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CREATING A SUSTAINABLE COMPETITIVE POSITION

Ethical Challenges for International Firms

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CREATING A SUSTAINABLE COMPETITIVE POSITION

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CREATING A SUSTAINABLE COMPETITIVE POSITION: ETHICAL CHALLENGES FOR INTERNATIONAL FIRMS

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CONTENTS

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CHAPTER 1

CREATING A SUSTAINABLE COMPETITIVE POSITION THROUGH ETHICAL BEHAVIOUR

Pervez N. Ghauri, Ulf Elg and Sara Melén Hånell

ABSTRACT

In this chapter, we discuss the main themes of the book and give examples of how the rest of the chapters are related to these themes. We have identified two main aspects that are partly overlapping and are equally relevant for international firms' work with ethical questions related to their business. One concerns how ethical behaviour related to sustainability can be applied as a main part of firms' corporate strategy and how this may strengthen the international competitive position. This is particularly relevant when considering that it cannot be taken for granted that there is always a positive relationship and that actors may sometimes question an emphasis on ethical behaviour that goes beyond the accepted norms and regulations. The other main theme is related to international firms' crucial role in supporting sustainability on an international level and contributing towards achieving sustainable development goals (SDGs). Solving many of the challenges related to climate change, migration, poverty and inequality is likely to require the involvement of international firms. The book identifies several routes forward to achieve this.

Keywords: Sustainability; ethical behaviour; competitive position; sustainable development goals; corporate strategy; responsible business

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This book will investigate the relationship between competitive positioning of international firms, on the one hand, and sustainability and ethical behaviour, on the other hand. It will do so from two different but overlapping perspectives. One concerns how sustainability can be applied as a main part of firms' corporate strategy and how this may strengthen the international competitive position. The other concerns how international firms can support sustainability on an international level and contribute towards achieving SDGs. Both these perspectives will draw upon the corporate sustainability construct, viewing it as consisting of an environmental, social and economic dimension (Hahn et al., 2015).

SUSTAINABILITY AND A COMPETITIVE POSITION

International business (IB) research has established the idea that firms create a competitive advantage by using their resources and capabilities in the most efficient way, thereby creating a long-term sustainable advantage (Buckley & Ghauri, 2004; Teece, 2014). More recently, it has been proposed that international firms need to put more effort into creating positive externalities and minimizing negative externalities if they want to be competitive on a global market (Ghauri & Cooke, 2022; Montiel et al., 2021). This suggests that international firms' ethical behaviour and sustainability considerations become crucial in achieving competitive advantage. At the same time, the link to competitive advantage cannot be taken for granted and requires further research from IB scholars as discussed by Tarnovskaya in Chapter 5. This book investigates, from different perspectives, whether and how international firms may benefit from good transparent ethical behaviour and how competencies in managing sustainability may lead to a long-term competitive advantage.

International Firms Driving Sustainable and Ethical Business Practices

The importance of ethical aspects and a sustainable competitive position is being increasingly emphasized by all types of firms. At the same time, involvement of stakeholders such as governments, non-governmental organizations (NGOs), society in general, and the media becomes stronger (Hadjikhani et al., 2012). It has become critical for companies to understand and consider the externalities that company strategies create in society in general (Elg et al., 2017; Ghauri et al., 2021; Mellahi et al., 2015).

For international firms with operations in multiple markets across the world, it is recognized that cultural and contextual forces are major challenges influencing their work on ethics and sustainability (Bartlett & Ghoshal, 2000; Enderwick, 2018). Earlier studies have emphasized that what is considered to be an ethical and sustainable desired behaviour in one market may not correspond with values held by actors in another part of the world (Bondy et al., 2012; Elg et al., 2015). In a recent study on the global fashion company H&M and its work on implementing fair wages in their supply chain, it was shown how the managers initially experienced major resistance from local suppliers and local factories in Bangladesh (Tarnovskaya et al., 2022). The local actors were hesitant to engage

in a dialogue about wages with a buyer such as H&M. At the time when H&M started to implement their work on fair wages in Bangladesh, fair wages were not clearly identified as an ethically desired behaviour. In Chapters 6 and 7 Melén Hånell, Tolstoy and Tarnovskaya and Tolstoy, Melén Hånell and Tarnovskaya illustrate and discuss how a multinational enterprise (MNE) such as H&M can drive sustainable and ethical business practices around the world and particularly in an emerging market context.

Structural and Cultural Variations Between Markets

Cultural and contextual factors regarding what is considered ethical may vary across the world (Arregle et al., 2016; Strauss et al., 2017). Stakeholders – such as customers, suppliers, business partners, host communities, the media and governments – can have different perceptions and make different interpretations of what is relevant and doable (Crilly et al., 2016). Cerne and Elg (Chapter 9) further discuss these challenges and argue that there are discrepancies between the institutional logic applied by western suppliers and the logics prevailing in an emerging market. This may, in turn, lead to frictions that must be managed.

Despite the challenges posed by cultural and contextual forces, more and more IB scholars emphasize the key role that international firms have in driving and implementing sustainable and ethical business practices around the world (Van Tulder et al., 2021; Wettstein et al., 2019). Some argue that international firms have the managerial capacity and global outreach which make them particularly suitable for taking on a strong leadership role (Van Tulder et al., 2021). Still, as discussed by Ghauri (Chapter 8), it may require organizational innovation and the redesign of core business pillars to transform the strategies and operations of the MNE.

THE IMPORTANCE OF INTERNATIONAL FIRMS FOR ACHIEVING SUSTAINABILITY GOALS

Challenges related to climate change, migration, poverty and inequality are transnational. Solving many of the global challenges related to these four threats requires the involvement of international firms (Wettstein et al., 2019). For example, Sönnichsen (Chapter 3) describes how international firms can develop the CE construct in a way that can contribute to sustainability in a very substantial way. It can be argued that firms operating internationally have a crucial role in contributing to a more sustainable world. One recent study, for example, found that 71% of global emissions came from 100 companies (Griffin, 2017). This supports the view that it will be very difficult to achieve global sustainability goals without the active support from international firms and that this will also require active collaborations with social and political actors (Hadjikhani et al., 2012).

Contributions to Global Sustainability Goals

United Nations' SDGs introduced in 2015 which are to be achieved by 2030 (Agenda 2030) have spelled out 17 areas where organizations are expected to

contribute (UnitedNations, 2015). However, ESG (environmental, social and governance) was coined even earlier in 2005. That initiative went beyond CSR (corporate social responsibility) which had become quite prevalent by that time (Perez et al., 2022). Table 1 illustrates the issues dealt with in the ESG scheme. Companies that follow this model are given a 'social license', whereby most stakeholders believe that such a company is operating in a fair and appropriate way and deserves their trust. This is consistent with our belief that firms that behave ethically can obtain the 'social license' and gain trust from all stakeholders and, thus, become more competitive.

Since the introduction of ESGs, companies and organizations have allocated more and more resources towards improving ESGs and now more than 90% of S&P 500 companies publish ESG reports (Perez et al., 2022). Although a major part of ESG investments and responses is limited to climate change, lately, the importance and focus on the social dimension including ethical behaviour have been increasing (Vanderford, 2022).

At the same time, it has been put forward that ESG is good for the brand but not for the performance of the company, while others have characterized ESG reports as greenwashing and claim that most companies will not be able to achieve their SDGs as stipulated in their ESG reports. One reason given for this scepticism is that it is difficult to find a correlation between ESG and financial performance (Artz et al., 2021; Dorfleitner & Halbritter, 2015). Andersson and Arvidsson (Chapter 13) specifically discuss the EU's sustainable finance platform that envisions investors as key drivers of firms' sustainability transformation. Their study suggests that even though investors play an important role here, it does not necessarily achieve the ambitions of the policymakers. This might lead to the platform's failure or new changes in the game plan.

As illustrated by Fig. 1, the United Nations' SDGs are quite complementary to ESG and, in fact, all 17 SDGs can be grouped under one or other ESG schemes. While all firms cannot contribute towards all 17 goals, most international firms can contribute to some of them. Table 2 illustrates how international firms may contribute to some of these goals in a direct way or through collaborations with different stakeholders. Many goals are related to value-creating collaboration. Sacco and Magnani (Chapter 11) discuss how sustainability and resilience-building practices interact in global value chains (GVCs) and how this collaboration might support fulfilling the SDGs.

Table 1. The Mechanisms to Achieve ESG.

Environmental (E)	Social (S)	Governance (G)
• Waste and pollution	• Employee relations and diversity	• Tax strategy
• Resource depletion	• Working conditions	• Executive remuneration
• Greenhouse gas emission	• Local communities	• Donations and political lobbying
• Deforestation	• Health and safety	• Corruption and bribery
• Climate change	• Conflict	• Board diversity and structure

Source: Based on Perez et al. (2022).

Table 2. How International Firms Can Contribute to the SDGs.

SDGs	Implications for the Role of International Firms
Goal 1: No poverty – End poverty in all its forms everywhere	• How can international firms generate quality employment, equal opportunities and contribute to human capital to eradicate poverty?
Goal 7: Affordable and clean energy – Ensure access to affordable and clean energy	• What role can international firms play in this transition? What green technologies can be developed by MNEs to tackle pollution?
Goal 8: Decent work and economic growth – Promote inclusive economic growth and decent work for all	• What are the drivers for international firms to adopt inclusive business models? How can they include SMEs into their value chain? How can they contribute towards inclusive development?
Goal 9: Industry, innovation and infrastructure – Build resilient infrastructure and promote inclusive innovation	• How can international firms adapt their innovation and new product development strategies to be more inclusive and incorporate marginalized communities?
Goal 10: Reduce inequality – Reduce inequality within and between countries	• To what extent do international firms' policies reduce intra- regional inequality, as regards to wages, gender, health and safety and living standards?
Goal 12: Responsible consumption and production – Ensure sustainable consumption and production patterns	• How can international firms contribute to developing the CE through their R&D capability, restructuring of GVC and sustainable packaging?
Goal 13: Climate action—Take urgent action to combat climate change and its impacts	• To what extent international firms use same standards in developing countries as in their home markets? How can MNEs use green technologies in their respective industries?
Goal 17: Partnerships for these goals – Strengthen and revitalize the Global partnership for sustainable development	• How can international firms work with governments and social actors to reduce inequalities and achieve sustainable development in developing countries?

Source: Based upon the United Nations' SDGs (United Nations, 2015) and (Ghauri, 2022).

The SDGs have put things in context and are proposing that states, companies and other organizations should rethink their policies and strategies, while many IB researchers are still wondering whether it is the responsibility of companies to contribute towards the achievement of these goals (Ghauri, 2022). The main problem is, thus, to comprehend the externalities that firms are creating when seeking profit maximization around the globe. One way of addressing this question is to investigate through more research the different ways that firms are contributing or may contribute to the SDGs (Lashitew, 2021; Montiel et al., 2021). Overall, we argue that international firms must play a major role in achieving these goals. Put more explicitly, the possibility to achieve these goals will be seriously undermined without active participation from international firms. Furthermore, the achievement of different goals is interconnected and complementary. For example, the role of innovation (SDG Goal 9) can play an important part in addressing problems confronting the lives of those in poor communities by using limited resources, developing frugal innovations, making energy more affordable, supporting climate actions and developing the CE.

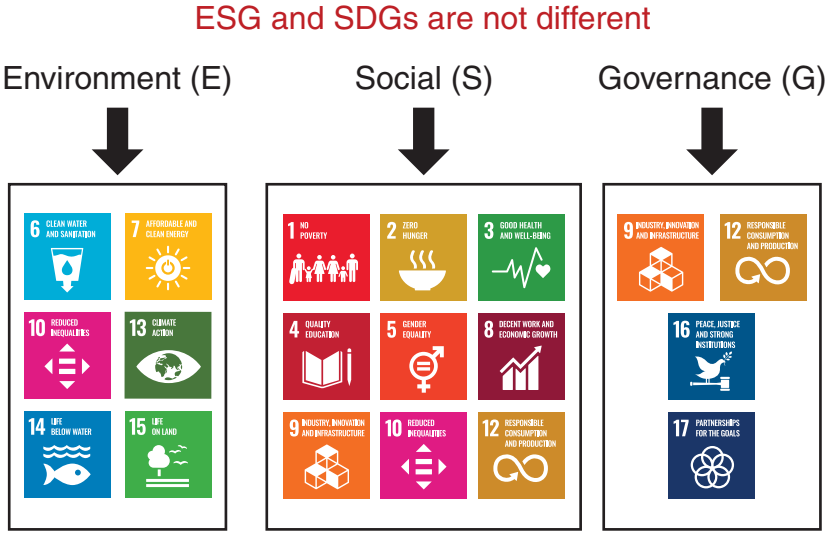

Fig. 1. The Link Between ESGs and SDGs.

Several chapters in this book discuss how firms are trying to contribute to the SDG goals and also identify challenges and barriers that they are facing. Elg and Ghauri (Chapter 2) show that there may be constraints due to a lack of willingness from local partners to make risky investments that may support working conditions or the environment if there are no obvious business gains. Here, resourceful multinationals can play a vital role in securing these investments. Zhao, Ku and Dilyard (Chapter 4) discuss how global corporations can innovate in order to reduce the global waste crisis while simultaneously strengthening their competitive positions, while Drennan, Rovira Nordman and Safari (Chapter 12) focus upon how firms' sustainable orientation may affect consumer behaviour.

The Importance of Small and Large International Firms

This book builds on the understanding that the SDGs present some common insights about what companies need to adhere to while undertaking IB (Van Zantan & Van Tulder, 2018). We believe that both small and large international firms can equally contribute towards SDGs. In this discussion, it is important not to forget about small international firms and their potential to become competitive while following SDG-based behaviour. Dominguez (Chapter 10) explains how small- and medium-sized enterprises (SMEs) integrate circular economy (CE) principles in their business models and how this contributes to meeting the SDGs. As discussed in the chapter, SMEs may find in CE a way to overcome their resource scarcity. A case study of a French start-up highlights the drivers, managerial practices and collaborations engaged by SMEs to generate economic and non-economic value.

While small firms, in comparison to large corporations, must struggle with scarce managerial and financial resources, smaller organizations also have certain advantages over large firms. Some of the inherent strengths of small international firms lie in their innovativeness, and their competitive advantage results from speed, responsiveness and closeness to customers (Hutchinson & Quinn, 2012). In a study by Melén Hånell et al. (2018), one small international firm operating within the Swedish life-science sector described its competitive situation by saying: 'They are giants which are 50–100 times larger than us, but we move faster than them. They are like elephants, and we are like mice'. The small life-science firm attributed its success on a global market to the firm's innovativeness and speed in making decisions.

In this book, we, thus, aim to understand how international firms, both small and large, deal with the opportunities as well as the challenges involved in staying competitive over a long period while following an ESG/SDG-based behaviour.

OUTLINE OF THE REST OF THE BOOK

Different chapters in the book present different types of studies, some are conceptual, some deal with Swedish firms and some deal with firms from other parts of the world. We, thus, believe that we provide state-of-the-art knowledge of this important topic and hopefully connect ESG, SDGs and sustainable competitive positioning, and demonstrate how these constructs are related to each other. Researchers who are involved or are interested in this type of research will find several valuable concepts and examples that can be useful for their own research. We have divided the book into three parts. Part one deals with the conceptual development of the themes that are dealt with in the book where different authors present their views. Part two predominantly deals with Swedish firms and how they are dealing with ethical and sustainability-related issues, while part three presents examples from firms from other parts of the world.

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PART ONE

EXPLORING SUSTAINABILITY AND ETHICS

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CHAPTER 2

TOWARDS A GLOBAL SUSTAINABILITY APPROACH: CHALLENGES AND OPPORTUNITIES FOR MULTINATIONALS

Ulf Elg and Pervez N. Ghauri

ABSTRACT

We discuss how multinational enterprises (MNEs) can play a leading role and take more responsibility towards reducing inequalities by developing a global sustainability regime. We especially focus on how this may contribute towards the United Nations' Sustainable Development Goals (UN SDGs). Our purpose is to identify and discuss the components and activities that are needed to develop such a strategy and implement it in markets with different structural and institutional conditions. We will especially discuss interactions between the head office and the local subsidiaries/organizations as well as interactions with different salient groups of stakeholders. We focus on three highly significant groups: business, social and political actors. We identify four key components of a global sustainability approach – namely, (i) make it relevant within the organization, (ii) establish a legitimate sustainable network position, (iii) present incentives and gains that stimulate action and (iv) establish long-term salient structures.

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These components and the associated activities have not been discussed in a coherent manner although some aspects have been put forward in earlier studies. We present a comprehensive framework that suggests what role MNEs can play and what challenges they face while doing so. The chapter is based on more than 10 years' experience of studying MNEs' activities in developing as well as developed markets, including how they work with sustainability. The study is based on data from four Swedish MNEs and three major research projects.

Keywords: Global sustainability; multinational enterprises; stakeholder relationships; structural and institutional factors; United Nations' Sustainable Development Goals; qualitative research

INTRODUCTION

Existing research shows that the activities of MNEs are crucial and that they can play a central role in driving sustainability and creating value (Ghauri et al., 2021; Montiel et al., 2021). Furthermore, Ghauri (2022) describes how MNEs may provide significant support in fulfilling the 17 SDGs launched by The UN and expand their traditional missions beyond profit maximization. Wood et al. (2021) further discuss that MNEs must take on a clearer responsibility for their own impact and its relevance with the developments on a societal level.

The SDGs launched by the UN in 2015 refer to global inequalities, environmental deterioration and worldwide human development (United Nations, 2015). Challenges concerning, for example, the climate change and sustainable developments require global responsibility and actions (Pinkse et al., 2010; Shapiro et al., 2018). Furthermore, citizens require fair working conditions and equality, regardless of where they live. This means that MNEs need to strive for consistency and balance between markets and the need to adapt their strategies to local culture and context (Miska et al., 2016; Morris et al., 2014; Roth & Kostova, 2003) that influence the expectations regarding issues such as sustainable development (Elg et al., 2017; Ghauri et al., 2017).

The development of a globally sustainable strategy appears relevant for taking responsibility for the triple bottom line of the corporate sustainability construct – the economic, social and environmental (Bansal, 2005; Bansal & Song, 2017; Wilson, 2015) and thereby may contribute to the SDGs. More and more scholars and international organizations are now discussing how multinationals can pursue such a global sustainability agenda (e.g. Boston Consulting Group, 2021), but few studies have empirically investigated how MNEs might do this, what the challenges are and how it might interact with local conditions (c.f. Burritt et al., 2020).

Our purpose is to identify and discuss the mechanisms and activities that are needed to develop such a strategy and implement it in markets with different structural and institutional conditions. We will discuss interactions between head office and the local subsidiaries/organizations as well as the interactions with

different salient groups of stakeholders. We particularly focus on three different groups that are highly significant: business, social and political actors (Elg et al., 2017; Hadjikhani et al., 2012). We will also discuss the challenges and constraints that are faced by MNEs that strive to develop and implement sustainable strategies that are congruent with UN SDGs.

The empirical foundation for this chapter is the activities of four Swedish MNEs that all have an ambition to develop a sustainability strategy for the whole corporation, with clear goals and codes of conduct, while the implementation of this strategy is managed locally in each market. We have used an exploratory qualitative case study approach to conduct this research (Ghauri et al., 2020). The study highlights relevant steps to implement such an approach. It also illustrates the complexity, resistance and challenges involved in such a process.

The next part of this chapter will describe the research that we have conducted over more than a decade, in different interrelated projects, and the methodologies used to collect data. This is followed by an empirical part that presents the conceptual model that we have developed and its four components. In a final part, we relate our findings to existing knowledge on MNEs and sustainability and suggest some avenues for future research.

RESEARCH METHOD

As argued by Burritt et al. (2020), a main problem with existing studies on MNEs and sustainability is that they tend to have a narrow focus on a certain well-defined problem and that there is still little knowledge on the MNEs' development of a corporate sustainability strategy, the interplay between head office and local subsidiaries and the role of salient stakeholders.

However, for more than a decade, our research group has investigated positioning strategies of MNEs on different markets, how they link corporate strategies to local culture and interests and how they interact with local critical stakeholders. We have conducted three projects, and though they have been based upon different overarching research questions, sustainability has persistently appeared as a main aspect, and especially the strategic challenges of coordinating the overall sustainability goals and local contexts. Our ambition in this chapter is, therefore, to present the critical dimensions of a global sustainability strategy that have been identified during our work with these projects over a period of more than 10 years.

The first project was entitled '*Creating brand value and market orientation on emerging markets: The role of economic and socio-political relationships'* and took place between 2010 and 2016. This project focussed especially on the four BRIC markets (Brazil, Russia, India and China). Here, sustainability was found to be a main aspect for the international activities of the Swedish MNE Tetra Pak. The second project, '*Developing and implementing CSR: Corporate perspectives vs. employee and consumer involvement*', specifically concerned sustainability. It was carried out between 2016 and 2020. Here, the empirical data consisted of an in-depth and thorough case study of the Swedish retailer IKEA, involving the head

office as well as the local Swedish organization, and the country organizations in Germany and the United Kingdom. The third project, '*Responsible Business and Competitive Advantage: Swedish Firms' Ethical Behaviour in Emerging Markets*' started in 2019 and is still ongoing. We have carried out case studies of H&M and Ericsson at the head office in Stockholm as well as on different emerging market areas, including Bangladesh, India, Turkey and the Middle East.

Qualitative case studies were considered fruitful because they can provide a rich, in-depth understanding of this rather understudied area (Eisenhardt & Graebner, 2007). The four case companies are highly relevant because they are all globally very active, have corporate strategies for how to work with sustainability globally and on different country markets. These strategies are also presented and discussed in detail in various strategic documents that we have studied. In our interviews, we have covered how the firms work with sustainability at head-office level, the strategic principles behind the strategy and how they collaborate with local organizations including external stakeholders. We have also interviewed local managers regarding how they experience these issues. Usually, our interview questions were of a broad nature and open ended, and often our meetings with respondents became more of an open conversation where they were able to bring up the issues that they found particularly relevant within their context (Ghauri & Firth, 2009).

In all, this research is based upon 78 interviews at different organizational levels. We have also analysed a substantial number of documents and strategic plans that explain and describe the firms' sustainability strategies. Some of the interviews in the ongoing project were conducted online due to the pandemic.

All the empirical material was analysed using NVIVO 11/12. The first step was to identify the four general dimensions presented in the empirical part below. These dimensions have been discussed, to a varying extent, in previous research on sustainability and MNEs (e.g. Burritt et al., 2020; Elg et al., 2017) but not in terms of a comprehensive framework. As a second step, we then searched for critical factors and recurrent themes within each of the dimensions that appeared to be especially important to implement the global sustainability strategy.

As an illustration for each dimension, we present short quotes from the interviews. We have decided to anonymize them in order not to reveal the identity of the company and the respondent.

The empirical data are, thus, based upon case studies of four Swedish MNEs. Tetra Pak was founded in Sweden more than 70 years ago (https://www.tetrapak.com/about-tetra-pak/the-company/history). The headquarters were situated in Sweden for more than 50 years. The basis was an aseptic packaging technology. It could preserve the colour, texture, natural taste and nutritional value of liquid food for up to a year, with no need for preservatives or refrigeration. The MNE today is part of the Tetra Laval Group, with headquarters in Switzerland, and operates in more than 170 countries.

IKEA was founded in 1943 as a mail order company. Today, the company is controlled by a foundation registered in the Netherlands, and there are 466 stores in 63 countries. The MNE has identified sustainability as a major and integrated

part of the corporate strategy. The strategy is based upon a global identity having a similar brand perception across the world. This idea would also include a consistent sustainability profile all over the world.

H&M started in Sweden in 1947 as a single store for women's clothing. Since then, it has developed into reaching customers worldwide. In 2019, the MNE had around 5,000 stores in 74 markets, with online stores being available in 50 markets. The MNE often describes itself as a driving force in promoting sustainability within the fashion industry. The sustainability vision was expecting 'to lead the change towards a circular and climate positive fashion industry, while being a fair and equal company' (H&M, 2019, p. 13).

Ericsson started in 1876, and the MNE's first telephones appeared in 1878. Since then, the portfolio has developed into having a focus on mobile and fixed network infrastructure, telecom services, software, broadband and multimedia solutions for operators, enterprises and the media industry. In 1999, Ericsson had 99,000 employees worldwide. The firm's global operations are divided into five geographical market areas: North America; Europe and Latin America; Middle East and Africa; Southeast Asia, Oceania and India and Northeast Asia. The sustainability vision was expressed as 'Improve lives, redefine business and pioneer a sustainable future' (Ericsson, 2023).

Below, we will present the four dimensions identified, illustrated by quotes and examples from the four cases. It should be stressed that this is not a process in the sense that it starts with internal support and ends with having salient supporting structure. Rather, it is a constant and ongoing work where all these four dimensions are consistently developed and reconsidered.

DEVELOPING THE INTERNAL SUPPORT

It is reasonable to start the discussion about global sustainability by focussing on the internal organization and how it can incorporate sustainability as an integrated part of the activities and priorities. This is especially challenging for a multinational that stretches over markets and subsidiaries having diverging cultures and perspectives. We have identified two specific questions that need to be addressed in a convincing way to build internal commitment. One is *why* the company should give priority to sustainability and the other is *how* to work with the sustainability issue.

Relevance for the Organization

> It is very much about what we stand for. What we think is important. Where we put the bar regarding how we do business.

This was a common dimension and illustrates how the companies we studied all strived to make sustainability a part of the organizational culture and identity. One way to do this is to refer to the background and history of the company and

to stories and legends about how the MNE has always cared about these issues. In the case of IKEA, the respondents repeatedly mentioned the founder Ingvar Kamprad and his origin from a relatively poor part of Sweden where resources were scarce. He, therefore, always emphasized the need to minimize the waste of resources, which also creates a strong base for a sustainability narrative. In the case of Tetra Pak, the respondents often stressed that the firm's history is based on the idea to protect food content and develop a packaging technique that does not require preservatives or harmful ingredients and keeps food fresh for a long time without a need for refrigeration. This is also stressed by the brand statement in company documents 'Protects what's good'.

Linking sustainability to the brand may be particularly important when developing a global sustainability approach because the identity and values that make up the brand are expected to be acknowledged by all employees and subsidiaries. The link to the brand was also a key issue in other ways. Managers often argued that a strong sustainability image will support the firm's reputation and thereby increase the strength and value of the brand. Being publicly active and visible in sustainability work will also create brand attention. This can, in turn, increase brand profile and trust as well as customer loyalty.

Another answer to the *why* issue is simply that this is required and expected by several external stakeholders. This links not only to the brand positioning but also to the companies' broader reputation. To amplify this, the importance of following the Paris agreement, the principles of the UN global compact, the ILO (International Labour Organization) conventions, etc. were stressed.

> If you don't get the engagement of the store behind it and their understanding as well, then it's never going to have longevity.

It was clear that the relevance of sustainability was also linked to the level of personal motivation. If you understand and support the importance of being sustainable on a personal level, it is much more likely that you will give it priority within your organization. Therefore, it was considered important to identify, encourage and engage co-workers so that they would lead by example and convince their colleagues. Another dimension that was mentioned by all the companies was the engagement of top managers, both on the corporate and on the subsidiary level so that they explain and show why sustainability is an integral part of the agenda.

Establishing Sustainable Practices

> Before we used to have guidelines and that is an important distinction, now we have standards and they cannot be misinterpreted, basta! You use them!

All the MNEs illustrated the importance of having organization-wide codes, standards and rules that cannot be compromised. Putting up clear and understandable targets was stressed as central. This is also related to the importance of evaluating employee and organizational performance on all levels of the organization in relation to sustainability. For example, H&M developed and was using

KPIs related to sustainability. Our research has also highlighted that there should be a clear organization-wide reward system linked to sustainability performance. In many cases, however, this still appears to be a weak spot.

Another point here is a clear division of responsibilities between managers as well as between organizational levels. In Ericsson, it was very clear that corporate managers design the sustainability programme and, for example, produce risk assessment templates that local organizations must follow closely. The most common approach was, thus, that codes and directives were formulated on a corporate level, but that the subsidiaries had a certain degree of freedom regarding *how* to implement and explain this on the local market. Managers from the central offices emphasized the importance of local ownership and relevance. At the same time, it was usually not considered acceptable to deviate from standards and codes that had been established at a central level. Therefore, having clear routines and procedures for how to follow up the sustainability work is an essential part.

It can be noted, however, that IKEA is a more decentralized organization, where it was to some degree optional for the stores and local markets to decide to what extent they wanted to work with different sustainability messages. This will then depend on the commitment of the local manager in charge. On the supplier side, however, there are universal codes and standards that must be followed.

Another key mission is to work with sustainability as an integrated part of all activities. Respondents often stressed that this can be a problem, and if sustainability is considered something separate from the business activities, it will be given a low priority. Therefore, the ambition is that sustainability activities are clearly integrated into managers' responsibilities and, for example, into different parts of the value chain and different markets. Furthermore, it was stressed that it is important to integrate sustainability aspects into the local business plans because this is the guideline for managers as well as for other employees.

Provision of proper training and education to new and existing employees was also found to be a key. Ericsson had an onboarding programme for all new employees that also covered the relevant sustainability areas and what is expected there. In addition, further training, face-to-face as well as online, was tailor-made, considering the manager's specific area and competencies.

> […] make sure it's integrated into their number one two and three priority. Even if it's a tiny bit, but if there is a tiny bit that is integrated into it so then it's not just stand alone. Because if it stands alone, it always will be at the end.

This statement emphasized one of the main challenges of developing and implementing a global sustainability approach. There will always be competing interests and priorities that may have a more obvious and short-term impact on sales and market position. It was often stressed that the lack of time forces employees to make priorities that may not benefit the sustainability work. Another aspect is communication. For example, one IKEA respondent argued that there are tens of thousands of messages in a store and that it might be difficult for sustainability to gain the attention of customers as well as of the employees who decide how and where different messages will be shown.

ESTABLISHING A LEGITIMATE SUSTAINABILITY NETWORK POSITION

For obvious reasons, navigating the external environment across markets and adapting business relationships and building specific relationships that support sustainability is a key dimension. Here, we will discuss two aspects. One is how the MNE can strengthen its general credibility and legitimacy as a sustainable and responsible actor. The other concerns how the firm works with and promotes sustainability in relationships with different types of stakeholders.

Credibility and Legitimacy

> […] to demonstrate the purpose, you have to spell out as a company, what are you there for, what's your vision, how do you contribute to society.

A critical step in creating a position as credible and legitimate when it comes to sustainability is to demonstrate that you take responsibility for the local community at all levels as well as for global sustainability challenges. An example is Tetra Pak's work in developing a school milk project that is implemented on several continents, such as Africa, the Middle East and East Asia. The main idea is to supply milk to local schools to ensure that the children receive nutrition as well as to increase the families' incentives to send their children to schools. The main aspect here is to be an integrated and responsible part of the local society. This requires that the MNE understands that the culture and the local issues of special concern. Even though this can be regarded as a part of building a global sustainability position, it may mean that firms prioritize different matters on different markets. At the same time, our research shows how these MNEs have tried to replicate successful initiatives within their supply chain on the industry level and between markets.

Another aspect is the importance of being visible and to gain notice and respect for the firm's sustainability commitment. For example, IKEA managers stressed that the culture has emphasized humility and never to brag about accomplishments. Today, however, this view has changed, at least when it comes to sustainability, and managers appear on international platforms such as the World Economic Forum in Davos, or in the UN in New York City to demonstrate how the retailer works with different sustainability issues. Furthermore, making it public that the MNE has close cooperation with respected organizations such as the World Wildlife Foundation (WWF), Greenpeace or Forest Stewardship Council (FSC) enhances the profile and value of the brand. For Tetra Pak, the collaboration with WWF and FSC could be used as co-branding that also has benefitted their customers.

It was also considered essential that top managers draw upon sustainability when presenting their companies in different public arenas, such as interviews in the press and industry conferences and are not afraid to make a stand. One interesting comment was that it is important to be aware not only of the actions that can have a strong impact on, for example, the environment, but also be

aware of things that have a symbolic value even though the overall impact is limited. For example, it was stated that 85% of H&M's impact on the environment comes from the supply chain, but it is nevertheless critical to show that the firm strives to minimize energy consumption in stores and offices for the sake of credibility.

> Maybe two times per year, a few times there is an event that we need to respond to. The China situation, we need to respond to that. There was this report in Malaysia, about the tech industry, that was not handled or managed correctly.

This quote stresses that the MNEs must be prepared to follow up on different critical incidents that occur on a certain market. It can concern environmental problems, working conditions or an accident on a site. This preparedness is of course important in order to deal with sustainability problems, but a quick response will also reduce the pressure from media.

The downside of being visible is that the MNEs expect to be scrutinized by media and held accountable for problems that may not even be related to the particular firm. It was often stressed that it is important to have routines for how to handle rumours and negative stories in the press. For H&M, problems and accidents in factories in developing countries are crucial. The firm has well-established routines for how these incidents should be handled and by whom. Another illustration is that H&M invited German journalists to India to see first-hand how the MNE works with the Better Cotton initiative.

In addition, an important challenge is to understand the expectations and interests that different stakeholders have and balance them. Again, this may require establishing different priorities depending on the market as well as on the issue at hand. For example, the study of Ericsson illustrated how different stakeholders such as customers, investors and non-governmental organisations (NGOs) required accountability and to know how the MNE mitigates risk on different markets related to environmental impact, local working conditions, human rights, etc. This will also require that the firm is able to assess the specific risks on different markets, understand where they might appear and apply proper monitoring. Furthermore, balancing stakeholder interests is related to understanding their salience and level of support for sustainability. There is also a difference between local and global priorities.

> When we for Germany say it is more relevant for us to put the emphasis on the work with the communities and not something else, we have the right to do it. This is our decision.

This quote illustrates that managers in each market may have discretion to prioritize between different sustainability issues. Respondents from several firms discussed how environmental concerns may have a low priority on certain markets because the focus is on other issues, such as poverty alleviation. Nevertheless, the corporate agenda and more global stakeholders will expect that a firm also drives the environmental issues on those markets. In addition, differences may even appear between different regions or areas of a country. For example, IKEA respondents discussed how London requires different sustainability prioritizations as compared to other parts of the United Kingdom.

Stakeholder Relationships for Sustainability

> We must really empower and take ownership to our suppliers who take it to their sub-suppliers, and in different areas. And you can't do that if you tell everybody exactly how to do everything. Now, you need to be there for support and development.

The supply chain is obviously in focus when developing specific sustainability links within different relationships. As this quote illustrates, it is often a matter of having a long-term view and to commit to it; for example, suppliers were driving the sustainability issue based on their own interests. Regarding working conditions, H&M worked systematically on convincing suppliers in Bangladesh that it will benefit them to pay fair wages, to have worker representatives in the factories, and a transparent system that clearly explained why a certain worker had a certain salary level. Another issue was gender differences. According to one respondent, 60% of the workers were female in Bangladesh but at the most only 10% of the supervisors. Here, the firm worked on convincing managers that female supervisors would be better at communicating with the workers and gaining their trust. Our study also showed how suppliers who successfully developed their sustainability ambitions could be rewarded by getting increased orders, loans, support from consultants etc. Furthermore, one ambition was to transfer solutions and processes developed with partners on one market to other markets to show suppliers that it will pay off in the long run, for example, by reducing the use of energy and chemicals or having a system for fair wages.

It was also often stressed that it is not a matter of finding suppliers and other business partners who are perfect from the beginning. It is more important to find partners who have the right mindset and are interested in improving themselves. At the same time, our research has stressed that different forms of monitoring and control systems are also an important part. The study of Ericsson illustrated that it might be necessary to add extra layers of control depending on the nature of the market or the specific project that is implemented. Furthermore, the firm uses approved training centres for supplier employees working with certain risky tasks. They need to have a certificate from a centre before being approved. There are also cultural differences that may require different levels of monitoring. Again, the Ericsson case illustrates this. Most accidents and even casualties are caused either by climbing towers or driving, and this is especially critical for certain markets. For example, in some cultures, you need to show your masculine side by not using safety equipment when climbing. As a response, the firm has developed an application that makes it possible to monitor this in real time and ensure that the safety equipment is used by supplier employees.

All four case studies highlight the importance of educating partners in the supply chain but sometimes also other actors. For example, in the case of the dairy training centre that Tetra Pak developed in China, it was originally intended for different actors in the supply chain, such as farmers and relevant customers. However, the interest for this training centre spread to other groups such

as scientific centres and government officials responsible for agriculture, thereby strengthening the bonds with political actors.

> We have all the contact data for these persons such as telephone number and email address in this tool. So all the stakeholders are mapped here. So for each one of the issues, I have a long list of stakeholders I have to talk to.

As put by another respondent, sustainability requires a multi-stakeholder strategy. The study revealed a lot of examples where these firms made attempts to influence political decision makers to give more support to sustainability aspects in legislation and other regulations. Sometimes, this was done in collaboration with other MNEs on the local market. As put by one respondent, 'we are more likely to achieve it if we are 22 companies rather than one'. Working with NGOs to identify sustainability improvements is another example. IKEA has an advisory group with representatives from five NGOs that critically evaluates the firm's sustainability strategy on a yearly basis. Our study also illustrates how the MNEs work with a broad spectrum of stakeholders – such as doctors, customers, opinion leaders, dieticians, water experts, universities, labour unions, governments and NGOs – to drive different sustainability initiatives. It should be stressed that developing linkages to relevant and influential actors also needs to be done on an individual level and for each market where the MNE has significant operations.

PRESENTING INCENTIVES AND GAINS THAT LEAD TO ACTION

It is one thing to develop relationships with different stakeholders with the intention to support sustainability – but implementing change and driving the development usually also requires that there are specific incentives and benefits for the other party. This is what building a sustainability case is about. At the same time, different stakeholders may have different priorities and interests, and it is a challenge to align them. Despite attempts to do so, it is important to note that there is still resistance and barriers that cause inertia, both internally and externally, that need to be managed.

Building Attractive Cases

> We must explain to them why they should do it. It is very common that they don't know about these things – if I close the door to my boiler when I am not putting things in it, I can make it 15% more efficient.

Especially when interacting with partners in the supply chain, the focus is on potential financial gains from working with sustainability. The example above is called 'low hanging fruits' because it is easy to do something about and does not involve costs. There will be more challenges when things such as investments or a change in established routines are involved. One such issue concerns workers' rights, including the working environment in factories, fair wages, working hours and their family situation. Here, it is more difficult to calculate potential

gains than when it comes to investments to save energy. The H&M case illustrates several challenges, such as when the MNE tried to introduce elected worker representatives, more female supervisors in the factories and a system for giving higher wages based on workers' performance. However, H&M managed to convince some suppliers that this would increase productivity, make the supplier a more attractive employer for the best workers, etc. The IKEA case shows how the firm, in collaboration with Save the Children, helped suppliers to build so-called Children Safe Zones – family friendly centres for children so that the family can be together more during school breaks. Ericsson's work with increasing safety when climbing towers and driving also illustrates how it is possible to show business partners the gain from giving priority to these issues.

> It needs to be both visionary and highly business relevant.

With regard to environmental sustainability, it is more a matter of calculating costs of making investments in relation to long- and short-term financial gains and show the benefits from investing in sustainability. For many suppliers in developing countries, it may be difficult to get funding for such investments. For example, one H&M manager discussed the need to devote time to finding financing models that make it attractive and possible to invest. This also involves using the credibility of H&M as a support when applying for loans. In addition, a distinct incentive for partners is that if they are willing to make investments and commitments regarding sustainability, they will also get more business and are assured of remaining a partner for a longer period. The MNEs often worked with different KPI measures and specific sustainability goals to evaluate supplier performance and as a basis for rewarding them.

Everything is not about direct financial gains, however. Suppliers and other local partners will also improve their reputation and status in their community by showing that they work proactively with sustainability issues that are considered relevant there. This may prove valuable, for example, in their relationships to local government. It is, therefore, important for MNEs to understand how to drive sustainability interests in a way that corresponds to local values and culture.

> We have a very good network with the government here. They have seen how much we have committed to the county in the last 30 years and now we can build up a direct communication with very top-level government officials.

For other actors, the sustainability case may not be primarily about financial gains. Our study also illustrates that showing how the MNEs' sustainability initiatives contribute to political goals will help in getting the support from government representatives. For example, the Tetra Pak case demonstrates that the firm is working to show how their innovations for preserving food can change the situation in India from being milk deficient to having a surplus. This is in line with an important goal for the community and for the government.

Creating Alignment

> Nowadays you have to look at things from a global perspective because we know that something that happens in China can also impact Brazil

When it comes to sustainability concerns, alignment entails several related issues. One is to coordinate and understand the benefits that different stakeholders value and manage any conflicts here. For example, there may be conflicts between goals and ambitions concerning reducing environmental impact, and the interests of locally employed workers who worry that routines and employment conditions may change. Secondly, it is a matter of adapting incentives and goals to local market conditions to achieve alignment regarding the sustainability ambitions. Ericsson stresses that codes and expectations regarding sustainability are the same in all markets and will not be compromised due to local culture. However, the incentives and support offered to local stakeholders to reach the goals will vary. For example, while wearing a harness when you are climbing is taken for granted in many countries, it is not considered manly in some countries like Brazil or Turkey. Nevertheless, it is a necessity because, as mentioned above, if an accident happens in one market, it can have a global impact.

Another aspect is the state of the regulatory system on different markets. While some countries have a stronger regulative system that gives support to many sustainability goals, other markets are more unregulated and/or existing rules are not followed up sufficiently by the government. The latter requires more work with motivating and driving local stakeholders. For example, Tetra Pak in Brazil explained that the industry standard set by the government for office paper brightness was 80%. However, this standard was considered too high because bleaching paper requires a lot of chemicals and there will be a lot of emissions in the process. The MNE, therefore, initiated a process to reduce the standard.

Alignment also concerns communication and how best to explain sustainability ambitions in different cultures. As expressed by one IKEA respondent, the idea is to have globally relevant messages but to add a local twist. For example, an issue such as equality and equal rights may be rather uncontroversial in certain cultures, whereas it requires more explanation and to be put in context for other cultures. Another example is that sustainability may be perceived completely differently in a city such as London, where many people don't have cars, compared to cities in America where you cannot get by without one. The messages and incentives regarding sustainability will, thus, have to be very different, while still in support of the global overall message.

> It's very clear that this commitment [to sustainability] is kind of a full value chain commitment. There is no end, you can't say, well, we don't take responsibility for this.

This quote illustrates the importance of alignment throughout the whole value chain. For a company such as Ericsson, this will involve suppliers in developing markets as well as several collaborating partners in a certain major project that could take place in any market in the world. The challenge here can also be related to the discussion above regarding communication of the incentives and gains that are relevant to a stakeholder within a certain cultural context.

Resistance and Inertia

> You are enforcing requirements that don't come naturally to people like in Europe … because, you know, you're asking things that are not second nature to them.

We have already discussed that it may be more difficult to drive sustainability due to the cultural context; it was sometimes described as a major constraint. If people are not used to doing something, information and incentives may not be enough to persuade them. For example, the Tetra Pak case showed that it was very difficult to drive recycling in Russia and India, because there is not enough awareness, and the environment is not high on the agenda. H&M illustrates a similar problem in Bangladesh, where electricity is subsidized to support garment manufacturers. Obviously, this will make it more difficult to present a strong business case for investing in energy-saving technology or renewable energy. Another aspect is the lack of stability in the supporting system. Again, electricity illustrates this. According to respondents, there can be several power cuts during the day in certain countries. Local companies are then inclined to use their own energy systems based upon coal, diesel or natural gas.

Sometimes local regulations may even prevent the MNEs from driving certain global sustainability issues. For example, IKEA respondents argued that equal rights and equality for HBTQ-persons was an issue that the retailer wanted to boost and communicate. However, this was simply not doable in Russia due to the legislation there. Both retailers also described how sustainability is not a sufficient driver for most consumers when they visit a store. It must be integrated into the product and combined with other values that answer the question 'What's in it for me?'. For example, IKEA's respondents described that it is much more doable if you can show that a sustainable product such as LED-lighting or a dishwasher will also save money.

> So how do we break through with sustainability messages? And how do we prioritize messages when there is a commercial part of the business that wants to focus on the commercial messages.

This illustrates an internal barrier, namely that even though sustainability has a higher priority than before, it is competing with other, more commercial, interests. These concern external communications to customers as well as the development of the value chain. Depending on their positions and responsibilities, different managers and functions will often try to promote their own agenda. Another obstacle when driving sustainability, stressed in different ways by all four cases, is that sustainability issues are often more critical further upstream in the local supply chain, where there is less transparency, and it is difficult to have a major influence.

ESTABLISHING LONG-TERM SALIENT STRUCTURES

Establishing sustainability as a long-term factor, that is safeguarded and continuously developed, also requires a set of structures and processes – within the MNE's internal organization as well as externally, involving relevant stakeholders and integrating the global level and the local markets. These structures have two interrelated goals. One is to monitor that established sustainability practices are respected, while the other concerns how to further develop the sustainability work.

Monitoring and Safeguarding Sustainability Achievements

> When you understand your risks, you put up management systems …. That includes an organization, processes, controls, policies, and procedures to understand them. Then you need to educate people, communicate, create an awareness. Then they will start to report things. You need a whistleblowing system to handle it. Then you need some who can investigate …. When they have investigated you need corrective actions, remediation ….

This illustrates the need for well-developed structures and processes to safeguard sustainability commitments. The importance of such internal structures was often highlighted by our case studies. For example, Ericsson had a business partner review board for evaluating whether a potential customer or partner was suitable from a sustainability perspective and the risks of establishing a collaboration, as well as an Incident Review Board that met monthly to follow up and explain critical incidents. The work of these boards also stresses the importance of creating specific links between head office and local markets regarding sustainability. The studies of IKEA and H&M further stress the need to develop processes for supporting local organizations in understanding and achieving their sustainability responsibilities. The IKEA case especially illustrates the importance of integrating sustainability in the employee's daily work routines. This was done, for example, by including it in job descriptions as well as developing KPIs on a global level and all the way down to local stores.

Having established structures and processes for following up sustainability issues is equally important within the external network of stakeholders. One example is how Tetra Pak developed linkages with government bodies to monitor that those regulations regarding product safety were followed by the entire industry. An example from the H&M case is the development of the international Sustainable Apparel Coalition, where the MNE played an active part. Here, different firms collaborate to increase transparency within the industry with regard to sustainability and ensure that all brands have similar parameters for evaluating issues such as environmental impact.

Our cases also stress yearly audits and/or self-assessment reports from supply chain partners that are then followed up by visits. The Ericsson case illustrates the important role that technology can play. The MNE had developed a live streaming routine that enabled them to evaluate safety routines so that only verified and approved personnel would be present on the work site, etc.

Structures and Processes for Further Development

> So, something like climate change. You start with the requirement that says 'ok, measure your energy'. And then the next time you say, 'ok but have a goal for reducing your CO2 impact'. And then the next time you say, 'goals must be at least 25% reduction in CO2' …. So, it's still compliance, but it's a compliance with a development part to it.

The importance of having routines that constantly drive the sustainability issue further was stressed throughout the cases. The quote above illustrates collaboration with suppliers. However, an important part was also having different platforms for extending the sustainability activities. One example was H&M's work in

Bangladesh creating forums for different critical issues such as energy consumption, workers' rights and water recycling. These forums often included political actors, and the water forum was chaired by the Prime Minister.

Another example is Tetra Pak's work with the ministry of agriculture in China and different dairy associations in support of the 'Range Upgrading Program', with the purpose to upgrade the quality and safety of milk. This case also stresses the importance of collaboration on a global level to ensure the development of global standards valid for all markets. Another example is how the MNE set up an infrastructure for recycling in the United Kingdom that could handle separating the paper from other materials in their packaging.

Further sustainability improvements also depend upon recruiting and training of staff. The Ericsson case illustrated how the firm strives to hire managers with a special competence to build stronger sustainability programmes. The IKEA case showed how senior management gave priority to recruiting highly competent and engaged managers who would continue to drive sustainability on different levels. The MNE also recruited experts in fields such as forestry and cotton to make sure that sustainability would become a key factor.

> They said that a sustainability report is an excellent way to drive the sustainability work in a company. Because if you need to report you also need to know where you are going and start to measure …. But I feel that I rather have a strong strategy anchored in the very top management that pulls you, than a report that pushes you.

The view that sustainability needs to become an integrated component of strategic documents as well as more operative yearly plans was often illustrated. For example, IKEA respondents in the United Kingdom stressed how important it was to include sustainability activities in the yearly calendar and relate and integrate sustainability activities with other, more commercial activities. Otherwise, sustainability initiatives might become *ad hoc* activities with a weak link to the overall mission and business strategy.

DISCUSSION AND CONTRIBUTIONS

The conceptual model that we have developed is summarized in Fig. 1. As explained above, it has four critical dimensions, each requiring the support of top management, having different influencing factors and demanding several activities.

Although many of the aspects brought up have been discussed in earlier studies, our study brings them together in one consistent framework developed from more than 10 years of in-depth research focussing on the issue of developing a global sustainability strategy. In this case, the first step, *developing internal support*, is crucial as no progress can be made without internal support and commitment of the top management. We have seen in the case of IKEA that sustainability was initiated and driven by the founder owner Ingvar Kamprad and, thus, was made a part of the company culture and identity. It was the same in the case of Tetra Pak as it was explained that sustainability was the *raison d'être* as the main purpose was to protect food and avoid waste and use of chemicals, also that food could be

Fig. 1. An Overview of the Global Sustainability Approach.

saved for longer periods without refrigeration. Moreover, to enable the companies to *establish a legitimate position*, the second step, they must have a credible and legitimate reputation in the global marketplace. To achieve this, companies need to establish good relationships with all stakeholders, internal and external, as we have seen in our cases that they establish relationships with local government, follow the Paris climate agreement and work with WWF, and FSC in case of IKEA and Tetra Pak, and with journalists and other society stakeholders in the case of H&M. For example, H&M took German journalists to India to show how they work with the Better Cotton initiative.

