360 million people will live on an annual income of less than $365 dollars. While a per capita consumption of $1 a day represents a minimum standard of living, the Bank estimates that more than one billion people live on less. Closer to the practical minimum is a poverty line of $2. In 2000, an estimated 2.7 billion people were living on less than $2 a day – equivalent to more than half the population of the developing world (The World Bank, 2002).

The BOP market is also highly fragmented into many disparate micro-markets. Today, 1.3 billion people live in fragile and often remote rural ecosystems –semi-arid areas, mountains, and forests– and their numbers are growing fast. This places significant constraints on commercial development, with limited access and infrastructure constituting two major barriers. A further complication is the fact that, in the 1990s, 46 countries –amongst them the very poorest– were involved in conflict. The UNDP reports that, in the period 1990-2001, there were 57 major armed conflicts in 45 locations that impacted all developing regions (UNDP, 2003).

Furthermore, the composition of the BOP has been changing over the last two decades. Several studies estimate that between 1981 and 2001 the numbers of people living in severe poverty, as defined by income of less than $1 per day, almost halved (Sala-i-Martin, 2002; The World Bank, 2004). However, while the average number of poor is falling, this is not shared equally by all countries. A main contributor to the result was China, with its strong economic development, while outside of China poverty stayed the same or even worsened (Chen and Ravallion, 2004). Those left behind –the ones that need our support most urgently– may be far from being potential customers who could constitute a market. The management resources, organizational designs, and capabilities of established corporations in capital markets may thus not be the best bet for those at the bottom of the pyramid. Rather, it is proposed that partnerships with local social entrepreneurs who experiment with new business models, new types of resources and resource configurations may be a way for corporations to act at the BOP.

3. Social Entrepreneurship

A growing number of entrepreneurial initiatives all over the globe seem to defy the hurdles towards service provision to the poor. They collectively define a phenomenon that is termed social entrepreneurship (SE). How these entrepreneurs find and employ novel resources and combine them in new ways holds a rich field of discovery for inspired models of value creation. The focus of social entrepreneurs is primarily on creating social value. Economic value creation is merely a by-product that allows some degree of self-sufficiency. This is the main difference between social entrepreneurs and traditional entrepreneurs in capital markets, whose primary aim is economic value creation, while social value is created as a by-product (Venkataraman, 1997). To build on our notion that CSR, rather than social compliance efforts, presents an opportunity space for long-term value creation and value capturing by corporations, we have studied a promising and emerging interface between social entrepreneurs and corporations (Seelos and Mair, 2004).

Particularly in less-developed countries, implementation of CSR efforts may be facilitated and gain credibility and effectiveness through collaboration with local social entrepreneurs. A smart way for corporations to think about CSR is in terms of competing for topic ownership. For example, a corporation may pick one of the Millennium Development Goals where, given its resources and knowledge, it can really make a contribution. By building partnerships with local entrepreneurs the company could engage in projects that match specific and relevant needs with corporate resources. While some companies have started to experiment with tapping into the market at the BOP, social entrepreneurs may be much better than companies at scanning for opportunities and building up grassroots efforts from very limited capital. Mair and Seelos (2004) have mapped a large number of social entrepreneurs in developing countries. Ashoka, one of the largest NGOs that supports social entrepreneurs, lists over 1000 initiatives – evidence of a much higher dynamic when compared to the traditional BOP view.

Social entrepreneurship may provide some fascinating new insights that could expand the thinking and toolkits of traditional entrepreneurs, as well as enrich designs for more socially acceptable and sustainable business strategies and organizational forms. Most definitely, the insights are of huge relevance to the wider social sector. The potential interfaces between social entrepreneurs, CSR efforts, and public institutions have great potential for new ways of collaborative value creation in support of sustainable development.

Conclusion

Despite the vagueness of the sustainability terminology and the density and complexity of the "sustainability jungle", action is needed in light of the many challenges towards achieving sustainable development. A collective quest is warranted for a new balance between the creation and distribution of wealth in the context of markets and the changing needs and priorities of society. The erosion of trust in public institutions is a major challenge. Our democratic institutions need to be strengthened to be able to coordinate global efforts towards sustainability and to define the boundary conditions for free markets and limit market failure. Corporations are not in the best position to solve our sustainability problems. Their largest contribution may lie in making a contribution to strengthen and build up the effectiveness of social institutions. This can be achieved through acknowledging their authority and acting in compliance with the rules defined by those institutions. Thus, setting up a credible and transparent social compliance framework is a major corporate contribution

to sustainability. Going forward, there is room for a more proactive approach by corporations to make a more direct contribution towards social value creation. However, given the limits to available resources, unfocused experimentation as part of CSR "programs" must be avoided because of the significant opportunity cost involved. From the current plateau of market and institutional development we might have to define anew how best to enact further growth and development and the particular roles of participating organizations.