Another important dimension that emerged from our cases is *creating incentives and benefits,* the third step, such as fair wages and promotion possibilities for female workers as in the case of H&M in Bangladesh and educational and training programmes as in the case of Tetra Pak in China and Ericsson in Malaysia. The milk project that Tetra Pak introduced in China, India and Africa is a clear example of how society can see the benefit not only for children's health but also that more parents were encouraged to send children to schools. Also, our cases demonstrate that by an efficient use of facilities, for example, by closing the doors of the boiler, they can achieve 15% efficiency and, thus, lower costs and increase

financial benefits. All these activities lead to sustainability and encourage firms to *establish long-term structures,* the fourth step. The milk project and other training programmes demonstrate the long-term commitment of the companies and created long-lasting structures. The training programme by Ericsson on the safety of workers makes the workforce realize that it is not 'macho' to not wear safety nets or equipment while climbing the towers or when diving. This created a lot of credibility when Ericsson also created live monitoring and control systems for all risky tasks. Our study and the model above provide several examples and a clear path for how sustainability can be achieved and how companies at the forefront are doing it.

Furthermore, as illustrated in Fig. 2, we could also summarize the process of achieving sustainability and the challenges and constraints that are faced by companies in a more concrete manner, in terms of why, how and what. Firstly, we need to understand the *why* – that is, what are the drivers that are motivating companies to pursue sustainability. Secondly, *how* to achieve sustainability – that is, the means/activities these companies are using/performing to achieve sustainability goals. Thirdly, *what* are the challenges and constraints they are facing in the process and that must be understood and managed.

The figure illustrates that this is a continuously ongoing process where all three dimensions are equally critical. Still, developing and communicating the drivers

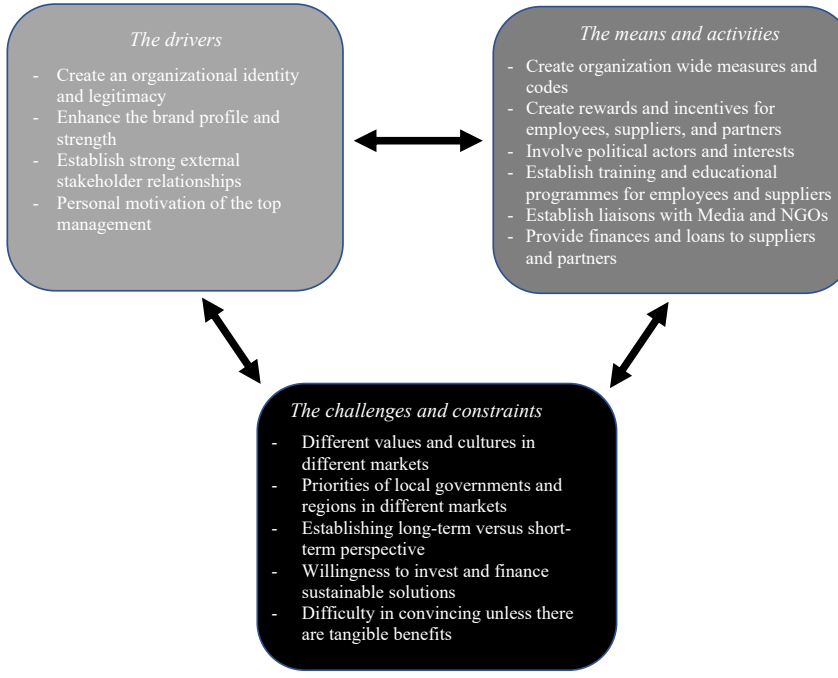

Fig. 2. The Process of Achieving Global Sustainability.

within the organization as well as in relation to external stakeholders is an essential starting point. It is usually a mistake to start with the means and activities dimension if there is a lack of motivation and understanding of why sustainability is of critical importance. If this is the case, the support and participation might become half-hearted and at a minimum level. Furthermore, considering the potential challenges and constraints is a basis for being able to identify the drivers that are most significant for different stakeholders. They may differ due to local culture and priorities. The long- versus short-term aspect also deserves to be especially stressed. The insights from our study suggest that both need to be considered and addressed. It is not enough to argue that sustainability is extremely important long-term. For some actors, the short-term view will create more motivation. Usually, it is more feasible for corporate managers to have a long-term view, whereas this may not fit the perspective of a sales or a product manager. In this sense, the figures are complementary – Fig. 1 explains the suitability approach that a firm wants to achieve at a global level, while Fig. 2 illustrates the process of achieving global sustainability and the factors that influence the process.

RELEVANCE FOR SDGs

SDGs and concerns for Environment, social and governance have still to receive proper attention from international business researchers and educational programmes (Ghauri et al., 2021) (Ghauri, 2022; Ghauri et al., 2021). The UN 2030 agenda, to achieve at least most of the SDGs by 2030, has already been put on the back burner in most countries and societies due to global crises such as COVID-19 pandemic. While the purpose of the UN is to alleviate poverty, decrease inequalities and injustices and create a healthy environment for all, it is explicitly stated (SDG 17) that this can only be achieved through collaborations among businesses, societal actors and governments. To date, several initiatives and projects for sustainability have been started by some governments and social organizations, initiatives from most MNEs are however, lagging. Admittedly and as shown by our study, MNEs in some countries, especially Nordic countries, Germany and Netherlands, are at the forefront and are working on sustainable innovations and strategies to tackle environmental pollution and inequalities; however, MNEs from most other countries are pondering about whether it is their job to tackle these issues or not. Most MNEs have realized that there is an increased awareness about sustainable solutions and products and have, therefore, included slogans and statements in their mission statements and marketing material. However, in many cases, these consist of greenwashing rhetoric without any significant actions.

In our opinion, SDGs can only be achieved if businesses, society and governments work together. Moreover, company strategies can only work if these are backed by government regulation. Company strategies on long-term sustainable benefits can only work if these are accepted by local values and culture and external stakeholders. As we have seen in our research above, many companies do really want to work on sustainable solutions and have realized that in the long run

these will help them achieve stronger competitive positions globally. We believe that more research by IB scholars will convince more companies that sustainability and SDGs are achievable and pays off in the long run.

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CHAPTER 3

CORPORATE FASHION AND CIRCULAR ECONOMY – HOW TO MANAGE ETHICAL CHALLENGES IN MARKETING OF B2B TEXTILES

Sönnich Dahl Sönnichsen

ABSTRACT

This chapter highlights how implementing circular economy principles can help companies working with sustainability to move from a reductionist and waste management approach to marketing competitive circular value propositions that intentionally design out waste (e.g. emissions and pollution) by rethinking, reinventing and redesigning the value chain. Schijvens, a Dutch family-owned corporate fashion textile company, acts as a case for exemplifying successful implementation of circular economy principles as a marketing strategy in a sector that struggles with finding solutions to the ethical challenges of producing and marketing textile fashion. The textile industry has, for many years, been accused of production that is based on environmentally harmful processes and conditions that are not socially fair. Circular economy principles provide a range of suggestions to address the ethical challenges occurring from covering the human needs of having clothes to wear. Yet, implementing circular economy principles is not a panacea. It is not only a question of delivering a technological quick fix but also a question of managing the new processes and

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human mindset guiding the actions in the value chain. This chapter, therefore, outlines reasons for a different perspective on the traditional linear value chain and related implications managers face when undertaking a journey from sustainability based on a reductionist approach to a closed-loop approach. It is argued that implementing circular economy principles by pro-actively managing the value chain processes based on eco-centric dynamic capabilities can provide even more radical changes than the incremental reductionist approach often associated with being a green sustainable company.

Keywords: Circular economy; corporate fashion; ethical challenges; marketing management; sustainability; circular value chain

INTRODUCTION

This chapter focusses on some of the ethical challenges marketers face when managing marketing activities[1] in the global textile industry responsible for a range of non-sustainable processes, including an estimated 10% of global carbon emissions (Textile Exchange, 2014). It aims to illuminate how implementing circular economy principles as an intentional marketing design approach acts as a competitive marketing response to the grand environmental and social challenges, rather than as a waste management strategy. The dominant production and consumption patterns in the global textile industry are primarily built on a take-make-use-dispose approach with fast throughput and loss of material resources. This creates increased resource scarcity, climate change challenges, biodiversity loss, negative social aspects related to workers' well-being and high levels of waste production (MacArthur, 2017; Textile Exchange, 2014). Exemplified by the tragedy of Rana Plaza where more than 1,000 workers died because the manufacturing site collapsed (CCC, 2022), and the environmental disaster in the area around the former Lake Aral created by conventional cotton production (NASA, 2022). These aspects point to ethical challenges and necessary changes in the approach to marketing textiles and clothing.

The American Marketing Association (AMA, 2017) defines marketing as 'the activities, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large'. Additionally, the definition of sustainability is outlined by the UN Brundtland Commission as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs' (WCED, 1987). This covers a broad understanding, acting more as an aspiration rather than as a description of what to do (Stuchtey et al., 2016). Nevertheless, given the negative outcome of present production and consumption patterns, it is clear that current textile value propositions that are brought to the market destroy more value than they create – for customers, clients, partners and society at large and thereby they hamper future generation's ability to meet their needs. Thus, they violate not only the possibilities to create sustainable consumption patterns but also the purpose of marketing.

Since we as humans need to have a society that thrives in the long run, companies will need to find new ways of delivering value that do not deplete the natural environment or create social shortfalls. A major challenge related to the sustainability approach, in general, is the reductionist practice that is pursued (Stuchtey et al., 2016). Traditional corporate social responsibility (CSR) marketing strategies only lead to incremental changes that do not encourage combined stakeholder responsibility for the natural environment as resource provider and waste assimilator (Borland & Lindgreen, 2013; Pearce & Turner, 1990). To overcome ethical challenges related to current production and consumption patterns in general and of textiles especially relevant for this chapter, companies need to change the marketing approach. This means that marketers need to embrace a new mindset and a new set of activities that comply with requirements that create value for all stakeholders, including workers' well-being and the natural environment. As a response, this chapter, therefore, outlines the circular economy principles to suggest a new set of values and principles for marketing activities that companies can draw on, which embrace more ethical production and consumption patterns than the current methods, in order to become part of the solution rather than continuing the non-sustainable trajectories.

The origins of circular economy as a material balance model date back to the early 1990s and outline an economic system conditioned by the constraints of one globe with a limited amount of resources available for production and consumption (Pearce & Turner, 1990). In other words, the theory behind it is not new. However, it is only in the last decade that the concept has gained traction and developed into the mainstream discussion among academics, non-governmental organizations, governmental organizations and business managers as a solution to the grand challenges that humanity faces (EU Com, 2019, 2020). Hence, authors and researchers increasingly discuss and examine the circular economy from different perspectives such as political policies (Leipold et al., 2022), supply chains (Batista et al., 2018; Geissdoerfer et al., 2018), public procurement (Sönnichsen & Clement, 2020), business models (Lewandowski, 2015; Santa-Maria et al., 2021), ecosystems (Konietzko et al., 2020), designers and architectures (Dokter et al., 2021; Münster et al., 2022), incumbent innovation and transformation (Frishammar & Parida, 2019; Zhu et al., 2022), managerial dynamic capabilities (Khan et al, 2020; Köhler et al., 2022) and barriers/drivers (Kirchherr et al., 2018; Ritzén & Sandström, 2017).

Eisenreich et al. (2022) provide a review drawing on Porter's value chain approach that gives marketers a different perspective than the traditional linear value chain perspective. This provides marketers with a tool to approach the internal and external processes from a different perspective than business-as-usual when implementing circular principles. This chapter, therefore, intends to make marketers understand that circular approach. However, from a marketing perspective, the discussion and literature are still in their infancy. Vargo (2021) refers to the traditional linear take-make-use-dispose economy as equivalent to the goods-dominant logic. However, the circular economy principle aligns with the service-dominant logic of – for example – delivering value as a service. An

example of this is 'power-by-the-hour', as advocated by Stahel (2010) in the book *Performance Economy*, a basis of circular economy principles (Webster, 2017). Yet, Vargo (2021) is missing the highly important instrumental perspective that resources cannot be retrieved at useful levels at the end of service value delivery, without an intentional design approach, even though the services are provided in a service-dominant logic.

The circular economy has not only been praised but has also recently been criticized by a range of scholars for not being as promising as circular economy advocates claim. Scholars, for example, found reasons for how means-ends decoupling can persist over time. This refers to how companies use structural and temporal organizational arrangements to mitigate consequences of institutional pressure – in other words, how greenwashing might be part of organizational structures – now using the circular economy as a 'buzzword' without actual changes in production and marketing structures that delay more radical changes (Stål & Corvellec, 2022). Moreover, findings among practice-oriented circular economy advocates show that a narrow economic vision of circular economy lacks a reflection of political and sociocultural aspects (Zwiers et al., 2020). Yet, it is argued that the European monitoring framework and indicator development produce a collective imagination of a desirable 'circular' future – a future that will provide novel opportunities for economic growth and job creation and, at the same time, improve the natural environment measured by selected indicators. However, it is also argued that the current policies are not actually changing and using the term circular economy is only a 'rehearsal of how to imagine a reconciliation and compatibility of economic and environmental concerns that already was expressed by the terms "sustainable growth", "green growth" and "sustainable development"' (Völker et al., 2020). Further, the possibility for developing perfect circles is questioned (Corvellec et al., 2022). However, given the outline of Pearce and Turner (1990) related to the laws of thermodynamics and eco-centric managerial epistemologies (Borland et al., 2016), perfect circles are not physically possible.

In other words, an equivalent critique to the arguments by Stuchtey et al. (2016) on sustainability being reductionist and only incremental in actual change highlights that the current implementation with a reductionist Anthropocene perspective falls short on representing an eco-centric holistic, cradle-to-cradle, systems-based, closed loop, visionary approach that practically captures sustainability (Borland & Lindgreen, 2013). Since the circular economy builds on the constraints of the natural environment (e.g. 'The Laws of Thermodynamics') (Borland et al., 2016; Hawken et al., 1999; Webster, 2017) and seeks to operate within these constraints contrary to the traditional linear approach, a different managerial mindset is needed to embrace the implementation of circular economy principles. Hence, organizations and systems need a stronger focus on the human factor and the related mindset, rather than solely focussing on instrumental reductions through a technological quick fix (Borland & Lindgreen, 2013; Raworth, 2017). The intention of this chapter is, therefore, to outline a marketing perspective illuminating the suggestion that the circular economy does more than reduce waste through technical optimization (e.g. waste management). Indeed, it is rather a question of 'how to intentionally design out waste by rethinking,

reinventing and redesigning value creating processes' in order to redirect resources for recovery and utilization in consecutive cycles that contribute to restoring the natural environment by embracing radical changes in the processes of marketing textiles.

The chapter first outlines some of the ethical challenges related to current production and consumption patterns in general but also specifically for the global textile industry. Second, the circular economy principles and their application in the value chain will be described. Schijvens, a Dutch company delivering corporate fashion, is presented in the last section of the chapter to exemplify how implementing circular economy principles helps overcome ethical challenges in international marketing management. The chapter demonstrates how the company moved from marketing linear (take-make-use-dispose) products to circular textiles and showcases how to accommodate a different value proposition through a value chain transition.

ETHICAL CHALLENGES RELATED TO CURRENT PRODUCTION AND CONSUMPTION PATTERNS

Businesses not only want consumers to purchase their products but also need fast consumption of the same products at an ever-increasing rate (Kotler, 2020). Yet, the current dominant production and consumption patterns result in environmental degradation (Stuchtey et al., 2016) and shortfalls related to social justice (Raworth, 2017). This implies that an unbalance in the maintenance of global natural and social capital stocks is presently prevalent (Kubiszewski et al., 2013) as a direct consequence of successful marketing activities (Kotler, 2020). Estimates show that material extraction and related pollution to support consumption will double in the next 35 years, even though humans already use more than the planet can regenerate on an annual basis (Circle Economy, 2022). Moreover, do climate change, biodiversity loss, scarcity of arable land, ocean acidification and decreasing availability of drinking water, among others, put pressure on human well-fare in general (WEC, 2022)? This is argued to be a huge ethical challenge for marketers since the dominant approach to commercial companies predominantly utilizes advertising to develop a hyper-real world of must-have products that claim to deliver happiness and well-being (Kotler, 2020).

In 2020, Philip Kotler asked 'Is our addiction to consuming, consuming us?' He predicted that the deprivation and anxiety of the period of COVID-19 would usher new consumer attitudes and behaviours that could change the nature of today's shareholder capitalism devoted to continuous and unending growth – an unlimited growth that is not sustainable in a limited world (Meadows et al., 2005). This highlights a need to re-examine assumptions of and dependence on endless consumption, related to what is consumed and how (Kotler, 2020). Yet, what can be observed is that consumption-based carbon emissions and resource extraction rates have returned to the same level as before COVID-19 (Circle Economy, 2022). It is, therefore, fair to state that the vision by Kotler did not embed and 'business-as-usual' continues. Companies are marketing products that contribute to

worsening the grand challenges with a predominant focus on delivering value for customers, clients and partners through sales of products and services – without including the cost of value destruction at the societal level, including the natural environment.

With an estimated growth in the consuming class from 1.8 billion to 2.8 billion by 2025 (McKinsey, 2012), it is, indeed, relevant to address the ethical challenges related to marketing of goods based on assumptions of natural capital abundancy and possibilities for endless laissez-faire consumption patterns (Borland & Lindgreen, 2013). In other words, is it healthy for marketing to support a shareholder capitalism based on a perception of access to unlimited resources that supports unlimited growth? Or, will marketers be better off by changing and moving towards a state of post-consumerism that is taking a broader more including stakeholder perspective and the fragility of the planet into account? (Kotler, 2020). This chapter argues that the latter will lead to better business performance and less detrimental harm not only in the future but already in the present business environment.

Ethical Challenges in Marketing Textiles

The global textile industry increasingly receives criticism for a range of ethical challenges related to environmental degradation, poor working conditions, use of toxic chemicals, sweatshops, child labour, excess use of drinking water and harmful exploitation of natural resources. Examples of social shortfalls and poor working conditions in the global textile industry are long working hours, lack of safety measures, bad indoor climate, no access to clean water, salaries that do not support proper living standards, harassment and discrimination (Textile Exchange, 2014). As mentioned, the case of the Rana Plaza disaster, a multi-story building collapse in Bangladesh, brought attention to the poor working conditions and lack of safety measures in the international textile industry. Additionally, does the conventional textile industry have a significant negative impact on the natural environment, including water pollution, pesticide use, greenhouse gas emissions, air pollution and soil degradation? For example, does the production of one t-shirt from conventional cotton use more than 2,500 litres of drinking water? That is enough to meet one person's drinking needs for 2.5 years. Also, energy use in conventional cotton production is problematic since it is estimated that the textile industry is responsible for 10% of global carbon emissions. On top of the challenges related to initial garment production, the industry is often accused of producing way more than is being sold in the stores and online, resulting in large amounts of clothing being discarded and incinerated without ever having been used (EU Parliament, 2022). Thus, the current dominant production in, and use patterns of, products from the global textile industry are characterized by social and environmental harmful consumption processes with their linear take-make-use-dispose approach. In other words, the prevalent dominant linear economy system enhances scenarios for unsustainable production and consumption patterns, which put pressure on material resource availability, create social shortfalls and contribute to climate change potential (IPCC, 2014, 2019). Consumers are

increasingly aware of ethical challenge in international marketing management related to social and environmental problems from manufacturing and marketing textiles.

Indeed, consumer trends show an increase in willingness to buy environmentally friendly clothing (Statista, 2022). Yet, the attention to social and environmental impact from textiles is mostly focussed on fast fashion among B2C costumers and often lacks a perspective on impact from B2B relations, for example, related to providing uniforms used in service provision. It may be assumed that the B2C trend will translate into B2B settings where clothing or corporate fashion is important for brand building, just as is the case with personal branding (Belk, 1988). For example, within service provision in branded services capes like hotel clerks, cleaning service, restaurant waiters, retail and blue-collar workers, in general, it is typical to wear a uniform that represents the brand. The service provision will be part of the purchasing entity's derived demand of, for example, a zero-emission value proposition. That could consist of a 'Conference on Sustainability' that would be a conference provider with zero (or low) emission operations. Since clothing is a part of branding for a service provider, it would have a derived demand for zero-emission value proposition, including uniforms with low or no environmental or social impact. This chapter focusses on the delivery of corporate fashion in a B2B service context.

Companies that wish to sincerely address the ethical challenges in the textile industry, therefore, need to think beyond compliance through CSR initiatives and include sustainability in the core production and consumption of their products and services. Circular economy is an economic model that intentionally designs out waste by offering business models designed to regenerate and restore the natural capital that has been degraded by the current production and usage patterns, without creating social shortfalls. Hence, circular economy acts as a response to the ethical challenges that have not been captured by green growth and CSR strategies. In other words, while both circular economy and green growth/CSR seek to have a positive impact on the environment and society, circular economy has the potential to have a fundamentally larger positive impact through a systemic approach, rather than green growth/CSR that have a more limited focus on specific activities, maybe not even related to the company's production and marketing operations (Stuchtey et al., 2016). Circular economy with its systemic perspective, therefore, offers a more holistic approach to marketing value propositions, which aligns with the definitions of marketing and sustainability and provides practical solutions to the ethical challenges in the global textile industry. The following section will introduce the circular economy principles and outline some of the major shifts a company's value chain needs to undertake.

CIRCULAR ECONOMY – A RESPONSE TO TACKLE ETHICAL CHALLENGES IN MARKETING MANAGEMENT

A circular economy outlines a production and consumption system that by intention restores and regenerates the natural capital for present and future

consumption possibilities. A circular economy operates by default on renewable energy, eliminates the use of toxic substances and minimizes leakage to landfill and incineration (MacArthur, 2013). Hence, a circular economy keeps products, materials and components at their highest utility at all times through design processes that enable material flow to maintain operational value in consecutive use cycles. Thus, it provides opportunities for innovation across professional fields such as product design, services and business models in order to establish a framework and building blocks for a resilient system able to work in the longer term (Webster, 2017). To provide pure and valuable return flows for consecutive production and consumption cycles, products should be designed to enable disassembly into either technical or biological nutrients (Fig. 1). Technical nutrients are homogenous materials, typically iron, copper, plastic, aluminium and glass, which are by definition finite in stock. Biological nutrients, on the other hand, are of a more heterogeneous character, for example, food waste, textiles made from cotton and products made of wood in general, which are by definition renewable if nutrients are returned to the soil to regenerate natural stock (Braungart et al., 2007; Hawken et al., 1999; Lovins et al., 2007). In other words, technical nutrients roughly comprise what humans excavate from within the ground (e.g. mining), while the biological nutrients are those that are grown on the ground (e.g. utilization of land). Since companies do not operate in a vacuum, and in order to make technical and biological nutrients flow effectively, it becomes essential for companies to introduce a different approach to collaboration with stakeholders with the aim to create restorative production and consumption processes (Baron et al., 2018).

The basic premise is minimizing leakage to landfill and incineration (e.g. design out waste) to avoid loss of resource value through focus on product life

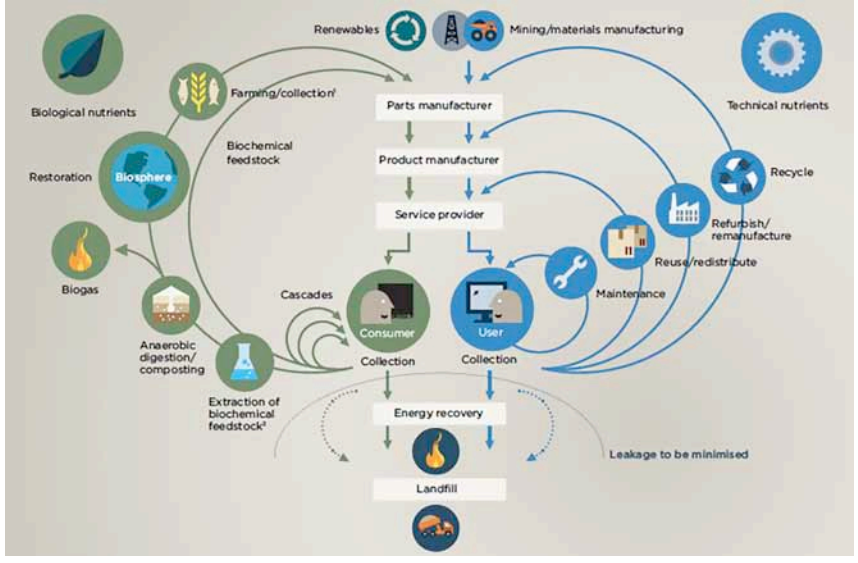


Fig. 1. The Ellen MacArthur Foundation's Butterfly model (MacArthur, 2013, 2015).

extension and/or closing the loop (Bocken et al., 2016; Webster, 2017). This requires firms to initiate processes that support longevity, renewability, reuse, repair, upgrades, service, capacity sharing, dematerialization, refurbishment and design for disassembly (MacArthur, 2013, 2015). For the technical cycles (Fig. 1), maintenance is considered more desirable than reuse, and this is considered to conserve more resource value than remanufacturing, compared to recycling which is the least attractive resource recovery option. Concerning the biological nutrients, the most important aspect is to return nutrients (e.g. phosphorous and nitrates) to the soil through anaerobic digestion for future biological production. A by-product from this process is biogas, which often is considered part of the circular economy. However, this is a conceptual misunderstanding since burning gas for energy production means that the nutrients are lost and waste is produced (e.g. carbon dioxide emissions); biogas is considered a linear biproduct of circular economy processes.

A circular economy is, therefore, also considered more labour intensive than a linear economy because of the inclusion of maintenance, repair and disassembly as a standard (Stahel, 2013). Hence, it is anticipated that a circular economy creates more jobs compared to linear business as usual (Stuchtey et al., 2016; Webster, 2017). The social aspect is, therefore, indirectly incorporated in a circular economy, by securing meaningful workplaces in more sustainable and competitive businesses. This is argued to create a market, in general, that values regional job creation, securing the social foundation of life (i.e. income), mitigating material value loss (i.e. regenerative) and reducing greenhouse gas emissions from production processes.

Based on this is a circular economy defined as:

> an economic system that is based on business models which replace the 'end-of-life' concept with reducing, alternatively reusing, recycling, and recovering materials in production/distribution and consumption processes – thus operating at the micro level (products, companies, consumers), meso level (eco-industrial parks) and macro level (city, region, nation and beyond), with the aim to accomplish sustainable development, which implies creating environmental quality, economic prosperity and social equity, to the benefit of current and future generations. (Kirchherr et al., 2017)

Even though it is acknowledged and important to emphasize that individual products will not create a circular economy – it takes a system perspective to embrace – this chapter will limit its focus to the micro-level related to products, companies and consumers.

Circular Economy and Textile Recirculation from a Technical Perspective

Given the huge loss of value and other related ethical challenges in the textile industry as described earlier, it is relevant to outline how to increase circularity in textile material flows in order to mitigate the loss and offset initial harmful production. In other words, this chapter describes how the textile industry can rethink product and process design to intentionally enable higher value capture and lower the environmental impact through the use of circular economy principles. Generally speaking, it is argued that a circular economy for textile/fashion creates

better products and services for customers, contributes to a thriving and resilient sector and regenerates the natural environment. Rights and equity for everyone involved, also for nature, are prioritized and new solutions should build on diversity and inclusiveness, because products are made from safe and recycled inputs, used for a longer period and designed to be recycled (MacArthur, 2017).

From a technological process perspective, recycling entails different approaches depending on the materials used. Ideally, all textiles and clothing should first be cycled through the technical cycle loops (e.g. right hand side of the Butterfly model) by reusing, repairing, remaking and recycling. However, if this is not possible due to poor design and/or poor garment quality that hinders technical processing, or if the used garments are worn out, the clothing can be treated in different ways. Roughly speaking, garments are made out of mono-fibre materials or mixed fibre materials. That includes pure natural fibres like cotton/wool, pure synthetic fibres like polyester/polyamide or mixed fibres – for example, cotton and polyester in the same product. The choice of material composition has a direct effect on the processes and possibilities for recycling (Münster et al., 2022).

Ideally synthetic and natural fibres should be kept separately (e.g. as mono materials) or at least be easy to separate at the end of use (Fig. 2). The items should be produced purely with natural fibres like pure cotton or pure wool (e.g. not mixed and non-toxic) for the biological cycle or made out of pure polyester for return treatment in the technical cycle. Using mono materials allows for the mechanical recycling process at the end of use, which is the simplest and least energy-consuming process for recycling garments (MacArthur, 2017). If the textiles are made from mixed fibre materials, the only possibility for keeping the materials in the loop is chemical recycling, which is more energy intensive than mechanical recycling. Nevertheless, chemical recycling is a viable approach since chemical recycling maintains fibre quality, which is not the case with mechanical

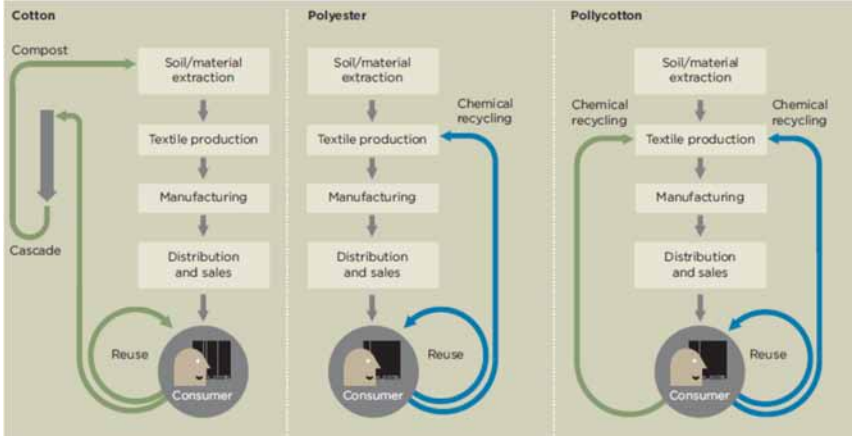


Fig. 2. End-of-Life Material Pathways for Natural and Synthetic Fibres (MacArthur, 2015).

recycling. This means that additional virgin fibres are needed to weave new garments. Chemical recycling can also be used for recycling pure synthetic fibres, yet since this process needs more energy, mechanical recycling is often preferred. The most common solution for garment design is, however, mixed fibre materials, which challenges the return flow possibilities; this is described as systemic and technical contamination that will lead to either down cycling and/or disposal, thus hindering circular processing and resulting in a loss of value and loss of resources for future consumption possibilities (Baxter et al., 2017). Structuring a circular economy product and process design is, thus, a central managerial task to obtain effectiveness and value capture, without contributing to the grand challenges outlined in the introduction.

Managing a Circular Economy Value Chain

Benefits from applying circular economy principles for companies arise from potential improved strategic positioning and a decrease in operational costs through the improved design of processes and maintaining control over materials to support closing the loop for input in the next production process (Lieder et al., 2017, 2018). For example, back casting and eco-design approaches are suggested for how companies can facilitate transformation towards circular economy business models (Heyes et al., 2018). Practitioners have demonstrated how sustained circular economy business practices deliver resource productivity, new revenue and business continuity advantages. Moreover, the transition towards circular economy demands cross-functional leadership responsibilities and requires managers to develop capabilities and competencies to handle complex and highly dynamic factors (Köhler et al., 2022). Hence, implementation of circular economy at the micro-level requires changes in most existing manufacturing processes and management of business models, which forces disruptive rethinking along extant value chains (Eisenreich et al., 2022; Esposito et al., 2018). This can be captured by managers that embrace eco-centric dynamic capabilities encompassing the ability to *sense* changes in the natural and business environment, *seize* new eco-centric business opportunities that do not damage the physical environment and *reconfigure* the ecosystem to allow for products to be designed for separation in technical and biological materials. *Remap* is the ability of managers to envision products and materials as input in new products and *Reap* is the ability to create financially profitable circular material flows.

It should be noted that implementation of the circular economy principles and eco-centric dynamic capabilities in an existing value chain, or being an entrepreneur with the desire to embrace a business model embedded in a value chain for circularity, is not a panacea. Due to the intentional design for consecutive use-cycles and the complex interconnectedness with diverse stakeholders, companies are often unsure of how to implement and consider the effect of circular solutions on their organization (Eisenreich et al., 2022). For example, research shows that circular business models carry significant challenges for proactive uncertainty reduction for the entrepreneur (Linder & Williander, 2017). Further, organizational environmental culture, lack of government support, prohibitive

and counterproductive legislation followed by administrative burdens, lack of information and divergent support from supply and demand network have been identified as key barriers (Rizos et al., 2015). Moreover, financial, structural, operational, attitudinal and technological barriers hinder integration of circular economy principles (Ritzén & Sandström, 2017). Implementing circular economy at the micro-level does, therefore, hold both potential and challenging obstacles that affect how businesses are able to incorporate the principles effectively in a holistic marketing approach.

It is argued that circular supply chains are concerned with 'the configuration and coordination of the supply chain to close, narrow, slow, intensify and dematerialize resource loops' (Geissdoerfer et al., 2018). Yet, from the company's competitive perspective, the supply chain approach by Geissdoerfer et al. (2018) takes a narrower view than Porter's (1985) traditional and well-known holistic value chain understanding that takes a processual competitive perspective (Eisenreich et al., 2022).

Thus, Porter's linear value chain model provides a holistic process perspective on corporate activities and structures them into functional units. The model was developed to identify competitive advantage derived from the company's primary and secondary (support) processes. However, a literature review structuring circular economy along Porter's value chain found that the traditional linear process approach (e.g. primary and secondary activities) is not sufficient to reflect circular business practices. A circular value chain (Fig. 3) is, therefore, proposed by adapting the traditional management perspective of a company's operating model to circularity (Eisenreich et al., 2022).

The literature review found that one extra activity should be added to the five primary activities from the original model – that is reverse logistics and recovery. The following section will not go into detail on all the aspects found by Eisenreich et al. (2022) but will select and outline important aspects related to the core of the model *Innovation & Technology, Procurement, Firm infrastructure* and *HR management*. This is relevant for the reader to gain insights that relate to the case of Schijvens.

Innovation and technology focus on the development of reverse logistics that according to Eisenreich et al. (2022) can be established in three ways – first, internal development of reverse logistics; second, through partnerships with external stakeholders and third, material collection purchased on the market, for example, through waste managers. The feasibility of these recovery possibilities largely depends on close cross-functional collaboration throughout the life cycle of the product, especially after-use processes. It is paramount to enable traceability of materials throughout the life cycle of products for use of Industry 4.0 technologies like block-chain.

Procurement is concerned with operations where it is found that in order to achieve sustainable circular economy effects, material efficiency in manufacturing should not be considered in isolation, but instead extended across the whole product life cycle. Further, control and monitoring of manufacturing should not only be restricted to a financial/monetary view but should include and balance process metrics related to mitigation of environmental harm and social shortfalls.

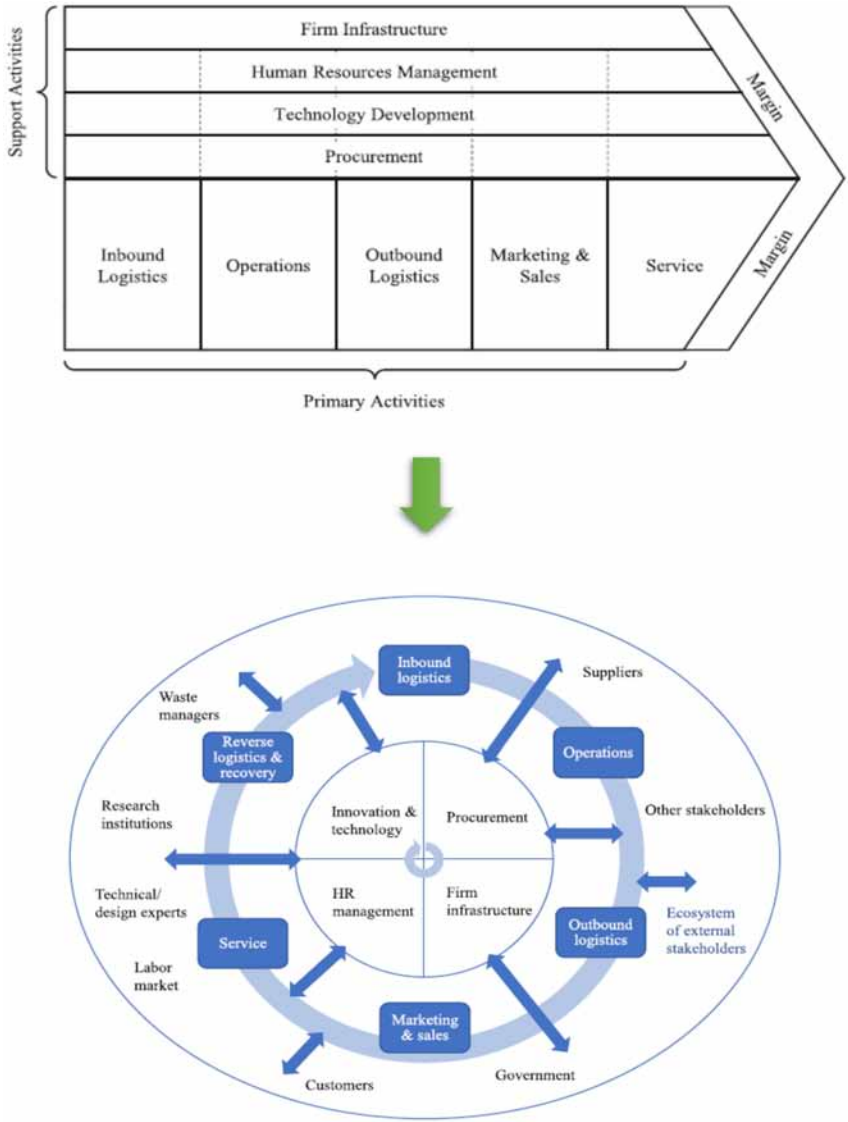


Fig. 3. From Linear Value Chain to a Circular Value Chain Framework (Eisenreich et al., 2022).

Firm infrastructure can be related to both outbound logistics and marketing/sales. It is argued that outbound logistics should take an ecosystem perspective, for example, through cooperative stakeholder networks to combine different modes of transportation. Moreover, it is argued that companies should promote environmental and social circular economy values as unique selling propositions

and it is recommended to actively involve customers in circular economy practices. The latter is deemed essential for the system solutions to operate effectively. The purchasing decision can be guided by the higher environmental value associated with the price. Commitment from top management as part of firm infrastructure is found to be essential in the process to adopt and implement circular economy principles. However, the latter do, of course, overlap with HR managers' approach to recruitment and perspective on the approach to customer engagement.

Implications of implementing circular economy principles on HR management are quite large, but often overlooked, as there is a tendency to perceive the technological quick fix as being enough when talking about implementing processes to enhance material circularity. Yet, it is argued that HR management related to implementing circular economy principles is highly important since circular economy solutions often are more labour intensive and, thus, also immediately more costly if not handled properly. New skills might be required; innovation of work processes, capabilities and corporate culture should support keeping products and materials at their highest value.

To illuminate how to accommodate implementation of circular economy principles in the value chain, the following section showcases how the Dutch company Schijvens transformed the company value chain from a linear economy approach to a circular economy approach.

SCHIJVENS' RESPONSE TO ETHICAL CHALLENGES IN MARKETING CORPORATE FASHION

Schijvens corporate fashion is a Dutch family-owned business dating back to 1863 that is designing, manufacturing and marketing corporate fashion for the hospitality industry, retailers, logistic companies, restaurants and construction firms. The company acknowledge that the textile industry is one of the most polluting industries in the world and Schijvens, therefore, strives for reinventing corporate fashion by implementing circular economy principles (Schijvens, 2022a).

A team of 40 people works together in The Netherlands delivering high-quality design, production and marketing of uniforms with a strong focus on being socially and environmentally sustainable. Customers include Qatar Airways, McDonalds, Leen Bakker and Ricoh (Schijvens, 2022b). The company has a long tradition of working towards making corporate fashion collections more sustainable, and in 2017, Schijvens reinvented manufacturing processes in order to market circular corporate fashion. During the last five years, Schijvens collected almost 900,000 items for recycling, saving 96% of water consumption, 20% CO_2 and 35% energy on average per item (Schijvens 2022a). On top of starting to collect clients' used corporate clothing and use it for production of new uniforms, the company additionally redesigned the value chain to enhance circularity, using recycled yarn made out of 50% post-consumer textiles and 50% recycled polyester (e.g. PET bottles). Moreover, the company is the category leader in the Fair wear foundation on complying with social sustainable labour condition. For

example, Schijvens now pay a living wage to suppliers' working staff and not just a minimum wage.

Rather than only focussing on reductions in their internal operations, Schijvens developed what they call the R-ladder to enhance return of high-grade products to the value chain. It is suggested on their homepage to use the R-ladder as a guideline to customers for keeping the value of products as high as possible. The ladder enables customers to choose between seven different options connected to specific R-strategies via a digital platform, encompassing re-use, re-cover (both cleaning services), re-pair, re-fuse (if ordered by mistake), re-claim (complaint handling), re-cycle-box and re-cycle-rolcontainer (both for worn out products). The cleaning services allow companies to get clothes cleaned and either reused by employees or returned to Schijvens' stock if the employee leaves. If an item is damaged, Schijvens Corporate Fashion offers repair service, which is cheaper than buying new. Customers can re-fuse incorrect orders and return with no cost. Re-fuse could be considered not buying at all, but in a world where it is expected that service providers dress in corporate uniforms, it is not an option considered here. Re-claims can be made and the company have a transparent process for complaint handling. Five of the outlined R-strategies help customers prolong the life of garments during usage as a service, which is of importance to reduce the overall impact from textiles. However, that does not necessarily lead to regenerative and closed-loop production of new garments. Yet, the two last R-strategies: re-cycle-box and re-cycle-rolcontainer, address this issue by focussing on recycling (Schijvens, 2022c).

For recycling used garments, collections take place in collaboration with close partners PostNL and Dobbi, ensuring organized return logistics. Customers collect used clothes in boxes and/or containers that can be ordered on Schijvens' digital portal for servitizing return logistics. Collection of used garments is not limited to the company's own products but includes collection of other brands of old textiles as well. Instead, all 'old, discarded clothing' is perceived as raw material for new clothing. The recovered garments are brought to Schijvens' own distribution centre in Hilvarenbeek where clothing is sorted, treated for shipment, bundled and registered. Used garments are collected and shredded. Post-consumer polyester items like fishing nets, polyester clothing, sportswear and PET bottles are turned into granulate, which is heated and pulled into strands that become polyester fibres for production of new garments (Schijvens, 2022c).

Since recycling and production of new garments from recycled content take place in different countries, the company needed to trace every item in the full cycle. In order to increase transparency and avoid greenwashing, the company chose to collaborate with Aware™. This is a method that traces and authenticates the recycled materials used in every product, to create as much transparency as possible. Using Aware™ allows Schijvens to use a secure open source blockchain system to ensure that recycled materials that enter the supply chain are also the materials actually being used in the products. Practically, Aware™ fibres added to/mixed into the recycled polyester fibres and recycled traceable yarn spun from the wick can then be used to produce new recycled fabric woven from the recycled material. Through the patented tracing technology, the final product can then be

scanned to verify that the materials used were the ones registered as production input. Every item is, therefore, scanned, and the confirmation is linked to a digital token stored on a block chain. This includes a Certificate of Authenticity, which is then transferred to the customer company's digital wallet, transparently documenting environmental savings (Schijvens, 2022d), enhancing trustworthiness in communication and brand-building.

In order to capture the value of recycling materials, develop international return logistics and avoid expensive customs at the border, Schijvens together with Gama, a Turkish textile company, designed and built a machine for processing post-consumer garments. To comply with Turkish import regulations, the used clothing needs to be 'destroyed' for further use. The new machine, therefore, shreds the used garments before they are registered and bundled for shipment. Additionally, a special permit is needed in order to import clothes to Turkey, a permit that Gama holds. Partnering up with other than traditional stakeholders was, therefore, important for Schijvens to ensure a closed-loop production. Likewise, having production facilities in Turkey and in other international locations challenged the traditional supply approach. Schijvens believe that good working conditions are essential for sustainable production. At the same time, a different approach compared to traditional textile production was needed when implementing circular economy principles and controlling the processes. In addition to partnering with Gama to comply with the trade requirements, Schijvens, therefore, additionally redesigned their transactional supply chain to a value chain of exchange.

In order to facilitate the implementation of circular economy principles in the value chain, Schijvens performed three important strategic action, which were necessary to honestly and transparently market circular corporate fashion. As an overall condition, Schijvens believes that it is essential that people work under good condition.

> As the fifth generation, our sights are inherently on the future to ensure that we can be proud when we hand the world over to the next generation. As a family business, we also see all our partners as family. (CEO, 2018)

Therefore, to enhance workers' conditions and transparency, the company became a member of Fair Wear Foundation, and all factories are under their supervision with a score of 97 out of 100. The journey towards becoming the category leader within sustainable corporate fashion and winning the best practice award entailed a reconfiguration of their international value chain. During the process, they learned some valuable lessons that will be outlined in the following paragraphs (Schijvens, 2022e).

First of all, Schijvens bought a factory in Turkey, both because production in Holland was too expensive and in order to reinforce entrepreneurship in the company's approach to marketing environmentally friendly products. It was not a question of finding the cheapest production site abroad, more a question of being competitive through entrepreneurship, finding a like-minded partner in another country and also making sure that all employees would receive a living wage. Schijvens found that partner in a Dutch-owned company UFS with the

production facility in Turkey that was acquired and together they worked hard to improve labour conditions.

> We have improved a lot on health and safety over the last 5 years. Fire escapes, fire drills, technical specifications for the building, the way we pay the salaries. It is all by the banking system (e.g. not cash in hand). And the biggest step that we have done is the introduction of living wage. (CEO, 2018)

This shows the commitment of Schijvens' engagement in embracing a sustainable value chain.

The second step and maybe most important step was then to find the right level for a living wage. A living wage is the income necessary for the worker to meet their basic needs and save a little. This mean that a worker should be able to afford food, rent, healthcare, education, clothing, transportation and savings. 'When we decided to go for a living wage, we first asked Fair Wear to help us. On the other hand, we also asked the workers: What do you need for a salary? What do you need for medicine? What do you need for education? What do you need for food? What is your transport cost? What is your housing cost? So, they took home the list and they brought it back to the factory. Simple as that!' (CEO, 2018). After involving factory workers and management, Schijvens calculated that the workers needed a salary increase of 500 Turkish Lira per worker, which would increase the cost of garments on average by €0.25. Nevertheless, Schijvens started paying the living wage almost immediately and postponed the discussion on who should bear the cost, the company or the customer. Eventually, Shirley Schijvens, the CEO, stated that

> if you create awareness, also the customers are going to feel responsible, and they can also add something to the cost price in the end. But we decided not to ask them immediately, because it is our responsibility. We like to take our own action. After we asked them to be involved.

On top of paying a living wage to internal employees, Schijvens also decided to pay a living wage in the full value chain.

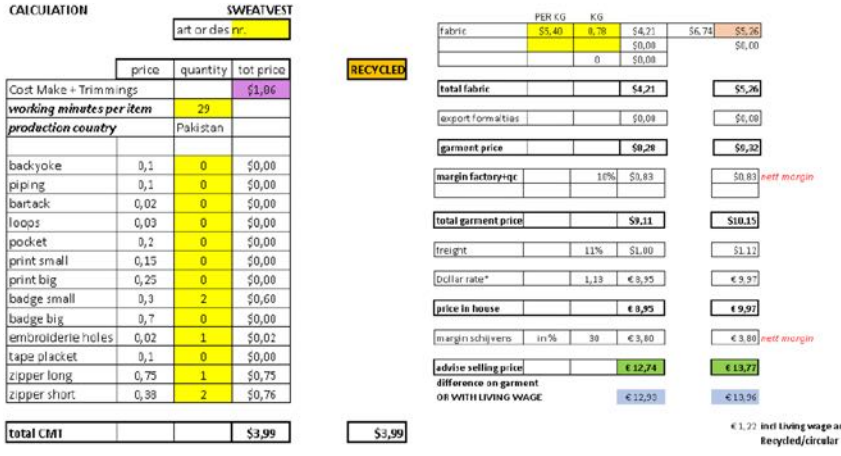
> It is easy to make this project work, because it is our own factories. However, we decided not to stop there. But, to move forward with the factories we don't own, because we still have 75% of our production in other factories around the world. So I think within a year we will also have the living wage in our factory in Pakistan. (CEO, 2018)

Hence, creating local sustainable jobs with higher standards than the overall industry standard can become a competitive advantage for the company when advertising vacancies, highlighting how the company proactively reconfigured the value chain in order to address ethical challenges in marketing related to international production chains.

The third strategic action that the company undertook was educating employees on the circular economy principles and sharing information on margins in the value chain for all stakeholders to see where value is created and how the outcome is distributed. Early in the process, it became clear that sharing expertise within the value chain was necessary to increase the quality of the recycled material in the production of new garments. Since the concept of circular economy is fairly new to many people, it took a proactive effort from Schijvens to make employees

understand what the circular economy principles were about. For example, why careful and correct treatment of 'old' textiles is important to enhance the quality of the recycled product. A quality aspect is essential if Schijvens is still to be competitive in the future with the new circular value proposition. Moreover, Schijvens provides a spreadsheet with clear cost price calculations, which make transparent to the producers and customers the extra cost of paying the living wage and producing according to the circular economy principles. An example is a sweat vest cost calculation showing that the price of including living wage and circular principles adds 8.5–9.5% to the final price (Fig. 4), thus illuminating the difference in cost of producing socially responsible and environmentally friendly corporate fashion compared to the traditional take-make-use-dispose textile production.

Education and opening the books towards the value chain, thus, became essential for stakeholders to first understand the value of utilizing circular economy principles and, second, to create transparency that illuminates 'who is baking and eating the cake' in the value chain. In other words, it shows how responsibilities and profits are distributed by creating a space with full transparency. When supplier and customer bargain on transparent data to enhance customer choice for sustainability, this has been a driving factor in the development for Schijvens in implementing manufacturing procedures that enable the marketing of circular corporate fashion. According to Shirley Schijvens, the three actions have led to employees pro-actively contributing to optimizing the value chain. Thus, they make a bigger cake that everyone can eat (e.g. more value is created). Or phrased differently, this describes how the three actions and redesigning the transactional supply chain to a circular value chain process has made Schijvens experience organic growth. They sell more in general, yet, with less negative social impact and less environmental harm per item compared to before the changes were implemented (CEO, 2018).



CALCULATION — SWEATVEST — art or des nr.

	price	quantity	tot price
Cost Make + Trimmings			$1,06
working minutes per item		29	
production country		Pakistan	
backyoke	0,1	0	$0,00
piping	0,1	0	$0,00
bartack	0,02	0	$0,00
loops	0,03	0	$0,00
pocket	0,2	0	$0,00
print small	0,15	0	$0,00
print big	0,25	0	$0,00
badge small	0,3	2	$0,60
badge big	0,7	0	$0,00
embroiderie holes	0,02	1	$0,02
tape placket	0,1	0	$0,00
zipper long	0,75	1	$0,75
zipper short	0,38	2	$0,76
total CMT			$3,99

RECYCLED $3,99

	PER KG	KG			
fabric	$5,40	0,78	$4,21	$6,74	$5,26
			$0,00		$0,00
		0	$0,00		
total fabric			$4,21		$5,26
export formalities			$0,08		$0,08
garment price			$0,28		$0,32
margin factory+qc		10%	$0,83		$0,83 nett margin
total garment price			$9,11		$10,15
freight		11%	$1,00		$1,12
Dollar rate*		1,13	€ 8,95		€ 9,97
price in house			€ 8,95		€ 9,97
margin schijvens	in %	30	€ 3,80		€ 3,80 nett margin
advise selling price			€ 12,74		€ 13,77
difference on garment OR WITH LIVING WAGE			€ 12,93		€ 13,96

€ 1,22 incl Living wage and Recycled/circular

Fig. 4. Presentation by Schijvens, 2018 (Gate 21, 2019).

DISCUSSION OF MANAGERIAL IMPLICATIONS AND CONCLUDING REMARKS

The managerial implications of implementing circular economy principles in corporate fashion are manifold. The following will outline some of the most important issues related to managing the implementation of circular economy principles, as a response to ethical challenges in marketing textiles.

Compared to conventional supply chains where the focal company is not challenged by the responsibility for the product after use and does not use recycled input, did the transformation to holistic marketing based on circular economy principles create several managerial challenges for the company that needed to be handled proactively rather than reactively? For Schijvens, it was important that suppliers understood the value of recycling garments, which was challenged by a cultural norm of supplying 'new', which was considered highest value. The return logistics and the technological innovation related to the shredder machine were the physical instrumental means to achieve a closed-loop production process and marketing of 100% recycled textiles. Yet, innovative HR management approaches and a new firm infrastructure to support the new product design, related to the human factors, was just as important and the company, therefore, re-thought how to incentivize all involved stakeholders. The company managed to engage internal stakeholders and external stakeholders in an ecosystem that supports both inbound and outbound logistics and is now able to communicate environmental benefits related to water savings and CO_2 reductions as trustworthy unique selling points. Extra costs are made transparent through open-source spreadsheets showing the profit margins created and how they are distributed among the actors responsible for creating them. This means that no actor will be cheated, which creates trust and motivation among the involved stakeholders.

To handle traceability and avoid accusations of greenwashing, the company utilize Industry 4.0 technologies by use of a block-chain that provide the customer with item specific details. Hence, the R-strategies in combination with the digital token providing a Certificate of Authenticity support the feasibility of the recovery and production processes. Further, the use of block-chain also helps effective cross-functional collaboration throughout the life cycle of the clothing items by providing a non-biased system that captures any circumstances of fraud or cheating by any actor. Thus, trust is enhanced in the full ecosystem and in all collaborators without any extra effort other than mixing the Aware™ fibres into the yarn. Hence, it is fair to argue that Schijvens designed a circular corporate fashion value proposition that delivers value with less harm than the predominant textile sectors' value propositions. In other words, this is a circular economy value proposition that addresses the ethical marketing challenges that Kotler pointed to in 2020 as the biggest challenges faced by marketing at the present.

For managers does this encompass a need to undertake cross-functional leadership to redesign the value chain and develop eco-centric dynamic capabilities in order to handle the dynamics related to implementing circular economy principles?

For Schijvens did this mean the management's ability to *sense* changes related to the need for an even stronger focus on the ethical challenges related to lack of sustainability in the textile sector? *Seizing* the circular economy business opportunities meant that the company could adopt through innovating products, processes, structures and systems. *Reconfiguring* the value chain for materials led the company to embrace close-loop holistic marketing structures during production processes, consumer use and return at the end of life. *Remapping* the processes enabled knowledge transfer and material flow for consecutive production cycles and *Reaping* the benefits required paying a living wage, opening the books and sharing information on the allocation of financial gains. Hence, managing a circular value chain demands that managers not only focus on reducing, reusing, repairing, recycling and changing the regulatory framework but also be able to rethink, reinvent, redesign and redirect how both natural and human resources can contribute to market value propositions that contribute to regenerating and restoring natural ecosystems.

It is clear from the case that the value of redesigning the value chain by reconfiguring processes for material flow and financial incentives for stakeholders provides environmental savings, motivation among employees and new brand-building potential. However, the importance of managers focussing on the full product life cycle by educating customers and employees, organizing reverse logistics and recovery that fit customer operations, traceability, inventing new machines with partners and having the 'right' managerial mindset is also clear from the case of Schijvens. For example, Schijvens developed guidelines (e.g. The R-ladder) for customers to help keep the value of products and materials as high as possible at all times. Further, the partnerships with external actors on reverse logistics and inbound logistics secure easy recovery materials and provide a common platform between customer and producer where used clothes are perceived as a raw material input to new generations of uniforms (e.g. a resource rather than waste). Moreover, the new inbound logistics now also cover the broader ecosystem of producers who are incentivized through a living wage that is considered fair by all parties, which on top of knowledge sharing helps develop the 'right' local managerial mindset.

It is necessary to redesign the value chain and incorporate reverse logistics for material recovery to effectively implement circular economy principles and not only focus on waste management. Management should, therefore, educate all relevant stakeholders to understand the value of and effort needed to accomplish the circular economy principles as a physical constraint to enhance future production and consumption possibilities. In other words, relevant stakeholders like employees and collaboration partners should be made aware of the effects on both planet, people and profit. Yet, what the circular principles encompass, and not just reduction of input, in order to avoid sub-optimization from a traditional waste management approach. Moreover, the aspect of traceability has been addressed as a central challenge for the trustworthiness of circular products, which block-chain clearly in this case delivers as a nice, efficient and easy-to-manage solution. Tapping into the future with Industry 4.0, managers should,

therefore, find partners that can provide trustworthy, non-biased and transparent handling of material traceability to support keeping the value of the product/material as high as possible at all times, while also supporting the accounting processes for communication purposes and brand building.

In conclusion, it can be stated that a marketing approach designed by means of circular economy principles helps companies to keep selling with relatively fast throughput that keeps up with fashion trends, yet without accomplishing the same level of negative consumption-based emissions and related impact on the natural environment. At the same time, the approach seriously addresses and provides a solution to the producing employer's welfare, without losing competitive advantage. In other words, the case shows how companies that use circular economy principles accomplished through improved design of processes, HR management and maintaining control over materials do support closing the loop and enhancing strategic competitive positioning in the market.

For companies that wish to provide less harmful textiles, it is, therefore, not only a question of focussing on reducing material input or minimizing energy usage by means of an instrumental technological quick fix. Instead, implementing circular economy principles and pro-actively managing the value chain processes accordingly can provide even more radical changes than the incremental reductionist approach that is often associated with being a green company. It is important for the focal company to rethink management of how material streams move through the corporate value chain and that all stakeholders in the ecosystem are important to enrol in the processes. If a company has a solution that doesn't work for the recycler or any other part of the business ecosystem or value chain, the value proposition is not going to be sustainable in a circular economy system. Everyone has different stakes, yet all should move towards the same vision with every stake being important because it is the collective effort that makes the change work for everyone and not only the technological solutions. Yet, a collective effort needs to be managed, to avoid sub-optimization and to enhance effectiveness, so everyone in the ecosystem understands the ethical challenges related to marketing a circular economy value proposition.

NOTE

1. Marketing activities encompass all activities related to putting a product on a market. This includes not just advertising and communication to create awareness, but managing all the activities in a company´s value chain that contribute to delivering customer value (Hillebrand et al., 2015).

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CHAPTER 4

GLOBAL WASTE CRISIS AND THE ROLE OF INNOVATIONS BY GLOBAL CORPORATIONS

Shasha Zhao, Sarah Ku and John Dilyard

ABSTRACT

This chapter offers novel insights into how global corporations can innovate to tackle the global waste crisis and gain sustainable competitive positions. Using two of the most prominent types of global waste crises – food and plastic wastes – we discuss the dilemma of food and plastic waste, why innovations in global firms are needed to address them, and argue that a different perspective among those firms is needed, one which conceptualizes the development, dissemination and use of innovations in waste management, and one which recognizes that innovations, thus, created contribute to advancing the creation of economic, environmental and social value. We conclude using an overarching conceptual framework that depicts the complexity of the new perspective.

Keywords: Waste; innovation; sustainability; competitive advantage; multinational enterprises; UN SDGs

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INTRODUCTION

Even before the creation of the UN's Agenda 2030, but especially afterwards, the purpose of business has been evolving away from solely making money for shareholders to create value for stakeholders. The emphasis on sustainability and sustainable development exemplified in Agenda 2030 and its Sustainable Development Goals (SDGs) has resulted in defining stakeholder value as the maximization of the triple-bottom line of planet, people and profits (Elkington, 2013; Freeman, 1984). Doing so creates management challenges for companies who are serious about addressing this modern purpose. Among those is what to do about waste, which affects firms, environments and societies in every industry and country (Barnes, 1982; Corvellec & Hultman, 2012; Corvellec & Stål, 2017).

According to the Organisation for Economic Co-operation and Development (OECD), waste is defined as 'materials that are not prime products (i.e. products produced for the market) for which the generator has no further use in terms of his/her own purposes of production, transformation or consumption, and of which he/she wants to dispose' (United Nations, 1997). Waste occurs throughout each stage of the linear life cycle: extraction, production, distribution, consumption and disposal. Too often, the responsibility for waste management falls on governments and consumers, both of which have been slow to implement changes in policies or behaviour (Baumgartner, 2011). One assumption has been that public policy and legislation must mandate and incentivize certain activities to coax responsible behaviours from corporations and consumers. Another assumption has been that individual consumers can both demand responsible behaviours from waste producers and engage in responsible behaviour themselves.

Why, though, should the effective management of waste need persuading through carrots and sticks? Or, for that matter, why should it require the adoption of a virtuous moral compass to 'do the right thing'? Does it not make simple business sense to maximize the efficient use resources and processes before, during and after the creation of the goods and services they produce? Firms certainly can stimulate and influence a variety of stakeholders through the declaration and implementation of their own attitudes and activities with respect to waste management and even perhaps serve as models to others (Pelton et al., 1993; Corvellec & Hultman, 2012). One might think, too, that a firm would welcome a boost in public image from its voluntarily virtuous management of waste. It also can be argued that a reconceptualization of waste as not just something that must be discarded but perhaps something that can provide economic benefits to a firm (Hanson & Mitchell, 2017). Therefore, rather than waiting for policymakers and consumers to require or demand better and more sustainable waste management initiatives, firms can leverage opportunities to develop those initiatives to increase their competitive advantage through sustainable strategies (Sheth & Apte, 2016).

Getting firms to be leaders in waste management efficiencies may be desirable and forward thinking, but it is not without its obstacles. For example, much of business scholarship continues to prioritize increasing consumption with little attention to its consequences of waste. Yet, growing populations, decreasing resources, the threat of climate change and disruptive uncertainties (e.g. natural

disasters, health pandemics, political unrest) make urgent the need to change how we (as individuals, corporations, governments and society) manage our waste. Another example is that firm strategy commonly focusses on lean operations, but the focus is on inputs and processes, leaving outputs and disposal out of the conversation. While research has provided economic, environmental and social evidence for sustainable business operations, alternative approaches to waste management (e.g. vertically integrating reclamation processes or selling to secondary markets for processing and repurposing) are rarely discussed; landfilling waste remains the default practice around the world (Harrison et al., 2020).

By thinking differently, firms have a lucrative opportunity to influence how waste is valued, treated and managed. At the same time, corporations can stimulate organizational behavioural and societal changes for economic, environmental and social advancements through their own internal business strategies and operations. It is our view that global corporations are in an especially ripe position to do this. IB firms embody unique characteristics (e.g. cultural intelligence, migrant workforces, diversity of perspectives, agility) that enable them to design their business models in ways that incorporate a more holistic approach to stakeholders and scenarios. They are accustomed to tailoring business models, strategies, marketing and human resources to fit the needs of local markets. Emerging markets have high rates of informal waste sectors due to lack of existing infrastructures and standardizations, which often result in dangerous working conditions and exploitative pay structures that overwhelmingly afflict marginalized populations (Engel et al., 2016). Yet, these conditions also stimulate innovative reclamation opportunities (e.g. creating bricks out of plastic waste in Kenya and creating edible utensils from sugarcane waste in India) with the potential for emerging markets to leapfrog past developed markets in terms of waste management. Despite these capabilities, global corporations overwhelmingly squander opportunities to manage their waste externalities efficiently and profitably. Business paradigms must shift drastically to conceptualize waste as a resource rather than a burden.

So, how is this change in paradigm accomplished? How can something – waste – that is perceived to have little or no value be seen as something with high perceived value and, thus, worthy of attention? One way, perhaps, is through the lens of sustainability and corporate social responsibility, both of which are increasingly important to IB. Rather than send organizational externalities to landfills in high volumes and at high cost (Kass, 2015), is it not more sustainable and environmentally responsible to find productive uses for them? Rather than just tacitly assume that undesirable habits, services and attitudes cannot be changed or are too difficult to change, is it not more responsible to examine the evidence that challenges these socially constructed norms (Taylor & Todd, 1995)? The emergence of waste-induced ecological and potential health crises (e.g. microplastic waste infiltrating all sources of water) can also serve as an impetus for change. Indeed, the long-acknowledged existence of plastic waste in oceans has prompted many firms to rethink how they manufacture and/or use plastic in their operations (Morgan, 2019). Food waste, too, is something that has been receiving attention as a potential resource (e.g. feedstock for manufacturing, fertilizer from composting, etc.)

rather than as something that ends up in a landfill. In essence, what this paradigm shift entails is a fundamental transformation away from seeing production, consumption and disposal as a linear system to more of a circular one to reincorporate waste as a resource into business designs. The benefits of this shift include cost reductions, increased efficiencies and higher profits while simultaneously caring for our planet and people.

To support a paradigm shift in international business contexts, we focus on the two sources of waste – food and plastics – that account for the vast majority of all waste produced globally (44% and 12%, respectively). Organic waste, comprising food (44%), wood (5%) and paper and cardboard (17%), together make up 66% (Kaza et al., 2018). The purpose of this chapter is to describe existing waste dilemmas in global corporations around the world and explore opportunities for tackling these challenges in innovative, sustainable and competitively advantageous ways. As will be detailed in this chapter, however, reimagining how organizational waste is managed, focussing on food and plastic, reveals beneficial implications for the environment, society and business.

THE GLOBAL WASTE CRISIS

Waste management expenses are typically viewed as costs of doing business and regularly overlooked when evaluating and implementing lean operations strategies. As a result, seemingly unavoidable externalities receive little attention for optimization. In linear systems, products and materials that are used to create items for consumption are treated as discardable after their uses have been exhausted. Waste, therefore, is not just directly correlated to consumption (the more we consume, the more we waste); it also is related to the production of the things we consume. In circular systems that repurpose waste into other products and applications, though, the more we produce/consume, the more opportunities we have to repurpose, reincorporate and reutilize materials. Transforming waste through creative solutions has the potential to not only reduce the problematic practice of simply burying trash but also offers lucrative and sustainable business opportunities.

Landfilling, unfortunately, continues to be the default waste disposal practice around the world despite increasing tipping fees and legislation (Harrison et al., 2020). Considerable infrastructure is required for collecting and transporting to centralized sites, with additional logistics and equipment needed for processing. A majority of the costs surrounding waste management attribute to collecting and cleaning waste (Kaza et al., 2018). Separating waste materials before they enter waste management streams is a simple method that can substantially ease the costs of recycling. Utilizing recovered materials is generally cheaper and requires less processing than virgin materials (Ellen MacArthur Foundation, 2015).

However, if only one iteration of waste management is prioritized without considering the entire life cycle of the system, desired outcomes can backfire. Consider the case of recycling. While consumers have become used to regularly

separating materials for recycling into distinct bins and sorting their own materials, in an attempt to increase convenience for consumers, single-stream systems have emerged that shift sorting responsibilities further down the system onto materials recycling facilities instead of relying on consumers. As a result, recycling activities have become easier to standardize and streamline with existing municipal solid waste management; however, many unintended consequences also have arisen. These recycling facilities regularly receive non-recyclable materials as a result of 'wishcycling', which is when people attempt to recycle materials that are non-recyclable either because they do not know that they are non-recyclable or because they wish they could be. As a result, recycling facilities which receive wishcycled items are exposed to high levels of contamination through the blending of recyclable and nonrecyclable items as well as from residues from food and plastic. This phenomenon became particularly salient in 2017 when China launched 'Operation National Sword', which enacted much tighter restrictions on the waste the country was willing to accept. Because much of the world had been relying on China to process its waste, China's decision revealed both how dependent the rest of the world was on China for and the vulnerabilities in this stream of waste management. In response, countries have had to consider creating their own waste management systems.

The costs for building and maintaining these systems vary drastically around the world. A lack of existing infrastructures can make waste management difficult, but it can also enable creative solutions. Many regions around the world rely on informal sectors to collect, sort and process waste materials (Mitchell, 2008; Nzeadibe, 2009; Wilson et al., 2006). In these informal sectors, many individuals rely on waste for their livelihood. Waste workers in informal systems risk their health and safety, along with social disparagement, with little or no protections for low economic gains (Oteng-ababio et al., 2013). Yet, these informal markets are valued at over $880 million (Medina, 2007). Since recovery rates through informal sectors can be remarkably high (up to 80%), collaborating with these systems has the potential for even more efficient and competitive reclamation of waste (Engel et al., 2016; Iskandar & Tjell, 2009). Rather than trying to replace or eliminate existing informal systems, firms and governments who help expand and validate them can contribute to this growing and necessary circular industry. Interestingly, the lack of a formal waste management infrastructure actually can facilitate leapfrogging (when, a developed or emerging economy surpasses a developed economy) because it is able to they are able to create new waste management infrastructure from scratch instead of reconfiguring what already is there.

Next, we explore in depth two of the largest categories of global municipal solid waste, namely food and plastic (Hoornweg & Bhada-Tata, 2012). Our focus is on global corporations, as global corporations are often the largest food and plastic producers and are uniquely positioned to tackle wastes due to their access to diverse resources (physical, human and cultural), geographic scope and capabilities. Global corporations can facilitate the more holistic waste management innovations we envision because they are more globally connected.

The Food Waste Crisis

Approximately one-third of all food produced globally for human consumption, or around 1.3 billion tons, is wasted every year, costing the world US$940 billion annually (Food & Agriculture Organization of the United Nations, 2017; Gustavsson et al., 2011, 2013; US EPA, 2018). Municipalities in developing countries spend 20–50% of their budgets on solid waste management (Lohri et al., 2014). The environmental consequences of food waste include greenhouse gas emissions, land exhaustion, resource depletion, excess water consumption, pesticide saturation, and animal abuse (Buzby & Hyman, 2012; Hanson & Mitchell, 2017; Kline, 2017; Rayfuse & Weisfelt, 2012; World Resources Institute, 2016). Yet, because food waste is seen as biodegradable and therefore not harmful, its environmental impact tends to be overlooked.

One particular adverse environmental impact is methane, which is emitted when food decomposes without oxygen, and is 25–84 times more dangerous than carbon dioxide (Environmental Defense Fund, 2016; Yvon-Durocher et al., 2014). Additionally, food waste's annual global blue water footprint comprises roughly the equivalent volume of water discharged from the Volga River, the longest river in Europe (FAO, 2013). And, from a moral or human rights perspective, while 1.3 billion tons of food is being wasted every year, over 800 million people are undernourished (Loboguerrero et al., 2018). This asymmetry demonstrates that sufficient food production exists, but it is not being distributed properly. Yet, even with generous estimates of the redistribution of food to undernourished people, millions of tons of food waste still would remain (Egan et al., 2007).

The conservatively estimated direct economic consequences of food waste are approximately $750 billion USD annually (FAO, 2013). Since China's waste bans began in 2017, markets for waste have been struggling due to the lack of land capacity for landfilling and processing infrastructure for alternative methods (Liu et al., 2018; Qu et al., 2019). From a strictly economic perspective, open dumps and landfills are the least cost-effective markets for waste since there is little profit potential (Champions 12.3, 2017; Kaza et al., 2018; Kim et al., 2011). Consideration of the upfront and maintenance costs plus returns on investment provides a more accurate estimation for the economic impacts of these waste destinations. In addition, land capacity, methane emissions, carbon footprints from collection and transportation and water usage contribute to the environmental impacts of waste management. When waste is redirected to non-landfill alternatives (e.g. processed into feedstock for manufacturing or converted into energy), opportunities to reduce supply chain vulnerabilities and provide sustainable jobs contribute positive social impacts. A holistic and comprehensive understanding of these markets must be considered when designing marketing and policy efforts surrounding waste disposal.

Waste, in general, is frequently managed inefficiently (Wilson et al., 2006; Zaman, 2015), accounting for a 'premature ending of the useful life of many materials that would have some additional value for sale and/or recycling' (Pietzsch et al., 2017, p. 324). We essentially are wasting our waste because we do not see its value. If, however, companies, instead of relying on nonrenewable resources for

manufacturing, packaging, energy, transport, etc., shifted their thinking towards more sustainable waste management processes and used materials, such as food waste, that already exist and are renewable, they not only would be managing waste more efficiently but also would be recognizing that waste actually is a resource. Granted, certain types of waste are unavoidable; however, their function is entirely within our control. For example, small-scale operations around the world are using coffee grounds to manufacture reusable cups, eyeglasses and even to cultivate mushrooms. Just imagine the benefits large coffee manufacturers such as Starbucks, Dunkin' or McCafe could realize in their waste and supply chain management activities if they adopted these local practices and applied them on a global scale! For decades, marketing scholars have highlighted that 'commodities which have no markets are assumed to be worthless' (Peattie, 1999). When something is discarded – is seen as dirt or trash – its purpose, function and value are depleted; it has become worthless and useless (Drackner, 2005). However, adages such as 'one man's trash is another man's treasure' and 'what counts as trash depends on who's counting' highlight the importance of framing our perception of waste differently, as a source of value creation (Polonsky & Rosenberger, 2000). Perceptions are malleable and dynamic (Kahneman & Tversky, 1981, 1984). Similarly, value can be driven through social consensus (Edvardsson et al., 2011, p. 334). An example is how aesthetics shape our view of food. Marketing research on food waste perceptions often focusses on aesthetics to salvage 'ugly', but entirely edible, food rather than throwing it out (Cooremans & Geuens, 2019; Grewal et al., 2019). Secondary markets are useful for this kind of food, and global corporations have a variety of opportunities to either outsource this food to secondary markets or vertically integrate it to prevent it from being waste (Ku, 2022).

A certain amount of food waste, though, is inevitable no matter how much we try to prevent or reduce it. This reality, however, does not have to be a problem. Waste is only waste if we waste it. On the contrary, if repurposed efficiently, waste can be very useful. Therein lies the paradox and ethical dilemma of whether we should reduce the waste we produce or welcome (or even increase) it. Waste as a detriment versus waste as a resource is entirely dependent upon what we do with it. If we let it sit in a landfill, leaching dangerous contaminants into our environment and polluting our societies, then, of course, it is a problem. However, if we utilize it to feed humans and animals; as a resource to produce clean, renewable energy; as a raw material to manufacture products circularly and as a nutrient-rich fertilizer (to name just a few applications), then we can quite literally turn trash into treasure. We will discuss more value-added innovations later on, but next, we will discuss the dilemmas of plastic waste.

The Plastic Waste Crisis

In a way, the food waste crisis also brings about another problem – plastic waste crisis. For example, purchase and consumption of food bring about plastic packaging waste problems. More broadly, not only is the use of plastics in just about anything we buy or use is ubiquitous but so is plastic waste. A recently released

report by the OECD (The Global Plastics Outlook) contains some sobering statistics. They include (1) plastic consumption has quadrupled over the past 30 years, driven by growth in emerging markets; (2) global plastics production doubled from 2000 to 2019, reaching 460 million tons; (3) plastic waste generation doubled over that time, to 353 million tons, 40% from packaging, 12% from consumer goods and 11% from clothing and textiles; (4) only 9% of plastic waste is recycled (15% is collected for recycling but 40% of that is disposed of as residues). Another 19% is incinerated, 50% ends up in landfill and 22% evades waste management systems and goes into uncontrolled dumpsites, which is burned in open pits or ends up in terrestrial or aquatic environments, especially in poorer countries; (5) In 2019, 6.1 million tonnes (Mt) of plastic waste leaked into aquatic environments and 1.7 Mt flowed into oceans. There is now an estimated 30 Mt of plastic waste in seas and oceans, and a further 109 Mt has accumulated in rivers (OECD, 2022).

Clearly, to say that there is a 'plastics crisis' would be a gross understatement. And, among the many other weaknesses in the global economy that was revealed by the COVID-19 pandemic, so was the reliance on plastic. Among the set of distinct pressures, the pandemic placed on global corporations to seek alternative means to operate or survive was a severe disruption in global supply chains for the manufacture of disposable personal protection equipment (PPE) and a desperate effort to find innovative alternatives for them. Much of PPE, including packaging, contains single-use plastic. As a result, any efforts that had been made to move away from single-use plastics pre-pandemic disappeared, exacerbating the plastic waste problem. Most IB research has focussed on the impact of the pandemic on global corporations' strategies, business models, performance and global value chains (e.g. Delios et al., 2021; Dörrenbächer et al., 2021; Hitt et al., 2021). Sparse research, however, has been conducted on how the pandemic has affected global corporations' efforts towards managing waste, or if or how their pandemic-influenced actions might have resulted in negative consequences. The response to the demand for PPE – switching to single-use/disposable product – is an example. Ironically, while PPE manufacturers derived a great deal of social value from providing their much-needed product, a blind eye was turned towards the harm disposable PPEs have had on the environment. Moreover, the surge in ineffectively managed PPE wastes – most likely to be found in wealthier economies – has led to them (along with other wastes) being exported to countries with weaker waste management systems, less formal institutions and limited regulations – contributing to already existing chasms along economic, environmental and social disparities. Indeed, the largest economies tend to generate the vast majority of global waste plastics (besides PPE), which then end up in the peripheries, creating severe and long-lasting environmental problems.

Two long-standing questions are worth highlighting: (1) Given the increasingly severe global plastics crisis (made worse by the pandemic), should corporations be held directly responsible for its resolution? And (2) is it appropriate (or acceptable) that the corporations who are the largest producers of virgin and recycled plastics essentially offload the responsibility to other parties for the recycling and/or treatment of waste plastics? The answer to (1), in our opinion, is an unequivocal 'yes', and the answer to (2) should be 'no'.

Somewhat ironically, while large corporations do not appear to be inclined to think about how they could produce their plastics better, there has been a growth in firms that develop innovative plastic alternatives that are 100% biodegradable (Cell Press, 2020; Matchar, 2019). Most large corporations, however, have not learned or embedded much of the available green or eco innovations into their value chains despite having the resources, capabilities and capital to do so. In addition, plastic-producing corporations are faced with at least three major challenges to internalizing the handling of the waste plastics crisis or considering drastic eco-technologically based changes in value chains. These include a lack of technological and operational agility, shareholder interest and financial incentives and overreliance on the peripheries to handle the waste.

In summary, we have highlighted the magnitude of the two major global waste crises – food and plastics – on societal stakeholders and the role of global corporations as a major economic actor contributing to the problem. In particular, we shed light on the environmentally unfriendly, profit-driven operations and their implications on a number of the SDGs.

INNOVATIONS TO TACKLE THE WASTE CRISIS

Rethinking Global Innovation Approaches

Recent empirical developments show that international organizations and policymakers are increasingly calling for global corporations to act more responsibly in terms of addressing both social and environmental challenges and to be more cognizant that what happens in the peripheries has consequences that could cycle back to the global corporations. In essence, acting responsibly with respect to society and the environment means that global corporations should become full partners in achieving the totality of the UN's Agenda 2030. In the case of the global waste crisis, global corporations must take more responsibility for reducing and managing the wastes. To do this, they need to move away from a relatively narrow view of economic performance (one which essentially ignores or passes off the environmental costs of plastic waste) towards a multilevel and multidimensional perspective (one which incorporates into their business models how plastic waste is mitigated and managed throughout their value chains). Such a multilevel and multidimensional perspective makes sense because the global waste crises exist at multiple levels and in multiple dimensions. This view points to the need for more holistic, novel innovation approaches among the global corporations when considering their role in tackling the waste crisis.

More specifically, we propose a conceptual framework (Fig. 1) depicting three innovation approaches for global corporations. First is top-down ambidextrous innovation. In this regard, global corporations can take an advanced-to-emerging economies approach for innovations that focusses on addressing the market demand for them through product or process innovation, for example, a radically advanced smart phone or reusable, safe and clean PPE. This may require global corporations to continue to configure their most advanced R&D activities and resources in pro-innovation environments of the developed countries or a few technologically advanced emerging

economies to achieve the best innovation possible. Innovations so developed should then be pushed down to other locations within the entirety of a firm's global network, especially social and green innovations. While doing this, though, global corporations should be willing to take advantage and/or incorporate knowledge and technologies that might exist in other locations within their networks, including those in the periphery, which they then could disseminate throughout the network.

Next is bottom-up ambidextrous innovation. Here, global corporations can shift towards an emerging-to-advanced economies approach for innovations that focusses on the most pressing issues or the most affected locations, for example, those in developing countries, but which could have applications elsewhere within the firm. This may require an increase in the level of autonomy of subsidiaries in developing countries to undertake innovation activities that better address local social and environmental issues. Global corporations then can explore the extent to which those local innovations and knowledge should be used across the rest of the firm's network and how useful they might be for product innovation in other locations. Leveraging local expertise, capabilities and cultures represents valuable and equitable competitive strategies.

Third is the need for a bidirectional flow of knowledge between developed and developing countries and across the firm's global R&D network to become ever more prominent. In this concept, it is possible to have innovation 'champions' in multiple locations that share what they learn and develop with other locations, all for the purpose of adding economic value to the firm and creating social and environmental benefits wherever they are needed. What this implies is a strategic mapping of what kinds of innovations are being developed and where, and mandating the sharing of information throughout the global corporations. Doing so ought to optimize new knowledge creation, which should be intended to promote product innovation that supports green and society-benefitting innovation, or green and society-benefitting innovation that supports product innovation. Both of these things can be done simultaneously but will require the careful configuration of R&D subsidiaries.

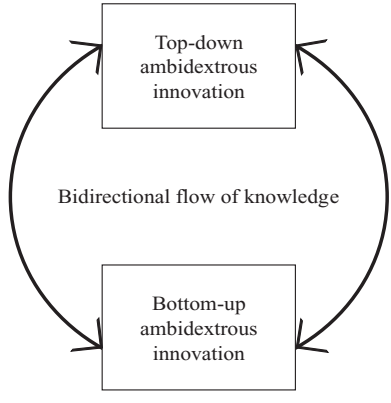

Fig. 1. Framework for Global Corporations to Incorporate Innovations to Tackle Waste.

Waste Capitalization Through Innovations

A commonly heard refrain against adopting more sustainable business practices is that it is both costly and requires sophisticated technologies when compared to the status quo. Sure, there can be costs and technological improvements associated with being sustainable. However, research continues to show that sustainable business practices consistently outperform those that are non-sustainable (Sheth & Apte, 2016). Clean energy, for example, is now cheaper than coal (Magtulis & Sen, 2022). And, despite common practice, landfilling is not the only option for waste disposal. The impression that waste is costly to a firm is a narrow view and a false assumption. To be sure, changing to sustainable development activities and systems does require often substantial short-term initial investments; however the benefits they bring are long lasting and, therefore, must be considered using a long-term rather than a short-term lens. Some of the recent research shows that the long-term effects of sustainable activities surrounding waste surpass their initial costs fairly quickly, making them economically as well as environmentally and socially beneficial (Hanson & Mitchell, 2017; ReFED, 2016). For example, research from the World Resource Institute showcased that the benefit–cost ratios for over 700 companies across 17 countries elicited a median potential return of $14 for every $1 spent, averaging a 1,300% return on investment (Hanson & Mitchell, 2017). So how can innovations in sustainable practices tackle the global waste crisis?

Capitalizing on waste is a business proposition that requires a shift in mindset and behaviours from many levels. Simply put, if waste is costing a firm money, an opportunity is being overlooked. In 2015, a collaborative study between McKinsey and the Ellen MacArthur Foundation demonstrated that implementing waste into a circular system 'could boost Europe's resource productivity by 3% by 2030, generating cost savings of €600 billion a year and €1.8 trillion more in other economic benefits' (McKinsey & Company, 2017). Food waste can be converted into feed for animals, fibre for clothing, feedstock for manufacturing, biofuel for energy, fertilizer for agriculture and biochar for carbon sequestration, to name just a few applications. Similarly, plastic waste can be transformed into building materials, railroad sleepers, carpeting, outdoor furniture and a variety of clothing items; however, more fixed and stable applications arguably are much more ideal than being recycled back into more single- or limited-use products that will likely end up discarded or in need of further recycling.

Ironically, businesses have considerable control over their innovative transformation of waste into a cost-effective asset, and it actually weakens them if they do not. These days, firms not only lose financially from the misuse of waste, but their reputations also can suffer (McKinsey Center for Business & Environment, 2016). But in order for firms to realize that waste is an asset rather than a cost, they must first recognize that waste has value. Global corporations, therefore, have a choice: they can either facilitate environmental restoration in both home and host country locations by seeing that waste has value or they can aggravate it by continuing to see waste as just waste. If, however, global corporations want to act and behave sustainably and responsibly, it is our view, our thesis, that this is not a choice, but a responsibility. Capitalizing on waste that is inevitable, abundant, renewable and sustainable is not only responsible and economically

advantageous but also essential to operate in a modern world. Managing waste in a responsible and sustainable manner offers opportunities for global corporations to gain substantial competitive advantages. Waste can be marketed as a valuable asset that capitalizes on its abundance, renewability and representative potential to signal sustainable business practices and purchase options (Cicatiello et al., 2016; Falasconi et al., 2019; Visschers et al., 2016).

CONCLUSION

The preceding discussions highlighted the severity of the global waste crisis that we face as societies and the role of global corporations in causing and tackling the problem. We paid particular attention to food and plastics crises as they represent important, relevant and universal resources that deserve prioritization (The World Bank, 2012). We offered novel insights into on how global corporations can innovate through their waste to gain sustainable competitive positions. As we have demonstrated using the global food and plastic waste crisis, global corporations must turn their attention to their own waste to be responsible and sustainable players in the global marketplace. We summarize these two main points of discussions into an overarching conceptual framework (Fig. 2). To tackle these dilemmas, a different perspective within global corporations is needed, one which conceptualizes the development, dissemination and use of innovations and one which recognizes that innovations, thus, created contribute to advancing economic, environmental and social value for sustainable competitive positioning.

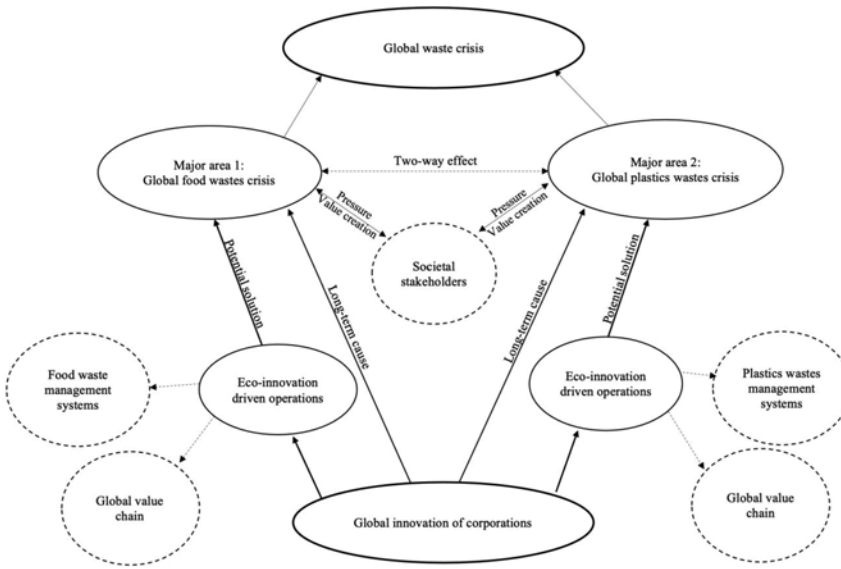

Fig. 2. Overarching Framework of Global Waste Crisis and Corporate Innovation Solution.

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CHAPTER 5

SUSTAINABILITY AS THE SOURCE OF COMPETITIVE ADVANTAGE. HOW SUSTAINABLE IS IT?

Veronika Tarnovskaya

ABSTRACT

As reaching UN Sustainable Development Goals 2030 has become the top agenda of the global companies, they have prioritized sustainability as a response to the grand challenges as well as a potential source of competitive advantage. This chapter poses the question: whether and how can firms achieve a sustainable competitive advantage via sustainability? I critically examine the sustainability-based view of sustainable competitive advantage by arguing that in the changing global landscape we will need to re-think the accepted ideas as regards sustainability goals, sustainable development and the sustainable competitive advantage as the individual firm's achievement. The chapter contributes to the ongoing debate by discussing the potential of de-growth ideas and principles to solve some of the contradictions and suggesting the questions for future research.

Keywords: Sustainability; sustainable competitive advantage; sustainable cooperative advantage; de-growth; embedded sustainability; stakeholders

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1. INTRODUCTION

In recent years, sustainability has gained increased attention from academics and practitioners alike. The growing relevance of sustainability is reflected by the actions of global and European organizations such as the United Nations with its 2030 Agenda and Sustainable Development Goals,[1] not to mention the growing grassroots movements such as 'Fridays for Future'. Sustainability is expected to prevail as a critical megatrend affecting companies (as well as consumers) in the decades to come (Lichtenthaler, 2021). Because of these developments, companies need to be prepared to tackle grand challenges such as climate change, poverty, migration and health (pandemics) as well as the recently intensified political instability in the world (Buckley et al., 2017).

Overall, the growing focus to address these challenges has brought sustainability to the top of companies' strategic agendas. For example, global multinationals (MNEs) such as Hennes & Mauritz (H&M) with its vision 'to lead the change towards a circular and renewable fashion industry, while being a fair and equal company' (H&M, 2018b) pledged to use 35% of recycled materials by 2025, responding to one of the greatest ecological challenges of waste created by the fashion industry. Similarly, Apple announced in 2020 the goal to become 100% carbon neutral by 2030, including its supply chain and product life cycle[2] while IKEA has pledged its commitment to become climate positive by 2030

> by reducing more greenhouse gas emissions than the IKEA value chain emits, while growing the IKEA business. This is how we contribute to limiting the global temperature increase to 1.5°C by the end of the century. (IKEA Sustainability Report, 2021)

All these examples of large MNEs show that sustainability has, in fact, become a key determinant of future business success. Beyond MNEs, there are multiple examples of small- and medium-sized enterprises (SMEs) and start-ups pursuing sustainability goals and adapting their business models to sustainability. In this chapter, I will use the broad definition of sustainability as defined by the United Nations – 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'.[3] In their 2030 Agenda, the United Nations have developed the Sustainable Development Goals and the concept of sustainable development in alignment with the triple bottom line of environmental, social and financial performance (Elkington, 2018). Many companies have started sustainability initiatives not only as a response to the grand challenges outlined above but because the logic for performance accounting comprises a broader spectrum which also considers the mitigation of negative externalities (Tarnovskaya et al., 2022). According to the analysis of the literature concerning the impact of corporate sustainability on financial performance, 78% of studies in top-tier journals found a positive relationship between corporate sustainability and a firm's financial performance (Alshehhi et al., 2018). As expressed in one of the studies, 'the impact of sustainability practices on firm performance is growing over time and is expected to grow further in the coming years' (Govindan et al., 2020, p. 13).

Following from the arguments above, sustainability initiatives may provide a critical source of competitive advantage for diverse types of firms, but especially

MNEs, due to the global supply chains, economies-of-scale, vast resource base, access to innovative technologies, the public scrutiny they are exposed to and a more educated workforce. MNEs such as IKEA, H&M, Apple, Lego to name a few have historically found the key source of their sustainable competitive advantage in their strong brands (all these companies have been listed as one of the hundred best brands for decades[4]). Most recently, they have also reached high rankings as the best sustainable brands, for example, IKEA being ranked by consumers as the number one sustainable brand in Sweden.[5] Whether this current development means that MNEs use both strong brands and sustainability to compete successfully or whether sustainability has been raised to the level of the business's strategic agenda, its role as the source of competitive advantage that can be maintained rather than simply achieved is still poorly understood.

The aim of this chapter is to examine the viability of sustainability as a source of sustainable competitive advantage for global firms facing multiple challenges in the volatile, dynamic environments they operate in. The research question is: whether and how can firms achieve a sustainable competitive advantage via sustainability? The text presented below is of a conceptual nature, but I will use multiple examples of MNE's sustainability endeavours from secondary sources and illustrate my points by observations from an in-depth case study of H&M sustainability implementation in Bangladesh.

I will argue that there are inherent contradictions in the very idea of sustainable competitive advantage via sustainability as it constitutes unresolved tensions such as the triple bottom line of competing goals and sustainable development through perpetual growth. Besides, when sustainability is raised to the level of industry standards, one single firm cannot maintain its sustainable competitive advantage alone. When collaboration with competing firms becomes critical for raising and maintaining new environmental, social and technological standards, the cooperative (Morioka et al., 2017) advantage might be a more beneficial aim.

I will critically examine the sustainability-based view of sustainable competitive advantage by arguing that in the changing global landscape we will need to re-think many of the accepted ideas as regards sustainability goals (components), sustainable development as the strategy to 'end poverty and other deprivations, improve health and education, reduce inequality, and spur economic growth'[6] and the sustainable competitive advantage as an individual firm's achievement. The chapter also contributes to the ongoing debate by discussing the potential of de-growth ideas and principles to solve some of the contradictions and suggest the questions for future research.

2. METHOD

The empirical data presented in this chapter provide examples of MNEs' sustainability endeavours from secondary sources as well as selected primary sources from an in-depth case study of H&M sustainability implementation in Bangladesh conducted by our research team in 2020. Five digital interviews were carried out with managers from sustainability, environmental and social teams operating in

Bangladesh. The questions to local managers concerned their attitudes to sustainability programmes, mismatches between operations and strategy and stories about how sustainability projects have unfolded. We have used corporate social responsibility (CSR) and sustainability documents as well as news articles and reports from the business press, as anchor points for the questions (e.g. H&M, 2018a, 2018b, 2019a, 2019b). Various documents explaining the MNE's sustainability approaches have offered detailed knowledge regarding the sustainability work, including knowledge on how sustainability activities are organized and implemented, relationships with different stakeholders, different ethical codes, etc. The interviews were transcribed and analysed together with the documents using conceptually clustered matrix coding techniques and pattern matching recommended by Miles and Huberman (1994). The NVIVO 12 software package was used to catalogue, collect and sort both the interview transcripts and the secondary data sources.

In the text below, I have used selected examples from these interviews to illustrate analytical points such as of sustainable solutions as the sources of cooperative (instead of competitive) advantage that MNEs increasingly pursue on a global scale. I have also complemented H&M examples from the in-depth case study with secondary sources featuring H&M Group as well as other companies: Bohinj ECo Hotel, Ikea, Lego, Patagonia, Alpa. These additional examples were chosen due to these companies' track-records in sustainability (Ikea, Lego and Patagonia) as well as their embedded sustainability approach (Bohinj ECo Hotel and Alpa) and their elements of de-growth (Fairfone, Alpa and Patagonia). The empirical examples are used primarily to illustrate various aspects related to sustainability as competitive advantage.

3. SUSTAINABILITY AS THE SOURCE OF COMPETITIVE ADVANTAGE. HOW SUSTAINABLE IS IT?

The origins and history of the sustainability concept can be traced as far back as the enlightenment era with its concern for the preservation of life. The postmodern idea of sustainability emerges from the conditions specific to the time and space of postmodernity, where life has become endangered to such an extent that 'nature has taken over the old religions' fundamental function of having an unquestionable authority that can impose limits' (Zizek, 2008, pp. 53–54). Conceptually understood in management literature as the triple bottom line, sustainability consists of environmental sustainability defined as 'a condition of balance, resilience, and interconnectedness that allows human society to satisfy its needs while neither exceeding the capacity of its supporting ecosystems to regenerate the services necessary to meet those needs nor by our actions diminishing biological diversity' (Morelli, 2011, p. 6); social sustainability – universal human rights, liveable communities and basic needs for many people (Lichtenthaler, 2021) and economic sustainability – activities and systems supporting long-term economic growth by enabling communities worldwide to keep their independence and access to resources without negative social and environmental consequences

(Elkington, 2018). As seen from these definitions, the economic sustainability goals go beyond financial indicators and measures since they include such indicators as quality of life, social cohesion and sound environment for people (Spangenberg, 2005). Besides, the environmental, social and economic components of sustainability are interdependent as they provide opportunities/challenges for each other.

It is not hard to see that the triple bottom line of three sets of interdependent goals presents a serious challenge for companies trying to implement all of them without sacrificing one or another. In practice, many companies treat sustainability as a 'business case' by focussing the sustainability programmes on their value chain, key stakeholders, critical markets (e.g. human rights, workplace safety, labour norms in the supply chain) while pursuing less ambitious goals for other stakeholders. Depending on the degree of convergence of business and social interests, companies can function as good corporate citizens, attuned to evolving societal concerns or mitigate the adverse effects of corporate activities. The most important feature of this approach is the reconciliation of societal impact and business effectiveness through the creation and implementation of social projects for a company's competitive positioning.

Historically, the term 'sustainable competitive advantage' described a firm's superior attributes and resources that its competitors were unable to imitate (Barney et al., 1989) and the assets that lasted for an extended period (Porter, 1985). Barney (1991) defines competitive advantage as

> the implementation of a value creating strategy which is not simultaneously being implemented by any current or potential competitors; whereas sustainable competitive advantage is viewed as an implementation of a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. (Barney, 1991, p. 102)

While Barney (1991) saw the sources of sustainable competitive advantage in resources that are rare, inimitable, un-substitutable and un-codifiable, Chaharbaghi and Lynch (1999) argued that the essence of sustainable competitive advantage is firms' capabilities (Teece et al., 1997) in producing core competencies – in other words, ways to produce and utilize resources in the dynamic and fast-changing environment. However, when the sources of core competencies are possible to imitate, for example, by sharing the knowledge on how to make the production process more sustainable across the industry, the sustainability of a competitive advantage might become questionable.

I will use the H&M case to provide examples of sustainable solutions to further argue that they might constitute the source of cooperative (instead of competitive) advantage that MNEs increasingly pursue on a global scale. I will start by arguing that in times of crisis MNEs might be forced to prioritize social/environmental goals over the economic ones.

3.1. H&M – Prioritizing Social Goals When Crisis Comes

A particularly good example of using sustainable solutions as cooperative advantage is H&M. H&M is pursuing its sustainable strategy of 'leading the change

towards circular and climate positive fashion while being a fair and equal company' across its value chain of 1,603 tier one suppliers, 708 tier two suppliers employing 1.56 million people and 153,000 employees in approx. 5,000 stores. The company has achieved remarkably high rankings in the Dow Jones Sustainability Index (ranked fourth in 2020), the Dow Jones European Index, the highest possible score for human rights, environmental reporting, social reporting and materiality, the highest score in the fashion industry for supply chain management (92/100) and strategy for emerging markets (56/100).