References

Baker, M. 2004. The next five years of CSR – some progress. *Business Respect*, 69, 11 January.

BASF 2004. Sustainability awards. Corporate report 2003. BASF, Germany.

Bellamy, C. 1999. Sharing Responsibilities: Public, Private and Civil Society. Harvard International Development Conference, Cambridge, Massachusetts, April 16, 1999.

British Telecom (BT) 2004. Better World Report 2004. www.btplc.com/Societyandenvironment/Betterworldreport/index.htm

Brandenburger, A.M. and Nalebuff, B.J. 1995. The Right Game: Use Game Theory to Shape Strategy. *Harvard Business Review* 73: 57-71

Brandenburger, A.M. and Nalebuff, B.J. 1996. *Co-opetition*. New York: Doubleday.

Brown, B., Perry, S. and Wheeler, J.O. 2001. *Liability Risk Management and Corporate Social Performance*. McIntire School of Commerce, University of Virginia, Charlottesville, VA.

Business for Social Responsibility 2003. Overview of corporate social responsibility. www.bsr.org

Canadian Wheat Board (CWB) 2003. News release: www.cwb.ca/en/news/releases/2003/052703.jsp

Chen, S. and Ravallion, M. 2004. How have the world's poorest fared since the early 1980s. World Bank, www.worldbank.org/research/povmonitor/

Copenhagen consensus project 2004. www.copenhagenconsensus.com

Daly, H.E. and Cobb, J.B., Jr. 1989. *For the Common Good*. Boston: Beacon Press.

Diltz J.,D. 1995. Does Social Screening Affect Portfolio Performance? *Journal of Investing* 4: 64-69.

DoingGoodAndDoingWell 2004. Conference. IESE Business School. www.doinggoodanddoingwell.com

Enron 2001. Corporate Responsibility. Annual Report 2000. Enron Corporation, US.

Entropy International 2003. Internal customer case studies. Examples include Aggregate Industries, GlaxoSmithKline and Wrigley. Five-year savings amount to between USD 10 million and 200 million, mainly from efficiencies in the areas of environmental management and health and safety.

Ethical Corporation 2002. Designer brand linked to sweatshops. *Ethical Corporation Magazine* 7: 4.

European Commission 2001. Promoting a European framework for Corporate Social Responsibility (COM 2001 366).

European Commission 2003. 100 Best Workplaces in the European Union. Awards Ceremony, Brussels, 27 March 2003.

European Industrial Relations Observatory (EIRO) 2002. Restructuring and job cuts in the telecoms sector: www.eiro.eurofound.eu.int/2002/03/feature/uk0203103f.html

Forum for the Future 2003. Making The Net Work. Sustainable Development in a digital society.

Foster, R. and Kaplan, S. 2001. *Creative Destruction*. New York: Doubleday.

Frederick, W.C. 1994. From CSR1 to CSR2: The Maturing of Business-and-Society Thought. *Business and Society* 33: 151.

Freeman, R.E. and Philips, R.A. 2002. Stakeholder theory: a libertarian defense. *Business Ethics Quarterly* 12: 319-338.

Friedman, S. 2002. Modeling causal interaction between human systems and natural systems. Research Paper, Santa Fe Institute, University of California, Berkley.

Griffin, J.J. and Mahon, J.F. 1997. The corporate social performance and corporate financial performance debate: twenty-five years of incomparable research. *Business and Society* 36: 5-31.

Guerard, J.B. 1997. Is There a Cost to Being Socially Responsible in Investing? *Journal of Investing* 6: 11–18.

Hamel, G. and Välikangas, L. 2003. The quest for resilience. *Harvard Business Review* 81: 52-64.

Hardin, G. 1968. The Tragedy of the Commons. *Science* 162: 1243-1248

Hart S. 2003. Creating sustainable value. *Academy of Management Executive* 17: 56-67.

Hart, S.L. and Christensen, C.M. 2002. The Great Leap. Driving innovation from the base of the pyramid. *Sloan Management Review* 44: 51-56

Hirsch, F. 1976. *Social limits to growth*. Cambridge, Mass: Harvard University Press.

Hirschman, A. 1986. *Rival views of market society and other essays*. New York: Viking Penguin.

Holling, C.S. 2001. Understanding the complexity of Economic, Ecological, and Social Systems. *Ecosystems* 4: 390-405.

Janssen, M.A. and Ostrom, E. 2002. Adoption of a New Regulation for the Governance of Common-Pool Resources by a Heterogeneous Population. Workshop in Political Theory and Policy Analysis. Indiana University

Jensen, M.C. 2002. Value maximization, stakeholder theory, and the corporate objective function. *Business Ethics Quarterly*, Vol 12: 235-256.