According to the financial newspaper Dagens Industri: 'H&M Group was ranked as the most sustainable consumer goods company in an assessment of listed companies in Sweden by Dagens Industri and Aktuell Hållbarhet'. These figures and facts show a strong competitive position achieved by the company if we limit the focus only to sustainability. It has been consistently ranked as one of the 50 best global brands by Interbrand and one of the Top 50 Global Retailers by NTF,[7] proving that its competitive standing has been sustainable for more than a decade (slightly decreasing in 2021). All that despite the numerous accusations of bad working conditions at its factories in Cambodia and Bangladesh, child labour in Uzbekistan, safety issues at factories in Cambodia and Bangladesh and low living wages in Bangladesh. Most of the reported incidents have led to concrete measures being taken by the sustainability teams at H&M. Nevertheless, the controversies remain (the latest one is the usage of forced labour at its factories in Xinjiang in China – accusations in 2021).

The most recent situation in the world when Russia started the brutal war in Ukraine de-stabilizing the European and worldwide political, economic and social order has led many global companies to leave the Russian market. As of 9 April 2022, more than 600 companies had withdrawn from Russia or freed themselves from Russian ties in protest at Russian actions.[8] H&M is one of these companies – on 2 March 2022, they announced that its 150 stores would be closed. H&M cited that it stands 'with all the people who are suffering' in Ukraine as well as for 'the safety of customers and colleagues' in Russia.[9] Russia was H&M's sixth-biggest market at the time, representing 4% of group sales in the fourth-quarter of 2021.[10]

In this respect, it seems relevant to discuss the role of external factors such as the changes of market dynamics in maintaining sustainability as the foundation of competitive advantage. As emphasized by Lichtenthaler (2021), the radical changes in the competitive environment, business and/or political environment, might deem the sustainability-based competitive advantage unsustainable. In the situation of global crisis or war in one of the markets, the global firm needs to prioritize some of its sustainability goals more than others, as seen in the H&M and other MNEs' statements and actions due to the situation of Russian aggression. More specifically, the economic goals were not seen as being of utmost importance as the retailer's expected loss was estimated to be around 190M USD.

According to the analyst Richard Chamberlain, the profit estimates for H&M for this year and next year will decrease by about 10% due to both its Russian store closures and the slowdown in central and eastern Europe.[11] As H&M was

one of the firms who followed the exodus from Russia rather than started it, the foundations of the firm's superior performance (along the economic and the social axis) might be weakened.

3.2. H&M – Sustainable Solutions Via Collaboration

H&M also provides a particularly good example of collaborative sustainability solutions together with other global brands to solve the grand challenge – to ensure good working conditions and improved wages in the markets with underdeveloped labour laws such as Bangladesh. Fair wages are one of the United Nations Sustainable Development Goals. H&M has created a roadmap to reach this objective: '*Every garment worker should earn enough to live on*' – *the initial implementation of the Fair Living Wage Roadmap*. However, ensuring living wages for workers in supplier factories has been challenging. Firstly, since H&M does not own or manage the factories, the company does not pay garment workers' salaries and cannot, therefore, decide how much they are paid. Secondly, workers have limited possibilities to negotiate wages collectively using union representatives. In addition to these challenges, H&M often faces the situation that factories normally are contracted by varied brands.

In their Fair Wage project, H&M managers elevated the wage issue to industry level to engage concerned stakeholders as well as governments to promote systemic change. One example of a crucial collaboration for H&M was the formation of ACT – Action, Collaboration, Transformation – formed in 2015 together with the global union organization IndustriALL and 22 other global brands. The mission of ACT is to transform the garment, textile and footwear industry and achieve living wages for workers through collective bargaining at industry level. ACT provides a framework through which all relevant actors, including brands and retailers, trade unions, manufacturers and governments, can exercise their responsibility and role in achieving living wages. ACT represents 'an innovative solution, in terms of being the first time 22 companies in the industry get together and agree on improvements regarding issues related to living wages' and this is the collective solution of the leading brands in the industry. In an interview, the CEO of H&M (H&M, 2013) pointed out that to create a sustainable fashion industry, one company cannot make lasting and systemic change alone.

The examples of H&M's sustainable solutions highlight another important aspect of achieving a sustainable competitive advantage via sustainability. Firms which have integrated sustainability in their business operations (sustainable business models) formulate their business success differently from the firms which have added sustainability issues to their current business-as-usual (Morioka et al., 2017). Their success is about solving a social and/or environmental problem that requires a joint effort with competitors to find an innovative sustainability solution. For these firms, a cooperative (or cooptative) advantage is critical for business survival (Morioka et al., 2017) and it implies a broader view of advantage derived from the competition and collaboration with competitors. The firms taking the sustainability business model path also define the performance

differently – not as a financial success for shareholders but as a broader sustainable value creation for multiple stakeholders, deeming obsolete the view of competitive advantage as a path to superior financial value.

What follows is that the foundation of sustainability needs renewal and reconfiguration while performance outcomes of sustainability need to be specified. As argued in the literature, besides purely financial measures of firm performance, the triple bottom line considers various performance indicators capturing the social and environmental dimensions (Alhaddi, 2015; Elkington, 2018) which might at different time periods create high social and environmental value but lead to negative financial effects (lower economic value). Overall, the sustainability view of competitive advantage calls for rethinking the whole idea of the competitive advantage through the superior value creation by a single firm focussing better than competitors on economic value and customers' satisfaction. Instead, firms aiming at integrating sustainability into their business models need to extend their value propositions to all stakeholders, employ proactive problem-solving, engage stakeholders and collaborate rather than compete with competitors.

3.3. Bohinj ECo Hotel – Embedded Sustainability

The literature uses the concept of embedded sustainability as the incorporation of environmental and social value into the company's core business with no trade-off in price or quality (i.e. with no social or green premium) (Laszlo & Zhexembayeva, 2017). Unlike CSR initiatives or efforts to add social and environmental issues at the margins of the core business, embedded sustainability offers new pathways to enduring profits via stakeholder value creation.

Embedded sustainability goes much further than just adding sustainability to some parts of a company's operations and/or having sustainability as separate from the core business strategy. The embedded sustainability is also more than just a balancing act in which economic interests are traded off against social and environmental targets. Embedded sustainability is the incorporation of environmental, health and social value into the company's core business with the goal to pursue sustainable value for multiple stakeholders including customers, suppliers, employees as well as NGOs and regulators with whom the sustainable solutions are co-developed for system-level changes. This is achieved via a transformation of core business processes across all levels of the value chain, offering 'smarter' solutions with no trade-offs in quality and no social or green premium (Laszlo & Zhexembayeva, 2017).

An exceptionally good example of such a business is the first complete eco-hotel in Eastern Europe – Bohinj ECo Hotel.[12] Bohinj ECo Hotel is the first and only Green Globe-certified hotel in Slovenia, recognized among the best of the sustainable hotels in the world. Instead of focussing on marginal environmental attributes such as usual eco-efficiency practices, the hotel has embedded environmental thinking and performance into all its operations. Combining geothermal and co-generation technologies, the hotel produces its own energy for all hotel operations, including its aquapark. Water is continuously recycled, and heat reused. Wall and window insulation in combination with the energy-efficient

LED lighting allows for the highest levels of comforts at reasonable costs. The hotel generates 17.22 kg of CO_2 per guest per night compared with 174.82 kg produced by 'standard' hotels in the region. The savings from energy expenses are channelled into other activities of the hotel such as food and catering, allowing the company to produce superior performance without a price premium.

In the next section, I will discuss a more radical alternative to sustainable development and firms' strategies – the idea and concept of de-growth. This concept challenges the basic assumption of sustainability as 'a business case' with the growth imperative.

4. CAN DE-GROWTH LEAD TO A COMPETITIVE ADVANTAGE?

In this part, I would like to question the very idea of sustainable development as the strategy to 'end poverty and other deprivations, improve health and education, reduce inequality, and spur economic growth'[13] from the perspective of de-growth.

The term 'de-growth' ('decroissance' in French) was used for the first time by French intellectual Ander Gorz in 1972. He posed a question that remains at the centre of the de-growth Google scholar debate: 'Is the earth's balance, for which no-growth – or even de-growth – of material production is a necessary condition, compatible with the survival of the capitalist system?' (Gorz, 1972 in Kallis et al., 2012). With the advent of neo-liberalism in the 1980s and 1990s, the interest in growth and de-growth declined while in the beginning of 2002 it came back when Bruno Clementin and Vincent Cheynet coined the term 'sustainable de-growth', understood as sustainable development. Since 2008, the English term has entered academic discourse reflecting the activities of the French-founded academic collective Research & De-growth and leading to more than 100 publications and several special issues (D'Alisa et al., 2015; Kallis et al., 2012).

The meaning of de-growth is not very transparent and hardly popular among economists as the prefix de-creates negative connotations of stagnation rather than development. De-growth signifies a critique of growth as the central goal of the capitalist system reflected in gross domestic product, increased consumption and commodification of all spheres of human life, including the social ones. De-growth challenges the whole capitalist system based on growth and profit maximization. De-growth signifies a different growth with 'smaller metabolism', the usage of fewer natural resources and different organization of society on such principles as sharing, simplicity, conviviality, care and commons (collectives and communities) (D'Alisa et al., 2015; Kallis et al., 2012). Put briefly, de-growth does not call for doing less of the same but doing things differently (it is not about making an elephant leaner but turning it into a snail) (D'Alisa et al., 2015; Kallis et al., 2012).

The proponents of de-growth strongly argue for the incompatibility of sustainable development and economic growth, and more generally, of sustainable

development and capitalism. As argued, 'history suggests that it is highly unlikely that nations with capitalist economies would voluntarily choose not to grow' (D'Alisa et al., 2015, p 10). As capitalism is represented by a specific range of institutions – the corporation, private property, waged labour, private credit and money at an interest rate – involved in the continuous struggle for profit accumulation, de-growth literature does not usually discuss what might happen to these institutions during de-growth transition. Instead, it includes diverse types of non-profit institutions and projects such as eco-communities, digital commons, communities of back-to-the landers, cooperatives, urban gardens, time banks, barter markets and healthcare associations.

De-growth at its core is a grassroots movement and among its practices are fast-growing consumer movements against consumerism and MNEs' ethical practices, especially in their production countries. A recent survey in France showed that 27% of respondents want to consume less – double the percentage from two years earlier (Roulet & Bothello, 2020). The number of people eating less meat or giving it up completely has been rising exponentially in recent years, too. Such movements as the *Flygskam* ('flight shaming' in Swedish) have grown in Sweden and it has even led to reduced pollution in 2019–2020. In the apparel industry, garment manufacturers like H&M are aware of the growing consumer criticism of the ecological impact of fast fashion. These examples show that consumers (in developed countries) are increasingly conscious of the negative consequences of consumerism and are changing their habits. As argued, 'we are witnessing the emergence of consumer-driven de-growth' (Roulet & Bothello, 2020).

These consumer stories clearly show that de-growth opens new opportunities for companies – even within the present capitalist system – if they embrace consumer trends and/or disruptive technologies. For example, in Sweden and Scandinavia, the growth and popularity of Flygskam has created a boost for train travel and companies like SJ. The reduced meat and dairy consumption have led to the rise of meat substitutes and non-dairy products like Oatly, boosting the respective company's competitive standing. What follows is that de-growth might reshuffle competitive dynamics within and across industries and even present new opportunities for competitive advantage (Roulet & Bothello, 2020).

4.1. De-growth Strategies for Competitive and Cooperative Advantage

In this section, I will outline strategies available for firms that pursue sustainability via de-growth. Three different strategies identified in the literature (Roulet & Bothello, 2020) can provide sources of competitive advantage for private firms. I have placed these strategies in a spectrum between the endpoints of competition and cooperation to argue that the more extensive is the shift towards the basic principles of de-growth: sharing, simplicity, conviviality, care, commons (broad stakeholder engagement) and the broad stakeholder value of the offerings – the stronger is the cooperative spirit of the business and its focus on the cooperative (rather than competitive) advantage.

Firstly, firms can pursue *de-growth-adapted product design*, involving the creation of products with longer lifespans via a modular or local production

(Roulet & Bothello, 2020). Fairphone – the sustainable smartphone produced by a company from the Netherlands with a strong community of supporters – avoids the built-in obsolescence practised by most mobile manufacturers such as Apple and Samsung and produces repairable phones having a dramatically extended longevity.[14] Similarly, the start-up – the 30-Year Sweatshirt under the Tom Cridland brand[15] – sells high-quality, durable products that refute the fast fashion principles. Alpa – the Swedish company[16] – has sustainability as the core value and business principle. They produce 'timeless garments that withstand time', long-lasting and practical, ecologically produced from carefully chosen yarns in Peru. All garments can be repaired free of charge and sold after use in the company's online store.

Secondly, firms engage in *value-chain repositioning*, where they might skip certain stages of the value chain and even delegate some tasks to stakeholders (Roulet & Bothello, 2020). The vehicle manufacturer Local Motors created a proof-of-concept recyclable vehicle crafted with 50 individual parts printed onsite, compared with 25,000 parts required for a traditional vehicle. The company crowdsourced designs and crowdfunded the project from their potential consumers. Larger firms such as IKEA and Lego have also modified their value chains, launching marketplaces for either creating innovative designs or trading used products as well as involving customers in product delivery and design. These firms have already incorporated stakeholder engagement into their operations and, therefore, they will be faster to adapt to de-growth when it becomes more mainstream.

Thirdly, firms can lead through *de-growth-oriented standard setting* (Roulet & Bothello, 2020). This involves the creation of a standard for the rest of the industry to follow. The apparel company Patagonia – that explicitly follows an 'anti-growth' strategy – is the best example of this approach, offering a second-hand store and providing free repairs not only for their own products but also for those of other manufacturers. Walmart and Nike have requested advice from Patagonia on such practices, and more recently, H&M initiated the service with a pilot in-store repair facility. Similarly, the automobile company Tesla released all its patents in 2014, in an attempt to catalyse the diffusion of electric vehicles. Such initiatives were not merely marketing tactics, but also strategies to standardize a practice or technological platform throughout an industry in which companies like Patagonia or Tesla would have the best expertise.

5. CONCLUDING THOUGHTS ON SUSTAINABILITY AS A SOURCE OF SUSTAINABLE ADVANTAGE

In this section, I will summarize the insights from the previous discussion and illustrative cases and answer the question: whether and how can a sustainable competitive advantage be achieved by firms via sustainability? I have tried to probe this question through critical examination of the sustainability view of competitive advantage by arguing that sustainable development as such has been

suggested as a global solution for the mounting global challenges that our societies are increasingly facing, and therefore, sustainability has developed from being the single firms' response to the external pressures to their conscious, proactive and joint role in the radical change of business-as-usual. When sustainability is elevated from being an add-on to the 'normal' business to the embedded mode, it requires the joint efforts of companies, industries and stakeholders. Given its joint character and firms' co-dependence on each other's success, sustainability cannot be the source of sustainable *competitive* advantage but sustainable *cooperative* advantage.

In Table 1, I have provided examples of different strategic aspects of sustainability leading to competitive and/or cooperative advantage. It shows that when sustainability is added to the business-as-usual (which is in other parts

Table 1. The Strategic Aspects of Sustainability Leading to Competitive and Cooperative Advantage.

	Business-As-Usual	Added Sustainability Via Growth	Added Sustainability Via De-growth	Embedded Sustainability
Goals	Pursue shareholder value via growth	Pursue stakeholder and shareholder value via growth	Pursue stakeholder value via doing things differently	Pursue sustainable value
Scope of business transformation	Marginal for symbolic wins	Partial internal (product) and external (value chain or industry standard)	Partial internal (product) and external (value chain or industry standard)	Core business processes
Value proposition	Customer – focussed	Key stakeholders – focussed	Broad stakeholder – focussed and aligned with sustainability goals	Broad stakeholder focussed and aligned with sustainability goals
Stakeholder relationships	Transactional	Competitive and collaborative	Collaborative	Collaborative and transformational
Competitors	Win–lose mode	From win–lose to win–win modes	From win–lose to win–win modes	Win–win mode
View of sustainability	Not important. Profit maximization	Profit as a requirement for social and environmental value creation (business case)	Profit as a requirement for improved efficiency and reputation as socially and environmentally responsible	Profit as a requirement for positive social and environmental impact
Viability of the sustainable advantage	Competitive – not sustainable	Competitive – cooperative but not sustainable	Competitive – cooperative but not sustainable	Cooperative sustainable

unsustainable), it might lead a firm to a combination of competitive/cooperative advantage which is unsustainable. Both firms pursuing the growth imperative and firms partly embracing de-growth are still coping with the conflicting economic and non-economic goals and they need to be profitable to implement these other goals. On the contrary, the firms that have embedded sustainability in their core business process become profitable because they have succeeded in the pursuit of sustainable value, which requires the whole transformation of the business ethics, relationships with stakeholders, competitors and other firms in the industry. In doing so, they can achieve a sustainable cooperative advantage.

In Fig. 1, I have placed different options for reaching the competitive/cooperative advantage via sustainability along the axis of growth – de-growth and competition – collaboration. I am arguing here that there are two ways of pursuing sustainability – to add it to the existing business model or fully embed it into the business operations by implementing a radically different business model with sustainability in focus. This can be achieved within the traditional growth-oriented and competition-based paradigm of capitalism (added sustainability as business case) as well as the alternative de-growth-oriented and collaboration-based paradigm of prosperity without growth imperative (embedded sustainability – societal case). However, only in the case of de-growth and collaborative approach (top right corner in Fig. 1) can sustainability become the source of sustainable (cooperative) advantage that can contribute to both businesses and societies as well as benefit the planet. There are also sideways options: to focus on the competition while pursuing de-growth and cooperating while growing. In both latter cases, sustainability will be achieved partially as it requires different trade-offs and, because of that, cannot lead to the sustainable advantage.

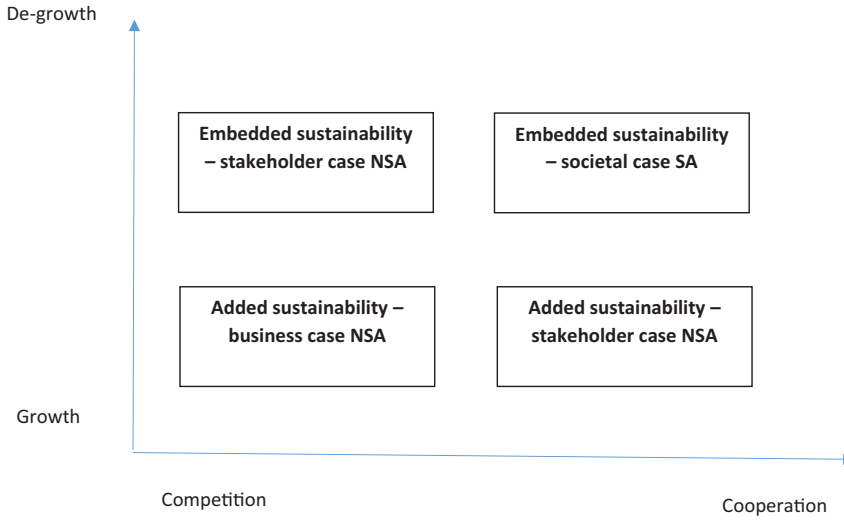

Fig. 1. When Does Sustainability Become a Sustainable Advantage? NSA – Non-sustainable advantage. SA – Sustainable advantage.

Achieving sustainable cooperative advantage via sustainability can be achieved only via decoupling of economic goals from social and environmental ones when the latter goals become central while profits follow as stakeholders 'reward' firms by prioritizing their goods and services. The literature talks about decoupling of economic and social/environmental goals in the context of different approaches to sustainability as well as in the context of de-growth (Tarnovskaya et al., 2022). It seems to me that a fruitful conclusion of this chapter is to come to similar ideas by dis-connecting sustainability from the established postulates of sustainable competitive advantage. I would like to end this chapter by saying that there will be plenty of examples of firms using sustainability as the way to over-compete with their rivals, position or reposition their brands and conquer market shares but we will also see examples of firms that will cooperate rather than compete and create innovative offerings of a sustainable value that won't simply meet the growing concerns of customers and other stakeholders but, first and foremost, will solve the burning environmental problems, decrease the level of inequality in the world, improve lives of millions of poor people and even reverse climate change.

NOTES

1. THE 17 GOALS | Sustainable Development (un.org).
2. Apple commits to be 100% carbon neutral for its supply chain and products by 2030 – Apple.
3. www.un.org
4. https://interbrand.com/best-global-brands/
5. https://www.sb-index.com/sweden
6. https://sdgs.un.org/goals
7. https://www.rankingthebrands.com
8. Sonnenfeld (2022).
9. 'Ukraine conflict: Growing numbers of firms pull back from Russia'. *BBC News*, March 6, 2022.
10. https://en.wikipedia.org
11. H&M sales soar but shares slip on wider Ukraine impact concern | BoF (businessoffashion.com).
12. https://www.bohinj-eco-hotel.si/
13. https://sdgs.un.org/goals
14. https://www.fairphone.com/en/story/
15. https://www.tomcridland.com
16. https://alpaknitwear.se/hallbarhet/

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PART TWO

SWEDISH FIRMS WRESTLING WITH ETHICAL ISSUES

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CHAPTER 6

MULTINATIONALS WITH A PROACTIVE CSR APPROACH

Sara Melén Hånell, Daniel Tolstoy and Veronika Tarnovskaya

ABSTRACT

The increasing pressure for social responsibility and sustainability that multinational enterprises (MNEs) are facing in their global operations represents one important emerging phenomenon within the international business field. In this book chapter, we present an in-depth case study on how a global fashion MNE develops and implements sustainability practices in their operations in an emerging market context. The case study focusses on the MNE's work related to energy efficiency and renewable energy in the production market of Bangladesh. The purpose of this chapter is to advance the understanding about particular practices pertinent to a proactive approach to corporate social responsibility (CSR). The chapter contributes to ongoing discussions within the international business field on the role of MNEs in driving and implementing sustainability practices. We add an in-depth understanding of the proactive CSR practices undertaken by an MNE, in an emerging market context.

Keywords: Proactive CSR practices; emerging markets; multinationals; case study; sustainability; stakeholder

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INTRODUCTION

MNEs have become subjects of polarized debates about their responsibilities for running fair and sustainable global operations (Jamali, 2010; Wettstein et al., 2019). Given their managerial capacities and global outreach, some argue that MNEs should play leading roles in driving and implementing sustainability practices (Ghauri, 2022; van Tulder et al., 2021). Studies have also stated their disappointment over the rather reactive nature of MNEs in implementing and diffusing sustainability practices around the world (van Tulder et al., 2021). MNEs with reactive approaches to CSR develop CSR mainly as a response to the public discourse and stakeholder pressure (e.g. Asgary & Li, 2016; Barin Cruz & Pedrozo, 2009; Egels-Zandén, 2014). Such MNEs take actions to comply with laws and standards at minimum levels but are not necessarily convinced about the importance of sustainability actions. In contrast to the reactive CSR approach seen among MNEs, recent studies have requested more research on how MNEs could take on proactive, leading roles in implementing and diffusing sustainability practices around the world (Tarnovskaya et al., 2022b). Some even claim it is our responsibility as international business scholars to investigate in more depth the role MNEs can play in implementing sustainability practices, particularly in an emerging market context (Ghauri, 2022). In this book chapter, we respond to such calls. The purpose of this chapter is to advance the understanding about particular practices pertinent to a proactive approach to CSR.

MNEs operate in multiple different markets across the world. A recurrent challenge for these corporations relates to the cultural and contextual forces. For an MNE with operations in emerging markets, the cultural and contextual challenges tend to become even more pronounced. Earlier studies have emphasized that what is considered to be an ethical and sustainable desired behaviour in a certain market may not correspond with values held by actors in another part of the world (Bondy et al., 2012; Elg et al., 2015). In a study on Tetra Pak's operation in the Indian market, Elg et al. (2015) showed how this MNE struggled with cultural obstacles related to Indian consumers' scepticism towards packaged milk. The MNE needed to increase awareness of the health advantages of the packaging technology for milk within the local market context as well as add trust to the Tetra Pak brand and the packaging technology. In a study on a Swedish fashion MNE's implementation of fair living wages in Bangladesh, it was shown how local suppliers and factories were hesitant to engage in a dialogue about wages with a buyer such as the Swedish MNE. Local suppliers and factories in Bangladesh did not see the business logic of raising wages or even discussing wages, with their buyers (Tarnovskaya et al., 2022a). Based on earlier studies, it is, therefore, clear that cultural differences between an MNE's home market and an emerging market can put severe challenges on the MNE's implementation of sustainability practices.

There is a growing stream of CSR-related studies with MNEs in focus, and these have examined the operations of MNEs' subsidiaries in emerging markets (Kim et al., 2018; Park & Ghauri, 2015; Rathert, 2016; Reimann et al., 2012). Some studies show evidence of MNEs taking on a more proactive CSR approach.

These studies demonstrate how MNEs develop CSR as part of an economically or socially motivated strategy that enables them to become more embedded in local communities and stay ahead of competitors (i.e. a proactive approach) (e.g. Baumann-Pauly et al., 2013; Beckman et al., 2009). Such MNEs can make social investments in local communities, for example, in education. They could also educate their customers in CSR topics, including safe driving and energy efficiency (Yin & Jamali, 2016). When taking stock of extant literature, we can discern a research opportunity to study MNEs' proactive CSR practices in greater depth, particularly in an emerging market context. Based on recent international business studies, where scholars have advocated a stronger and more leading role of MNEs in the global economy (Ghauri, 2022; Wettstein et al., 2019), we suggest that an in-depth understanding of those proactive CSR practices undertaken by MNEs can add useful insights to ongoing international business discussions.

In this study, we will build upon a very recent literature review (Tarnovskaya et al., 2022b) where the reactive CSR approach and different proactive approaches to CSR have been identified and analysed. We will use the conceptual insights from this study to empirically explore the CSR practices adopted by a global fashion MNE in the context of emerging markets. The chapter contributes to ongoing discussions within the international business field on the role of MNEs in driving and implementing sustainability practices. We add an in-depth understanding on the proactive CSR practices undertaken by an MNE, in an emerging market context.

THEORETICAL FRAMEWORK

International business literature has often cited legitimacy and stakeholder pressure as the driving forces of a firm's CSR pursuits. Among these pressures are influences of customers (Luo & Bhattacharya, 2006), employees (Park & Ghauri, 2015), investors or society as a whole (Galbreath & Shum, 2012). The underlying view in such studies is that firms pursue a CSR agenda only after they have been exposed or pressured by their external stakeholders and society. Hence, CSR activities are predominately reactive, and stakeholder pressure can be seen as the driving force of a firm's CSR pursuits.

In contrast to this reactive approach, the literature also illustrates firms engaging in CSR for reasons of philanthropy, to increase transparency, enhance firm reputation (Surroca et al., 2010), develop stronger ties with local governments and, in doing so, enhance firm value through proactive efforts. Value generated from CSR can comprise both a sense of purpose instilled in managers and employees in the company and an enhanced brand value which can, eventually, translate into economic profits. In emerging market settings, it has been shown that MNEs take on such proactive approaches in driving change through initiatives that affect the well-being of local communities and the work conditions in local industries (Lind et al., 2020).

The focus of this book chapter is to explore in greater depth the proactive CSR approach and specifically those practices used by an MNE in its

sustainability work on an emerging market. To do so, we draw on a recent literature review study, where two proactive CSR approaches have been identified, that is, the stakeholder approach and the strategic approach (Tarnovskaya et al., 2022b). Although these two CSR approaches are not collectively exhaustive, we find that using these conceptual developments will enable us to do an in-depth analysis of those sustainability practices used by an MNE in its work on an emerging market. In this theoretical framework, we will outline the two proactive CSR approaches, as portrayed by Tarnovskaya et al. (2022b). In describing the two proactive CSR approaches, we focus on the (i) stakeholders involved (e.g. a delimited set or broad range of stakeholders, link between stakeholders and value-chain operations) and (ii) CSR practices adopted (e.g. social impact of activities).

In developing the theoretical framework for this book chapter, we will use the concepts of CSR and sustainability as interchangeable. While some scholars suggest the differences between the two concepts need to be sharpened (e.g. Bansal & Song, 2017), others use the concepts interchangeably (e.g. Tarnovskaya et al., 2022b). Similar to the recent literature review (Tarnovskaya et al., 2022b) guiding the framework of this book chapter, we will use the two concepts interchangeably.

A Proactive CSR Approach – The Strategic Perspective

One proactive CSR approach identified in the recent literature review is the so-called strategic CSR approach (Tarnovskaya et al., 2022b). In relation to a reactive CSR approach, strategic CSR reflects a shift in corporate practices from passive compliance to externally imposed expectations to proactive engagement in social or environmental matters (Husted & Allen, 2009; Yin & Jamali, 2016). Companies pursuing strategic CSR may proactively evaluate a broad range of issues related to CSR where they can outperform competitors, for example, within areas such as human rights, workplace safety, wages, environmental standards (Baumann-Pauly et al., 2013). A strategic CSR approach, however, focusses on those issues that immediately concern business operations of the MNE. If these issues are attended to properly, they could increase the likelihood that companies are favourably evaluated. In this way, the strategic CSR approach can be seen to relate significantly to the arguments made by Porter and Kramer (2006). One of the key arguments of Porter and Kramer is that CSR can be a source of opportunity and competitive advantage for corporations.

In terms of *stakeholder involvement,* strategic CSR implies that MNEs focus their attention on carefully selected stakeholder groups and on particular focus areas for CSR engagement. The development of the strategic CSR orientation is determined by contextual market realities, rather than by a pure interest in CSR and social value creation. For example, the study by Yin and Jamali (2016) focussing on multinationals in a Chinese context showed that CSR was designed with a close fit to the company's mission and objectives. The study showed how multinationals were proactive in assessing economic, technological, social and political trends and proactively engaged with the government, customers,

suppliers and non-governmental organizations (NGOs) to design and evaluate CSR programmes.

Common CSR practices have been seen to involve training staff on environmental issues (Child & Tsai, 2005), developing external partnerships with other firms and civil society and negotiating regulations with local authorities (Child & Tsai, 2005; Dang et al., 2020). Studies have also shown that practices can include making social investments in local communities covering, for example, education (Hadjikhani et al., 2016). Furthermore, studies have demonstrated multinationals that make investments in their supply-chains involving training, capacity building and knowledge sharing with suppliers (Yin & Jamali, 2016). The guiding principle for these proactive, strategic-oriented practices is that these are connected directly to the business goals set for a certain country or market area. There is a close integration between the CSR practices and the MNE's corporate strategy. Hence, many activities like construction of schools, education, medical care and community building are closely connected to the firm's business relationships with suppliers, customers and distributors, thus creating valuable outcomes of direct relevance for the MNE's business development.

A Proactive CSR Approach – A Stakeholder Perspective

In the recent literature review, another proactive CSR approach identified is the so-called stakeholder CSR approach (Tarnovskaya et al., 2022b). Such a CSR approach broadly concerns achieving social and environmental impact through relationships with stakeholders. A stakeholder approach when developing CSR has been described as a more 'authentic' approach in comparison to a reactive CSR approach that has a more instrumental view on CSR and lacks authenticity in stakeholders' eyes (e.g. Beckman et al., 2009). Engaging with stakeholders reflects a 'commitment to contribute to public goods and shape CSR agenda, irrespective of strategic value' (Baumann-Pauly et al., 2013).

In terms of *stakeholder involvement*, firms following such an approach to CSR take a broad range of external stakeholders into account, irrespective of their strategic value for the firms. Engagement in local communities becomes a behavioural feature where stakeholders are viewed as equal partners in the firm's decision-making process (Baumann-Pauly et al., 2013). A stakeholder perspective to CSR involves the organization of different groups and constellations of stakeholders. In these initiatives, social value takes precedence over economic value. As demonstrated by a study of Chilean MNE suppliers (Beckman et al., 2009), the network of stakeholders extended beyond primary stakeholders. It included NGOs (national and transnational), various levels of government, unions, activists (national and transnational), regulatory organizations, police and community organizations. Another study of Nestle in India (Asgary & Li, 2016) demonstrated how the MNE reached out to the 'bottom' stakeholders (local farmers) providing nutrition, medicine, education and technical assistance in interactions with NGOs and local governments. Moreover, the study demonstrated that multinationals need to work closely with stakeholders, to proactively implement CSR principles in their global supply chains.

Common CSR practices adopted by MNEs following a stakeholder CSR approach include selective choice of CSR compliant suppliers, continuous monitoring, training and improvement of their working conditions, developing strong relationships among supply chain partners, CSR education in local community schools and employees' CSR training (Asgary & Li, 2016). Broad development initiatives including educational and social welfare initiatives in local communities have also been identified (Eweje, 2006). Other studies highlight the different types of partnerships with local and global NGOs and the activities aimed at improving the diversity of the workforce through the inclusion of young people (Barin Cruz & Pedrozo, 2009). The guiding principle for these proactive, stakeholder-aimed practices can be seen as engagement, where a continuing relationship provides a base for the practices implemented. As stressed in Beckman et al. (2009), engagement with stakeholders was far more than dialogue. In the study of Chilean MNEs, Beckman et al. (2009) found that the MNE worked closely with stakeholders to learn about their problems and eventually co-created solutions to social challenges.

Table 1 summarizes the conceptual ideas depicted in the two proactive CSR approaches, drawing on insights from Tarnovskaya et al. (2022b). The strategic CSR approach reflects a shift in corporate practices from passive compliance to externally imposed expectations to proactive engagement in social and environmental matters to future-proof economic value generation. This approach serves to proactively engage a broad set of business-critical stakeholders (e.g. customers, suppliers, governments and NGOs) to reach strategic targets related to productivity, profitability and growth in local markets. These issues are of immediate strategic concern for the company and are closely tied to value-chain operations. In comparison to the strategic CSR approach, the stakeholder approach implies a more matured CSR organization and a strategic inclination to organize a broad

Table 1. Proactive CSR Approaches.

	Strategic CSR Approach	Stakeholder CSR Approach
Stakeholders involved	Serves to proactively engage a broad set of business-critical stakeholders (e.g. customers, suppliers, governments, NGOs) to reach company strategic targets	Takes a broad range of external stakeholders into account, irrespective of their strategic value to the firm. Even 'bottom-level' stakeholders are involved (e.g. local workers and suppliers)
Example of CSR practices	The strategic-aimed practices are closely integrated with corporate strategy and business goals, for example, training staff on environmental issues; developing external partnerships with other firms and civil society; making investment in the supply chain involving training, knowledge sharing with suppliers	The guiding principle for the stakeholder-aimed practices is engagement. For example, selective choice of CSR compliant suppliers, continuous monitoring, training and improvement of their working conditions, developing strong relationships. Different types of partnerships with local and global NGOs among supply chain partners, CSR education in local community schools

range of stakeholders for social impact. In stakeholder CSR approaches, even the 'bottom-level' stakeholders, such as workers, suppliers, community members, may be called upon.

METHOD

This study rests on the premise that there is a need to understand in more depth the proactive CSR practices adopted by MNEs, particularly in an emerging market context (e.g. Ghauri, 2022). To address the purpose of this study, we considered that aspects related to sustainability and ethics among MNEs are sensitive areas to study. We embraced an exploratory and phenomenological research design (Ghauri & Grønhaug, 2010) to further our understanding on MNEs' proactive CSR practices in an emerging market context. We chose to conduct an in-depth qualitative case study that allowed us to explore new insights about proactive CSR practices. We chose to conduct one holistic case study to gain an in-depth understanding and be able to advance theoretical as well as empirical understanding on the topic. We have, therefore, followed a purposeful, theoretical sampling strategy (see Eisenhardt, 1989). This meant that the case company was chosen for theoretical reasons, and we aimed at choosing a case that enabled us to describe in an in-depth manner, an MNE's implementation of sustainability practices in an emerging market context.

The case study focusses on a global fashion MNE and its work pertaining to energy efficiency and renewable energy in the production supply chain. This specific fashion MNE is an example of a company that has documented experience of working on sustainability matters for a relatively long time period in emerging markets. One of its largest production markets is located in Bangladesh, and it is also a market where the MNE have been operating for a relatively long time. In order to gain insights into those CSR practices being developed and implemented by an MNE in its operations on emerging markets, this MNE and its operations in Bangladesh have proved both interesting and relevant. The case company was, thus, chosen for the revelatory potential and for the information richness and accessibility. Hence, relevance rather than representativeness was guiding us in choosing a case for this study.

Data Collection and Analysis

The overall design of the data collection involves two phases. In 2019, we entered the first phase of our study. This phase focussed on conducting interviews with managers at the HQ level responsible for tasks and issues related to the company's sustainability work, including its work on climate and water. The interviews were conducted in physical meetings, and the length of each interview was between 30 and 100 minutes. The aim of this first phase was to investigate the policies and codes of conduct relating to sustainability matters, learning about the company's overall strategy related to sustainability, and to study the routines for interacting with local offices in emerging markets. In the second empirical

phase, which began in 2020, we have focussed on the actual implementation processes of sustainability targets in emerging markets. In this phase, we have conducted interviews with the local sustainability team in Bangladesh, to learn about their attitudes to sustainability programmes and stories about how sustainability projects have unfolded (e.g. related to climate and water). These interviews also focussed on possible challenges in the implementation of sustainability practices and projects. The interviews conducted with the local sustainability team in Bangladesh were conducted via Zoom or Teams, and for most interviews, we met up with a team of two to four local managers helping us to gain an understanding on the chosen topic. Each interview meeting was between 30 and 60 minutes in length. We experienced that doing interviews via Zoom or Teams facilitated collaboration and coordination with our case company and, thus, gave us access to local-level dynamics which had been more challenging to achieve in a non-online mode.

Primary data, in the form of 10 interviews with managers in the case firm, constitutes the main data source in this case study. In both phases of data collection, we have, however, also used secondary data including company annual reports, sustainability reports, news articles, press releases and websites. The secondary data sources have served as anchor points in preparing the interview questions. The secondary data have also ensured the validity of the interview data and have provided detailed knowledge regarding the sustainability work of the MNE, including knowledge on how sustainability activities are organized and implemented, relationships with different stakeholders, different ethical codes and commitments, etc.

In order to collect relevant secondary data, we have searched documents available through the MNE's website and also used the database Retriever Business. In the Retriever Business database, we have searched for newspaper articles and press releases published from 2011 until 2020, using the keywords such as company name, climate, renewable energy and WWF. The search generated a vast number of items, and those considered most relevant for this study were downloaded and reviewed in more detail.

The interview questions that have guided all our interviews have focussed on how sustainability activities are organized at the headquarters level as well as implemented at the emerging market level. The questions have also covered how the MNE interacts and collaborates with different stakeholders, and how different ethical codes and commitments are developed and implemented throughout the organization and markets. To support rigorous data collection practices, each interview was recorded and transcribed. The transcribed interviews were analysed together with the secondary data documents.

In analysing all the data, we used an open coding strategy anchored in our research question. In this process, we used narrative analysis techniques, which included identifying commonalities and differences, exploring recurring themes and patterns. In line with O'Dwyer (2004, chapter 23), the data analysis was based on an iterative approach and was carried out in parallel with data collection. When coding the data, one category focussed on the specific challenges

experienced in implementation of the environmental agenda and the work on renewable energy and energy efficiency. One category looked into the stakeholders involved. Finally, one category focussed on those activities and practices related to the work on renewable energy and energy efficiency in the Bangladesh region.

EMPIRICAL FINDINGS

A Global Fashion Retailer Aiming to Become Climate Positive

The fashion M NE was established in 1947 as a single store for women's clothing. The store was located in the city of Västerås in Sweden. The company has experienced a tremendous growth journey and developed into a global fashion retailer with the presence in just over 70 retail markets and 21 production markets.

The basic business idea of this MNE is to sell trendy apparel to affordable prices. As explained by the company, the role of the firm has from the beginning been to democratize fashion. What the company means when highlighting democratization of fashion is to make fashion available to everyone rather than the privileged few. This also implies making it sustainable because, as described in the sustainability report, 'it is the only way the company can make fashion and design available to many people for many years to come' (Sustainability report, 2018).

This MNE is generally viewed as a fast-fashion brand among the likes of Zara, Topshop and Primark. The concept of fast fashion is often criticized as it promotes an unsustainable 'tear and wear' consumption. The production of clothes requires energy, chemicals and water and, thereby, has significant negative effects on the environment. Even though reliable data on fashion's global footprint is scare, an article in the Guardian described the clothing industry to be the second largest polluter in the world, second only to oil (Gunther, 2016). Others highlight how the fashion industry's carbon emissions are more than those of flights and shipping combined (BCG, 2019).

Fast-fashion companies compete by quickly responding to trends. To do so, production cycles are getting shorter, and the number of collections sold each year is being ramped up which, in turn, accelerates production. The innate unsustainability of this business logic has been widely criticized by media, investors and civil society actors as well as researchers. In a recent study focussing on fast-fashion companies, the scholars question some of the fashion companies' sustainability claims and actions, such as starting to collect used garments in the retail stores (Stål & Corvellec, 2021). The effects of such actions were shown to be more of a symbolic nature rather than of any substantive nature. On a similar note, a recent report emphasized that even though fashion companies have announced new commitments on sustainability, the fashion industry's progress on reducing its environmental impact is not moving fast enough to counteract its rapid growth (BCG, 2019). Moreover, an article in the Guardian stated that if the fashion industry wants to sustain its growth rates, the industry must take more radical action (Gunther, 2016).

To stay relevant as a company in light of more widespread awareness and sense of urgency related to climate change, this fashion MNE has realized it needed to address some of the most harmful aspects of its business model. The sustainability vision makes this attempt explicit as it articulates that the company intends 'to lead the change towards a circular and climate positive fashion industry, while being a fair and equal company'. In this vision statement, the company recognizes the need for change in the fashion industry that it is a part of.

The Goal – To Become Climate Positive Throughout the Entire Value Chain

In 2016, the fashion MNE launched a new climate strategy, and the company presented the ambitious goal to become climate positive throughout the entire value chain by 2040. The goal implies removing more greenhouse gas emissions than its value chain emits. For the MNE, the new goal was a bold target. At the time the climate goal was launched, the company explained they did not have all the solutions ready for how to reach the goal of becoming climate positive. The head of sustainability described that

> Committing to the target of becoming climate positive was a bold move. We still do not know exactly how to get there, but we rely on that research, technology, collaboration with organizations such as WWF together with our dedication to fulfil this target will take us the way we need to go. (*Source*: Anonymized industry report, 2018)

Despite not having all the solutions ready, two of the priorities for action that were already set from the start were the following:

- Priority 1 focusses on leadership in energy efficiency, to enable the MNE to use as little energy as possible. The MNE is committed to increasing energy efficiency at all stages of the value chain.
- Priority 2 tackles the 100% renewable energy goal, which will help the MNE to ensure the energy sourced by the group and the supply chain is renewable.

Hence, the stated priorities for action relate to both the MNE's own operations and those across their value chain. In this book chapter, we focus on the activities directed towards the supply chain. In doing so, particular attention is given to the production market of Bangladesh and the work on energy efficiency and renewable energy in this local market context.

Bangladesh – One of the Largest Production Markets for the MNE

Ever since the company was established in 1947, the company has outsourced its production. The MNE has subcontracted operations to locally owned or multinational garment manufacturers, based mainly in Asia and Europe. The manufacturers are independent organizations and not owned or managed by the MNE. A common situation is that the fashion MNE shares their suppliers with many other brands and companies. This implies that to work with energy efficiency and renewable energy in the supply chain, the MNE must cooperate with the other brands.

The fashion MNE's ambition is to build strong, long-term relationships with local suppliers and stakeholders. In local production markets, this effort is largely facilitated by the company-owned production office, located in each production market, and their local teams. In 2019, the company operated 21 production offices situated in Europe, Asia and Ethiopia. Most of those who work with sustainability as their core task within the group are not located in the HQ, but in the production markets. The work and implementation of the targets related to energy efficiency and renewable energy is to a large extent taking place in the production markets since emissions are accounted for at the subcontractor level.

One of the largest production markets for the MNE is Bangladesh. This is also one of the production markets where the company has been operating the longest time and where they have come the farthest in their work related to sustainability. In the production office in Bangladesh, the local sustainability team consists of 28 staff. They work solely on sustainability issues in this region and are organized into two teams. The first team is the environmental team, focussing on issues related to water and energy use. The other team is the social team, focussing mainly on issues related to living wages, industrial relations and skills' development. In this chapter, the focus is on the work conducted within the environmental team related to increasing the energy efficiency and the transition to renewable energy.

The Whole Environment Agenda Is Really Challenging in Bangladesh

Driving the environmental agenda in Bangladesh is challenging in many ways. One challenge relates to the complex policy environment. In Bangladesh, the source of energy has primarily been natural gas. Natural gas is also the fuel used in most of the factories. From a factory perspective, natural gas is both the most available energy source and the most cost-effective choice because it is subsidized by government. The subsidies have almost eradicated the incentives for manufacturers to shift to renewable energy sources. Even the incentives to pursue efficiency programmes (use less energy) are also quite limited among manufacturers because of the low cost of electricity.

Natural gas is, however, becoming depleted. For this reason, the Bangladeshi government is planning to increase the capacity of coal-based energy through the establishment of new coal plants. From the MNE's perspective, this would be a move in the wrong direction, making it more difficult for the company to achieve its targets.

Another challenge, described by the local environmental team in Bangladesh, relates to the leadership position that the fashion MNE aims to take on. The local environmental team emphasizes that the company is way ahead of its competitors, and this situation can make it more difficult to bring everyone else along. The environmental team in Bangladesh articulates that other brands are committed to many sustainability issues, for example, related to chemicals and water. The MNE though stands out from the other brands as it has set the most ambitious targets and has more resources to realize its goals.

At the H&Q level in Sweden, managers explain the leadership position in more detail. It is emphasized that in setting the targets, such as the goal of being climate positive by 2040, the company wants to take on the role of a leader. Comparing with competing brands brings a reminder of what has already been done and where the company is on the development curve. The MNE is constantly setting their targets higher than competitors in an attempt to take a leadership position.

Because of the leadership position this MNE has achieved, the local environmental team in Bangladesh describes a situation where a lot of time and effort is devoted to finding ways to bring others in.

The Need to Engage Local and Global Stakeholders

By the time the new climate strategy was launched in 2016, it was explicitly stated that the company needs to engage other stakeholders to pursue a climate-positive supply chain by 2040. It is clear that the company and other brands need to shoulder responsibility to initiate improvements. In Bangladesh, an aspect of the policy environment that challenges the environmental work by this MNE is that regulatory systems are not considered to be strong enough. Regulatory systems in Bangladesh do not moderate energy use at factory level. It is instead brands who are taking a big responsibility when it comes to any agenda on sustainability. The local sustainability team in Bangladesh is part of country-based discussions with different brands to outline what are the best regulatory framework platforms to promote renewable energy.

Globally, UNFCCC is a platform that supports the fashion MNE in influencing policymakers to develop legislation promoting a low carbon future. The UNFCCC (UN Climate Change) is the United Nations entity tasked with supporting the global response to the threat of climate change. UNFCCC stands for United Nations Framework Convention on Climate Change.

One of the continuing partnerships that supports the climate work of the fashion MNE is WWF. One of the activities that this partnership has focussed on has concerned supplier engagement: to reduce emissions and impacts in line with the MNE's 2030 and 2040 targets, scaling solutions within the sector and business community and exploiting synergies with other partnership streams.

This local environmental team in Bangladesh focusses a lot on implementing improvements in terms of, for example, more effective energy use at the factory level. Much work is done to enrol factories in energy efficiency programs. The efficiency programmes are geared at teaching factories about opportunities related to more efficient energy consumption. Both for the short term and long term, the factories are given action plans for achieving a certain pre-ordained efficiency level. The environmental team can provide the factories with fine-grained insights, such as which machines and which processes are most/least energy efficient.

The team is also working on renewable energy together with the suppliers. The priority is to increase the renewable energy proportion for the supply chain. Given that the factories in Bangladesh mostly depend on natural gas, which is a fossil fuel, the team is working to move this trend to a more renewable one. One way of doing so is to encourage or promote rooftop solar options for the suppliers wherever possible.

The company has collaborated with WWF on how to scale renewable energy among textile suppliers in Bangladesh, focussing specifically on the rooftop solar potential available to the MNE's suppliers. By organizing workshops with key suppliers, the company has, for example, been able to gauge the interest of suppliers in implementing solar rooftop installations at their factories. Such workshops have made it easier to find suppliers with an interest to engage in a pilot project (*Source*: Anonymized industry report, 2018).

The environmental team in Bangladesh also highlights that what makes Bangladesh unique as a market, compared to other emerging markets in, for example, Africa, is that there are largely domestic manufacturers in Bangladesh. The MNE, as a global company, have a lot of insights on what is going on in different parts of the world. The company can, therefore, take on a role in sharing those lessons and in driving improvements in their partner factories. The environmental team exemplify this role with the MNE having knowledge of different technologies and processes, and relatively inexpensive technologies, that can be brought in and used. In this way, the MNE can also drive the change together with the suppliers by bringing in innovation to a sector that is predominantly a local sector with no huge amounts of R&D.

ANALYSIS

A Proactive CSR Approach

The case company of focus in this study – the global fashion company – operates within an industry where media, investors and civil society frequently have criticized the industry for not moving fast enough in reducing its environmental impact. The case study, thus, illustrates an MNE that is exposed to, and potentially even pressured by, external stakeholders (e.g. consumers and society as a whole) to develop and implement CSR activities. The data indicate that this MNE aims to take on a leadership position by setting its environmental targets higher than competitors. As emphasized in the case, looking at competing brands gives a reminder of what has already been done. In contrast to such benchmarks, the MNE's sustainability vision is: 'to lead the change towards circular and climate positive fashion while being a fair and equal company'. Despite the influence and potential pressure from external stakeholders, the practices adopted by this MNE do not fit a description of passive compliance to externally imposed expectations – they appear more ambitious. The corporate practices demonstrate proactive engagement in environmental matters to future-proof economic value generation (Husted & Allen, 2009; Yin & Jamali, 2016). In line with a strategic CSR approach, the case specifically shows how this MNE proactively engages a broad set of business-critical stakeholders to fulfil its environmental targets. External collaborations with global and local stakeholders (e.g. UNFCCC, WWF, competing brands, local suppliers and local factories) can be regarded as critical in this case as they bring about (economic, social and environmental) change at the market level.

Strategic-oriented or Stakeholder-oriented Practices?

Previous studies that have captured the so-called strategic CSR approach have identified common CSR practices, involving, for example, (i) developing external partnerships with other firms and civil society and (ii) negotiating regulations with local authorities (Child & Tsai, 2005; Dang et al., 2020). The case develops our understanding of such practices. This fashion MNE outsources its production and often shares its suppliers with other brands. This implies that for the MNE to reach its targets related to energy efficiency and renewable energy, it must collaborate with other brands. In Bangladesh, the policy environment and regulatory systems do not moderate energy use at the factory level. In such an institutional context, one important strategic-oriented practice is to engage in country-based discussions with other brands to develop a regulatory framework for promoting renewable energy. Hence, from the perspective of this MNE, it seems imperative to be part of developing and negotiating regulations in this local market context, and such regulatory developments and discussions are driven in collaborations with other brands.

Another common CSR practice, identified within the strategic CSR approach, focusses on MNE's training, capacity building and knowledge sharing with suppliers (Yin & Jamali, 2016). The case findings advance our understanding about such practices. The case portrays the local environmental team's work in enrolling factories in energy efficiency programs, where the local team teaches individual factories about opportunities related to more efficient energy consumption and how to achieve a certain pre-ordained efficiency level. Such training activities taking place in direct interaction with individual factories seem crucial for the MNE to reach its environmental targets. A form of knowledge-sharing practice, that in a more indirect way concerns individual suppliers and factories, is also described. The case emphasizes that this MNE, as a global company, has insights on what is going on in different parts of the world. Those insights, which can be about technologies and processes, are transferred to local partner factories in Bangladesh. As highlighted in the case, the company can, in this way, drive change together with suppliers, by bringing in innovation to a sector that is predominantly local with limited resources for R&D. Hence, such knowledge-sharing activities clearly illustrate how MNEs, with their global outreach and managerial capacity, are able to drive and implement sustainability practices to local suppliers and factories in an emerging market.

In contrast to a reactive CSR approach, where external stakeholders typically are involved on an ad hoc basis in situations of crisis (e.g. Baumann-Pauly et al., 2013), the critical stakeholder collaborations described in this case are managed in a more systematic way and often with a long-term perspective. This is illustrated by the MNE's collaboration with its suppliers, where the company aims to build strong, long-term relationships with local suppliers in the region. Also, in enabling local factories in Bangladesh to move towards more efficient energy consumption, the local team set up action plans covering both the short-term and long-term perspectives. The MNE, therefore, seems to engage in a continual dialogue with these business-critical stakeholders. Developing partnerships and collaborations with business-critical stakeholders can be seen as an example

of a key strategy-oriented CSR practice, also portrayed in other studies (Barin Cruz & Pedrozo, 2009; Child & Tsai, 2005). At the same time, in this case, the guiding principle in many of the collaborations, including collaborations with suppliers and local factories, seems to be long-term engagement. The continuing dialogue and interaction that characterize the collaborations rather give a nuance of stakeholder-aimed practices, more in line with the so-called stakeholder CSR approach. Another such example is seen in the MNE's collaboration with WWF. The case indicates that the MNE and WWF intend to work together to co-create solutions needed for the company to reach its target of having a climate-positive supply chain. Drawing on findings from previous studies (e.g. Beckman et al., 2009), the co-creation of solutions to environmental challenges is here a proactive CSR practice of great importance and a practice more in line with the stakeholder CSR approach.

CONCLUSIONS AND IMPLICATIONS

The purpose of this chapter is to advance understanding about particular practices pertinent to a proactive approach to CSR. To achieve this, we have used the conceptual insights from a recent literature review (Tarnovskaya et al., 2022b) and empirically explored the CSR practices adopted by the global fashion MNE – in the context of emerging markets. Among the key proactive CSR practices illustrated in the case are (i) developing partnerships and collaborations with business-critical stakeholders, involving global NGOs and local suppliers and local factories; (ii) negotiating and developing regulations on the local market and (iii) implementing training, capacity building and knowledge sharing activities with local suppliers and individual factories in the region. The analysis has shown that these practices are conceptually much in line with the strategic CSR perspective (e.g. Tarnovskaya et al., 2022b). On the other hand, the case also shows examples of proactive CSR practices that lean more towards a stakeholder-oriented CSR perspective. In the MNE's collaborations with WWF and local suppliers, the guiding principles seem to be long-term engagement. There are also indications that the parties together aim to co-create solutions to the environmental challenges, which requires continuous dialogue and mutual commitments between the MNE and the involved parties. Despite these indications of more stakeholder-oriented practices, the case does not illustrate any broad stakeholder-oriented practices involving CSR education in local community schools or social welfare initiatives in local communities.

Conceptually, in Table 1, we have summarized the key characteristics of the various CSR approaches, including two proactive CSR approaches. Empirically, the case study presented suggests that the various CSR approaches are not mutually exclusive. Building on both the conceptual discussion and the case findings, we suggest that an MNE develop its CSR practices over time. It might be that an MNE starts out with reactive CSR practices, and as the firm gains more knowledge and a thorough understanding of local culture and local contextual factors, it develops its CSR practices. Strategic CSR practices can here represent

a first step in the development of more proactive CSR practices. As an MNE becomes more embedded in local markets and gains further understanding of local context, their practices may gradually shift from being strategy-oriented to more stakeholder-oriented. The stakeholder CSR approach requires a more matured CSR organization and a thorough understanding of local context and local culture. This study represents an attempt to advance understanding about particular practices pertinent to a proactive approach to CSR, in an emerging market context in one MNE. This study is limited in terms of generalizability to other MNEs, and further empirical research is needed.

To stay relevant as a fashion company, in light of more widespread awareness and sense of urgency related to climate change, an MNE such as the global fashion company portrayed in this study, might need to develop its CSR practices more towards the stakeholder CSR approach. The studied MNE seems to have started such a transition and much effort is put into developing knowledge and understanding about the local context, and the matured CSR organization that is required. We call for further empirical research that can advance our understanding of how an MNE can develop its CSR practices more towards the stakeholder CSR approach.

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CHAPTER 7

ETHICAL LEADERSHIP IN SUSTAINABLE DEVELOPMENT: H&M AND WATER MANAGEMENT

Daniel Tolstoy, Sara Melén Hånell and Veronika Tarnovskaya

ABSTRACT

Multinational enterprises (MNEs) are increasingly compelled to consider the United Nation's sustainable development goals (SDGs). These goals are complex and may cause internal goal conflicts for companies. To stay the course, MNEs will benefit from an ethical compass enabling them to take on leading roles in driving change towards a better future. We argue that ethical leadership in this new business landscape is bolstered by virtue ethics. MNEs with genuine ethical groundings will be equipped to make decisions in complex situations where the needs of a variety of stakeholders must be considered. The purpose of this chapter is to conceptually and empirically explore an MNE's implementation of a particular SDG, through an ethical leadership lens. We contribute to international management and international business literature by offering a framework to analyse MNEs' pursuit of SDGs.

Keywords: Ethical leadership; sustainable development; MNE; sustainable development goals; virtue ethics; international business

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INTRODUCTION

MNEs are influenced by the United Nations (UN) SDGs. While there have been disappointing descriptions of MNEs that are not doing enough to achieve SDGs (Van Tulder et al., 2021), there is, indeed, evidence of MNEs that aspire to leadership positions (Prashantham & Birkinshaw, 2020). These MNEs are attempting to act as champions for a new form of capitalism, grounded in an ethical credo. From this perspective, profit-maximizing objectives (if needed) are subordinate to ethical principles. Ethical leadership can be described as 'the showcasing of normatively appropriate conduct with the help of interpersonal relationships and personal actions, and employing two-way communication, reinforcement and decision-making to promote such conduct to followers' (Brown et al., 2005, p. 120). Ethical leadership is becoming increasingly more important for MNEs as they are scrutinized by customers, suppliers and media (Lawton & Páez, 2015). Actions that are considered to be unethical can damage a firm's legitimacy and cause financial, legal as well as social costs (Halter et al., 2009). MNEs that can take on ethical leadership to tackle some of today's most pressing grand challenges will be able to reshape industries. In this way, they can get closer to being part of the solution rather than part of the problem.

MNEs are, thus, recognizing the benefits of broadening the business logic on which they operate not only to include financial performance (Elkington, 2013). The move towards a business practice that takes into consideration both positive and negative externalities of MNEs is being rushed because of UN SDGs (Buckley et al., 2017; Montiel et al., 2021). To stay relevant in the era of SDGs, compliance with globally accepted indicators is not enough. MNEs may be compelled to take control of the sustainable development agenda to have a say about how it should develop. Adopting an ethical leadership position may secure legitimacy and strategic autonomy in the industries where they operate.

In this vein, it has been noted that MNEs are seeking to transform themselves into more purpose-driven organizations with ethical values at the heart of their businesses (George & Schillebeeckx, 2022). The pursuit of SDGs challenges neoclassical assumptions of capitalism, for example, implying that self-interest deterministically will coincide with the creation of public good. Firms that are aspiring to abide by SDGs in their operations, thus, need to be prepared to compromise short-term economic gains to achieve long-term benefits, possibly affecting both the firm and the community. A self-proclaimed transformative effort towards sustainable development is exemplified by the global fashion company H&M, which has embarked on a journey to make fast fashion a sustainable business practice, seeking to erase the negative externalities of production and consumption. This endeavour is epitomized by H&M's sustainability vision which is 'to lead the change towards a circular and renewable fashion industry, while being a fair and equal company'. (H&M Group Sustainability Report, 2018, p. 13) While this journey has been tainted by shortcomings and criticism, it has set a new direction for the firm and prompted a transformation of the MNE's organizational identity. Since the characteristics of a company and its purpose are likely to frame the firm's strategy and business decisions, we see value in analysing how

the ethical leadership of the firm enables the company to tackle grand challenges, here reflected by a selection of SDGs that H&M is pursuing in its production market in Bangladesh.

The purpose of this chapter is to conceptually and empirically explore an MNE's implementation of SDGs, through an ethical leadership lens. The motivation for this is that sustainable development requires behaviours that go beyond a focus on rules and standards and emphasize leadership based on moral character (Lawton & Páez, 2015). This transition is, in our view, mirrored by a shift from ethical leadership based on duty ethics (issuing rules and standards) to virtue ethics (leading by example and breaking paths). Ethical leadership is a growing phenomenon in this context but is still underexplored as we do not know how such leadership is exerted and which traits it is anchored in. We intend to contribute to the international business and management literature by specifically examining the association between a pursuit of SDGs and ethical leadership. This motivates the following research question: Under what circumstances can ethical leadership of MNEs contribute to the realization of SDGs?

Extant literature in international business studies falls short of providing an in-depth understanding of how MNEs in emerging markets manage ethical issues, and the implementation of the SDGs. This study addresses this gap by conceptually and empirically showing how sustainability development is not only about words, schemes, rules and measures. Virtue ethics may enable MNEs to become immersed in specific SDG objectives and morally commit to such objectives, even when they are mutually conflicting or clash with other short-term economic targets. This study also contributes with an analytical lens for assessing virtuous business operations and offers action-based guidelines for running ethical operations.

THEORETICAL BACKGROUND

Ethics and Sustainable Development in MNEs

In the field of international business, there is increasing attention paid to grand challenges. The global arena lends itself well to addressing both problems and solutions associated with SDGs. Multinationals from advanced economies are frequently criticized for transferring the problems intimately connected to industrialization (e.g. greenhouse gas emissions, poor working conditions, unsustainable consumption) to emerging markets (Vachani et al., 2009). By playing a central role in global industrialization, the actions of MNEs are decisive for the fate of the planet. The UN SDGs constitute an influential framework for the global development agenda at the present time. While the SDGs provide guidance for companies on how to behave, they do not make companies immune to transgressions – not least because the sustainable goals themselves may present wicked problems where the achievement of one SDG may take place at the expense of another SDG. Navigating in a complex world where there is not one overarching objective to keep eyes on requires a new set of organizational skills and a heightened moral sensitivity.

Firstly, sustainable development is context dependent. Prior research shows that what is considered desired behaviour in a certain market may not correspond with values held by actors in another part of the world (Bondy et al., 2012; Elg et al., 2015). At the same time, MNEs that operate in multiple markets across the world often experience how cultural and contextual dynamics constitute major operational challenges. The challenges are particularly salient in an emerging market context, potentially affecting MNEs' ability to align their operations with global standards, such as the UN's SDGs. Local stakeholders, such as suppliers, business partners, the media and government, make different interpretations of the corporate ethical and sustainable claims (Crilly et al., 2016). It all suggests that the way MNEs interact with market and non-market actors, in emerging markets, can influence the level of alignment with SDGs in those markets (Buckley et al., 2017; van Zanten & van Tulder, 2018). An example could be MNEs that put a cap on the number of working hours in their factories in an emerging market setting. For workers and managers, this may not be seen as something contributing to their well-being. It could rather be viewed as intrusive regarding individual freedom, putting a strain on the possibilities to earn additional income.

Secondly, an example of a goal conflict related to SDGs can be illustrated by using Swiss food company Nestlé as an example. The company is asking its consumers whether it really is feasible for the company to completely stop producing palm oil. Palm oil production is infamous because it leads to deforestation and extinction of species (SDG 13 and SDG 15). Nestlé argues that the problem is more complicated than it appears at face value:

> If we all stopped using palm oil and moved to some of the alternative vegetable oil options out there like sunflower oil, soybean oil or rapeseed oil, we could need up to nine times as much land to get the same volume of vegetable oil. This would simply shift the problem elsewhere and potentially lead to more deforestation, not less. (https://www.nestle.com/beneath-the-surface)

This point of view could be regarded as an expression of consequence ethics, meaning that an action that renders a lower net negative than the alternative can be considered beneficial. The counter argument is that it is never morally defensible to violate the health of the planet or human rights and doing so, regardless of intentions, means perpetuating a negative spiral.

Thirdly, MNEs may pursue SDGs at different levels of ambition. Some take leading roles, making them a central part of their strategies, whereas others are followers. A firm's competitiveness is no longer only determined within the scope of the marketing-mix. Sustainable development has surfaced as a critical variable that can enhance a firm's competitiveness. Rigidly confining sustainable development to the lowest required thresholds may lead to firms becoming outpaced by external change. Park and Ghauri (2015) argue that MNEs can benefit from adopting roles as global citizens and proactively drive sustainable development beyond stipulated targets. Such approaches cannot solely be underpinned by protocols but must be anchored in shared beliefs of organizational members, transparency and an active role in communities.

Overall, management challenges emphasized in the literature highlight the need for more empirical studies focussing on the ethical issues of MNEs' activities in emerging markets. For example, Kolk (2016) recognizes a research potential in

further integrating insights from the business ethics literature into the international business field in an interdisciplinary manner by integrating notions from business, philosophy and psychology. In the section which follows we will outline a virtue perspective on ethical leadership and discuss the potential of this view to establish a more reflexive outlook on business. Many MNEs experience challenges due to weak abilities to manage ethical issues effectively. To some extent, this could be explained by negligence, but in many cases, it is due to a lack of understanding of the local institutional environment and/or a failure to collaborate with local stakeholders.

Ethical Leadership: A Virtue Ethics Perspective

Ethical leadership has predominantly been investigated within an organizational context, focussing on individual leadership, for example, the interactions between managers and their subordinates. In these settings, individual leaders can act as role models by exercising certain moral standards and social influence on peers and employees. (Mayer et al., 2009).

What do these inherent morals consist of? The sophists in ancient Greece claimed that 'man is the measure of all things' meaning that morals are subjectively determined. Socrates and Plato renounced this stance by arguing that, in fact, there is universal truth. From this perspective, morals of higher standards are expressed through virtuous thinking and virtuous behaviour. Aristotle, the disciple of Plato, developed the virtue ethics framework, claiming that virtue is defined by traits involving compassion, fairness, loyalty and openness.

While ethical leadership literature has focussed on individual behaviour and individual psychology, scholars have argued that organizations can strive for virtuousness to create a structural framing for morally exemplary behaviour (Bright et al., 2006; Cameron et al., 2004; Sison & Ferrero, 2015) and moral decision-making (Provis, 2010). From this perspective, virtuousness can function as both the determinant and outcome of organizational practices including both formal (e.g. work roles, training and guiding documents) and informal structures (e.g. culture, social bonds and storytelling) (Sison & Ferrero, 2015).

When organizations shoulder the responsibilities of ethical leadership, they are, from the conceptual understanding of the term, evaluated based upon 'normatively appropriate conduct' (Brown et al., 2005). Normatively appropriate conduct comprises an organization's inherent morals demonstrated by desirable traits that take into account their own actions and the actions of their associates (Piccolo et al., 2010). Moore (2012) argues that virtuous organizations need to assume an overall moral goal that transcends various pragmatic, economic objectives. Hence, virtue can be cultivated in an organization through shared visions and beliefs. Virtuousness is anchored in behaviour rather than rules. Hence, virtue ethics theory denies that making moral decisions is a matter of calculation or principle-based duties (Hartman, 1998; Stark, 1993). Instead, virtue ethics aims to motivate aspirational values and seeks to answer the question, 'what kind of organization should we be?' (Chun, 2005). While such goals may be conceived within organizations, it seems reasonable that influential externally imposed targets (such as the SDGs) likely can ignite and expand moral aspirations.

CONCEPTUAL FRAMEWORK

In this section, we will discuss the link between ethical leadership based on virtue and a pursuit of SDGs. Pursuing SDGs creates challenges for MNEs. Virtue ethics can enable them to respond to those challenges and navigate a complex business landscape.

The objectives set to achieve SDGs occasionally stand in conflict with each other. Objectives can also be interpreted differently depending on cultural/institutional context. In addition, it is not always clear to multinationals to what extent they should transform their organizations to align with certain SDGs. Recent observations suggest that companies can deal with these uncertainties by becoming more purpose-driven and establishing themselves as ethical leaders (George & Schillebeeckx, 2022). Ethical leadership may not be all-encompassing but may be confined to certain firm-relevant SDGs. Arguably, ethical leadership enables MNEs to take control over their own destinies rather than letting others dictate the norms and rules for sustainable development. MNEs that are trying to establish themselves as ethical leaders need to develop internal capacities that allow them to act in ways that are morally defensible over time and create behavioural patterns that are consistent with ethical challenges related to SDGs.

The achievement of internal and external benefits is often a key tension in organizations, as demonstrated by the structural conflict in H&M involving the conflict between climate goals and upholding a business model based on (excessive) consumption (Tarnovskaya et al., 2022). Fig. 1 describes sustainable development as a progression that is anchored in traits of virtue, defining ethical leadership. These traits of virtue are captured by the following dimensions: Candidness, consciousness, courage and compassion (cf. Chun's, 2005) review of organizational virtuous traits). We realize that there is a danger to pick and match between different traits when putting together a framework that reflects virtue since there is no general agreement which traits represent virtue, meaning that the framework cannot be claimed to be exhaustive. Candidness represents the honesty and openness of an organization which enables stakeholders to accurately assess its actions. Consciousness reflects the dependability of the firm, meaning that the organization will commit to goals and not fail to do the right thing even if there is opportunity for short-term gains. Furthermore, virtue requires the courage of an organization to act in accordance with its purpose and beliefs. Ethical leadership will meet pushback that takes boldness and determination to overcome. Lastly, virtue relies on compassion. To make morally just decisions, organizations need to be emphatic and aware of pressing matters experienced by individuals in the communities where they operate. Dealing with SDGs often implies tackling complex problems, meaning that doing the right thing in regard to one issue may occur at the expense of another issue (Doh et al., 2019). A virtuous stance does not imply flawlessness. Each ethical dilemma requires reflection. The heuristics used in facing dilemmas may thereafter be modified in a learning process that could further reinforce a firm's ethical leadership.

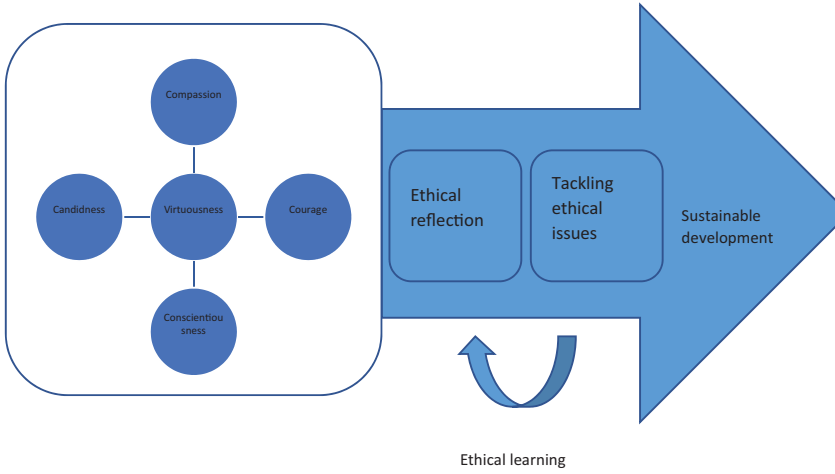

Fig. 1. Ethical Leadership in Sustainable Development.

METHOD

This study departs from an understanding that both conceptual and empirical research are required to shed light on MNEs' ability to pursue the UN SDGs. Earlier literature in the international business and management fields falls short of providing the required depth of understanding on how MNEs can strengthen their ability to manage ethical issues effectively and implement SDGs. Hence, while ethical leadership is a growing phenomenon, it is underexplored in the context of MNEs and their ability to exert such leadership.

The ambition of this chapter is to address these shortcomings and develop an analytical tool for assessing virtuous business operations, which may help MNEs to become immersed in specific SDG objectives and morally commit to such objectives. Hence, while our aim is partly conceptual, we use a qualitative case study to illustrate and develop our conceptual points. In designing this study, we consider that ethical aspects and behaviour related to MNEs' operations are sensitive areas to study. A qualitative case study approach was, thus, considered highly appropriate, and an effective tool to advance our theoretical and conceptual understanding on an underexplored phenomenon. We also chose to conduct a single case study, as one of its advantages as compared to multiple case studies is that such a case enables rich descriptions of a phenomenon that we do not yet know much about (Siggelkow, 2007).

The case company is theoretically sampled to capture the challenges of MNEs' implementation of sustainability practices. The global fashion company, H&M and its work on water use in the supply chain was chosen as a focus for various reasons. H&M is an example of an MNE that has documented experience of working on sustainability matters for a relatively long time-period in emerging markets. One of its largest production markets is in Bangladesh. To gain insights

on those management-related challenges experienced by an MNE in implementing sustainability practices, with a focus on SDGs, H&M and its operations in Bangladesh, thus, proved both interesting and relevant.

Data Collection and Analysis

The overall design of the data collection involves two phases. In 2019, we entered the first phase of our study. This phase focussed on conducting interviews with managers at the HQ level responsible for tasks and issues related to the company's sustainability work, including climate and water. The interviews were conducted in physical meetings. The aim of this first phase was to investigate the policies and codes of conduct relating to sustainability matters, learning about the company's overall strategy related to sustainability, and study the routines for interacting with local offices in emerging markets. We have specifically learned about what the company identifies as their main risk areas in emerging market operations as well as the rationale behind policies and roadmaps for change. In the second empirical phase, which began in 2020, we have focussed on the actual implementation processes of sustainability targets, often related to SDGs, in emerging markets. In this phase, we have conducted interviews with the local sustainability team in Bangladesh, to learn about their attitudes to sustainability programmes, possible mismatches between operations and strategy and stories about how sustainability projects have unfolded (e.g. related to water). The interviews conducted with the local sustainability team in Bangladesh were conducted via Zoom or Teams, and on most of the interview occasions, we met up with a team of two to four local managers helping us to gain an understanding on the chosen topic. We understood that the digital mode facilitated coordination and collaboration, especially in this emerging market context. For example, we were able to plan and set up video meetings with up to four participating local managers in the Bangladesh region despite them being situated at different local sites.

Primary data, in the form of 10 interviews with managers in the case firm, constitute the main data source in this case study. In both phases of data collection, we have, however, also used secondary data including company annual reports, sustainability reports, news articles, press releases and websites. The secondary data sources have served as anchor points in preparing the interview questions. The secondary data have also ensured the validity of the interview data and provided detailed knowledge regarding the sustainability work of the MNE, including knowledge on how sustainability activities are organized and implemented, relationships with different stakeholders, different ethical codes and commitments, etc.

To collect relevant secondary data, we have searched documents available through the MNE's website and used the database Retriever Business. In the Retriever Business database, we have searched for newspaper articles and press releases published from 2011 to 2021, using the keywords H&M, water, WWF. The search generated a vast number of items, and those considered most relevant for this study were downloaded and reviewed in more detail.

The interview questions that have guided all our interviews have concerned the organizational structure of the whole MNE, with questions on how sustainability

activities are organized at the headquarters level as well as implemented at the emerging market level. The questions have also covered how the MNE interacts and collaborates with different stakeholders and how different ethical codes and commitments are developed and implemented throughout the organization and markets.

To support rigorous data collection practices, each interview was recorded and transcribed. The transcribed interviews were analysed together with the secondary data documents. To make conceptual categorizations based on the data, we used an open coding strategy (Strauss & Corbin, 1990) anchored in our purpose and specifically our model dimensions (i.e. candidness, consciousness, courage, compassion).

FINDINGS

H&M was established in 1947, then as a single store for women's clothing called Hennes, located in Västerås, Sweden. Today, the company's operations span worldwide through both physical stores and digital channels. In 2019, H&M operated around 5,000 stores in 74 markets and e-commerce sites in 50 markets.

The H&M group emphasizes that the role of H&M from the beginning has been to democratize fashion by making it affordable to broader customer segments (H&M Group Sustainability Report, 2018). The sustainability vision of H&M is 'to lead the change towards a circular and renewable fashion industry, while being a fair and equal company' (H&M Group Sustainability Report, 2018). The value proposition to consumers 'fashion and quality at the best price' or the 'H&M way' implies that it is offered in the 'ethical, honest, and responsible way' (The H&M Way).

The company is dealing with substantial challenges in its production markets to deliver on this promise. Ever since the company was established, the H&M Group has outsourced its production. H&M has subcontracted operations to locally owned or multinational garment manufacturers, based mainly in Asia and Europe. Bangladesh is one of H&M's largest production markets. The H&M Group has 214 direct suppliers in Bangladesh; some of these suppliers in Bangladesh have collaborated with H&M for 20 years. In the production office in Bangladesh, the local sustainability team consists of 28 persons. The team members work solely on sustainability issues in this region, organized into an environmental team – focussing on issues related to water and energy use, and a social team – focussing mainly on issues related to living wages, industrial relations and skills development. While H&M works actively in all these areas, we will, for the purpose of stringency, focus on challenges concerning water usage and water management.

The Challenge of Water Management in Readymade Garment Production

Clean water is becoming an increasingly scarce resource. Climate change is causing new weather patterns around the globe, creating droughts in some areas and floods

in others. WWF states that in 2025, two-thirds of the world's population may suffer from water shortages (https://www.worldwildlife.org/threats/water-scarcity).

The fast fashion firms have gained a bad reputation for relying on innately unsustainable business models. By encouraging a high turnover of clothes, companies are pushing consumption to levels that are depleting resources and causing irreversible and negative effects on the environment. In the textile industry, water plays a particularly critical role. Water is required to grow cotton, to dye fabrics and create washed-out looks (https://about.hm.com/en/sustainability/sustainable-fashion/water.html). It takes about 10,000 litres of water to produce one pair of jeans using conventional manufacturing practices (https://unfccc.int/news/un-helps-fashion-industry-shift-to-low-carbon). While textile supply chains are heavily dependent on water, many production and processing sites are in the world's most water-stressed and polluted river basins.

Water is central to sustainable development and to have a dedicated SDG on water is important for guiding users of water resources towards sustainable management. The article also put forward that 'There's a strong business case for the fashion industry to manage its water footprint', but the real business case for responsible water stewardship is not about profit and loss, but about brand reputation. As the article 'Green with shame' in The Economist (2019) emphasizes, fashion companies are beginning to feel obliged to show that they are doing something to clean up their act.

In the case of H&M, excessive water use and toxic water are examples of areas where H&M's operations have negative effects on the environment. In this chapter, we will focus on water use which relates to SDG 6. Water is very important but challenging in the context of Bangladesh. The H&M sustainability team in Bangladesh asserts that ground water is rapidly decreasing in the country, which could lead to an environmental and economic catastrophe if not mitigated. The deeper actors drill for water, the more contaminated the water becomes.

Local H&M employees realize that water depletion in H&M may have severe consequences both for the local community and for business. If water sourcing is not handled with greater effectiveness and greater care today, the company will have fewer options for water sourcing in the future.

H&M and Water Management in Bangladesh

H&M Group and WWF entered a partnership in 2011, focussing on water stewardship. The goal that H&M has formulated around water stewardship was ambitious, that is, to become a leading water steward within the industry (https://hmgroup.com/wp-content/uploads/2021/01/HM-group-calling-the-industry-to-join-forces-on-water_EN.pdf). In the H&M's Conscious Actions Sustainability Report (2012), the collaboration with WWF was described as a game-changing water partnership. In the three-year partnership they set out to work towards implementing 'a holistic water stewardship strategy that aims to be a game-changer for our industry and beyond'. WWF explained that:

> The partnership between WWF and H&M Group is founded on a joint vision for a sustainable future for people and nature. The purpose is to address key environmental impacts in the

> H&M Group's value chain, with a special focus on water, biodiversity and climate. Our work also aims to lead and inspire other companies within the fashion industry but also beyond, towards solutions that keep within the boundaries of our planet. (https://www.wwf.se/foretag/samarbeten/hm/)

The partnership was the first of its kind, as it took the whole supply chain into account and went far beyond the factory lines. In the business press, the collaboration received substantial attention at the time when it was launched. In the *Guardian* (2013), the article 'H&M: an ambitious new water management strategy?' suggests that what makes this water management strategy unique is H&M's explicit commitment to engage others, through a holistic approach. At the same time, the article emphasizes that the holistic approach is connected to some big challenges, as working across industry is not easy.

The strategy itself included 30 water-connected objectives and activities in five different focus areas: raising awareness around water, increasing knowledge about water impacts in the value chain, internal actions around water management, engaging external stakeholders and influencing governments on water policy.

In 2016, the partnership expanded to include climate action and a strategic dialogue related to H&M Group's and the fashion industry's broader sustainability challenges and opportunities – signifying an important step towards a more sustainable fashion industry. In April 2017, H&M Group announced a new climate strategy that had been developed in collaboration with WWF and entered WWF's global program Climate Savers. By working together, combining expertise and leadership and taking a holistic approach on water, climate and strategic decisions, H&M Group and WWF sought to accomplish real change. As H&M Group is a leading player in the fashion industry, they have the position to influence suppliers, customers and other brands in their industry to become more sustainable. Further, the partnership wants to showcase to other companies, within the textile sector and beyond, that focussing on more sustainable practices is both feasible and valuable for business.

While the water stewardship strategy covers several locations, Bangladesh is considered the most important. Hence, by not only taking responsibility for its own actions but also for the industrial development at a larger scale for ready-made garments in Bangladesh, H&M set the aim high. One of the main challenges related to water usage in Bangladesh is that water is not a valued resource. On the contrary, the availability of water is taken for granted by people in business and civil society. Because ground is still not exhausted, and it is possible to extract it, there are no (short-term) economic gains to be made from recycling or using water more frugally and efficiently. H&M needs to explain to relevant actors that time is running out; unless behaviours are changed rapidly, everyone will have to pay for it in the future. The local sustainability team in Bangladesh emphasize that water is not perceived as a valuable scarce resource in the country. Hence, attitudes need to change.

To a large extent, water malpractices are associated with lack of information and knowledge. H&M has detected an opportunity to ramp up on their focus activities including improving subcontractors' knowledge about water, making them understand how water impacts the value chain. Working closely with

managers on these issues is viewed as more effective than trying to negotiate with the government to push for new water-related policies. In fact, laws and regulations related to water are poorly enforced and are viewed to have a weak impact on actual environmental practices in Bangladesh.

According to respondents, change must be instigated and developed from the business side. H&M believes that the company needs to unite international brands in Bangladesh around improved water management practices. If international brands recognize the problem, the leverage will increase, and subcontractors may follow suit.

H&M as a Water Steward

Aspiring to become a water steward implies engaging others and driving change that, potentially, can bring broad and long-lasting impact to the local market. Both at the headquarters level and at the local level in Bangladesh, H&M employees assert that they are ahead of other brands in the development of responsible water management. While the company has stepped into a leadership position, other are lagging. An important challenge in the work on water stewardship is that it requires multilateral collaboration in the local market, involving both factories and competitors as potential partners in sustainable development. H&M believes that the company has the capacity to include these actors in activities relating to water management through leading by example. The reason H&M would be equipped to do so is partly because of its size and partly because of its knowledge about operations related to water. One of the local team respondents explained that H&M is taking on a leadership role for water management in Bangladesh.

For the water stewardship mission to become credible, H&M has decided to be result oriented. The firm is formulating targets to make it possible for itself and others to assess performance and discern progress. Formulating targets is ongoing work that creates touchstones for everyday practices and operations. The targets are used to estimate performance and discern progress.

Hence, water-related goals are broken down into milestone achievements which reflect achievable progress. H&M is implementing water and chemical management standards at over 500 suppliers in the supply chain. H&M has realized that it needs to be clear about rules and targets related to water management in its communication with subcontractors.

To demonstrate progress in water management, H&M can report several successful cases of developing new standards and new production methods. Actual outcomes of these activities are, however, more difficult to measure and report. While H&M focuses on fostering capabilities and progressive spirits of competitor brands, the firm cannot fully control actual outcomes of these concerted efforts. The generally held idea is that advocacy of SDG 6 eventually is going to spill over onto changed attitudes and capacities, enabling local actors to manage water more effectively.

Stepping into a leadership position in water management implies challenging current practices and shared beliefs in local markets. In Bangladesh, for example,

respondents assert that careful use of water is not a priority among managers in factories. The H&M respondents claim that managers will only listen and become responsive to H&M's requirements if they see a business case.

H&M realizes that by being a large influential company it, indeed, has the leverage to drive change. H&M realizes that the requirements placed on suppliers need to be aligned. Since H&M shares subcontractors with other international brands, coordination across these relationships is warranted. By agreeing on standards, H&M and its partners can send a convincing message to suppliers. The pool of international brands in Bangladesh is diverse, ranging from small firms to large players, the latter sometimes being competitors of H&M. H&M is widely proposing that other firms join them in water management initiatives regardless of competitive dynamics. The local team explain that there is regular and ongoing communication with other brands about various initiatives. Shared platforms are set up at the local market level for collaboration.

Progress in local collaboration is reportedly slow; however, some significant wins have been recorded along the way. This is manifested, for example, by broad agreements where 30 international brands have agreed on a zero discharge of heavy metals. H&M has also been part of forming the Water Resource Group which is a collaboration between international brands such as Coca Cola and Nestle as well as NGOs (WWF) and local government agencies. One of the main aims of the collaboration is to enhance water valuation by raising awareness of the impact of water consumption in terms of the quality and quantity of water. It also gives an opportunity for citizens to gain insight into and participate in innovative systems for water recycling and reuse.

DISCUSSION AND CONCLUSION

By aspiring to a leadership position in the responsible use of water, H&M is not only setting out to legitimize its operations and its business model but also to reframe its purpose as a firm. That is, H&M is positioning itself as a representative for a new business order that does not only focus on short-term economic gains but pays attention to the context where business is carried out. The effort builds on the premise that a problematic legacy does not stop a business from stepping into the role as a force for good. However, H&M is dealing with colliding logics since its business is dependent on a consumption culture which demands high volume production of fashion which needs to be reconciled with care for the planet. H&M has chosen a pragmatic approach and not changed the core of its business model which has drawn criticism from stakeholders. The firm is instead aspiring to use water in garment production more responsibly, arguing that this is the more realistic way forward.

H&M started out its journey towards sustainable development from a situation where basic operations were grossly misaligned with SDG 6. Running operations that are harmful for the planet and its inhabitants have made the public, predominantly consumers and media, question the very business model that H&M operates. Consequently, H&M has been pressed to make a turnaround.

The new, more sustainable, approach to production is reflected by expressions that are closely linked to virtue ethics. From this perspective, the firm is committed to be a force for good (e.g. transform the fast-fashion industry), rather than just mitigate harm. Actions needed in accordance with virtue ethics are, in a condensed conception, reflected by traits of candidness, conscientiousness, courage and compassion (adapted from Chun, 2005).

Candidness can come in different forms, all the way from carefully crafted public relations strategies to indiscriminate disclosure to stakeholders of information-related firm conduct (Elg et al., 2015). Virtuous forms of candidness, however, are reflected by a willingness to be open about information relevant to stakeholders which may concern both successes and setbacks (Sendlhofer & Tolstoy, 2022). H&M is moving towards virtuous candidness in its ambitions to create performance measures and targets related to effective water usage. The firm's performance, in this respect, can be easily tracked by stakeholders. The case shows that H&M is setting ambitious targets and, thereby, enabling external stakeholders to hold them accountable. The main reason for being open about performance is to inspire other actors such as competitors and policy makers in the local market. By showing progress, H&M shows that change is possible. However, targets constitute a weak mechanism for long-term progress since they are not externally sanctioned and change over time, which limits accountability.

Conscientiousness reflects a virtuous stance not only to act in accordance with principles under certain circumstances but also to stay true to convictions and the overarching vision (George & Schillebeeckx, 2022). In the H&M case, this is reflected by a long-term commitment to the SDG tied to water management. It is also reflected by initiatives that are carried out even though they are met by pushback from local stakeholders. The case shows a long-term commitment to improve water management in Bangladesh on a range of different issues: frugal water use, reduction of chemicals and water recycling. H&M has not received any backing for these initiatives from the local government. Lack of constructive dialogue at the government level has led H&M to focus on factories where there has been limited responsiveness to the need to manage water more carefully. At the local level, there is a clash between the objective of caring for water as a resource and the objective of operational effectiveness (Bondy et al., 2012; Elg et al., 2015). The issue that water is not considered a scarce resource is expressed as the biggest roadblock to progress in the market. H&M is dependent on coalitions with other international brands to enforce compliance with new practices. From a conceptual standpoint, conscientiousness is a mechanism for consistency and the ability to move forward even in times of adversity. H&M is gathering knowledge from the numerous projects it is involved in and using this knowledge to improve operations across its production network. Conscientiousness reflects an ethical leadership quality in the sense that it can enable a firm to break new paths. Once the path is broken, other actors (i.e. competitors to H&M) may follow suit (Nylund et al., 2021).

Courage is represented by H&M contesting current practices of how water is used in the industry. In this sense, H&M is a norm breaker that through its size and knowledge seeks to disrupt production practices in Bangladesh. While in

previous studies size has been identified as an indicator of compliance to SDGs, it also exposes companies to scrutiny (Montiel et al., 2021). Ethical leadership cannot, however, be based on resources only but needs to be fuelled by intrinsic motivations of fulfilling an innate purpose (Moore, 2012). Arguably, courage needs to be coupled with some level of risk that the firm is willing to take to stand up for its ideals. The initiatives taken by H&M are not bold in the sense that they challenge financial objectives of the firm. Operational improvements are incrementally implemented, and H&M has no internal accounting systems to charge failures to meet water-stewardship targets as costs.

Compassion is a key trait and determinant for virtuousness. It is here stipulated that compassion, from an ethical leadership perspective, is linked to a firm's sensitivity to local stakeholders and its ability to marshal them to orchestrate change at the local market level. The compassion aspect is missing in current perspectives on orchestrating stakeholders in pursuit of SDGs (Nylund et al., 2021) but could, indeed, add explanations to how ethical leadership is exerted. To act in a way that is beneficial for society at large, the company needs to be insightful about the consequences of its actions. Tackling social problems puts high requirements on a firm to pay attention to numerous scenarios that could follow its courses of action, ultimately affecting individuals. Compassion steers a firm away from dependence of doing good by merely abiding by rules (e.g. duty ethics) and may reinforce employees' intrinsic motivation to pursue sustainable development (Moore, 2012). The study shows that respondents, indeed, are aware of the critical economic importance of the ready-made garment industry for the nation of Bangladesh and realize that water management can only be successfully implemented if individuals realize the importance of adopting new mindsets and practices. Raising public awareness is identified as a key course of action but also a way of shifting focus of the firm's own responsibilities of operating in a market where compliance to sustainability standards is weak.

The findings indicate that ethical leadership can be fruitfully conceptualized as a function of virtual traits. However, firms do not just slip into these traits; they need to be earned. This may occur through a process where an organization sets out on a mission which allows the company to transform. H&M seems to be in the early stages of this transformation where through various initiatives it is establishing new production practices that have few but notable spillover effects on the readymade garment industry in Bangladesh as a whole. It is plausible that ethical leadership grounded in virtue can enable firms to orchestrate local actors and shape market practices in a way that is viewed as credible. However, this approach needs to permeate the organization as whole which is not possible when different logics (business and sustainability) are in conflict.

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CHAPTER 8

SWEDISH MULTINATIONALS AND SUSTAINABLE INNOVATIONS FOR TRANSFORMATION: THE DOUGHNUT MODEL*

Saad Ghauri

ABSTRACT

This qualitative study explores how multinational enterprises (MNEs) approach sustainable innovation through the lens of innovation theory and doughnut economics. The study proposes a conceptual framework to evaluate the practices of businesses and the findings illustrate how sustainable innovation occurs within two MNEs. Based on interviews with professionals of two Swedish MNEs, responsible for sustainability, the study examines how sustainable innovations lead to the redesign of core business pillars and transforms the operating market for the MNE. Overall, this study makes a theoretical contribution by formulating an application of Raworth's (2017) doughnut model to business strategy. It also provides practical insight into the dynamics

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of sustainable innovation, which aims to inform and inspire further progress in sustainable development by businesses and academia.

Keywords: Sustainability; innovation; sustainable innovation; doughnut economics; multinational enterprises; regenerative business

INTRODUCTION

In 1987, the Brundtland Commission Report defined sustainable development as one 'that meets the needs of the present without compromising the ability of future generations to meet their own needs' (United Nations, 1987, p. 37). Humanity today consumes the equivalent of 1.7 planets to provide the resources necessary to produce goods and absorb waste (Global Footprint Network, 2020). We are already experiencing threats to human lives and natural habitats from the climate crisis, primarily due to excess carbon emissions and the mismanagement of natural resources. The causes and consequences are often interlinked but the impacts far reaching. Sustainable development, therefore, requires governments, businesses and citizens to act and make systematic changes to reduce carbon emissions. This requires a mindset shift, as organizations and individuals need to consider the impact across the interests of all stakeholders.

Topple et al. (2017) recognize the importance of the private sector in solving these challenges, MNEs in particular, are considered powerful actors that can play a role in addressing sustainability (Ghauri et al., 2021; Wood et al., 2021). Caiado (2018) highlights the lack of clarity for MNEs to understand mechanisms, measurements and tangibility in achieving sustainability. Although research on specific sustainability topics, such as corporate social responsibility, environmental impact and ethics is present, there is little research to support business strategy for overall sustainability. Christ and Burritt (2019) argue that the field of sustainability requires further engagement from businesses and academics to generate knowledge in this area.

The recent conception of doughnut economics by Raworth (2017) has been adopted by some policymakers to create a safe space for humanity by developing sustainable strategies that seek to meet societal needs, within planetary boundaries (O'Neill et al., 2018). The model stresses that decision-making to improve the needs of society needs to consider ecological limitations to ensure a sustainable future for humanity. The role of businesses is considered instrumental within doughnut economics and the model has been expanded to propose a redesign of core business pillars, defined as purpose, governance, networks, ownership and finance (DEAL, 2020). In support, Roggema and Dobbelsteen (2012) emphasize that transformative innovation is needed to lead to systematic change. While the principles of doughnut economics emphasize the importance of business for sustainable development, little research has been conducted to develop theories that combine doughnut economics with business sustainability and innovation. This study seeks to offer a theoretical contribution by

developing an application of doughnut economics through business strategy, supported by an adaptation of established innovation theory.

There is pressure on MNEs to deliver a positive impact across wider stakeholders (Webb et al., 2010). This has led to businesses developing sustainable strategies and innovations with little precedence or guidance. Attempts towards sustainability are often faced by criticism of being incremental, low impact or even superfluous and disingenuous. A lack of guidance, transparency, insufficient global coordination, fear of failure and financial pressures often hamper ambition and progress.

Although several studies are now available on sustainability and sustainable innovations, most of these studies are of a conceptual or exploratory nature and lack solid theoretical underpinning. Through the theoretical lenses of sustainable development, doughnut economics and innovation – the aim of this research is to develop an understanding of how Swedish multinationals develop sustainable innovations and whether those innovations can lead to transformation. This study will contribute to the research gap of MNE-led sustainability efforts, as well as practical insights that can be adopted by sustainability practitioners who seek to make a positive impact through MNE-led sustainable development. The research focusses on the following research questions:

- Whether multinational companies are working to develop transformative sustainable innovations or not?
- How are the companies developing such innovations?
- What are the dynamic challenges these companies face while pursuing sustainable innovation?

THEORETICAL BACKGROUND

Innovation for Sustainable Development

This study seeks to understand the process of developing sustainable innovation within MNEs. Multiple definitions or interpretations of innovation exist across academic literature. Schumpeter (1934) defined it as the creation of new combinations, characterized by its application, whether as an invention or process. Bozeman and Link (1983) also discuss innovation as the application of something new. This is developed further by Link and Siegel (2007) in their interpretation that the application of new technology represents innovation. While the definition of innovation is often nuanced and debated, in the context of this study, it can be simplified to represent the development and application of something new, which is closer to Schumpeter (1934).

This research considers the importance of innovation, not only to tackle the grand challenges facing our society but also for the viability of businesses in the new reality. Porter (1990) discusses how ‘a company should seek out pressure and challenge’ to achieve competitive advantage (p. 585). While Cheam (2015)

goes on to discuss that innovation is the only form of sustainable competitive advantage available to organizations.

It is important to consider what sustainable innovation seeks to achieve, Chaminade et al. (2018) discuss the concepts of different levels of sustainability and their relevance to innovation and transformation. Firstly, weak sustainability addresses actions that seek to innovate while maintaining economic growth and the use of technology to compensate for any losses to natural capital. This approach seeks to address immediate societal needs, while reducing the negative impacts on the planet (Chaminade et al., 2018). Yet, by tackling just the immediate needs, this approach can often fail to acknowledge the detrimental impact of excessive production, consumption and growth. In contrast, strong sustainability looks to address radical change, advocating for transformation that challenges existing systems through experimentation, directionality, demand articulation and learning. Such transformation often requires the total redesign of business models (Raworth, 2017), and Chaminade et al. (2018) argue that such action is required to progress sustainable development in a way that supports our ambition to live within the safe space for humanity (O'Neill et al. 2018; Chaminade, 2021).

Several studies have attempted to explain change and the terminology of transformation. Grin et al. (2010) frame transformation as a form of transition pathways, representing a diversion within an existing system. While Roggema and Dobbelsteen (2012) differentiate between incremental change, where small changes occur slowly over time. Transitions could also be considered operating within specific subsystems, whereas transformations occur across multiple socio-technical systems (Hölscher et al., 2018; Kriegler et al., 2018). This research will seek to determine how businesses are approaching sustainable innovation and whether such innovation is transformational in its aims. Geels' (2002) multi-level perspective acts as a relevant framework for consideration in this context. The multi-level approach is represented by three central layers to a system: the 'regime' as the existing socio-technical environment, the 'landscape' as external pressures and 'niches' as spaces for experimentation which interact with the existing regime.

The socio-technical regime represents the status quo of a system and encompasses a variety of different properties, from infrastructure and techno-scientific knowledge to culture and sectoral policy. Landscape developments signify external factors that influence and impact change within the regime; however, the regime and/or actors within the regime can also engage externally to inform and instigate landscape developments that then go on to be applied to the regime, suggesting a two-way flow of influence and impact. Combining the literature discussed above, transformation with the multi-level perspective can illustrate how sustainable innovation occurs. The combination of transitionary and incremental changes can lead to system transformation over time, while transformational change rises from innovation occurring within niches that are able to successfully disrupt the existing regime (Geels, 2002).

This study explores the sustainable innovations driven by MNEs operating within their established regime. MNE's can be considered incumbents within

existing socio-technical systems and resistant to any disruption of their established regimes. Yet, due to landscape pressures, MNEs are beginning to innovate within their niches in anticipation of regime disruptions. These landscape pressures can range from regulation, changing competitive landscapes and shifting societal values (Geels, 2002). Today, MNEs are significant influencers in the attempts for innovation to address economic, social and environmental challenges (Van Zanten & Van Tulder, 2021).