Kaplan, R. and Norton, D. 1992. The balanced scorecard – Measures that drive performance. *Harvard Business Review* Vol 1: 71-79.

Kasser, T. 2002. *The High Price of Materialism*. Cambridge, Mass: MIT Press.

Kell, G. and Levin, D. 2002. The evolution of the global compact network: an historic experiment in learning and action. The Academy of Management Annual Conference "Building Effective networks", Denver.

King, A.A. and Lenox, M.J. 2001. Does it really pay to be green? An empirical study of firm environmental and financial performance. *Journal of Industrial Ecology* 5: 105-116.

Klonoski, R.J. 1991. Foundational considerations in the corporate social responsibility debate. *Business Horizon* 34: 9-18

Mair, J. and Seelos, C. 2004. The social entrepreneurship matrix. Work in progress. Barcelona: IESE Business School

Margolis, J.D. and Walsh, J.P. 2001. *People and Profits? The search for a link between a company's social and financial performance*. Erlbaum.

Margolis, J.D., and Walsh, J.P. 2003. Misery loves companies: whither social initiatives by business? *Administrative Science Quarterly* 48: 268-306.

Meadows, D.H., Meadows, D. and Randers, J. 1992. *Beyond the limits*. Vermont: Chelsea Green Publishing.

Moore, W.H. 2004. The Environment and Sustainability as Investment Themes: Risk and Return Characteristics. IWOe Discussion Paper No. 110, Institute for Economy and the Environment, University of St. Gallen.

Obgo 2003. www.obgo.org/starbucks.htm

Oxfam 2004. www.oxfam.org.au/campaigns/nike/

Porter, M.E. and van der Linde, C. 1995. Toward a new conception of the environment-competitiveness relationship. *Journal of Economic Perspectives* 9: 97-118

Porter, M.E. and Kramer, M.R. 2002. The competitive advantage of corporate philanthropy. *Harvard Business Review* 80: 56-68.

Prahalad, C.K. and Hart, S. 2000. The Fortune at the Bottom of the Pyramid. *Strategy + Business* 26: 54-67.

Putnam, R.D. 2000. *Bowling alone: the collapse and revival of American community*. New York: Simon & Schuster.

Rajan, R.R. and Zingales, L. 2003. *Saving Capitalism from the Capitalists: Unleashing the power of financial markets to create wealth and spread opportunity*. New York: Crown Business.

Roepke, W. 1992. *The social crisis of our time*. New Brunswick, NJ: Transaction Publishers.

Sala-i-Martin, X. 2002. The World Distribution of Income (estimated from Individual Country Distributions). Working Paper No. w8933. National Bureau of Economic Research.

Seelos, C. and Mair, J. 2004. Social Entrepreneurship. The contribution of individual entrepreneurs to sustainable development. Working paper No. 553. Barcelona: IESE Business School

Smith, N.C. 2003. Corporate Social Responsibility: Whether or How? *California Management Review* 45: 52-76

Step, J.R., Jones, E.C., Pavao-Zuckerman, M. and Casagrande, D. 2003. Remarkable properties of human ecosystems. *Conservation Ecology* 7: art11

Stiglitz, J. 2002. *Globalization and its discontents*. New York: W.W. Norton

The World Bank 2002. World Development Report 2003. *Systemic Development in a dynamic world*. New York: Oxford University Press

The World Bank 2004. *World Development Indicators*. Washington DC: World Bank.

The World Bank. 2003. *World Development Report 2004. Making services work for poor people*. Washington: Oxford University Press.

United Nations Development Programme (UNDP) 2003. *Human Development Report 2003. Millennium Development Goals: A compact among nations to end human poverty*. New York, Oxford: Oxford University Press.

Venkataraman, S. 1997. The distinctive domain of entrepreneurship research, in Katz J. (ed.), *Advances in entrepreneurship, firm emergence and growth*, Volume III,. JAI Press 3: 119-138.

Worcester, R. 1998. More than Money, in Christie, I. and Nash, L. (eds.) *The Good Life*. London: Demos.

World Advisory Council on Global Change (WBGU) 2001. *New structures for global environmental policy. World in transition*, Vol. 2, London and Sterling, VA: Earthscan Publications Ltd.

World Commission on Environment and Development (WCED) 1987. *Our common future*. Oxford: Oxford University Press, p. 43.

World Economic Forum 2002a. Global corporate citizenship: The Leadership Challenge for CEOs and Boards. www.weforum.org

World Economic Forum 2002b. Voice of the people survey. Gallup International. www.weforum.org

Zingales, F., O'Rourke, A. and Hockerts, K. 2002. *Balanced Scorecard and sustainability. State of the art review*. Center for the management of environmental resources. Fontainebleau: Insead.