Doughnut Economics

Rockström et al. (2009) outline nine interdependent planetary boundaries of the system processes on Earth and the respective environmental boundaries to sustain humanity, climate change, ocean acidification, ozone depletion, biogeo-chemical flows, freshwater use, land-system change, biodiversity loss, chemical pollution and atmospheric aerosol concentration. The first seven of the nine boundaries are currently quantifiable and provide scientific guidance on the health of the planet. For example, some key planetary boundary processes have already exceeded their boundaries: climate, ocean acidification and the ozone layers (Steffen et al., 2015). The overshoots and the overconsumption of resources continue to accumulate and, as a result, place our planet under significant pressure (Carpenter & Bennett, 2011; Rockström et al., 2009). Several social boundaries represent the societal needs and the inner ring of the doughnut. This provides an indication of resource deficiencies that impact human well-being, for example, education, energy and equality (Raworth, 2012).

Mapping these social and planetary boundaries together seeks to develop an understanding of how humanity can thrive sustainably and inclusively. This combination has led to the development of 'the doughnut' as a model to identify and navigate towards a safe space for humanity and the planet (O'Neill et al., 2018) (Fig. 1). The doughnut model has often been adopted by policymakers as a framework to develop sustainable economies that seek to meet the needs of citizens.

However, while businesses are key to the ambitions of maintaining a safe space for humanity, little academic work has been done to apply the principles of the doughnut to the business practices. Raworth (2017) outlines how businesses can operate in an economy within the doughnut by transforming towards regenerative business models. Firstly, the behaviours and responses of businesses can be mapped across five categories: doing nothing, doing what pays now, doing the fair share, doing mission zero and doing the doughnut, which Raworth (2017) refers to as the 'Corporate To Do List'. Each category within the list acts as a step on a business's journey towards a regenerative business model (Table 1).

This journey from extractive to regenerative business models is key to businesses 'doing the doughnut'. Yet, Raworth (2017) emphasizes the urgency and importance of businesses to transform, rather than manoeuvre step by step through the list. To support such transformation, the Doughnut Economics Action Lab (DEAL) proposes businesses focus on the redesign of the key pillars

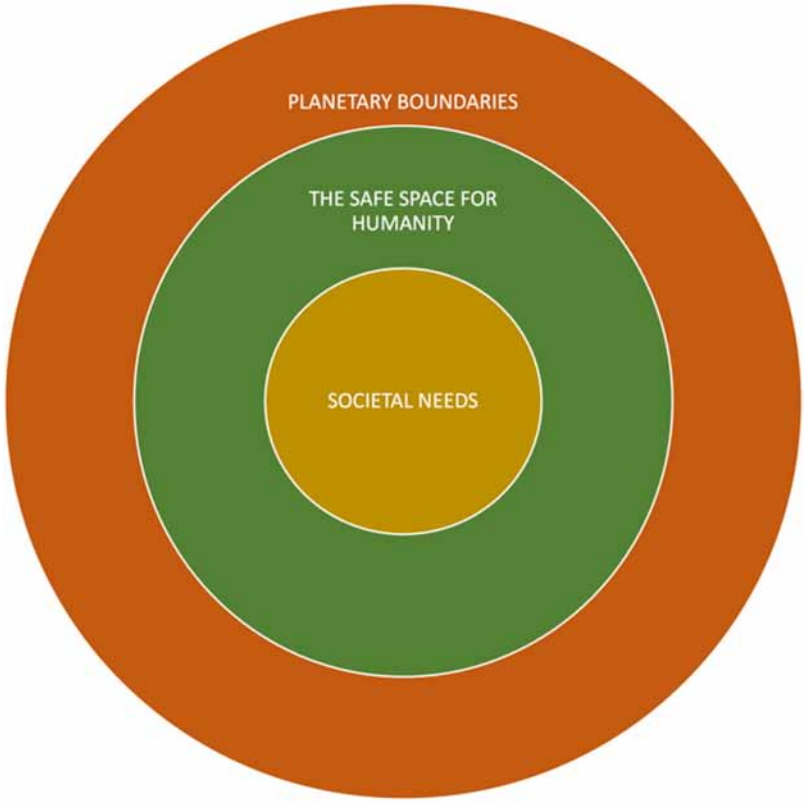

Fig. 1. The Doughnut. *Source*: Adapted from Raworth (2012).

Table 1. The Corporate To Do List.

Do nothing	Business-as-usual, profit maximization, shareholder value prioritization
Do what pays now	Adopting sustainability measures that generate return on investment
Do our fair share	Acknowledging the need for change, assuming a subjective level of responsibility within existing business model
Do mission zero	Do no harm, aiming for net-zero impact, do less bad
Do the doughnut	Regenerative business design, make a positive impact on nature and society

Source: Based on Raworth (2017). This is an interpretation of theory, not an adaptation of a figure.

of business: Purpose, Networks, Governance, Ownership and Finance (DEAL, 2020). Table 2 details the thinking behind each pillar and questions how businesses can redesign them (DEAL, 2020). To date, research has failed to examine whether businesses are approaching sustainable transformation according to the

processes outlined by Raworth (2017) and DEAL (2020) and how businesses are mapped against the journey from extractive to regenerative.

CONCEPTUAL FRAMEWORK

The study argues that sustainable innovation delivered by MNEs can support transformational change (Geels, 2002; Roggema and Dobbelsteen, 2012). However, to do so, businesses need to map their journey towards regenerative business, through the lens of Raworth's (2017) Corporate To Do List. This would facilitate the progress towards 'doing the doughnut' by undertaking sustainable innovation that transforms the key business pillars through redesign, as detailed in Table 2.

Through the combination of Geels' (2002) multi-level perspective, Raworth's (2017) generative business models and DEAL's (2020) redesign of business pillars, the research examines whether the innovations developed by MNEs contribute to the redesign of business pillars, how they do so and whether as a result they can expect to drive a transformation of an existing regime.

The conceptual framework seeks to visualize the role and impact of sustainable innovations on the MNE and its' surrounding market. Moving from the left of the conceptual framework to the right (see Fig. 2), it considers that any MNE-led sustainable innovation seeks to redesign one or multiple business pillars. The resulting redesign of pillars is expected to result in the transformation of one or many properties of the market and as such, those transformations result in sustainable systematic change. The application of the conceptual framework is further discussed in the methodology below.

Table 2. DEAL and Doughnut Economics Pillars of Business.

Purpose	The reason for a organizations' existence and what it seeks to achieve
	Redesign: Does the purpose serve the needs of just the business, or does it address value beyond itself?
Networks	The map of stakeholders and connections to a business. The networks surrounding the business should align to the purpose and values to offer a supportive culture
	Redesign: Do the networks align to the purpose and values?
Governance	The incorporation of purpose across the decision-making process and the persons involved
	Redesign: Who is involved in decisions making? How are decisions made? How is progress measured? Is purpose safeguarded?
Ownership	The ownership of land, data, knowledge and assets of the business
	Redesign: Does ownership dictate the purpose? Who owns the successes and failures?
Finance	The financing of the business and the resulting modus operandi that results
	Redesign: What does the financing demand? Does finance serve the purpose, or vice versa? How is finance measured?

Source: Based on DEAL (2020).

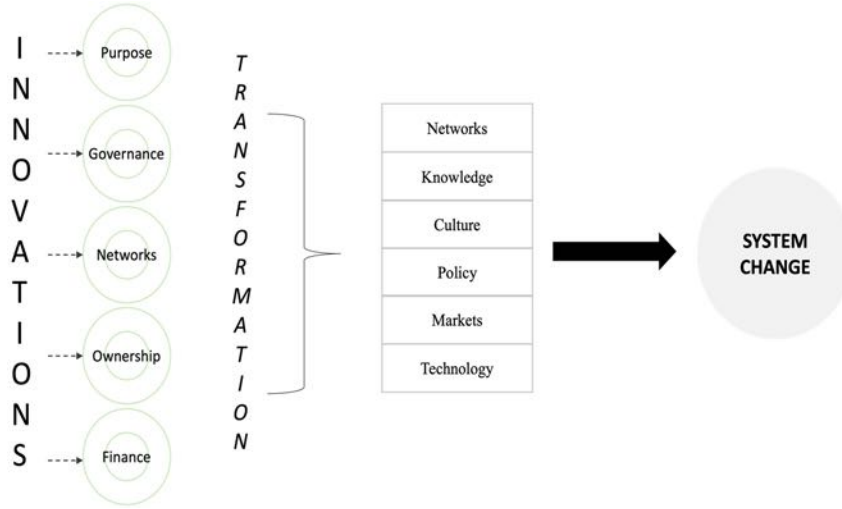

Fig. 2. Conceptual Framework: Business Pillars and Transformation.
Source: Based on DEAL (2020), Geels (2002) and Raworth (2017).

METHODOLOGY

Based on Bryman and Bell's (2003) guidance on occurrences that are evolving and indefinite, in that the dynamics being researched are constantly subject to change and subjective to a variety of contexts, the design is interpretivist and phenomenological. The resulting research subjectivity will be intertwined within the design and execution of the research, as well as in the interpretation of the findings, and allows the conclusions to evolve from the process rather than be restricted to a hypothesis. As research on the topic is relatively underdeveloped, the aim is to develop an accurate and insightful understanding of the real-life dynamics (Eisenhardt and Graebner, 2007; Doh, 2015).

The use of a case study approach supports exploratory research that seeks to answer the how and why questions (Ghauri et al., 2020; Yin, 2009). Semi-structured interviews with sustainability professionals from Swedish MNEs are used for data collection. The pre-designed lead questions, emerging from the research questions and the conceptual framework with an open scope to enable respondents to expand and for follow-up questions to evolve, are used. The prepared questions focussed on asking the respondents how sustainable innovation occurred and brought in findings from the secondary research to add further context to the discussion. The flow of the interview was allowed to develop as the conversation went on. As suggested by Ghauri (2004), every step of the process and the interactions have been documented and recorded to provide transparency.

To address the logistical feasibility of the study, companies with a notable Swedish presence have been considered. The networks and connections of Lund

University were used to locate Swedish MNEs that were willing to participate. These potential companies and individuals were contacted via the LinkedIn messaging service and/or e-mail. The study's feasibility was not the only criterion in creating the list of companies to research; the relevance to sustainability has also been considered. In the overall rankings of United Nations' Sustainable Development Goals (SDGs) performance, which measures a nation's progress towards the SDGs, Sweden ranks second out of the 193 nations of the United Nations (Sachs et al., 2021). At a corporate level, several different sources have been examined to identify potential companies to study. For example, The Sustainable Brand Index is a European-wide brand survey, which provides a country-level ranking of consumers' sustainability perception and in the most recent ranking by Swedish consumers, IKEA ranked top (SB Insight, 2022). Through the process of exploring and contacting companies from the above-mentioned rankings and other databases, interviewees were secured with IKEA and Tetra Pak.

The relevance of individuals is established through keyword searches within job roles including, but not limited to, 'sustainable', 'sustainability' and 'innovation'. The intention of the study is to interview sustainability professionals working for two MNEs located in Sweden to provide in-depth insights. A relevant and knowledgeable individual from each company was interviewed (see Table 3). A single individual from each company was deemed sufficient due to their seniority, degree of oversight and relevance to the research questions. Both interviewees were manager level or higher, with a responsibility focussed on sustainability within both companies. Each interview was conducted virtually, via video-call, took 60–90 min and was audio recorded and transcribed. The transcriptions were then sent to the interviewees for their endorsement. The data gathered were supported by secondary sources, such as annual reports, sustainability reports and media publications.

Tetra Pak was founded in Lund, Sweden, and, since 1981, has been headquartered in Lausanne, Switzerland. In 1991, Tetra Pak acquired Alfa Laval, and in 1993, the business was reorganized, with Tetra Laval acting as a group holding company, within which Tetra Pak operates. Around 35,000 employees work across the Tetra Laval group, of whom around 25,000 work at Tetra Pak. Tetra Pak retains a notable presence in Sweden, with around 500 employees and €1.85 billion of reported revenue (Dun & Bradstreet, 2022).

IKEA was founded in 1943 and is currently headquartered in the Netherlands and Liechtenstein but was historically developed and established in Sweden, which is still represented in their company culture today (IKEA Culture and

Table 3. Overview of Respondents.

Company	Role	Role Description	Remit
IKEA	Head of Sustainability Innovation	Leads the team responsible for developing and piloting sustainable innovations	Global
Tetra Pak	Sustainability Transformation Manager	Responsible for communicating the value of sustainable innovations to customers and customer-facing teams	Europe

Values, 2022). IKEA is represented by 225,000 co-workers, of which 14,000 are employed in Sweden (IKEA, 2017). Revenue figures separated by region were unavailable.

Data Analysis

Miles and Huberman (1994) suggest three elements for analysis; using data reduction to generate categories, themes and patterns, organizing and then compressing that information through data display, which then finally enables deductions and conclusions (Boyd et al., 1985). Findings from the interviews and secondary sources are analysed and structured through the lens of the conceptual framework and, in particular, the pillars of business (Raworth, 2017).

In the analysis of the findings, first the characteristics of the MNEs being studied are mapped against the Corporate To Do List presented in Table 1 to establish the foundation of where an MNE is anchored today and how sustainable innovation can support transformation. The findings are then examined through the conceptual framework, where sustainable innovations developed by MNE's are mapped against the business pillars to determine whether and how those innovations aim to or result in a redesign of the pillars. Fundamental to the research is the understanding of whether sustainable innovations and the resulting redesign of business pillars lead to transformation of the status quo or whether it can be expected to in the future. The status quo and any resulting transformation to it can be evaluated by attempting to identify whether market properties, such as culture, policy or technology, have altered. In essence, the research identifies whether innovations flow from the left towards the right of Fig. 2 by incorporating an analysis of innovation against the business pillars of MNEs and how innovations impact the properties within the status quo because of the business pillar redesign.

FINDINGS

Mapping the Corporate To Do List

At IKEA, a variety of ambitions and goals define their recognition of the climate crisis and their own role within that. These are anchored by their sustainability ambitions for 2030, which focus on three key aims (IKEA Sustainability, 2022).

- To inspire and enable 1 billion+ people to live a better everyday life within the boundaries of the planet.
- To become circular, climate positive and regenerate resources while achieving business growth.
- To create positive social impact across the IKEA value chain.

In IKEA's People and Planet Positive (2020) strategy report the path to achieving their sustainability ambitions are further elaborated, with three key areas of focus outlined. Climate change, unsustainable consumption and inequality are

identified as interlinked topics that support their sustainability ambitions. All these topics offer a frame of context for IKEA to focus their attentions and redesign their business to be 'People and Planet Positive'. Importantly, IKEA also recognizes its role as a leader and inspiration for change. Emphasizing their scale, reach and impact as tools for positive change (IKEA Sustainability, 2022):

> No method is more effective than a good example. Ingvar Kamprad, IKEA Founder (IKEA Sustainability, 2022, website)

Within the topic of climate change, IKEA has been measuring the climate footprint across their value chain and working towards reducing it against their 2016 baseline. The methodology used follows the Greenhouse Gas Protocols, a measurement and accounting standard for emissions (Greenhouse Gas Protocol, 2022), and includes scope 1, 2 and 3 emissions. Scopes 1 and 2 refer to the emissions generated through the internal operations of the business, while scope 3 requires a business to measure and assume responsibility of impact throughout its supply chain, from the suppliers of raw materials, through to a products' end of life when it is in the hands of a consumer and beyond. These measurements form the foundation for IKEA's 2030 sustainability ambitions within climate change, through commitments to transform into a circular business, support regeneration and biodiversity and be climate positive by halving net greenhouse gas emissions from the IKEA value chain by 2030 (Inter IKEA, 2022).

To address unsustainable consumption, IKEA focusses on offering 'healthy and sustainable living' solutions (IKEA People and Planet Positive, 2020, p. 12) to inspire people with affordable and attractive options across energy, food, water and air. Already, IKEA has publicized the introduction of products that aim to address waste, renewable energy and water and energy efficiency, as well as the introduction of a set of design principles that comprise, but are not limited to, quality, low price and sustainability. This progress is measured by IKEA against their 2030 ambitions to redefine and inspire sustainable consumption by offering products and solutions that aim to enable society to live healthier, safer and more sustainably.

IKEA claims that the company aims to tackle inequality through a strategy of fairness and equality throughout its value chain. It states that it is working closely with suppliers to ensure compliance to the IKEA IWAY code of conduct, which aims to ensure human rights and good working conditions. Across IKEA's sustainability strategy, the need for change and responsibility of the business is acknowledged. The strategy is developed upon a variety of both internal and external frameworks, including the Greenhouse Gas Protocols, the United Nations' SDGs, the Paris Agreement and science-based targets.

Within Raworth's (2017) Corporate To Do List, these actions and commitments could be considered to sit within a business's approach to 'Do Their Fair Share', whereby the need for change is acknowledged and a level of responsibility is undertaken within the existing modes of business. Based on these findings, it is possible to map IKEA's practices as approaching 'Doing Mission Zero' within Raworth's Corporate To Do List, with clear indication of IKEA reducing harm, lowering impact and striving for net zero. In certain areas, IKEA is delivering on

commitments and making progress beyond this stage and closer towards 'Doing the Doughnut'. For example, the development of circular product assessments to ensure the entire IKEA product range adheres to circular design principles by 2030, all IKEA-owned factories using 100% renewable energy and 70% of material usage in products now being renewable or recycled (IKEA Sustainability Report FY21, 2022). And while the 2030 commitments and goals at IKEA focus on halving net emissions, the most recent sustainability report commits to reaching net zero by 2050 (IKEA Sustainability Report FY21, 2022).

Tetra Pak's mission and sustainability strategy is anchored in its purpose to make food safe and available, while protecting food, people and planet (Tetra Pak Sustainability Report, 2021). This is underpinned by 'Our Strategy 2030', which seeks to guide the business as a leader of sustainability transformation through low-carbon circular solutions and sustainability throughout their value chain.

While Tetra Pak packaging is recognized for its reduced impact in comparison to alternative solutions, due to its use of renewable and recyclable materials (Tetra Laval Annual Report, 2021), a key area of focus is to eliminate the use of virgin plastic and enable a circular flow of materials. For example, while most of the 184 billion packs sold per year are made from Forest Stewardship Council (FSC)-certified carton, these solutions are often lined and capped with plastic or aluminium to ensure product safety. To address this, the Carbon Trust-certified carbon neutral Tetra Rex line of packaging has been developed with plant-based polymers and FSC-certified carton, which eliminates the use of fossil fuel-based plastic and now accounts for over 1 billion of the packages sold annually (Tetra Pak Sustainability Report, 2021). This, alongside other innovations across the value chain, aims to support Tetra Pak's journey towards net zero greenhouse gas emissions within its own operations by 2030 and then throughout its value chain by 2050 (Tetra Laval Annual Report, 2021). These commitments were developed and approved by the Science-Based Targets initiative (SBTi) in 2017, to ensure alignment with a 1.5°C world across scopes 1, 2 and 3 (Tetra Pak Sustainability Report, 2021). External partnerships and certifications further support Tetra Pak's sustainability ambitions, such as Bonsucro, for traceable plant-based polymers, and the Consumer Goods Forum Plastic Waste Coalition for Action.

Dairy processing across Tetra Pak's value chain accounts for 10 times the emissions of Tetra Pak's own operations, emphasizing the importance of wider areas of innovation to focus on, which can support improvements to water, energy and emissions efficiency. Within its scope 3 impact, Tetra Pak is focussed on collaborating with recycling partners globally to develop infrastructure that enables the circular economy. Today, Tetra Pak records a global recycling rate of 27% of their carton solutions, with ambitions to drive improvements in this area through local and regional partnerships (Tetra Pak Sustainability Report, 2021).

Through the partnerships, collaborations and certifications mentioned above, in some areas of the business, regenerative business practices are in place. Yet, in other areas, progress is still to be made before the business can be 'doing the doughnut'. For example, while the introduction and growth of the Tetra Rex solution demonstrate promise, it still only represents 0.6% of total carton sales (Tetra Laval Annual Report, 2021).

Overall, both IKEA and Tetra Pak can be categorized as operating towards 'Doing Mission Zero', with publicized commitments to reach net zero by 2050 across scopes 1, 2 and 3 as well as partnerships and collaborations with actors, such as the SBTi. Both companies also recognize their impact and influence beyond their own operations, seeking to contribute to and align with the climate ambitions of actors across their value chain. These are reflected through examples of partnerships, collaborations and cooperation with regulations which exhibit commitments to positive impact and incremental steps towards 'Doing the Doughnut'.

Redesigning the Business Pillars

Using the conceptual framework (Fig. 2) to evaluate sustainable innovation, the findings from both cases have been analysed to determine whether the approach to innovation that companies are taking aims to or has resulted in the redesign of one or several of the pillars of their business. Insights gained have been categorized based on the Pillars of Business and further examined to determine whether the dynamics have resulted in a redesign of the pillar and how that has led to transformation to one or more properties within the existing regime. Findings will be presented for one pillar at a time for both IKEA and Tetra Pak, with comparisons between both companies summarized in the conclusion.

Purpose

As a starting point to the mapping the findings to the 'Purpose' pillar, the mission statements and top line sustainability ambitions of the companies provide an insight into their raison d'être. At IKEA, the business is orientated towards inspiring and enabling people to live better lives, within the boundaries of the planet (IKEA Sustainability, 2022). Such a statement goes beyond internal success and contextualizes the business within the wider frame of its' role in society. While anchored in maintaining business success and growth, its strategy seeks to deliver positive impact on people and planet (IKEA People and Planet Positive, 2020). Core to the approach is the recognition that for sustainability innovation to deliver against the business' purpose, it has to operate independently to the status quo and develop new business models with sustainability as a base. As a function, initially within the global group sustainability organization, and now more recently within the global strategy development and innovation area, the findings demonstrate how sustainable innovation can develop new business areas and models that are rooted in purpose beyond financial metrics.

A powerful aspect of this was revealed in the interview where the sustainable innovation team embarks on future and world development exercises to enable the team to work 'backwards' and develop strategies that aim to achieve the future envisioned. That how the multiple views of the future, a variety of timelines and plotting these visions on a scale of likelihood help the team at IKEA to identify common areas between all potential foresights, as well as prioritize concepts, and ensure alignment between IKEA's purpose and what the world may

look like in the future. Importantly, this approach helps avoid incremental steps and establishes IKEA's relevancy in multiple future scenarios both at macro (the world) and micro (the individual) levels.

> We're building stories, the story in a person's life in that (future) world. […] It's nothing to do with IKEA. It's just trying to understand the future. (IKEA Interview, 2022, 28 March)

Tetra Pak's purpose is underpinned by the mission to 'Protect What's Good' and is developed further, in a sustainability perspective, to protect food, people and planet (Tetra Pak Sustainability Report, 2021). The statement establishes a context whereby Tetra Pak is responsible for issues beyond its own business performance and seeks to deliver value to a broad set of stakeholders, including society and planet, while remaining true to its history and tradition of providing safe food solutions. IKEA's ambitious long-term commitments are established based on scientific modelling and a view towards the future, such as the SBTi, which the business can work with to develop a variety of strategies and innovation ideas.

The role of stakeholders in the development of innovations exemplifies the outward-facing approach to sustainability. Multiple stakeholder influence and inform the development of sustainable innovations at Tetra Pak; customer needs, sustainability regulation, functional and technical requirements that cascade from new solutions, changing consumer demands and values, industry initiatives and collaborations and, finally, research-led innovation internally or with external organizations such as start-ups or universities. As an example of cascading functional and technical requirements, when a plant-based polymer cap is developed, the innovation must be considered across the entire value chain. This may lead to further innovation across the value chain or within the sustainable innovation itself.

Considering the pillar of 'Purpose' to embody a reason of existence that goes beyond the satisfaction of a business's own performance, to one that encompasses a greater impact. The findings indicate that both IKEA and Tetra Pak orientate sustainability innovation towards purposes that seek to deliver value to the world around them, and not just financial performance that seeks to enrich the businesses, as suggested by the doughnut model. Yet, while financial viability and success are still a key component to sustainable innovation, this wider outlook on purpose, for both organizations, has led to redesigns how success is measured.

Networks

The networks of both companies provide an interesting context to explore, as collaboration and cooperation are intrinsic to their business models. Both IKEA and Tetra Pak are part of wider value chains, and both directly and indirectly are connected to suppliers and consumers. As a packaging provider, Tetra Pak sits between food and beverage producers and material suppliers. Working closely with either side of the value chain to ensure alignment on purpose and values, which is key to ensure that the needs and demands of all stakeholders across the value chain are met. For example, the use of FSC certified carton material across all carton packaging meets the demand of Tetra Pak customers and their

consumers to provide responsibly sourced materials, while adhering to the sustainability ambitions of Tetra Pak. Other such certifications, such as the Carbon Trust certification, have been successful in delivering additional value to Tetra Pak customers who seek to meet consumer demand for carbon neutral packaging. And the Tetra Pak interview (2022) goes on to elaborate the ambition for a sustainable and risk-minimized value chain that reduces carbon footprint but also supports it's positioning with Tetra Pak customers and to improve brand reputation, product functionality and address evolving consumer demands.

Tetra Pak is engaged in several industry collaborations, for example, the Alliance for Beverage Cartons and the Environment (ACE) is a non-competitive consortium between Tetra Pak, its two main competitors, and its two key suppliers, who have all aligned on 10 sustainability objectives within a roadmap for 2030 (ACE, 2022). According to the interviewee, such collaboration leads to sustainable innovation, not only within Tetra Pak but also across its customers, suppliers and the wider industry. Several examples of successful and collaborative sustainable innovation are documented, such as the work with I-Mei in Taiwan to reduce food waste by upcycling food production waste into a usable ingredient.

The importance of network alignment is also critical to IKEA, which operates under a distinctive organizational structure. As a franchise business, the Inter IKEA Group engages with franchisees to go-to-market, working closely to develop brand, products, supply chain and business strategies. Interestingly, the development of sustainable innovations sits outside of the Inter IKEA group, within sister company INGKA group, working collaboratively with both the franchisees and the Inter IKEA group to deliver the sustainability strategy. External collaborations are also a mainstay of innovation and business execution, particularly in areas where the functions within the IKEA value chain do not have expertise. For example, in the development of solar panels as a renewable energy solution, IKEA collaborates with installers of solar panels regionally and locally who have the required expertise to deploy the product line.

Yet, tensions do arise in aligning objectives across the various stakeholders within the value chain. Franchisees, despite their ambition and willingness to adopt new innovations, are often under pressure to deliver against short-term financial and business objectives which often leads to resource constraints in deploying strategic innovations. In some cases, it is simply not feasible to deploy innovation concurrently across markets. In such cases, the Inter IKEA Group and the INGKA group seek to assume financial and logistical responsibility for the initial launch of sustainable innovations. For example, in the case of the solar panels, the sustainable innovation function within the INGKA group took on the responsibility for developing the installation partnerships at a regional and local level to support the franchisees to launch a complete solution to their customers. And while sustainable innovations are expected to reach 100% of IKEAs addressable market, there is acceptance that only 60–70% of the market may be ready for the adoption of sustainable innovations in the initial phase of deployment.

Overall, networks and developing value-based propositions for sustainability across the value chain are critical to both IKEA and Tetra Pak. Furthermore,

sustainable innovations often require new partnerships and collaborations which can be considered a redesign to the 'Network' pillar and, in turn, result in changes to the existing networks within the regime.

Governance

The role of governance, in relation to sustainable innovation, provides an indication of how decisions are made and by whom, as well as whether those decisions are aligned to the purpose of the organization and how progress to influence decision-making is measured. The sustainability teams and approach to innovation differ at IKEA and Tetra Pak, as they operate under different governance flows.

IKEA is structured within the Ingka group and works closely with the broader sustainability group, which is organized within the Inter IKEA group and led by the Chief Sustainability Officer as well as a variety of functions across specific countries, regions and the global group. The process of governance has been a key learning as the sustainable innovation function has evolved over the last 10 years, as a 'slim, fast-footed governance' (IKEA Interview, 2022, 28 March) critical to the success of the function, particularly as it operates at a faster pace than the traditional business areas. To support this, several processes have been implemented to ensure effectiveness. For example, while the traditional business tends to meet every month or second month, the sustainable innovation team meet weekly to make decisions. Furthermore, monthly meetings are in place to support decisions on new projects.

A flexible milestone-based approach and a focus on outcomes throughout the innovation process enable consistency and provide clarity in the decision-making process, while allowing creativity to the approach of how things are done. A further example within sustainable innovation at IKEA lies at the intersection of the finance and governance pillars, where the innovation team has access to, relatively, small sums of financing to support accelerated progress within the innovation cycle. While larger requests of funding are decided upon during the monthly meetings, this streamlined process for smaller sums ensures that financing processes do not slow down the innovation process and approved projects have access to funds within a 5-day turnaround.

For the measurement of progress and success within the organization, the '4 Ps' of People, Planet, Perception and Profit are used as a guiding framework to evaluate sustainable innovation. The impact on each area is considered throughout the development of sustainable innovations, yet the parameters and criteria within are dictated by the individual project and can vary. These parameters dictate the KPIs used to measure progress and can alter as a project takes shape. The value against all or some of the Ps can also evolve and become clearer as the project develops. Importantly, the progress of a project can also be dictated by a focus on certain Ps that deliver greater value than others.

There are several examples to explain this further; the renewable energy solution mentioned previously is expected to generate multi-billion Euros (€) in revenue to IKEA within the next 5–6 years yet operates at lower levels of profitability in comparison to IKEA's traditional product lines. Despite this, due to the value

expected across the remaining three Ps, the business case is justified to deploy the innovation. IKEA's urban farming initiative, which utilizes container and vertical farming techniques to serve IKEA restaurant customers with produce grown on-site, does not deliver any improvements to profit levels in comparison to the existing globalized sourcing of produce. However, there is value in terms of sustainability, where continental transportation (emissions), water usage and the use of pesticides are significantly reduced. In this example, the innovation provides greater value in comparison to the status quo – without negatively impacting the existing cost structures. These insights indicate how the implementation of the four Ps provides a constant emphasis on ensuring the purpose and sustainability ambitions of the business are reflected in the decision-making process as sustainable innovation develops.

At Tetra Pak, sustainability is set up as a central function, led by the Executive Vice President of Sustainability and Communications, which interacts and works alongside other functional areas across the business. The department is separated into working groups which include a mix of broad sustainability functions, specific subject matter expertise on key topics and sustainability operations who are responsible for supporting the deployment of sustainability. The innovation process at Tetra Pak is heavily influenced by collaboration and engagement across a variety of stakeholders. Revenue and sales figures are key indicators for success, for example, the sales of packages with plant-based polymers are specifically tracked with internal goals in place to drive adoption. Yet, there is also recognition of the intangible value of sustainability, with brand profile and recognition.

At both companies, the governance surrounding sustainable innovation has been adapted to enable success and reflect the purpose of the organization. At IKEA, new processes and measurements for success have been developed, while at Tetra Pak, a value-based approach to the positioning and measurement of sustainable innovations ensures that the organization is able to capture both tangible and intangible value. From these findings, it is apparent that sustainable innovation is connected to the redesign of the 'Governance' pillar.

Ownership

Both companies are privately owned and founded by Swedish entrepreneurs, who have since passed away, which has resulted in differentiated ownership and organizational structures. However, an overview of the ownership structures at IKEA and Tetra Pak does provide an interesting context within which sustainable innovation occurs. IKEA operates with a franchise model, on the Inter IKEA group responsible for maintaining and developing the IKEA concept and operating as the franchisor. Interestingly, the Inter IKEA group is owned by a foundation, the Interogo Foundation, a self-owned entity that only allows the funds generated by the group to be used to fulfil the purpose of the organization itself (Inter IKEA, 2022).

> The main purpose of Interogo Foundation is to secure the independence and the longevity of the IKEA Concept, and to own and govern Interogo Holding and Inter IKEA Group. (Interogo Foundation, 2022, website)

In that sense, the organization is driven by the purpose of the foundation and the operating companies within it. Twelve franchisees operate alongside the Inter IKEA group, one of which, the Ingka group, was founded by the same founder as the Inter IKEA group and is also owned by a foundation, the Stichting Ingka Foundation. The Ingka group operates retail franchises, representing 89% of IKEA sales worldwide, and represents the responsible investments division of IKEA. The foundation's purpose is driven by a long-term focus on the business, people and planet, with most of the income reinvested into the business and the remainder donated to charitable foundations (Ingka Group, 2022).

Tetra Pak is one of three companies within the Tetra Laval group, which is responsible for the strategic direction, operation, and governance of the companies within the group. While the companies within the group operate independently and within their own management structures, these structures report into the parent group, which is privately owned by members of the Rausing family. The governance of the group is managed by the Tetra Laval board, who work to ensure the purpose of the group is reflected across the operations of the companies within the group.

While Tetra Pak's privately owned structure implies that the business is oriented towards the benefit of its owners, good governance is emphasized to ensure the purpose of the business extends to delivering a positive impact beyond its own success. At IKEA, the ownership structure is more complex and somewhat unique. The foundation-owned organization structures appear to enable strategic and longer-term decision-making is focussed on ensuring business success as well as fulfilling the purposes of the foundations and preserves the values of the founder.

Finance

The redesign of a business's approach to finance, particularly within the context of sustainable innovation, is core to evaluating its progress along the Corporate To-Do List and in understanding the effect of innovation on the business pillars.

At Tetra Pak, the scope of sustainability is driven by value propositions that ideally seek to meet the demands of customers and wider stakeholders or regulatory pressures. The nature of the business's sustainability commitments, which are anchored by ambitions for 2030 and beyond, allow for long-term perspectives and strategies beyond short-term financial performance. This value-based approach to sustainable innovation is important for development where any innovation is market-tested to prove tangible and intangible value, as well as deployment; robust and detailed information is required to demonstrate the value added beyond the status quo. This depth ensures confidence in the success of any sustainable innovation throughout the organization and the value chain.

For example, the introduction of plant-based polymer packaging was developed to reduce the carbon footprint of existing packaging solutions, not just for Tetra Pak but also for its customers, without compromising on the functional aspects of the product. As a costlier proposition, the communication of the value of this sustainable solution through credible, transparent and engaging data is important to demonstrate the value added vs the existing solutions. While, in Europe, the

value of sustainability is becoming increasingly recognized in relation to the relative cost, the proposition still requires detailed explanation to drive acceptance. In some markets and scenarios, this alignment on sustainability is less compelling, particularly in areas where a premium solution is out of reach or priorities lie elsewhere. This challenge is further exacerbated by the complexity of sustainability, where the impact of the innovations developed is multi-dimensional and must be evaluated across environmental, social and governance scopes.

In summary, the implication is that the financial return of sustainable innovation remains an intrinsic part for the measurement of success and the business case for sustainability at Tetra Pak, yet it does not operate in isolation. At IKEA, financial returns are not the sole driver for sustainable innovation, the four Ps (people, planet, perception and profit) guide the development and measurement of success. The examples of the renewable energy solutions and on-site vertical farming, discussed previously, offer insight into how the success of sustainable innovation is evaluated beyond financial indicators.

Another finding, which is worth emphasizing, is how sustainable innovation is funded. Operating within the Ingka group as a sister company to the Inter IKEA group enables a degree of independence to the operational functions of IKEA. And the work of the sustainable innovation function is budgeted for by a safeguarded investment, which ensures it is decoupled from the performance of the wider business. The governance process detailed above, which is linked to certain milestones and processes, ensures the pace of innovation is unhindered by onerous processes.

CONCLUSION

To ascertain whether and how MNEs are developing transformative sustainable innovation, this study has developed a conceptual framework (Fig. 1) that combines knowledge from DEAL (2020), Geels (2002) and Raworth (2017) to evaluate the actions, behaviours and dynamics of MNEs in their approach to sustainable innovation. Two Swedish MNEs were studied to see whether this framework can be confirmed by empirical findings.

Firstly, Raworth's (2017) 'Corporate To Do List' has been used to determine whether the companies studied are adhering to the principles of Doughnut economics' and working towards being a regenerative business that addresses society's needs, while operating within the planetary boundaries. The analysis shows that both companies have been on the journey towards 'Doing Mission Zero' (Fig. 3) due to their sustainability commitments and progress to date. While net zero has not yet been achieved, both companies have committed to achieve this across their value chain by 2050. In some areas, the companies' approach to sustainable innovation reflects an ambition to go beyond net zero and deliver a positive impact on society.

What remains to be seen from both companies is whether their approach to sustainable innovation will transform their existing regimes. Both companies reflect a commitment to sustainable development and the ambition to deliver a positive impact, yet, to date, sustainable innovations continue to co-exist alongside unsustainable business models and solutions. To evaluate whether sustainable

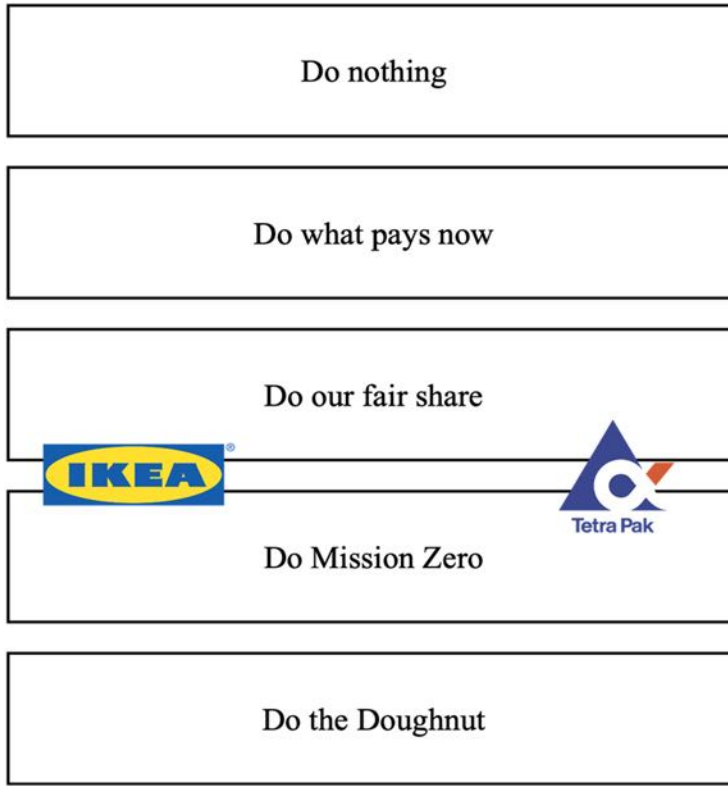

Fig. 3. Mapping the Journey Towards Transformation. *Source*: Based on Raworth (2017). This is an interpretation of theory, not an adaptation of a figure.

innovations from these MNEs can transform their existing regimes and contributes towards a system shift, the business pillars of the companies were analysed to determine whether sustainable innovations have led to or are supported by the redesign of those pillars. Table 4 provides a comparative summary of whether sustainable innovations have led to or been supported by the redesign of the pillars of business. The analysis shows that within the context of sustainable innovation, four out of five of the pillars have been redesigned.

The study has, thus, found that certain properties within the existing regime have altered because of the redesign of these pillars. For example, at IKEA, the launch of the renewable energy solutions, providing solar panels and energy storage, and the redesign of networks, governance and finance have led to creating a new market, building new partnerships, developing new technologies and operating under new financial models. At Tetra Pak, the redesign of purpose, networks and governance has led to the formation of the ACE collaboration with competitors and suppliers. This has altered and introduced new properties of industrial networks, techno-scientific knowledge, sectoral policy and culture within the existing regime.

Table 4. Comparative Summary of Business Pillars Redesign.

Pillars of Business	IKEA		Tetra Pak	
	Redesigned?	How?	Redesigned?	How?
Purpose	Yes	Sustainable innovations are expected to be achieved against a framework of 4 Ps. This is aligned to the broader purpose	Yes	Value based propositions that align to actors across the value chain go beyond financial and functional considerations to achieve a purpose that seeks to deliver positive impact
Networks	Yes	New partnerships and collaborations were developed and deployed to achieve sustainable innovations	Yes	New partnerships and collaborations were put in place to achieve sustainable innovations
Ownership	No	Sustainable innovations have not led to a new ownership structure; however, they do benefit from the existing unique structures already in place	No	Effective governance is in place to ensure that business is driven towards the purpose, rather than just shareholder value
Governance	Yes	Unique governance processes are in place considering all stakeholders enable the success of sustainable innovations	Yes	Sustainable innovations are judged by tangible and intangible value that drives decision-making that seeks to deliver value to a broad set of stakeholders
Finance	Yes	Investments are made to meet expectations of sustainable innovations that differ from the traditional business areas and represent a new definition of success	Yes	The measurement of value throughout the value chain, people and planet of sustainable innovations, rather than just profit, demonstrates a new approach to determining the success of the business

The study confirms that sustainable innovations at the MNEs studied are resulting in the redesign of the five business pillars suggested by the framework. Redesign of strategies and activities based on these pillars, can help companies towards seeking to achieve sustainable transformation as they lead to new or altered properties within the existing regime. However, it is difficult to determine whether these dynamics have resulted in a transformative system shift of the regimes in which these MNEs operate. Such conclusions can perhaps only be drawn over a greater passage of time and as we approach the deadlines of

the sustainability commitments made by both companies for 2030 and 2050, we ought to see the impact of the sustainable innovation and whether sustainable innovation has led to a transformation of the system and 'doing the doughnut' or not.

From a theoretical perspective, the study and conceptual framework provides a basis for qualitatively evaluating sustainability strategies undertaken by MNEs. It is a direct response to Christ and Burritt's (2019) call for further knowledge in the area of business sustainability, as well as seeking to address Caiado's (2018) suggestion of a lack of clarity for MNEs to address sustainability. It marks the first application of the principles of doughnut economics towards individual business strategy, while remaining rooted in established innovation theory. In this respect, it further develops and enriches the doughnut model proposed by Raworth (2017) and DEAL (2020). However, in the absence of a time dimension to the study, the conceptual framework was unable to capture the impact of transformation over time. Future research could evaluate the actions of the MNEs studied, over an extended period. As well as delve deeper into the internal and external dynamics that support sustainable innovation for the MNEs and their stakeholders. Furthermore, each of the individual pillars outlined in the conceptual framework could be examined individually to provide greater depth to this study. The research provides an overview of two MNEs and their approach to sustainable innovation and how it can potentially transform their strategies. Future studies should include more companies and companies from different countries to further test and develop the conceptual framework proposed here.

This study provides several practical implications for MNEs interested in how to approach sustainable innovation. For example, the power of future world view and storytelling shared by IKEA provides other businesses with guidelines to develop actionable sustainable strategies. The importance of aligning the values and ambitions of actors throughout the value chain, described by Tetra Pak, also offers insightful guidance as to how to ensure the success of sustainable innovations. Furthermore, both companies emphasized the importance of establishing ambitious long-term, science-based, sustainability commitments that orient progress and create urgency, even if the path to achieving those ambitions is not yet defined.

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CHAPTER 9

WHEN INSTITUTIONAL LOGICS COLLIDE: HOW INTERNATIONAL FIRMS NAVIGATE SUSTAINABILITY VALUES IN GLOBAL MARKETS

Annette Cerne and Ulf Elg

ABSTRACT

This book chapter takes an institutional perspective on competing logics in global markets concerned with sustainability values and how market actors in the form of buyers and sellers attempt to solve these conflicting situations. We do this by identifying competing institutional logics in global market contexts aiming for sustainability values, together with techniques for navigating these competing institutional logics in the organizational field studied. As an empirical illustration, we use a case study of buyers and sellers in two different markets where sustainability has come into focus for their market relationships. This viewpoint allows us to better understand how global market actors deal with the competing institutional logics in their market context. We make three contributions with this research: firstly, we identify the institutional logics in global markets towards sustainability; secondly, we demonstrate how global

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market actors prioritize among the competing logics and their market relationships and thirdly, we outline what this means for the relationship between buyers and sellers in global markets towards sustainability.

Keywords: Sustainability varieties; institutional logics; competing logics; global markets; buyer and seller relationships; case study

INTRODUCTION

Is it possible to create sustainability through global market practices? Research on international business and global markets has for long assumed an efficiency-based logic, prevailing in global markets, stressing financial as well as rational market performance (Buckley & Casson, 2001; Dunning, 2000; Eden & Lenway, 2001; Ruigrok & Van Tulder, 1995). Lately, however, new values based on sustainability have been found to also influence market values (Buckley & Ghauri, 2004; Ioannou & Serafeim, 2015; Kemper & Ballantine, 2019; Lichtenthaler, 2022; Margolis & Walsh, 2003). For international firms active in global markets, formal policies and implementation processes towards sustainability have become particularly valuable (McLoughlin & Meehan, 2021; Silva & Nunes, 2022). For instance, ensuring sustainable supply chains, facilitating sustainable consumption, encouraging sustainable investments and providing sustainable employments (Boyd et al., 2007; Cerne & Jansson, 2019; Elg & Hultman, 2011).

However, variances between the value systems of organizations from different countries and parts of the world are also often stressed by international research (Elg et al., 2015; Håkansson & Johanson, 2001; Lee et al., 2018; Palmer & Quinn, 2005). What is considered to be the desired behaviour in a certain context may, thus, not correspond with values held by actors in another part of the world (Bondy et al., 2012; Meyer & Peng, 2016). Moreover, using market-positioning strategies based upon a social dimension requires legitimacy, not only among other market actors such as financial investors or consumers but also among stakeholders outside markets, involving social and political actors (Du et al., 2007; Elg et al., 2015; Freeman, 1984; Mellahi & Wood, 2003; Suchman, 1995).

Meanwhile, market values have been demonstrated as dependent upon learning and institutionalization, leading to powerful institutional logics (Zajac & Westphal, 2004). For sustainability in global markets, this has been stressed as of particular relevance since, in global markets, not only do the institutional settings in different countries vary (Kostova, 1999) but also the institutional logics market actors follow (Busenitz et al., 2000; Dacin et al., 2002; Kolk & van Tulder, 2010).

In this book chapter, we conceptualize varying sustainability values as contrasting institutional logics when these sustainability values come into conflict with each other. An institutional logic is a set of values, norms and beliefs that are shared by a particular group of actors (Friedland & Alford, 1991; Thornton & Ocasio, 2008), influencing their behaviour (e.g. Genin et al., 2021; Shekhar et al., 2020).

Some logics may be shared by a society or a nation in general, such as basic views about the family and what is right and wrong, whereas others may develop within a certain industry or even within the same organization. Earlier research shows that within a certain area, such as a market, an industry or the public sector, different and contradictory institutional logics are likely to exist (e.g. Genin et al., 2021; Leite & Ingstrup, 2022; Thornton, 2002). The institutional logics approach is, thus, a further development of institutional theory, stressing that actors – from individuals to organizations – can respond in different and conflicting ways when there are competing logics.

From this perspective, we can expect different and competing logics to exist in global markets, involving different organizations, actors and market practices, such as buyer–seller relationships in global markets. One of the more important difficulties that international firms can expect, in terms of sustainability in global markets, is how to understand and bridge these competing institutional logics. Our main purpose in this chapter is, therefore, to explore the institutional logics of sustainability as a global market practice, focussing on competing institutional logics, and how market actors deal with this situation. This is important for explaining and preparing for difficulties in attempts to achieve sustainability in global markets.

For this, we discuss logics on different institutional levels: on a general societal local and global level, on an organizational level and on the market relationship level between buyers and sellers. The chapter will, thus, (a) identify competing logics in global market practices with sustainability, (b) trace different logics as the basis for how sustainability is understood and dealt with in global markets and (c) demonstrate how global market actors overcome competing logics in global market practices with sustainability. This is accomplished by using a case study to demonstrate how buyers and suppliers navigate sustainability variations in global markets. We use navigation as an analytical perspective, since this opens up the existence of varieties in institutional logics within a field, without these competing institutional logics necessarily being changed.

LITERATURE REVIEW

Sustainability Values in Global Markets

When the concept of sustainable development was globally spread through the Brundtland Report (Brundtland, 1987), it embraced both a global perspective and the inclusiveness of the business sector in the achievement of its goals (Cerne & Jansson, 2019). With the passage of time, this concept has come to be known as business sustainability, which includes not only economic but also environmental and social responsibilities that are expected of businesses (Kolk, 2016; Margolis & Walsh, 2003; Shrivastava, 1995). However, the goals of sustainable development, as outlined in global policies and strategies such as the United Nations' Global Impact initiative, can be interpreted in a variety of ways (Ghauri, 2022; Nederveen Pieterse, 2010).

In this way, despite sustainability being institutionalized in the field of business (Brown et al., 2009; Etzion & Ferraro, 2010; Larrinaga et al., 2020), the combination of economic, ecologic and social sustainability in international business has been difficult (Meyer, 2004; Montiel et al., 2021; Strike et al., 2006). Hence, despite its inherent competing values, sustainability in international business has a common goal of integrating the logics of economic, ecological and social market values (Kolk, 2016). Multiple logics may occur due to variations in the understanding of national sustainability goals, the role of institutions and the economic context (Demirbag et al., 2017; Yang & Rivers, 2009), opening up not only to variations in institutional logics but also for competition between the different logics.

Competing Logics for Sustainability in Global Markets

The institutional logics perspective (Friedland & Alford, 1991; Genin et al., 2021; Leite & Ingstrup, 2022; Thornton & Ocasio, 2008) emphasizes the competition between different logics that may exist in a certain context. Here, logic generally refers to broader cultural beliefs and rules that structure cognition and decision-making. The institutional logic can be regarded as initiated by the three institutional pillars introduced by Scott (2013). They will, thus, draw upon regulative as well as normative and cultural/cognitive beliefs. Some parts of an institutional logic may be shared broadly within a society, whereas they may also be competing logics within a certain organization. For example, Lounsbury (2007) showed that financial management firms in New York City and Boston were based upon different institutional logics regarding long-term versus short-term perspectives and the level of risk-taking.

In this chapter, we focus on global markets as an organizational field (DiMaggio & Powell, 1983), with its own particular institutional order while also being interlinked with other institutional orders, hence being part of an interinstitutional system (Friedland & Alford, 1991). This means that while we can understand global markets as an organizational field connecting local, domestic markets into a transnational order of price as a source of legitimacy, using shareholder activism as a source of authority, and having self-interest as its basis of norms, global markets as an organizational field are also connected to the institutional order of state for redistribution mechanisms, based on democracy as a legitimation source, with bureaucratic domination as the source of authority, and citizenship as its basis of norms. The third institutional order in this interinstitutional system is the corporation, based on hierarchy, with the market position of the firm as its source of legitimacy and top management as its source of authority in combination with firm employment as its basis of norms (Thornton et al., 2012). We can also see a fourth institutional order connected in this system, which is one of the profession, that is frequently interlinked with organizational fields and the institutional order of markets (Suddaby et al., 2007).

This international dimension has been investigated by Tan and Wang (2011) in how multinationals deal with varying organizational logics across markets. They found that sometimes subsidiaries are exposed to institutional pressures

to adapt to cultural and legal norms contradicting the firms' domestic market ethical practices. An institutional logic dissonance between the state and firms has also been discovered in the development of a high-speed train sector in China (Genin et al., 2021). Diverging expectations between buyers and sellers can also lead to different expectations concerning long-term orientation, the level of support, quality and dependability between the partners due to the institutionalized views on how to make business (Andersen et al., 2009). Moreover, institutional perspectives can sometimes also explain the development and integration of a global supplier network based on a shared system of norms and values (Deligonul et al., 2013).

Organizational fields like global markets can, in turn, be challenged by demands on sustainability values. For instance, Silva and Figueiredo (2017) have demonstrated how sustainability can be understood as an emerging practice that challenges the institutional logic within an organization. Consequently, the dominant logic in an organizational field can change towards sustainability (McLoughlin & Meehan, 2021). In this way, sustainability in global markets has developed from competitive isomorphism into institutional isomorphism (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983), suggesting sustainability as a corporate social responsibility expected as an institutional logic (Du et al., 2007; Ioannou & Serafeim, 2015).

However, with the institutionalization of sustainability as a corporate social responsibility, the dominant logic of a field, for instance, social movements, can also become changed into a market logic (Bondy et al., 2012). Hence, the meaning and relevance of sustainability in different institutional contexts can be negotiated, redefined or adjusted to different developing market contexts in order to gain legitimacy (Child & Tsai, 2005; Collinson & Wang, 2012; Crilly et al., 2016; Gifford & Kestler, 2008; Kolk & van Tulder, 2010; Lee et al., 2018). This means that a market institutional order may challenge a corporate institutional order in an attempt to achieve alignment for long-term sustainability (Powell, 2011).

Navigation Techniques Among Competing Institutional Logics Towards Sustainability

We see the landscape of sustainability in global markets as a network in which global market actors, such as buyers and sellers, make instrumental choices while being situationally constrained by this social network in which they are embedded, based on Granovetter's (1985) theory of the social embeddedness of rational choice. In line with Bourdieu's (1990) logic of practice, we suppose that global market actors have multiple social identifications that they use in markets, in attempts to create a moral landscape (Cerne, 2021), including sustainability, reproducing and transforming institutional logics according to how this agency is embedded in the institutional logics landscape (Giddens, 1984).

For this analysis, we are inspired by Thornton et al.'s (2012) typology of change in field-level institutional logics. This typology includes changes to institutional logics through replacement, blending, assimilation and elaboration. The technique of replacement means that the user substitutes one institutional logic

with a logic found in another institutional field, for instance, an editorial logic with a market logic (Thornton, 2004). Blending as a navigation technique refers to how institutional logics users combine logics from different institutional fields for an explanation, critique or other purposes. An example of this is the blending of professional logics with market logics (Lounsbury, 2005). The navigation technique of blending is similar to that of assimilation in that different logics are combined, although here the difference is that the core elements of the dominant logics remain, including new practices and symbols in the new logic, for instance, the change of academic logics with the help of market logics (Murray, 2010). Finally, the technique of elaboration means that an institutional logic as a dominant logic is developed with new practices, reinforcing this institutional logic rather than changing it, for example, independence in shareholder value logics (Shipilov et al., 2010).

While we see these as possible techniques for handling competing institutional logics in global markets towards sustainability, we understand these techniques as not necessarily changing the institutional logics but rather helping market actors navigate them towards legitimacy in terms of sustainability in global markets. In this sense, we are inspired by paradox research, suggesting that paradoxes may remain while social actors handle this situation in different ways (Smith & Lewis, 2011). This means that global market actors sometimes solve the problem with competing institutional logics rather than the logics themselves. This navigation technique typology is used to analyse a case study of competing institutional logics in global markets towards sustainability.

Our Theoretical Perspective

Fig. 1 summarizes the theoretical perspective based on previous research, as outlined above.

From this perspective, it is not uncommon that sustainability values collide in global market practices towards sustainability due to different economic, ecological and social values. These values are likely to influence rational choice in market decisions, while rational choice in organizational fields has also been found to be socially embedded (Granovetter, 1985; Uzzi, 1997; Zukin & Dimaggio, 1990). Also, we add Thornton et al.'s (2012) suggestion of a community logic as an order of institutional logic, based on the understanding that sustainability goals may vary between the local and the global in international business, leaving the community as an order of institutional logic as a basis for sustainability practices in global markets (Husted & Allen, 2006). Finally, we include the profession's institutional order, which is that of a relational network, with personal expertise as the source of legitimacy and professional associations serving as an authority and emphasizing status in the profession as the basis of attention (Thornton et al., 2012). In this chapter, we focus on when the involved institutional logics collide and how relevant market actors solve this situation. We do this through an analysis of navigation techniques in global markets characterized by competing institutional logics in terms of sustainability.

Fig. 1. Balancing Competing Institutional Logics on Different Levels.

CASE STUDY OF COMPETING INSTITUTIONAL LOGICS IN GLOBAL MARKETS TOWARDS SUSTAINABILITY

The analysis was applied to a case study of international firms and their sustainability practices in global markets. Considering that our aim is to capture the practice of how conflicting, institutional logics are handled in global markets where buyers and sellers meet, we are influenced by Bourdieu's (1977) practice theory, opening up a case study consisting of real-life situations in global markets (Flyvbjerg, 2011). Our case study aims in this way to understand market building (Mair et al., 2012), requiring an approach that allows for deeper insights into complex phenomena where traditional statistical analysis is not helpful for theory development (Merriam, 1998).

Our case study includes international firms in the form of two retailers with headquarters in Sweden and a selection of their suppliers with headquarters in the People's Republic of China, more specifically in the Guangdong province. Due to confidentiality reasons, all involved international firms will be kept anonymous. While one of the retailers was active in the garment industry, categorized as a fashion retailer, the other retailer was part of the home improvement industry, categorized as a do-it-yourself (DIY) retailer. Both retailers source their products in global supply markets, mainly in China, where these retailers suggested that we observe their meetings with relevant suppliers in the People's Republic of China (Guangdong province) and conduct interviews with nine of the selected suppliers. We, therefore, followed a snowball approach in our case study, letting one instance of empirical material collection inform the next (Dusek et al., 2015; Farquharson, 2005).

The fashion retailer (Retailer 1) in this study is one of the top 10 market leaders within the Swedish garment industry. In 2020, it had a turnover of approximately 500 million Euro and around 4,000 employees. Swedish retailers within the garment industry typically source globally, rebrand the globally sourced items within their retailer brand and often sell internationally – a process similar to most other European and North American fashion retailers, who generally focus on similar social issues in their sustainability communication, mostly on working conditions on supplier sites and the environment (Cerne, 2019). The fashion retailer in this study expanded internationally through global sourcing and opening stores in their closer geographical environment, like other Scandinavian countries and Northern Europe. Their business strategy was to offer fashion clothing of a reasonable quality at rather low prices through bulk buying.

The home improvement retailer (Retailer 2) is an internationally expanding firm that is almost 100 years old. It is one of the leading market actors in Sweden and has over 200 stores in Sweden, Norway, Finland and the United Kingdom. With a total turnover of approximately 800 million euros and 4,500 employees in 2020/2021, the firm is one of the largest home improvement chains in Scandinavia. The home improvement retailer sells approximately 15,000 items through both physical stores and online sales. It focusses on five product categories (hardware, home, multimedia, electrical and leisure), and a combination of own brands and manufacturer brands. Just like the fashion retailer, the business model is built on excellence in distribution rather than production. In 2020, the firm sourced its range from around 1,200 suppliers. About 50% of the range was sourced from Asia.

The work with sustainability for the studied fashion retailer was initiated at the end of the 1990s by media attention and pressure from social movement organizations, which expressed concern about working conditions at supplier sites. Extensive work with policies and guidelines, as well as employee education, was initiated both at the Swedish headquarters and in overseas offices. For the home improvement retailer, sustainability work was initiated after two critical and investigative reports regarding their purchasing operations in China were published by a social movement organization. It was argued that the home improvement retailer had no systematic and well-developed approach for following up on social

and environmental responsibilities in relation to suppliers in distant markets. This initiated substantial internal activities within the home improvement retailer in order to develop and implement a sustainability approach covering supplier relationships. The home improvement retailer published guidelines describing what was expected from suppliers and the responsibilities that consumers could expect from this retailer in relation to suppliers.

The empirical material consists of interviews in Sweden and overseas offices in Hong Kong, together with interviews and field notes from observations in the People's Republic of China (Guangdong Province), as well as corporate documents in the form of reports, agreements and guidelines published in English. All the empirical material was constructed into written text, including transcripts of interviews, field notes from observations and documents already existing in text form. We treat them as accounts (Laplume et al., 2008; Meyer & Rowan, 1977; Scott & Lyman, 1968) of how international firms handle competing institutional logics in global markets towards sustainability.

In the next part of this chapter, we outline our analysis of how these market actors navigate competing institutional logics in global markets towards sustainability. In this analysis work, we first classified the material based on the institutions that were traced. Thereafter, we identified the logics expressed regarding these institutions. After this, we tracked the logic that clearly collided in the accounts. Thereafter, we used the navigation techniques approach as described in the part foregoing this case description, illustrated in Table 1, to find the solutions used by the studied market actors to solve these competing logics.

NAVIGATING COMPETING INSTITUTIONAL LOGICS IN GLOBAL MARKETS TOWARDS SUSTAINABILITY

In this part, we present our analysis of how buyers and sellers in global markets navigate contradictory institutional logics with the help of the various navigation techniques of replacement, blending, assimilation and elaboration. We group these activities into one where market actors use these techniques to *support* global market practices as a way towards sustainability, and a second one where market actors use these navigation techniques to *contest* global market practices as a way towards sustainability. We outline this below and summarize this analysis in Table 1.

Supporting Global Market Practices Towards Sustainability with Institutional Logics Navigation

In the first category of how market actors use navigation techniques for handling competing institutional logics, we share examples of how this was expressed by the market actors in their accounts, together with the techniques we found as their way of handling the competing logics. One frequently upcoming issue in terms of sustainability in global markets was social conditions at local production sites, and how buyers in the global market sometimes felt that it could be difficult to

Table 1. Navigation of Competing Institutional Logics in Global Markets Towards Sustainability.

Competing Institutional Logics	Navigation Techniques	Solutions	Results on How to Keep Market Relationships Intact
Global market economy Local law Global social	Blending + replacement	Legitimacy through explanation	Cognition
Local community Global social Moral	Replacement	Legitimacy through correct moral acts	Moral arguing
Local legal Global social Economic market	Assimilation	Legitimacy through alternative logic	Variation
Local education Global education Global market	Replacement	Legitimacy through suggestions for new competencies in markets	Suggesting modification of network into a hierarchy
Local sustainability Local legal Local community	Blending	Contesting global market logic of control	Stressing local competence
Local professional Global professional Local professional	Blending	Contesting with professional competence	Stressing global sustainability policies as impossible to implement
Global market rights Local market rights Global market competence	Replacement	Contesting with moral rights	Relocation of priorities in market practices
Local business Global market Local sustainability business	Elaboration + replacement	Contesting global market cultures	Taking advice

implement economic compensation for overtime in the supply network, as in the following example:

> [A]ll these factories work on piece-rate, being paid for how much they produce. If you work forty hours, you are paid what you produce in these forty hours, if you work a hundred hours, you are paid for that. But we push for paying them overtime as well, and to be able to pay the overtime, you have to register the working time. 'Why should I do that? I am on piece-rate!'. This is the kind of discussion you get into; where you have to explain why, and then they may be unaware of that this is Chinese law, giving everyone the right to paid overtime. (Manager 2 in Retailer 1, interview)

In this account, a manager at Retailer 1 describes how the market in which the buyer and the seller operate is based on agreements to pay per piece rather than per hour used in the production of the pieces. There is an economic logic in the global market to pay per piece produced. Meanwhile, demands on sustainability, based on the social wellness of employees in the production, are based

on how many hours employees work in the production. This leads to differences in economic logics due to global sustainability demands based on a different logic (social globally). This social sustainability logic is supported by the local (Chinese) law, which the buyer here describes as a solution and institutional logic to follow in the business negotiations.

In this way, we see that the buyer here first uses the technique of blending to demonstrate how the economic logic (paying per piece) in this organizational field is changed by the entry of a social logic (paying per hour). To overcome this, the buyer uses a replacement technique, suggesting that while the seller is described here as having cognitive problems with the competing economic and social logics, the institutional logic of the law as connected to the local environment in the form of the People's Republic of China, works as an explanatory factor. In this way, the buyer indirectly suggests that this collision of logics can be handled and is of minor importance in this relationship.

Another manager at the same international firm (Retailer 1) describes a situation where the same competing logics can be solved in a different way:

> After a lot of ifs and buts, he [the seller] then admits that he has prepared the [accounting] books for us, and then, after a lot of ifs and buts, he shows us the real ones. And then we usually say that, in order to get the real books, we say that, 'We accept the overtime hours you have, as long as we can see the real books'. In some way it is …. We have to winkle out the real books too, in order to say that we accept them. And once we can see the real books, and the real hours, we start a …. We try starting a work with the suppliers to reduce them [the overtime hours]. And then we say that 'Well, try reducing these hours now, for the next time we come back, by 10%, and pay the overtime hours …. If you take 10% this year, you can pay 10% next year', so that we kind of work on it, both to reduce the overtime hours and to pay for the hours. (Manager 1 in Retailer 1, interview)

This manager also blends different institutional logics, which suggests local, community logics based on collective relationships of working overtime without payment as competing with global, social logics of economic compensation for worked hours. This account, however, also suggests an ethical dilemma between following the law (paying overtime which is the right thing to do according to Chinese law) and telling the truth (demonstrating that they have lied in the official books and showed books with what is assumed to be true figures). To tell the truth means that the law has been broken, which, in turn, is solved by a moral logic, the logic of forgiveness. As a result, this manager proposes overcoming these competing logics by replacement, in which one institutional logic replaces another logic in this institutional field.

Another situation exposed in our study was when discussions on overtime suggested different categories of compensation:

> What I mean is, for example, when he [the buyer representative] gives the advice to me: 'It is not allowed to work over, for example, ten hours working time'. I can ask, because the order is very tight in time, 'Can I use this sort of period, to finish [in] time?', and then we use some vacation for the worker to replace the time. So, we can use a sort of double [co-operation]. He [the buyer representative] asks me to not allow this time - we suggest just another solution to compensate the fault. (Supplier 1 of Retailer 1, field notes)

In this case, the locally legal logic (Chinese law) is in line with the globally social logic (economic compensation for overtime work) despite the fact that, at a first

glance, this does not appear to be in line with the economic logic in this institutional field, which is that more working hours than planned for, are required to meet market demand (an order of more products produced and delivered). The seller here describes how he comes up with a solution in the form of an alternative economic logic, namely, compensating worked hours with free hours (vacation). This proposal is a change both in economic and in social logic since compensation is paid in time rather than in economic value, meaning that both market demands and social demands on working conditions can be met through the navigation technique of assimilation. This means that features of one logic are merged into a dominant logic, where the primary features of the dominant logic remain, although with new practices and characters imported into the dominant logic.

The sellers in our study (the suppliers to the retailers) often also described by the buyers (the retailers) as requiring education regarding what the social responsibilities of corporations are in terms of sustainability, as one of the retailers expressed in their sustainability report:

> Some producers have deficient knowledge about which demands and rules they need to follow or how to fulfil these demands and rules. During the audits, our auditors inform the producers about our requirements and the areas in need of improvement. We have produced educational materials within the fields of health and safety, human resources, and the environment, acting as a support in producer aspirations for improvements of their operations. During the last year, we have carried through the education of 120 factories. (Retailer 2, Sustainability Report)

Here, the buyer uses a navigation technique to replace a local institutional logic of education with a global institutional logic of education through a global market logic. This suggests buyers in a new institutional role that we normally do not see as one for international buying firms, namely as an educational institution in society (Meyer & Rowan, 2006). Thus, rather than expressing that suppliers are expected to follow the corporate guidelines of the buyer, this buyer here suggests that their corporate guidelines are part of education. In this way, the buyer proposes, in line with (Bourdieu & Passeron, 1977), that they as a buyer, in a powerful market situation, have assets in terms of sustainability cognition that they can offer to teach to their suppliers.

Contesting Global Market Practices Towards Sustainability with Institutional Logics Navigation

Consequently, in many of the accounts, sustainability was suggested to follow a market logic where customers (the buyer) lead the sustainability work based on a global logic and where the seller (the supplier) follows the demands of the customers since the local logic was described as less sustainable than the global one. However, according to some accounts, this assumption of logics was contested, implying that the local logic of sustainability was supported both by local legal logics (environmental law in China) and by local community logics (employers of future generations), drawing on the inter-generational objectives in sustainability values:

> First of all, China gives high priority to environmental protection. For example, we invested more than 3 million RMB in environmental equipment this year. We are strictly required to

> reach the standard the country settled when it comes to discharging waste, fog emission and use of oil paint. So firstly, it is the requirement of Chinese government. And secondly, for a factory, you must take these factors into account for better development in the future. You should offer good working conditions for the employees, especially these post-80 and post-90 generations. (Supplier 2 of Retailer 1, field notes)

Here, the navigation technique of blending is used; although rather than overcoming competing institutional logics, the blending is here used in a way that suggests international market practices of controlling suppliers as unnecessary, based on the proposition that this control is made at other institutional levels, namely, the local and national levels of legal institutions in combination with a community institutional level. In this way, this particular business relationship between the buyer and the seller is not explicitly challenged and hence kept intact.

Meanwhile, the contesting of institutional logics was also made by buyer representatives. For instance, safety measures at factories were sometimes stated as difficult to implement, as in the following account:

> Same thing. The first part for me, I would think, [is] that the factory must know why and what am I doing, but for the workers, sometimes it is not [whether] I am going to tell them, it is to make them believe in me, to make them believe that I am working for them. The workers I'm talking about is not 20 or 30 years old; some of these are 40 or 50 years old, [and] they don't want to change for something they think is silly. They think: 'Even if it hurt me, it is just a small pin over there … why should I use that long, thick iron thing for me to work? It is useless!' That is what they think. It is hard to change the workers, especially for … it is really for their own [sake]. They may even barely have gone to primary school. They think it is worthless. It is worthless. They do not think… why it is worth wearing, especially for some chemical worker. Ask them to use a goggle, the mask, the whole set of things … [sigh] Even [if] I know [that] it is good for them, but even sometimes, when I see they are wearing the whole thing, in the middle of the factories, [laughter] forty degrees, they all sweat [laughter]. Sometimes this… for them, they think the future is so… How do I say this? It is not comfortable, for them, this may be why they refuse to wear it. But for this point, I can't blame the factory. They put right everything. They teach them, they tell them everything. 'The reason why you are wearing it is because the chemical is harmful, you may get hurt'. They tell them everything, they teach them, even week by week. They will do monthly. But the point is at the end, the worker is just thinking, 'at that point, I am just too hot, so I'm not going to wear them!' But if then I'm there, [and] I saw that, I can't blame the factory. (Manager 3 in Retailer 1, interview)

In this account, the respondent uses the technique of blending three professional logics competing in this described situation. These professional logics are the competence of the factory worker in the production scenario, the competence of the buyer in terms of security, and the competence of the selling organization concerning education. In this way, the manager can gain legitimacy by contesting using professional competencies, while also emphasizing global sustainability policies and preserving the market relationship with this supplier.

In perspectives on sustainable supply chain management, it is often assumed that firms have the competence to take responsibility for supply chain actions, which, in turn, has been described as unrealistic in terms of how much each actor can influence (Amaeshi et al., 2008). However, from Western perspectives, it is rarely questioned whether market actors in their buying roles have the right to control other market actors such as suppliers. When the sellers (the suppliers) in our study were asked how they control their suppliers in terms of sustainability

strategies and policies being implemented, answers were generally that in China, it is not possible to control suppliers, like in the following account:

> We have no right to control the supplier. (Supplier 1 of Retailer 1, interview)

Here, this market actor uses the navigation technique of replacement in that global market logic is replaced by local market logic, using a moral logic of rights to declare that in this context, this market actor has no right to control another market actor. Hence, the dominant logic is challenged, and thus contested, by an alternative logic, resulting in the fact that the global market relationship can be kept intact due to the statement that the moral logic of rights is here declared to be prioritized over the duty to check sustainability practices in the extended supply chain. Consequently, different institutional logics are used to describe how buyers and sellers in the global market suggest their rights to control other members of the same organizational field.

Some sellers proposed not only a different business culture between Swedish and Chinese international firms, but also a different institutional logic in how to make business, as in the following account:

Supplier:	I think there is a cultural difference. In Western countries, business is business. But here in China, business has a lot to do with *guanxi*.
	(…)
Interviewer:	For your own company, what would you say is the most important factor for sustainability? What drives sustainability?
Supplier (to Retailer):	Well, I am really not sure about this. What do you think?
Retailer:	He is asking for your opinions in this question.
Supplier:	It makes me feel like I am bragging if I answer this question.
Retailer:	It's okay. We would like to know what the boss is thinking, your own reflections.
Supplier:	Well, I think first, it is the persistence. We have been doing this [sustainable actions] for a long time, which is hard and demanding. This is also a cornerstone of our company's further development. Secondly, we have been trying to adapt ourselves to be consistent with the macro environment. Thirdly, it is also about continuous innovation. Our R&D develops new products to create more values for our customers, and then we gain more profits from this.
	(…)
	We assume that a factory with bad working environment is not capable of producing good and functional products. (Supplier 2 of Retailer 2, and Retailer 2, in an interview with the researcher)

Indeed, in global markets, companies do business in different ways, something that may lead to various, moral contexts (Schleper et al., 2017). One example is the widespread practice of guanxi, as this supplier mentions here. The system of guanxi is known for emphasizing personal connections and long-term relationships (Millington et al., 2005). In this account from our study, the supplier suggests different business logics in this organizational field, where, in Western

companies, the social and the economic logics are not mixed, but for the Chinese company, there is a close connectedness between the economic and the social. Furthermore, in this account, the supplier suggests that it is not polite, and hence against social logic, to describe sustainability as something part of the organizational culture, as suggested here, but since the foreign visitors insist, this supplier suggests sustainability as closely connected to economic logics.

In this sense, this supplier uses a global institutional logic to demonstrate the incompetence among many global firms from the West to establish a connection between the economic and the social, combining it with an institutional logic that suggests sustainability as the natural part of the local market logic. With this navigation technique in combination, this supplier contests the global market's stereotyping of Chinese firms as incapable of sustainability. While asking for the business partner's approval ('What do you think?'), the seller cherishes this relationship by translating it into one where two business partners, suggested as competent in sustainability as part of their market practices, cooperate towards sustainability.

Table 1 summarizes this analysis, demonstrating the competing logics, navigation techniques used, solutions reached and what it meant for the market relationships studied.

DISCUSSION: OUTCOMES OF THE NAVIGATION AMONG COMPETING INSTITUTIONAL LOGICS

Corporate reporting on sustainability in international business and global markets often has as one of its objectives to display market actors like buyers and sellers as having a common goal of global sustainability, handling this on the local level by solving competing norms and values among themselves (Cerne, 2019). However, in this study, we have suggested through findings from an empirical study that international firms and their buyers and sellers in global markets do not really solve the competing logics in the international business landscape, but rather solve the situation by letting these competing logics remain as possible to navigate around with the help of different navigation techniques where *replacement, blending, assimilation and elaboration* are used.

While Smith and Lewis (2011) suggest that paradoxical environments such as organizational fields can lead to virtuous cycles of managing tensions, we did not see this as a possible result in our study in terms of sustainability. Rather, our study demonstrates how market actors in organizational fields like global markets take the sustainability risk to reinforce existing structures and agency (Giddens, 1984), with the risk of making existing dialectics permanent (Clegg et al., 2002).

Sustainability demands, both from market actors and from actors outside markets, influencing market work, like social movement organizations, can create a threat to the organizational environment and the connectedness of the system (Pfeffer & Salancik, 1978). Yet, with the market value that sustainability demands

have become connected to (Ioannou & Serafeim, 2015), market actors like retailers are likely to work towards the integration of sustainability values in supply markets and the organizational connectedness between the retailer and its suppliers as well as the suppliers of its suppliers.

Consequently, as our findings indicate, buyers and sellers in the market we studied, treat competing institutional logics differently, implying that for Swedish buyers in global markets, offering sustainability education to their suppliers, as well as control measures of the implementation of sustainability policies and practices, whereas this is unthinkable for Chinese suppliers when they are the buyers, and thus customers, of their own suppliers. Chinese suppliers described it as impolite to position their own organization as sustainable and had to have sustainability as organizational value for a long time despite the fact that sustainability was declared to be a critical component of sound business practices.

Meanwhile, for all market actors in our study, it appears that the main objective, in their accounts on sustainability in global markets, is to preserve their market relationships intact, even if this is done in different ways. Furthermore, while the accounts at first glance seem rather non-confrontational, we can also find room in them for supporting but also contesting suggested hierarchies in global markets. Therefore, market actors may not solve the competing logics, but rather let them remain while navigating around them in order to maintain market relationships.

CONCLUSIONS AND IMPLICATIONS

This chapter investigates competing institutional logics in global markets towards sustainability, and how the studied market actors attempt to solve situations with competing logics in order to maintain their established market relationships. In this way, our study contributes to the understanding of challenges when working with sustainability on an international level (cf. Pisani et al., 2017). While earlier studies on institutional logics in global markets towards sustainability focussed on implementation difficulties (Lee et al., 2018; Tan & Wang, 2011; Yang & Rivers, 2009), we have contributed to the understanding of how global market actors use techniques to navigate around competing logics, leaving the competing logics behind, while this helps them more to save their market relationships rather than sustainability problems and its competing logics in global markets.

Overall, this chapter contributes in several ways to the theoretical understanding of institutional logics. Firstly, it stresses that the institutional logic that governs relationships between buyers and sellers in global markets has to be understood at different levels, including values at a societal level on a more general level, in combination with those at a market level and a more operational level, as well as a more internal logic at the corporate, organizational level. Secondly, we have discussed how market actors actually do not attempt to solve the competing logics themselves, but rather how they prioritize maintaining the market relationships,

demonstrating how the competing logics can be navigated without adventuring the market relationships. Thirdly, this means that the competing institutional logics are not solved in terms of how to implement sustainability values in this organizational field although the internal market relationships are not challenged by external demands on sustainability.

Firstly, we emphasize institutional logics outside the focal relationship and develop an approach that makes a distinction between logics on three analytical levels – the society, the supply chain and the focal organization. We show how these logics will shape what happens within the relationships in the implementation of sustainability. This is a contribution to the understanding of how local sustainability views may differ (cf. Burritt et al., 2020) and the importance of navigating among a set of stakeholders with different interests (Lichtenthaler, 2022). We have identified multiple and potentially competing logics on all three levels. For society, we discuss the importance of understanding taken-for-granted logics concerning societal institutions such as the role of government, professions and their impact on buyer–supplier relationships.

From a business network perspective, our study suggests that it is insufficient to focus on the local supplier that the buyer is involved with. A more relevant focus appears to be the business network in the global market that the buyer is entering, and institutional logics in relation to sustainability values. In our study, we found that it can be very difficult for retailers to go beyond the first tier because it is not in line with the logics within the local network. This view is also supported by more general business network studies. For example, Ford and Mouzas (2010) discuss how firms should relate to different norms and practices in their supplier network, and the need to set an agenda and decide to what extent to conform and to take on conflicts. This appears to be especially central for sustainability aspects. On the organizational level, the importance of turning sustainability into a business case is illustrated (Carroll & Shabana, 2010), and the definition of a business case may differ between buyers and sellers.

Secondly, the chapter sheds light on how legitimacy is related to sustainability in global markets, particularly between buyers and sellers. Existing studies show how sustainability activities may support legitimacy (Brønn & Vidaver-Cohen, 2009; Fuchs & Kalfagianni, 2009; Handelman & Arnold, 1999), the importance of ethical behaviour in emerging markets (Perry & Towers, 2009) and that the institutional norms regarding what is to be considered as legitimate social behaviour will vary due to cultural differences (Tan & Wang, 2011). As discussed in the literature section, institutionalized norms and behaviour is to a large extent a way for an actor to achieve legitimacy within a certain setting, which can be a nation, an industry or a certain organization. Our findings highlight the importance of a customer-oriented, market-based perspective on sustainability, which is similar to a market-orientation perspective (cf. Maignan & Ferrell, 2004). This means that the parties will mainly adapt their views on what is socially acceptable to the norms of their customers in order to gain legitimacy in their relationship with them. In this way, there is a risk that sustainability as understood by the wider society gets lost. However, the institutional logic is also shaped by various

institutional actors, mostly media or social movement organizations, but also public administrators representing national governments. For example, both the studied retailers intensified their sustainability work due to criticism from social movement organizations.

Thirdly, this also implies that the legitimacy that global market actors aspire to achieve within their respective national contexts is rather different. For the buyer, it appears that the most important thing is to gain legitimacy in their home market, while suppliers find it difficult to maintain their local legitimacy if they completely follow the codes developed by global buying firms. The suppliers' social legitimacy within their local setting means they must respect the norms of political actors, local organizations, etc. The institutional logics of these two settings may not always correspond.

Sustainability is a highly complex issue for actors in global markets. With customer orientation as a dominant logic in the relationship between buyers and sellers, low-income countries' sustainability strategies may become part of isomorphic processes to gain legitimacy in an audit society, rather than contributing to the sustainable development that many firms include in their sustainability strategies. From a strategic point of view, the isomorphic process of making competing logics integrate into a customer-oriented process does not provide much of an advantage since these risks becoming more or less part of horizontal cooperation to maintain the status quo in global value chains.

This is an explorative study, aiming to shed further light on the contrasting institutional logics guiding global markets. More research is, therefore, required. Firstly, studying retailers as well as suppliers might influence the dimensions of institutional logic as well as the views and expectations expressed by the parties in this study. For example, suppliers may have discussed the issues more freely if they did not have to consider that we as researchers represented the same institutional context as the buyers. Furthermore, this has been a rather limited study, focussing on two product areas and nine suppliers. The field of how international firms navigate sustainability in global markets is a complex one that needs the study of more actors and more organizational fields. We hope that our study can be a step in that direction.

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PART THREE

DRIVING ETHICS AND SUSTAINABILITY AROUND THE WORLD

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CHAPTER 10

PANAFRICA: MEETING THE SDGs THROUGH A CIRCULAR BUSINESS MODEL

Noémie Dominguez

ABSTRACT

The concept of circular economy (CE) has been receiving a lot of attention over the past years from academics, practitioners and policymakers. This is particularly the case for small- and medium-sized enterprises (SMEs) who find in CE a way to overcome their resource scarcity. However, little is known about how embracing the CE perspective can contribute to meet the sustainable development goals (SDGs). The present chapter aims at answering this question. Through a single case study, we explore the drivers, managerial practices and collaborations implemented by SMEs to generate economic, social and environmental values.

Keywords: Circular economy; sustainable development; start-up; internationalization; Africa; Textile industry

1. INTRODUCTION

CE is gaining popularity among governments, companies and citizens (Sohal & De Vass, 2022) notably since the publication of the United Nations Sustainable

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Development Goals (UN SDGs). It addresses the pressing demand for sustainability generated by environmental problems, societal expectations and economic challenges across the globe (Geissdoerfer et al., 2017; Sohal & De Vass, 2022).

CE is perceived a way to achieve corporate sustainability (Khan et al., 2020) by promoting a reasonable use of resources and reducing firms' ecological footprint. It is also seen as a way to create, deliver and capture value while building fairer societies worldwide (Chizaryfard et al., 2021). Indeed, CE stands for a transition from linear to circular business models across multiple industries (Dey et al., 2020). It encourages stakeholders to collaborate in order to reduce their gas emissions. It also encourages them to operate more efficiently by reducing, reusing and/or recycling resources (Kirchherr et al., 2017). By doing so, public and private actors participate in increasing the resilience and sustainability of value chains (Chizaryfard et al., 2021).

However, engaging in CE remains difficult today. Indeed, it implies a radical shift in terms of strategy, business models and operations (Khan et al., 2020). Indeed, firms willing to engage into CE must

> design their business model, including the value network, the value propositions towards customers and the relationships with the supply chain partners, to achieve the best outcomes (Centobelli et al., 2020). (Sohal & De Vass, 2022, p. 594)

Extant literature focusses on specific aspects of CE, such as the impact on product design and processes (e.g. Marconi et al., 2019), on managerial practices and value creation (e.g. Goyal et al., 2018), as well as on the barriers and challenges related to CE implementation (e.g. De Jesus & Mendonça, 2018), among others. Prior research showed how large firms successfully embraced the shift towards CE and how they benefit from it (e.g. Calzolari et al., 2021). Our knowledge about SMEs navigation through the process remains limited despite the fact that they constitute more than 90% of the world economy (Dey et al., 2020). Extant literature falls short in terms of explaining how SMEs design and/or adapt their business model according to the CE principles (Centobelli et al., 2020; Dey et al., 2020). The question remains, however, of critical importance as SMEs see their strategic choices limited by their lack of resources and their liabilities of foreignness, smallness and newness (e.g. Hollender et al., 2017).

This chapter aims at explaining how SMEs integrate CE principles in their business models and how it contributes to meeting the SDGs. We conducted a case study with a French start-up Panafrica producing African-inspired shoes. We highlight the main drivers, managerial practices and collaborations engaged by SMEs to generate economic and non-economic value. More specifically, we point the key role of managerial vision and commitment to achieve sustainability, and the importance of building collaborative and long-term-oriented relations with suppliers (to gain in frugality and creativity) and with stakeholders (to explain the added-value related to CE and change consumers' habits). We demonstrate how embracing the CE perspective fits with SMEs' resource scarcity dilemma and how it can participate in boosting local communities through the development of economic activities, the promotion of safe and fair working condition as well as of social mobility through regular employee trainings.

The rest of the chapter is structured as follows. After presenting our literature review, we describe the methodology selected to conduct our research. We introduce our case study before highlighting our results, discussion and the theoretical and managerial implications of our work. We conclude by mentioning the limits and perspectives for future research.

2. LITERATURE REVIEW

Scholars, practitioners and governments have been strongly advocating the benefits of CE implementation (Khan et al., 2021; Merli et al., 2018). Confident in its viability and necessity, they perceive CE as a scalable growth model to enhance resource productivity, overcome global challenges (Khan et al., 2020) and reach objectives such as carbon neutrality (Sohal & De Vass, 2022). Interestingly, the richness of CE makes it at the same time an easily understandable but hardly operationalizable concept. The blurriness of the concept associated with the plurality of definitions constitutes a barrier to advance knowledge in the field, as conceptually different understandings might generate inconsistent or misleading results (Kirchherr et al., 2017).

Based on the analysis of 114 definitions identified in the literature, Kirchherr et al. (2017) conceptualize CE as

> an economic system that replaces the 'end-of-life' concept with reducing, alternatively reusing, recycling and recovering materials in production/distribution and consumption processes. It operates at the micro level (products, companies, consumers), meso level (eco-industrial parks) and macro level (city, region, nation and beyond), with the aim to accomplish sustainable development, thus simultaneously creating environmental quality, economic prosperity and social equity, to the benefit of current and future generations. It is enabled by novel business models and responsible consumers. (p. 229)

Firms are expected to put CE principles at the heart of their business model by adapting their value network and organizational structure, improving their relations with their supply chain partners and proposing a new type of value to customers (Centobelli et al., 2020; Lüdeke-Freund et al., 2019; Planing, 2015).

Firms decision to engage in CE and transform their business models often results from the combination of two elements, that is, (1) contextual factors (e.g. Centobelli et al., 2020) and (2) managerial capabilities and practices (e.g. Khan et al., 2021) leading to new value propositions (e.g. Urbinati et al., 2017).

2.1. Contextual Factors

Transitioning from a linear to a CE business model is often motivated by external factors such as the implementation of new regulations by policymakers or international institutions, pressures from stakeholders or the scarcity of natural resources, for example. It can be forced by law or motivated by a desire to produce differently and meet stakeholders' expectations. The EU CE Action Plan, the EU Green Deal or even the UN SDGs (Goyal et al., 2018) are examples of initiatives engaged at the supranational level to drive firms and populations towards CE.

Interestingly, other initiatives are also emerging, producing indicators that drive organizations into the transformation of their business models. The emergence of sustainable indicators in financial agencies illustrates this trend. Firms are expected to make longevity, renewability reuse, repair, upgrade, refurbishment, servitization, capacity sharing and dematerialization the core of their business model (Esposito et al., 2017). Centobelli et al. (2020) plead for the inclusion of contextual factors and implications in the analysis. Identifying the existing barriers and drivers at the organizational, institutional, economic, social and technological levels is of critical importance to foster the implementation of CE practices. In line with De Jesus and Mendonça (2018), they highlight the pivotal role played by policymakers, as their actions influence the adoption of CE. They can act as facilitators, helping firms remove barriers and implement dedicated actions (Kichherr et al., 2018) but can also slow the transition by making decisions that would not take the social, technological and market implications into consideration (or misestimate their impact).

2.2. Managerial Capabilities and Practices

If scholars agree on the potentiality of CE to generate a competitive advantage to firms, they also point the complexity of embracing such transformation as it requires deep organizational changes and the development of new practices. According to Mousavi et al. (2018), the ability and willingness of a firm to implement organizational changes such as transitioning to CE is dependent on its dynamic capabilities. Being able to reconfigure internal and external capabilities is of critical importance to respond to environmental changes (Teece et al., 1997) and maintain a competitive advantage by creating, transferring and capturing value (Urbinati et al., 2017). In a quantitative analysis conducted on a sample of 220 Italian manufacturing firms, Khan et al. (2021) show that sensing, seizing and reconfiguring capabilities act as drivers facilitating the implementation of CE practices. According to the authors, market monitoring and R&D are key routines that managers implement in order to identify CE opportunities – opportunities, thus, realized through strategic planning and technological upgrading. Sharma et al. (2021) go further by specifying that transitioning to CE requires both managerial and technological changes. Analysing the Indian context, authors show that strong managerial will, innovation technology upgradation, employee training, motivation and clear guidelines are key success factors for SMEs engaging in CE.

In a review of circular business models, Centobelli et al. (2020) distinguish managerial practices for CE based on the stage of value proposition (creation, transfer and capture). The value creation process in CE encompasses 'activities related to the creation of a product/service preserving economic and environmental value through the efficient usage of resources and closed loops' (Centobelli et al., 2020, p. 8). Several managerial practices have been identified in the literature on CE value creation, notably the 'Design for X' practices (i.e. redesigning products and processes to make them more circular), an efficient use of resources, product upgradability, lifecycle assessments and waste management (see Centobelli et al., 2020 for a detailed review). 'Design for X' practices aim at

supporting the end-of-life products and the protection of the bioenvironment. It includes design for recycling, design for remanufacturing and reuse, design for disassembly and design for environment (Marconi et al., 2019; Urbinati et al., 2017). Implementing that kind of practices usually implies reconfiguring the supply chain and the production systems as well as developing new competencies (Mendoza et al., 2017) in order to be able to reduce the consumption of resources and energy, and to improve the product life cycle and waste management.

Value transfer conceives the managerial practices for customer segmentation and customer relationship management (Centobelli et al., 2020). Franzò et al. (2021) identify four types of managerial practices related to value transfer: (1) commercial and promotion initiatives (i.e. direct involvement of customers, extensive communication, etc.) (e.g. Geissdoerfer et al., 2017); (2) communication of circularity through all channels (i.e. in-store advertising, website, sales personnel, etc.) (e.g. Urbinati et al., 2017); (3) offering the right value to the right customers (i.e. customers carefully selected and deeply aware of the value proposed) (e.g. Bocken et al., 2016; Evans et al., 2017) and (4) management of changes in customer habits (or even changes of customers) due to selling circular products or services (e.g. Shao & Ünal, 2019; Wastling et al., 2018).

Finally, value capture in a CE system refers not only to the capitalization of additional revenue sources and intangibles, cost reduction and value preservation but also to the preservation of natural resources and social well-being (Centobelli et al., 2020; Geissdoerfer et al., 2017). To capture value in CE, firms transform the relationship they have with their customers by implementing new practices, such as take-back and product-service systems, the development of collaborative use, etc. Customers do not own products anymore but become rather temporary users of a good or a service (and pay consequently for their use): companies remain owners of their own products or services. The development of streaming platforms (such as Netflix or Spotify) of car leasing, etc. illustrates this trend. Firms are expected to collect back products from their customers so that they can be reused, redistributed, remanufactured or refurbished (Lewandowski, 2016). They are also encouraged to offer additional services to foster the circular virtue of their products/services, such as an increased longevity through maintenance, revalorization and repair; a possibility to combine or substitute products/services (e.g. Reim et al., 2015) and the development of collaborative use of products (e.g. Rosa et al., 2019). Implementing such initiatives implies that firms build close collaborations with their customers and suppliers. It requires substantial communication and promotion efforts to raise customers' awareness about the ethical, economic, social and environmental value of products or services made under CE principles (Urbinati et al., 2017). Table 1 summarizes the main drivers and managerial practices and capabilities identified in the literature.

2.3. SMEs and CE Practices

Despite its richness, the literature still falls short to explain how SMEs embrace CE (Dey et al., 2020; Sharma et al., 2021; Sohal & De Vass, 2022). At the exception of some studies (e.g. Dey et al., 2020; Rizos et al., 2016; Sharma et al., 2021;

Table 1. Drivers and Managerial Practices Related to CE Adoption.

		Description	References
Drivers	Contextual	Policy changes (new regulations) Stakeholders' pressure Resource scarcity Supranational guidelines and programmes Creation of indicators and evaluation of firms' sustainable performance by financial actors	Centobelli et al. (2020), De Jesus and Mendonça (2018), Esposito et al. (2017) and Goyal et al. (2018)
	Internal	Managers' desire to produce differently and to meet stakeholders' expectation Firms' dynamic capabilities and relations with suppliers	Khan et al. (2021), Mousavi et al. (2018) and Sharma et al. (2021)
Main actors	Policymakers	Provide guidance Encourage/facilitate CE Slow the transition towards CE	Centobelli et al. (2020), De Jesus and Mendonça (2018), Goyal et al. (2018) and Kichher et al. (2018)
	Stakeholders	Pressures to embrace CE	Centobelli et al. (2020), Lüdeke-Freund et al. (2019), Planing (2015)
	Suppliers	Participate (or not) in the transition	Urbinati et al. (2017)
Managerial practices	Value creation	Market monitoring and R&D Product and/or technology upgradations Employee training and motivation Creation of clear guidelines and policies Design for X (recycling, remanufacturing, reuse, disassembling, environment) Reconfiguration of the supply chain (life-cycle assessments, waste management, resource efficiency)	Centobelli et al. (2020), Khan et al. (2021), Marconi et al. (2019), Mendoza et al. (2017) and Sharma et al. (2021)
	Value transfer	Commercialization and promotion activities Multi-channel communication on CE practices and values Customer segmentation Change management in consumers' habits	Bocken et al. (2016), Evans et al. (2017), Franzò et al. (2021), Geissdoerfer et al. (2017), Shao and Ünal, (2019), Urbinati et al. (2017) and Wastling et al. (2018)
	Value capture	Take-back and product-service systems Collaborative use of products Subscription offers (rather than traditional buy/sell activities) Services and/or substitutes increasing product life-cycle	Centobelli et al. (2020), Geissdoerfer et al. (2017), Lewandowski (2016), Reim et al. (2015) and Rosa et al. (2019)

Sohal & De Vass, 2022), most research focussed on large and multinational firms. Scholars agree, however, on the fact that SMEs tend to be more vulnerable that multinational companies as they do not benefit from the same resources, reputation or networks. Understanding how small firms transform their business models (thus, their value proposal) and/or succeed in engaging in CE is of critical importance. It might enrich our understanding of the drivers and barriers faced and, thus, provide new insight to enhance SMEs' competitiveness.

Besides firm size, another important limitation to existing debates relates to the role and the impact of network and ecosystems in the adoption of CE. Indeed, existing research tends to be centred on firms, notably how they build/transform their business models, the role of institutions and stakeholders in the decision to engage and navigate through the process. However, firms are part of value networks and ecosystems that influence and can be influenced by their decisions. Understanding such entanglement is important for several reasons. Firstly, activities are more and more interconnected across the globe: firms are part of various networks who influence both their decision, access to resources and opportunities, etc. Engaging in CE requires not only investments and organizational changes but also support from stakeholders. Interestingly, the lack of support from the supply and demand networks has been recognized as major barriers preventing SMEs from engaging in CE (Rizos et al., 2016). Thus, analysis CE adoption from a value network rather than from a value chain perspective should shed new lights on the role of partners (drives, barriers) and the type of economic, environmental, ethic or even social value created among the network. These elements are of particular importance to understand how SMEs can contribute to act against climate change, protect the biosphere or even have a positive impact on local communities by sustaining local activities, etc. Therefore, practical demonstrations and narratives from SMEs that succeeded in engaging in CE are valuable to improve our comprehension of the phenomenon. In the next section, we present the methodology adopted.

3. METHODOLOGY

This exploratory study adopts a single in-depth case study approach. Single in-depth case studies proved to be a relevant methodology to understand how SMEs embrace the CE perspective and build or transform their business model accordingly (e.g. Zucchella & Previtali, 2019). We adopt Zucchella and Previtali (2019) abductive inferential approach to answer our research question. Abductive inferences allow to study new, uncommon or unknown situations (Gary, 2010) through inferences from observed facts (Richardson & Kramer, 2006). It 'has been employed in sustainability studies (Stubbs & Cocklin, 2008) to uncover new forms of organization and sustainable business models in particular' (Zucchella & Previtali, 2019, p. 276). Abduction build constant bridges between theory and field work, which improve the theoretical strength of case analyses. Drawing upon existing literature on circular business models, we propose to advance current

knowledge through the in-depth analysis of an 'exemplar' case study (Patton, 2002). Indeed, the case has been purposefully selected to illustrate the content of our study, that is, how SMEs implement the CE principles and, more precisely, focus on the drivers and managerial practices allowing firms to embrace the sustainable perspective.

We focused on the fashion industry for two reasons. Firstly, the industry is known for its negative consequences on the environment (use of chemicals, overconsumption of natural resources, lack of recyclability of fast fashion items, etc.) and the poor conditions of workers in fabrics located in developing countries. This is particularly the case in shoe manufacturing, where several multinationals have been accused of modern slavery, child labour, etc. Secondly, the industry knows a growing number of actors (new or existing) turning to CE in response to new consumer attitudes and stakeholders' expectations.

Our case firm has been selected based on a two-step logic. We identified firms producing shoes known for their eco-friendly approach in France and found 28 companies. We refined our search to include only small firms having international activities and excluded four firms. In the end, we chose one SME (Panafrica) whose characteristics were aligned with our research objectives: a small firm operating in a polluting industry (the textile industry), acting for change by creating sustainable product and processes, by building strong relationships with its stakeholders and generating both economic and non-economic value. Furthermore, the co-founders were able for interviews and willing to share data with the researchers.

From June to November 2021, four in-depth interviews were conducted with the co-founders and CEOs of the brand, lengthening from 1h30 to 3h30. Open-ended questions were asked to the interviewees, with a particular focus on the history of the brand, its eco-friendly approach, the relations developed with suppliers and other stakeholders, the role of each partner in the production process. We also asked questions related to the business model of the firm, the challenges faced and ended with the coming projects. The data collected allowed us to map the production process and identify how the circular approach is materialized in the business model. It also led us to understand when and how local partners intervene in the process, and how the SME contribute – through its action – to shape the local environment in order to have a positive impact on local communities. Analysed under the SDG lens, our case study illustrates how SMEs can – through the production and promotion of fair and sustainable products (SDG 12) – act to reduce poverty (SDG 1), ensure the access to education (SDG 4) and promote economic development through decent work (SDG 8). The next session presents the case study.

4. PANAFRICA: STORY OF AN ETHNIC AND COMMITTED BRAND

Panafrica is a French start-up created in 2015 by Hugues Didier and Vulfran de Richoufttz. It is specialized in the design, manufacture, sales and recycling of

African-inspired shoes for men and women. The headquarters are based in Paris. In 2022, the start-up has 10 employees and realized a turnover superior to 1 million euros. Shoes are sold online at prices stemming from 79 to 149 euros.

4.1. Creation on the Brand

Panafrica was born from the passion of the two founders for African cultures and the desire to create a company respectful of people and the environment. Nothing predestined the two leaders to create a shoe brand. Hugues Didier and Vulfran de Richoufftz met at the university, while following a master in Urbanism and Territorial Planning. They started their careers in microfinance (Hugues) and real estate planning (Vulfran) before creating their own company, unsatisfied about the loss of meaning of their job and the misalignment of their professional and personal values.

Hugues Didier explains that:

> I didn't see myself in urban planning so I switched to a business school – but did not finish it. My goal was to travel, and I spent nine months in Singapore and then six in Morocco doing my studies, doing strategy consulting. I discovered and loved Morocco but had no clear professional idea. The only thing that I knew was that I wanted to go back to Africa for a life experience.

His interest for Africa stems from a three-year position in Senegal as a business developer in an Ivorian microcredit institution. This experience led him to build a network with actors from the agricultural and textile sectors as well as to better understand the specificities of the local context.

Panafrica was also born from the entrepreneurs' interest for African wax fabrics and the desire to create a committed brand promoting a shift to a fairer and more sustainable world. Despite their lack of experience in the fashion industry, the co-founders decided to create ethnic shoes.

> We chose the shoe industry first because we both like shoes, then what we find interesting is that we can reach a wider public. Everybody wears shoes, every day. It is a fashion accessory where we can probably allow ourselves a little more fantasy and originality. Creating ethnic shoes from A to Z allowed us to build a committed and global brand: something easily recognizable and that customers would be proud to wear. (Vulfran de Richoufftz)

The textile industry is known for its negative impact on the environment and societies. The overconsumption of resources and chemicals, the lack of safe working conditions for suppliers/subcontractors or even the non-recyclability of many clothes make textile one of the most polluting and decried industry in the world. The accident that happened in the Rana Plaza in 2014 (Bangladesh) provoked a shock worldwide, unveiling the working conditions of employees in countries where the absence of social protection often constitutes a location determinant for multinationals.

Panafrica has the social and environmental responsibility the core of its business model. This commitment can be observed at two levels: the supplier relation management and the production.

4.2. A Committed Brand

In 2016, the two co-founders went to French-speaking African countries to identify potential partners, using the network built by Hugues Didier in the past. The alignment of values, the promotion of a traditional expertise, a strong social commitment and the desire to engage in long-term cooperation are key components in the selection of local partners. The same year, four partnerships were formed with African social enterprises or family firms. Partners are been selected based on their complementarity (to avoid competition among them) and the working conditions they offer to their employees: the Xoobma cooperative (Burkina Faso), Uniwax (Ivory Coast), L'Atelier d'Esther (Ghana) and Hicham's Workshop (Morocco).

> We went to Burkina Faso and visited a women's cooperative that seduced us immediately because it is in phase with our values. The women who work there learn to dye and weave four days a week, and also take courses to learn to read, write, count during the fifth day. The machines are all traditional, so the cooperative does not need a lot of electricity to operate. It is a real plus because it reduces our impact and the interruptions we would have to face due to power shortage. The objective is to give them the skills they need to become autonomous and be able to start their own business if they wish. In Ghana, we work with a person called Esther who masters the technique of printing batik fabrics and who is engaged in the defence of her traditional know-how, etc. Having a responsible approach implies treating your suppliers with respect, i.e. paying them the fair price, not putting them under pressure nor to make them dependent from your decisions. We anticipate our orders over three to four years and we pay the cotton at the fair price – not the market price – to allow this cooperative to operate with respect for women workers. The idea behind all this is also to allow our partners to live with dignity and to preserve their expertise.

The decision to anticipate orders on the long-term allows the brand to ensure its partners a stable flow of activities, thus reducing the uncertainty generated by the volatility and the seasonality of the fashion industry.

The social commitment of the brand is also reflected by the attention paid to the working conditions of offered by each partner to their employees. To build a safe and collaborative working environment, employees have an employment contract and a guaranteed minimum wage in order to ensure that they benefit from social rights and that they work in safe conditions. Moreover, they benefit from an increased salary for each additional hour worked (+20% with a maximum of 2 additional hours per week). In the same vein, each one benefit from a minimum of 3-week paid vacation per year and a health coverage, increasing people's wealth and ensuring that they can access to the medical assistance they need in case of health problem. Finally, they benefit from regular trainings so that they can develop new skills and move up the social ladder. Besides protecting the brand's reputation, the specific conditions offered to the partners' employees aim at ensuring the business continuity, protection know-how by limiting the turnover and, finally, to participate in building strong local communities. The co-founders explain that:

> It seems simple and normal for us, Europeans, to benefit from these conditions but it is far from being a norm in the rest of the world. If you make sure that people can access to healthcare when they need it, that they can rest when they feel tired, etc., you also ensure that families will not fall into poverty in case a member cannot not access to medical aid if he/she has an accident, feels sick, etc. It is a win-win relationship: the turnover – as well as the incident rate – is low and we offer employees the possibility to climb the ladder.

At the production level, the sustainable approach of the brand is observable at two stages. Firstly, attention is been paid to the raw materials used, notably their origin and production conditions. Panafrica anchored its business model in the selection of raw materials produced locally and organically. Indeed, avoiding the overconsumption of water and the use of chemicals is a way to ensure a good and long-term cohabitation of farms/fabrics and local populations. Moreover, using cotton produced locally allows the start-up to avoid gas emissions as well as to participate in the creation of a sustainable ecosystem in the area. As mentioned by one of the co-founders,

> we could probably find cheaper cotton abroad and import it to the fabric but it is contrary to our principles: it would create a competition that local farmers would not be able to face, thus destabilize local economies. Furthermore, the gas emissions would be scandalously high … and if you add all the direct and indirect costs associated with this operation, I am not sure that it remains profitable. Firms have to understand that it is in everybody's interest today to sustain local ecosystems instead of pressuring suppliers for cheaper raw materials. You save time, money and you participate in the growth of an ecosystem.

Secondly, efforts are being engaged at different levels of the value chain to maximize the recycling and reusing possibilities of shoes and textiles. The design is kept simple and developed in collaboration with the African partners to benefit from their ideas and expertise. The number of collections limited to two per year in order to reduce the number of prototypes and, thus, the overconsumption of resources.

> The negative impact of the fashion industry comes from the raw materials and chemicals used, but also by the number of collections they sort each year: if you launch 6, 8 or 10 collections, it means that you will have to do a lot of prototypes, produce a lot of goods and destroy a lot of them because they will be outdated rapidly, your suppliers will be under pressure, the quality will not be there, etc. When you focus on two collections per year, you limit this negative impact and you also create expectations and desire among your customers.

The manufacturing process has been reorganized in order to limit as much as possible the waste of resources: prototypes are sold at cost price to avoid their destruction, the scraps are transformed into accessories and sold online or in the showroom. Recycling is encouraged through a deposit mechanism: when customers by shoes, a 7-euro deposit is included in the price. They are incited to send their worn shoes back to Panafrica (for free) and get their deposit back as a voucher. When possible, the shoes are refurbished and offered to charities. In the opposite case, shoes are disassembled and recycled: fabrics are made available for industrial use and soles are crushed and re-integrated in new Panafrica shoes.

> We found a company that developed a real expertise in disassembling and crushing shoes without using chemicals. It is completely in line with our values and that it helps us to reduce the costs associated with raw materials.

Interestingly, and despite the apparent adequation between the brand's values and current social trends, the two co-founders still face price-related reluctances from some customers. Communication and educational efforts have to be engaged to explain to customers the positive outcomes associated with eco-friendly products.

> When we present our products, we tend to have remarks about to their price, as 80 to 140 euros seems expensive to some customers for a pair of shoes. It is paradoxical, when you know that people do not hesitate to pay 150 or event more than 200 euros for a pair of snickers, even when they know the conditions under which they are produced. It is not entirely their fault, because most of us do not really know the real costs of the products we buy: we want good products, but at the cheapest price possible. Thus, we take time to explain, we communicate on social medias, we make videos with our partners to show how things are made, etc. It is also part of Panafrica's DNA. (Vulfran de Richoufftz)

5. DISCUSSION

The case study shows that, by making CE the heart of its business models, Panafrica does not only create, transfer and capture value for itself but also for its partners and the ecosystems in which it operates. By favouring local producers and ensuring that suppliers (and their employees) benefit from safe and fair working conditions (SDG 8) as well as regular trainings (SDG 4), the firm support the local economy and participate reducing poverty (SDG 1). Table 2 presents a synthesis of the drivers, actors and managerial practices identified in our case study.

Our case study confirms prior findings (Sharma et al., 2021) and shows that managerial willingness and awareness towards SDGs and CE are the key foundations of the actions engaged by the co-founders. In our case, indeed, the decision to create an eco-friendly brand results less from external pressures than from a desire to participate in building a fairer society. Our results complement Esposito et al. (2017) by showing that contextual factors can be enriched to include generational ones: a desire to make things differently and propose alternative business models that change the relations established with stakeholders and that would combine profitability and social responsibility.

In line with Urbinati et al. (2017) and Centobelli et al. (2020), we found several managerial practices have been implemented to create, transfer and capture economic value through the reduction of the ecological footprint of brand. Value is created through design for X practices, waste management and the use of traditional processes requiring limited energy. Promotion efforts are engaged in order to raise customers' awareness about the positive impact of Panafrica's production process. Transparency about the actions engaged with local partners, the audits performed by external agencies, the challenges faced and the upcoming projects is ensured through regular communication on social media, online reports and videos. In line with Franzò et al. (2021), we found that several managerial activities were engaged in order to ensure value transfer: commercial and promotional initiatives (Geissdoerfer et al., 2018), communication of circularity through different channels (Urbinati et al., 2017) and customers' selection. However, we observed only limited management of change in customers' habits, mainly regarding used shoes (value creation). This limited number of actions engaged to change customers' habits can be explained by the newness of the brand and that customers acquiring eco-friendly shoes are already aware about the values promoted by the brand.

Table 2. Drivers, Actors and Managerial Practices Identified in the Case Study.

		Description
Drivers	Contextual	Social demand for fairer products
	Internal	Managerial will: • Interest for African cultures and fabrics • Desire to have a positive impact on the environment and local communities • Desire to create a firm with human values and to produce differently
		Mobilization of existing networks
Managerial practices	Value creation	Panafrica 1. Suppliers management • Selection of partners based on their expertise, their complementarity and social commitment • Development of long-term relationships • Measures to ensure safe and fair working conditions among suppliers' employees (including regular training) + audits by independent bodies 2. Sourcing/procurement • Use of organic raw materials produced locally to sustain local ecosystems • Anticipation of order to avoid putting pressure on suppliers 3. Offer • Reduced number of collections (2 per year) • Creation of accessories made of scraps • Sales of prototypes at production costs to avoid destruction
		Panafrica and its' suppliers: collaborations through design to create sustainable products: • Design for recycling, reusing and disassembling
	Value transfer	Transparent communication with stakeholders • Actions engaged to limit the environmental impact • Social commitment and initiatives implemented • Barriers and areas for improvement
		Collaboration with suppliers for ad campaigns (suppliers as brand ambassadors)
	Value capture	Implementation of a 7-euro deposit to encourage refurbishing, recycling and/or disassembling
		Waste management: Reuse of used materials (refurbished) to limit the use of new resources

Value is captured through a take-back system where the brand collects used shoes to transform them so that they can be reused or disassembled and reintegrated in the manufacturing process. The deposit customers pay when acquiring the product, associated with the free shipment of used shoes aim to improve not only users' sensitivity (i.e. change their habits) but also the overall circularity of activities. Interestingly, we show that, by integrating the value network into the

decision process, the brand does not only make its own activities circular but also capture economic and social value for local ecosystems. In line with Geissdoerfer et al. (2018), our case study shows that SMEs can capture economic and social value in CE systems by building collaborative relationships with their suppliers, favouring local production through traditional and frugal manufacturing processes. We enrich Sharma et al. (2021) by showing that the firm does not only engage internal training, upgrading, etc. but also imposes its local partners to do so locally to reach its CE objectives. Said differently, decisions are made on the basis of the whole value network and not only focussed on the SME's own value chain. The objective is not only to increase the profitability and circularity of Panafrica's activities but also to generate a positive impact on local communities. These results show the importance of integrating value networks and local ecosystems in the analysis of CE-based business models to better understand how the interdependencies existing between SMEs and local communities (or ecosystems) shape organizations and actors and how they co-evolve. By doing so, scholars, policymakers and managers should be in a better position to understand how CE shape SMEs' market and nonmarket strategies, how firms influence their ecosystems and vice versa and how they adapt their capabilities to make CE the basis of their competitive advantage.

6. THEORETICAL CONTRIBUTIONS AND PRACTICAL IMPLICATIONS

Based on the above findings and related discussion, this section highlights the potential theoretical contribution and practical implications of our study.

6.1. Theoretical Contributions

Our findings offer new insights on how SMEs embrace the CE perspective and build their business model accordingly. We reported their vision, innovative relational and managerial practices, and how they made CE principles the core of their business model. Firstly, we contribute to existing debates (Sohal & De Vass, 2022) by providing empirical evidence of successful CE implementation and practices among SMEs. We confirm the key role of managerial willingness, commitment and vision in the decision to engage in CE. We also highlight how the implementation of CE principles participates in transforming relations with suppliers, from situations of domination to collaborative, fairer and long-term oriented exchanges.

Secondly, we highlight the importance of local communities in the development of CE businesses, being providers of resources, skills and new frugal production techniques helping SMEs reduce their footprint. Our research extends existing knowledge on the influence of contextual factors on CE strategies by showing the existence of interdependencies between SMEs and local ecosystems: firms implementing CE strategies in collaboration with local actors generate positive externalities for local communities, but local ecosystems also participate in shaping firms' processes and strategies. In sum, CE practices and processes allow firms and their stakeholders to capture, transfer and create both economic, social and ecological values.

6.2. Practical Implications

We believe that the positive insights from how the start-up Panafrica made CE the core of its business network may encourage entrepreneurs and policymakers to engage in the same way. In line with prior research, our result shows that CE can generate viable sources of revenue and has the potential to constitute the foundation base for competitive advantage. This is particularly true for SMEs who, due to their resource scarcity, often operate in frugal contexts. However, managers must define a clear vision and ensure the alignment of firms' values, decisions and actions (e.g. partner selection, supply, manufacturing processes, etc.) with the CE principles. Our study notably revealed that the key role local partners can have on the implementation of frugal production processes, the design of new products with limited ecological impact, notably. A sustainable approach to CE includes resource-sharing activities among partners, facilitated by the development of long-term relations with suppliers.

From a social point of view, our results demonstrated the positive outcomes ensuing from CE on local communities, stakeholders and SMEs. Actors mutually benefit from the collaborations engaged and benefit from the environmental, economic and social externalities generated by the development of circular – and sustainable – activities.

7. CONCLUSION

This research aims to understand how SMEs embrace the CE perspective and how it can participate in responding to the UN SDGs. Drawing upon the business model and CE literatures, we identified the driving factors leading SMEs to engage in CE as well as the related managerial practices. Through the narration of an SME's journey towards CE, we highlighted the key role of managerial vision and commitment to achieve sustainability. We also shed light on the importance of building collaborative and long-term-oriented relations with suppliers (to gain in frugality and creativity) and with stakeholders (to explain the added-value related to CE and change consumers' habits). We demonstrated how embracing the CE perspective participate in boosting local communities through the development of economic activities, the promotion of safe/fair working condition and of social mobility through regular employee trainings.

Our study, exploratory by nature due to its comprehensive nature, is not exempted from limits. The case studied has been specifically selected to serve as a successful example of CE implementation. Future research must include a wider and more diverse sample of successful and unsuccessful SMEs in order to deepen our knowledge related to the drivers and barriers SMEs faced when implementing or transitioning towards CE. To increase the generalizability of our results, we suggest to replicate the study including firms from other industries and regions to identify potential regional and/or industrial specificities. Finally, using mixed methods should be useful to extend current understanding and knowledge of the CE practices of SMEs, the barriers and driving forces, the implementation process as well as the type of value created and how it participates in (re)designing firms' competitive advantage.

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CHAPTER 11

SUSTAINABILITY AND RESILIENCE IN THE EXTENDED VALUE CHAIN: THE CASE OF STMICROELECTRONICS

Federica Sacco and Giovanna Magnani

ABSTRACT

In recent years, both academics and institutions have acknowledged the crucial role multinational enterprises (MNEs) can play in addressing the sustainability challenges, as formalized by the sustainable development goals (SDGs). Nevertheless, because of their extensiveness and their design as country-level targets, SDGs have proven challenging to operationalize at a firm level. This problem opens new and relevant avenues for research in international business (IB). This chapter attempts to frame the topic of extended value chain sustainability in the IB literature. In particular, it addresses a specific topic, that is, how sustainability and resilience-building practices interact in global value chains (GVCs). To do so, the present study develops the case of STMicroelectronics (ST), one of the biggest semiconductor companies worldwide.

Keywords: Sustainability; resilience; global value chains; semiconductor industry; STMicroelectronics; responsibility

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1. INTRODUCTION

On January 1, 2020, firms woke up into the 'Decade of Action': 10 years that should lead to achieving the SDGs. Herein, the private sector – representing 75% of global gross domestic product (Guterres, 2019) – was ascribed a leading role in accomplishing the SDGs (Van Tulder et al., 2021) and MNEs have an active role in this. The transition towards sustainable ways of organizing business activities is a strategic imperative (Van Tulder et al., 2021). Yet, many companies still have not fully incorporated sustainability in both general and specific terms into 'their core business strategies, operations, and cultures' (Deloitte, 2021).

Recent calls for action and research (Baldassarre et al., 2020; Ghauri et al., 2021) highlight the importance and the need for further research on MNEs' responses to climate change as it strongly impacts their 'strategy, business models, and operations across different national systems' (Ghauri et al., 2021, p. 5).

MNEs have fragmented their value chains across the globe in the last 40 years, encouraged by the rise of trade liberalization, technological improvements for communication and coordination and new opportunities to increase cost efficiency (e.g. lower labour costs in emerging economies). The phenomenon has become so prominent that the United Nations Conference on Trade and Development estimated that in 2013 about 80% of world trade took place within the so-called GVCs (UNCTAD, 2013).

A GVC includes the full range of activities that are required to bring a good or service from conception through the different phases of production to delivery to final consumers as well as disposal after use (Cattaneo et al., 2010; Gereffi & Fernandez-Stark, 2011). In the perspective of the 'global factory' as formalized by Buckley and Ghauri (2004), MNEs are identified as the 'orchestrators' of GVCs: they coordinate globally dispersed value chain activities through more precise use of ownership and location strategies (Buckley, 2011).

Despite the most recent dynamics about GVCs becoming shorter and/or more concentrated (Ciravegna & Michailova, 2022; The Economist, 2022), MNEs are still responsible for the greatest majority of intermediate goods exchanges across the globe. World exports of intermediate goods increased by 21% in the fourth quarter of 2021, accounting for $2,629 billion, with a yearly recovery of 28% if compared with 2020, the peak year of the COVID-19 pandemic (WTO, 2022). Moreover, the last available data show that Trade in Value Added reached $82,962 billion worldwide in 2018, with a 6.3% increase with respect to the previous year (OECD, 2021a). Finally, in the first half of 2022, global foreign direct investment (FDI) flows reached $972 billion, recording the largest levels since 2013 (OECD, 2022).

GVCs are complex structures and they can be analysed from four different and interconnected perspectives (Bair, 2009; Gereffi & Fernandez-Stark, 2011): (i) the input–output structure, which encompasses all the activities of the VC; (ii) the geographical configuration of activities; (iii) the governance structure and (iv) the institutional context in which the VC operates.

Firstly, the input–output structure allows to identify the main activities and segments of the GVC and its analysis provides insights into the dynamics within

each segment of the VC (e.g. sourcing practices or preferred suppliers) (Gereffi & Fernandez-Stark, 2011). This level of analysis is the closest to the operational level and it identifies where value is created. From a sustainability perspective, the analysis of the input–output structure addresses issues such as responsible sourcing (Guo et al., 2016) and circular economy (CE) business models (De los Rios & Charnley, 2017).

Secondly, MNEs have increasingly offshored value chain activities, that is, they relocated parts of production to foreign locations, irrespectively of the ownership mode (Kinkel & Maloca, 2009). Nowadays, value chain activities are often globally dispersed and different activities are usually carried out in different parts of the world. The location of value chain activities can potentially hinder or enhance the company's ability to address sustainability challenges depending on the available local resources.

Thirdly, GVCs can be analysed according to their governance structure, that is, 'authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain' (Gereffi, 1994: p. 97). MNEs can choose to outsource some or all of their VC activities, that is, to obtain semi-finished products, finished products or services from an outside company if these activities are traditionally performed internally (Simchi-Levi et al., 2004). The governance aspect is important for sustainability too: largely pushed by public opinions, MNEs are increasingly considering non-financial factors when making crucial business decisions. There is a trade-off between the benefits of outsourcing and the ability of MNEs to control how subcontractors implement sustainability standards (Narula, 2020): for example, it took Samsung a dedicated external audit to discover that among its Chinese suppliers 33 broke local regulations on insurance, 39 paid fixed wages without compensation for overtime, 33 cut pay as a disciplinary measure and 48 let minors (employees aged 16–18) handle chemicals (The Guardian, 2014).

Finally, GVCs exist within an institutional context, which is particularly relevant in the perspective of analysing value chains and their impact on sustainability. Local and international policies can have a substantial impact on MNEs' value chains: an example is the USA–Mexico–Canada Agreement (USMCA) entered into force in 2020, replacing the North American Free Trade Agreement (NAFTA). Differently from NAFTA, the protection of worker rights and the enforceability of labour provisions were major concerns throughout the USMCA negotiations. The new agreement requires member states to adopt and maintain worker rights as stated in the 1998 Declaration on Fundamental Principles and Rights at Work, in addition to acceptable conditions of work, including concerning minimum wages, working hours and occupational safety and health (U.S. Department of Labor, 2022a). In this context, the Mexican executive branch introduced a bill that, if enacted, would effectively eliminate, in most cases, the use of service companies in Mexico: it attempts to strengthen employment and abolish practices that harm labour rights and reduce the obligations of employers (EY, 2020). Consequently, local service companies providing specialized services and MNEs operating under subcontracting agreements in the country will need to evaluate the impacts the reform's impacts on their operations and adjust them accordingly.

By reporting the case of ST, this chapter aims at presenting a best practice for the development of a sustainability strategy that encompasses the MNE business model and its relationship with other GVC actors. We address the topic of extended value chain responsibility and how this well-rounded approach to sustainability can be complementary to a company's efforts towards resilience building.

2. GVCs AND SUSTAINABILITY

Sustainability is defined as the 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (World Commission on Environment and Development, 1987, p. 24).

Despite the relevance of addressing sustainability challenges for the well-being of the world population, to date, it is still not clear how to interpret, measure and operationalize it (Green et al., 1998). At present, the most extensive attempt to identify actionable approaches was the drafting of 17 SDGs by the UN Sustainable Development Summit in 2015: these goals promote the joint effort of MNEs, institutions and local businesses for the improvement of environmental, social and economic conditions (Ghauri et al., 2017). Nevertheless, because of their extensiveness and their design as country-level targets, SDGs have proven challenging to operationalize at the firm level: they leave it up to MNEs, one of the key actors in building sustainable behaviours, to integrate the goals into their operations (Montiel et al., 2021).

This is particularly relevant, considering that MNEs' GVCs significantly contribute to climate change (World Bank, 2019). Firstly, MNEs shape the depletion of finite natural resources, such as biomass, fossil fuels, metals and minerals: in 2017, one-third of the total volume of material resources extracted in the world economy – which has tripled since 1970 – was employed in the production of internationally traded goods (International Resource Panel, 2020). Secondly, GVCs influence the amount and type of waste generated during the production process: for example, the electronics industry, which is GVC-intensive, produces more than 70% of the toxic waste in US landfills (Holgate, 2018). Moreover, the back-and-forth transport of goods across long distances directly contributes to climate change with CO_2 emissions from international freight transportation, accounting for about 7% of total emissions globally in 2015 (World Bank, 2019).

Furthermore, over the past decades, following the low-cost labour imperative, MNEs have offshored relevant parts of their value chains in emerging and developing countries: over time, this approach has raised important concerns about social sustainability. Social sustainability as defined by McKenzie (2004, p. 18) entails

> [all] formal and informal processes, systems, structures and relationships [that] actively support the capacity of current and future generations to create healthy and liveable communities[…] equitable, diverse, connected and democratic and provide a good quality of life.

Subcontractors may perpetrate unethical – and at times unlawful – social practices within GVCs. For example, in 2017, a journalistic investigation reported 18

suicide attempts and 14 confirmed deaths in Foxconn – Apple's main outsourcee in China – connected to the poor work and living conditions the employees are subjected to (The Guardian, 2017). More recently, the U.S. Department of Labor (2022b) reported that an American subcontractor for the Korean car giant Hyundai engaged in oppressive child labour by employing young workers under the minimum age of 14 in Alabama. The International Labor Organization (2021) reports that, in 2020, 9.6% of children aged 5–17 years were engaged in child labour worldwide, with 4.7% of them being involved with hazardous work, that is, work that directly endangers their health, safety and moral development.

Almost 2 million people die from work-related causes each year, such as exposure to long working hours and workplace exposure to air pollution, asthmagens, carcinogens, ergonomic risk factors and noise (World Health Organization, 2021a). These deaths are disproportionately concentrated in Africa, South-East Asia and the Western Pacific Region (World Health Organization, 2021b).

Environmental and social sustainability-related issues are concerning for firms' international value chain activities, both primary and support ones,[1] and regard MNEs and their outsourcees in both developing and developed countries. Their pervasiveness has led IB researchers to increasingly address the issue of extended value chain responsibility. The idea of 'extended value chains' emphasizes how value-creating activities – both primary and support – can extend beyond MNEs' direct control (Vachani & Post, 2012). In the case of outsourced value chain activities, relationships with subcontractors are mostly regulated through contractual agreements and the MNE has limited visibility and control over the outsourcee behaviour, depending on the level of power asymmetries between the entities (Cox, 2001; Strange, 2011). Moreover, the extended value chain includes suppliers beyond the first-tier, which have no formal relationship with the MNE but are still practically involved in the value creation, potentially exposing the MNE to serious social and environmental risks. Nevertheless, increasingly, MNEs are being held accountable for the adoption of sustainable practices of other actors within the extended value chain: as orchestrators, they are seen as the most impactful entity, and the promoters and facilitators of the sustainable practices cascade throughout the extended value chain (McKinsey, 2016; Montiel et al., 2021; Villena & Gioia, 2020).

From the environmental sustainability perspective, this issue has been studied among researchers of sustainable supply chain management: it is not enough for MNEs to build green supply chains by accounting for the environmental impact of their purchasing strategy, manufacturing process and distribution (Badi & Murtagh, 2019); they need to make sure that suppliers and customers adhere to environmentally friendly practices. This new perspective has moved both institutions and companies to evaluate how sustainable goals can be best achieved by taking a business model approach. For example, in 2015, the European Commission launched the so-called 'circular economy (CE) package': an economic model based on the CE integrates all value chain functions into a non-linear production and consumption system to optimize the efficiency of resources, production processes and consumption habits within the system itself, rather than seeking efficiency of individual components or functions separately.

The implementation of CE practices, such as closed-loop supply chains (CLSC), combines large environmental benefits with radical changes in business models associated with a possible increase in risk (Masi et al., 2017; Murray et al., 2017). Moreover, GVC literature suggests that MNEs may be the initiators of these CE practices, defining standards for product and process requirements of suppliers (Yamin et al., 2015). However, the dynamics of application of CE practices may depend on the type of governance existing in the GVC, according to the power asymmetries between lead firms and suppliers (Ashby, 2018; De Marchi et al., 2019; Gereffi & Lee, 2016).

From the social sustainability perspective, the employment of sustainable practices and policies has predominantly been investigated in the context of headquarter–foreign subsidiary relationships, in which MNEs should transfer sustainable social practices using their power to directly control the foreign entity (Iatridis & Kesidou, 2018; Tashman et al., 2019). Recently, Castaldi et al. (2022) widened the context of analysis by investigating the transfer of socially sustainable practices along the extended value chain and proposed two governance strategies that can come into play. On the one hand, MNEs can implement an audit-based governance strategy, by imposing unilateral top-down pressures on suppliers to implement social sustainability policies in their daily working routines (Locke et al., 2009; Lund-Thomsen & Lindgreen, 2014). On the other hand, MNEs can implement a more developmental, capacity-building form of governance (Alexander, 2020; Lund-Thomsen & Lindgreen, 2018) that seeks to 'change suppliers' day-to-day managerial practices in ways that may also support improved social performance' (Distelhorst et al., 2017, p. 710), for example, MNE's active provision of training.

In conclusion, collaborative dynamics between actors are emerging as relevant and under-investigated mechanisms for the adoption of sustainable practices throughout GVCs. This perspective is in line with SDG 17, for which one of the targets is the enhancement of the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources to support the achievement of the SDGs.

3. GVCs, SUSTAINABILITY AND RESILIENCE

Alongside value chain sustainability, IB researchers have increasingly taken an interest in the investigation of value chain resilience (Buckley, 2021; Gereffi, 2020; Ku et al., 2020; Strange, 2020): the two concepts have recently started to be associated, but the study of their relationship is in its early development (Fahimnia et al., 2019).

Although it was already an established topic in operations management, the study of resilience in IB took hold after the Covid-19 pandemic. This particular event has dramatically exposed the fragility of international production networks vis-à-vis extremely uncertain environments. After its outbreak in November 2019 in China, the pandemic determined an income decline of 37% for more than 80%

of MNEs by September 2020 (Saurav et al., 2020), a decrease in 2020 global FDI flows by 40% and a decrease in greenfield investment projects and cross-border M&A by more than 50% (UNCTAD, 2020). After witnessing these dramatic consequences, IB researchers have advanced resilience as a value chain endowment to overcome sudden disruptions (Ciravegna & Michailova, 2022). However, value chain resilience isn't exclusively associated with disruptions such as the pandemic, but with a wider variety of uncertainty factors, such as the degradation of geopolitical relationships among countries (e.g. trade wars and actual warfare) (Buckley, 2022) and climate change. The latter is especially relevant for GVCs: the increasing threat of natural disasters (i.e. geophysical, meteorological, hydrogeological, climatological and biological) poses a distressing risk for business continuity and logistics (Ghadge et al., 2020; Oh & Oetzel, 2022). An example is the devastating ripple effect the Fukushima earthquake of 2011 had on the semiconductor value chain, resulting in a disruption in silicon wafer production, discontinuation of memory chips production and ultimately consumer products (Lohr, 2011). This kind of empirical evidence has encouraged researchers to explore the touchpoints between sustainability and resilience, both in their conceptualization and implementation (Negri et al., 2021).

At the conceptual level, resilience and sustainability have overlapping purposes. Previous IB studies mostly define resilience as the 'ability of a system to return to its original state or move to a new, more desirable state, after being disturbed' (Christopher & Peck, 2004, p. 4). In this perspective, both sustainability and resilience aim at achieving the survival of a system (Mehrjerdi & Shafiee, 2021): sustainability is focussed on the long-term system survival through the optimized management of human and environmental resources; resilience aims at prolonging the system lifespan by managing the negative consequences of a disruption.

Even though studies on the integration of the two concepts are still sparse, it is possible to identify some common underlying themes.

Firstly, institutions appear to play an important role in both value chain sustainability and resilience. Recently, Gereffi et al. (2022) conceptualized resilience as a multilevel construct, which can be analysed from three different perspectives, that is, the GVC, the firm and the State. Institutions are seen as facilitators of resilience (Gereffi et al., 2022; United States, 2021), by acting either on the lead firm or on the context in which it operates. Institutions can 'guide' MNEs in their decision-making process concerning the value chain, by requiring specific sourcing or geographical configurations according to the industry (Dallas et al., 2021). Institutions can also reduce unnecessary heterogeneity of norms and standards to facilitate production inputs substitutability (OECD, 2021b), support SMEs and workforce capability development with ad hoc investments (The White House, 2021; UN, 2021), and negotiate favourable international trade policies (Gereffi, 2021). Concurrently, institutional pressures can influence MNEs' sustainability efforts, including those that emerge from the SDGs (Van Zanten & Van Tulder, 2018). The SDGs themselves are an indicator of how effective institutions can be in enhancing sustainability since they define the most widely accepted sustainability targets.

Secondly, from the GVC perspective, the governance structure is relevant for both resilience and sustainability. Previous studies on value chain resilience have focussed on how entry modes and levels of subsidiary ownership can concur with the reaction of GVC in case of uncertainty (Song, 2017). These studies look at resilience from the structural governance perspective, that is, decisions on formal ownership and control of value chain activities along the value chain. More recent studies have started to investigate how resilience can be influenced by *managerial* governance, that is, 'decisions pertaining to learning and knowledge transfer in the GVC, relationship management, resource recombination, contractual details, coordination and monitoring' (Kano et al., 2022, p. 27). The sharing and processing of information collected from value chain actors enhance MNEs' visibility along the value chain and support the planning and coordination of business activities (Sinkovics et al., 2011; Wong et al., 2020). Visibility enables the identification of potential disruptions, allowing better management of inventories, replacement of disrupted production capacity at short notice and rerouting of value chain activities to alternative sites or suppliers (Brandon-Jones et al., 2014; Dilyard et al., 2021). Therefore, as for sustainability, control and visibility along the value chain are crucial themes for value chain resilience.

Thirdly, the adoption of CLSCs is gaining relevance also for value chain resilience. In view of creating value and environmental care, CLSC has been highlighted as a proper system for the reduction of resource exploitation and waste (Soleimani et al., 2017; Zhen et al., 2019). Previous studies in the supply chain management field have investigated how CLSC can support MNEs in dealing with disruptions and uncertainty in general (Chen et al., 2015; Ivanov et al., 2018; Jabbarzadeh et al., 2018a). More recently, researchers have started to investigate how CLSC structure can facilitate the dissemination of sustainable practices while enhancing the value chain ability to face disruptions (Jabbarzadeh et al., 2018b; Mehrjerdi & Shafiee, 2021).

Finally, like sustainability, resilience is not considered an ability that can be cultivated with the MNE efforts alone, but it requires nurturing collaborative relationships with other value chain actors, such as suppliers, institutions, consumers and other MNEs from compatible industries (Gereffi et al., 2022).

Although the investigation of the topic is still at its early stage, Negri et al. (2021) already proposed a definition of sustainable and resilient supply chains, which entails the integration of 'economic, environmental and social considerations in the business system, while dynamically preparing, adapting and reacting to unexpected disruptions, to meet the stakeholder requirements and improve firm profitability and competitiveness in the short and long term' (p. 2868).

4. THE CASE OF ST

This chapter presents the case of ST and focusses on how sustainability and resilience interact in the company's value chain. Information for the company overview and value chain description was derived from the company's 2021 Form

20-F for the United States Securities and Exchange Commission, the company's annual reports and materials for investor relations and ORBIS database.

The data sources for the company's strategy are secondary data, that is, company's sustainability reports of the last years and news outlets, and one in-depth semi-structured interview with Dr Alberto Della Chiesa, Executive Vice President Supply Chain in ST.

4.1. The Industry

4.1.1. Semiconductors and Sustainability

Semiconductors have become ubiquitous in our daily life: from smartphones, personal computers and home appliances to Industry 4.0 machinery, they are the enablers of our contemporary lifestyles. Consequently, in the last few years, the global demand for semiconductors has surged. Because of the increasing production volumes and the resource-intensive nature of the manufacturing process (Ahmad, 2007), today, the industry is responsible for a significant carbon footprint. For example, the semiconductor industry accounts for about 2% of the total US electricity consumption in the manufacturing sector (Gopalakrishnan et al., 2010). Moreover, the largest Taiwanese semiconductors producer exploits as much electricity as Sri Lanka's 21-million population and is expected to use up 12.5% of the island's annual power consumption by 2025 (Bloomberg, 2022).

The Greenhouse Gas Protocol, which was set up by the World Resources Institute and the World Business Council for Sustainable Development in 2001, identifies three categories of emissions for the semiconductor industry (McKinsey, 2022). Scope 1 emissions arise directly from foundries, primarily from gases that are used during the production phases. This first type accounts for 35% of total emissions of a typical foundry. Scope 2 emissions indirectly arise from purchased electricity, steam, heating and cooling equipment and account for 45% of total emissions. Finally, Scope 3 emissions include all other indirect emissions in a company's value chain, from suppliers' practices to the usage of products containing semiconductors. Many semiconductor producers have started to acknowledge their impact on the environment and they have set sustainable – and at times ambitious – goals concerning the decrease of energy consumption, optimization of energy supply and reduction of process gas emissions. Moreover, governments and international institutions have started to provide incentives for an evolution towards a more environmentally sustainable semiconductor industry. For example, in August 2022, the Biden administration approved the 'CHIPS and Science Act': while its main objective is to foster a national semiconductors value chain, the Act could direct an estimated $67 billion towards accelerating the growth of zero-carbon industries and conducting climate-relevant research (The Atlantic, 2022).

Because of their relationships with subcontractors and/or suppliers in emerging and developing countries, semiconductors companies and electronics producers, in general, face risks of being associated with poor socially sustainable practices. For example, in 2022, the US Department of Labor included electronic devices and silica-based products like semiconductors among those goods at risk of being

produced with forced labour in Xinjiang, that is, the Chinese region where the government has reportedly detained more than a million Muslims in reeducation camps since 2017 (OHCHR, 2022). Moreover, workers directly engaged in the manufacturing process handle toxic materials. Scientific trials required by industry players have demonstrated that the handling of these materials without the necessary precautions is associated with a doubled probability of miscarriages in female employees (Bloomberg, 2017). Despite their relevance and urgency, social sustainability issues have been addressed much less by companies in the semiconductor industry if compared to their effort for environmental sustainability.

4.1.2. Building Resilience Against Uncertainty in the Semiconductor Industry

Beyond sustainability, the last few years have been extremely trying for the semiconductor industry in other aspects. The COVID-19 pandemic caused a shock to both global demand and supply, creating a dual challenge for semiconductor companies (McKinsey, 2020). If, on one hand, lockdowns imposed by governments worldwide have initially reduced the demand for semiconductors in industries such as the automotive, they have also caused an explosion in demand in others, like smartphones and PCs (Bloomberg, 2021). For what concerns the supply side, there were already difficulties in obtaining inputs for production before 2020. However, the pandemic exacerbated these trends by disrupting the supply chain through a series of COVID-19 shutdowns, especially in Asia (U.S. Department of Commerce, 2022). At the moment of writing, we are experiencing a significant semiconductor shortage that is continuing to affect auto production, raising electronics prices and even threatening the availability of machinery for semiconductors production plants (The Wall Street Journal, 2022). Moreover, the Russia–Ukraine war has the potential to exacerbate semiconductor supply chain issues: the most immediate risk is to the supply of specific raw materials used in semiconductor manufacturing such as neon and palladium (KPMG, 2022) that could be used as a geopolitical pawn.

Although the semiconductor industry is historically volatile and players are accustomed to industry cycles, the events of the last few years have proved to create a 'perfect storm' that has deeply challenged all players involved.

In light of past disruptions and recent developments, both academics (Ivanov & Dolgui, 2022; Matsuo, 2015) and practitioners (Accenture, 2020; KPMG, 2021) have highlighted the need to develop more resilient value chains in the semiconductor industry.

4.2. ST: An Overview of the Company

ST is one of the world's largest semiconductor companies. It is a global independent semiconductor company, headquartered in Geneva, that designs, develops, manufactures and markets a broad range of products used in a wide variety of applications. ST serves four markets, that is, automotive, industrial, personal electronics and communications equipment, computers and peripherals. For the automotive and industrial markets, the company serves a wide customer base

with a broad and deep product portfolio. In the remaining segments, ST adopts a selective approach both in terms of the customers served as well as in the technologies and products offered, while leveraging a broad portfolio to address high-volume applications. Moreover, the company's products are employed in Smart Mobility applications, that is, innovations to make driving safer and greener, in the energy sector, to increase efficiency and support the use of renewable energy sources, and in Internet of Things (IoT) technologies.

In 2021, the company's major customers in terms of revenues included Apple, Bosch, Continental, Delta Electronics, HP, Huawei, Intel-Mobileye, Samsung, Seagate and Tesla. However, ST serves more than 200,000 clients in total.

ST is an R&D-intensive company: it currently owns approximately 18,500 patents and pending patent applications, corresponding to approximately 9,400 patent families, including 543 original new patent applications filed in 2021.

The company employs about 48,000 people worldwide, 17.5% of which in R&D. In 2021, ST reported revenues of $12.8 billion, so distributed: 41% from the Americas, 34% from the Asia Pacific Region and 25% from the Europe, Middle East and Africa (EMEA) region.

4.3. ST Value Chain

ST value chain is organized in a matrix structure, with geographic regions interacting with product groups. Both geographic regions and product groups are supported by shared technology and manufacturing operations and by central functions. These central functions are designed to enable the company to facilitate communication among the R&D, production, marketing and sales functions. The remainder of this paragraph describes the strategy behind the structure of ST value chain.

Because of its strategic role, ST carries out the R&D function in-house, within innovation centres that allow the company to quickly and cost-effectively introduce new products in the market. These innovation centres are located in North America, Europe and South-East Asia. However, collaborative relationships with customers, competitors, research organizations, universities and suppliers have become strategic for ST. This collaborative network enhances R&D efforts by providing the company with the opportunity of sharing costs, acquiring technical know-how, and access additional production capacities.

ST value chain involves three critical types of suppliers. Firstly, the company interacts with equipment suppliers, that is, third parties that provide production machinery, such as chemo-mechanical polishing equipment. Secondly, material suppliers provide the company with raw materials needed for production, such as silicon, chemicals and gases. In particular, the semiconductors manufacturing process employs many materials with volatile prices due to the specificity of the market. Thirdly, ST employs external silicon foundries and back-end subcontractors to outsource parts of wafer manufacturing and assembly and testing of finished products. In fact, over the years, ST has consistently subcontracted a portion of total manufacturing volumes to external suppliers. In 2021, the company subcontracted approximately 24% of the total production value. Nevertheless, ST directly operates seven front-end and seven back-end manufacturing sites, which

are located in Europe, Asia and North Africa. Overall, ST procures materials, goods and services from approximately 6,500 tier 1 suppliers of various types and sizes. In 2021, around 49% of procurement was with suppliers based in Asia and 44% in Europe. Moreover, 37% of total procurement volume is managed locally and the rest is managed centrally at corporate level.

Sales and marketing activities are organized as a combination of regional and key account coverage. The three regional sales units report to the headquarters and are located in the Americas, South-East Asia and EMEA regions.

Finally, distribution is carried out by third parties, that is, distributors and sales representatives. Distributors usually handle a wide variety of products, including those of ST competitors. Their role is to assist the company in fulfilling customers' demand by delivering orders, but they also work on business development. On the other hand, sales representatives do not handle directly competing products and serve as intermediaries for the placement of orders with the company.

4.4. Sustainability of the Extended Value Chain

For a long time, ST has adopted a proactive approach to sustainability. Since 1991, the company's sites have received more than 70 awards for excellence in all areas of Corporate Responsibility, from quality to corporate governance, social issues and environmental protection. ST has been a signatory to the United Nations Global Compact since 2000 and a member of the responsible business alliance (RBA) since 2005. The company's approach to sustainability is based on four main pillars. Firstly, ST aims at developing responsible products and technologies in terms of product life cycle, that is, eco-design, responsible sourcing, low-footprint manufacturing, product power efficiency, its sustainable applications and end-of-life recycling. Secondly, ST aims at ensuring people's health, safety and well-being and the respect of labour and human rights along its value chain. Thirdly, the company has started to work towards a circular system to achieve carbon neutrality, reduce waste and water usage and address local scarcity risks. In fact, in 2020, the company announced the goal to become carbon neutral by 2027. Fourthly, ST conceptualizes sustainability also in terms of embedding risk management in the business activities within the extended value chain. From this outset, it is already possible to note how ST approach to sustainability is extremely holistic, encompassing the company's business model and its relationships with third parties. For this reason, ST maintains an open dialogue with its stakeholders on all matters, including sustainability.

In practice, ST supports the achievement of the SDGs through the design of specific goals and targets for 11 of the 17 SDGs, which apply both company-wide and to the extended value chain. For example, in compliance with SDG 8[2] and SDG 17,[3] ST developed a programme entitled 'Responsible Supply Chain', which actively engages its suppliers.

The following paragraphs will detail how ST includes and engages its stakeholders in the goals setting and capability-building processes for sustainability.

4.4.1. Goals Setting

In setting its sustainability strategy, ST aims at developing long-term objectives. However, once defined, these objectives are periodically re-evaluated because of the ever-changing nature of sustainability challenges. ST works on both the identification and re-alignment of sustainability objectives in collaboration with its key stakeholders. The system with which the stakeholders are engaged in the procedure is called a 'materiality exercise' by ST and includes three phases. In the first phase, the company identifies relevant sustainability-related topics by reviewing industry standards, new regulations, CSR trends, benchmarks and stakeholder requests. Subsequently, ST selects priority topics on a preliminary analysis of pertinence and importance in terms of risk, impact and opportunity for the company. This prioritization process is carried out in collaboration with nine categories of stakeholders, that is, employees, customers, investors, suppliers, local partners, national and local authorities, academic entities, industry associations and media. In the second phase, ST executives are asked on a voluntary basis to estimate the potential negative or positive impact of each identified topic on the company's business. Moreover, internal and external stakeholders are contacted to complete an online survey to rate the importance of each topic according to them. The outcome of this phase is a 'materiality matrix' derived from executive and survey inputs, aggregated with input from ST sustainable development experts based on megatrends, external factors and alignment with company values. The materiality matrix represents each sustainability issue against the importance attributed by stakeholders and impact on company business. Finally, ST carries out a strategy validation phase, by developing a comprehensive sustainability strategy based on the crucial identified topics and setting long-term goals.

4.4.2. Building Capability for Sustainability

To build sustainability capability within the company, ST provides environment, health and safety (EHS) training to its employees. EHS training is provided through dedicated e-learning platforms, workshops and events (e.g. EHS week). In 2021, ST trained 72% of its manufacturing employees on social responsibility issues. In its approach to social sustainability, the company aims at raising awareness of labour and human rights issues relevant to the local context by training employees on the RBA code of conduct. Moreover, to encourage sustainable behaviour, ST integrates specific sustainability objectives into the compensation schemes of senior executives and employees, focussed on safety, climate change, gender diversity and employee engagement.

However, this level of commitment is extended to ST's relationships with third parties.

ST requires its suppliers to implement RBA standards and encourages International Organization for Standardization (ISO) and Occupational Health and Safety Assessment Series (OHSAS) certifications to address sustainability risks. However, the company also supports suppliers in raising their awareness and capability to comply with the required standards. ST provides suppliers with dedicated training on risks in areas such as labour (including working hours and

forced labour), ethics, health and safety, environment and management systems. Training is conveyed through the e-learning platform as well as webinars and in-person training. Moreover, suppliers are invited to attend dedicated events concerning sustainability (i.e. the aforementioned EHS week) and the theme of sustainability is discussed in trade roadshows organized by ST worldwide. In 2021, the company trained over 400 suppliers' employees representing more than 200 companies. In addition, ST global community supports suppliers' continuous improvement through ongoing dialogue and sharing best practices. For example, ST supported its key supplier in Malaysia in migrant worker management. Faced with the issue, the supplier reached out to ST and its management team was invited to the local ST site to enhance their awareness of the company's RBA requirements and learn ST's migrant worker management methods could be adopted to improve the supplier's practices.

Collaborative relationships on matters of sustainability are also extended to customers, in particular, concerning the carbon neutrality goal. An ongoing dialogue with customers in the product development phase allows ST to develop efficient and compact power and energy management solutions. The product development phase, in collaboration with customers, is carried out following three principles. Firstly, products are developed in compliance with legislation and customer's EHS requirements. Secondly, ST employs an 'eco-design' approach, by taking into consideration the environmental impact of the device during its whole lifecycle, therefore proposing power-efficient and low-carbon products. Thirdly, products are developed for responsible applications, that is, applications that provide sustainable benefits for human welfare or the environment, such as planet-friendly and human-welfare-responsible products. In 2021, the percentage of ST new products classified as responsible was 69%.

In addressing SDG 4[4] and SDG 10,[5] ST also invests in training for local communities in which it operates. As for 2021, the company has a strategic community programme: 'STEM your way'. The programme aims to raise awareness in young people about the importance of Science, Technology, Engineering and Mathematics (STEM) subjects and inspire them to explore STEM-related careers. It includes specific events to inspire young children who tend to be curious, open-minded and less influenced by their peers and for girls to encourage more diverse talents by combating gender stereotypes in science and technology.

ST also promotes industry-wide addressing of sustainability: the company works alongside other semiconductor companies by joining industry associations. At present, ST is a member of the European Semiconductor Industry Association (ESIA) and its Corporate Environment Director leads the ESIA EHS committee. ST aims at collaborating with competitors to work towards a proactive approach to EHS responsibilities. Interactions with association members consist of working groups on resource conservation, air emissions and chemicals but also participation in consortiums, conferences and seminars (Table 1).

The provision of training is a significant engagement instrument for three key stakeholders: employees, suppliers and local partners. More, in general, ST approach is proactive in providing third parties with strategic resources to

Table 1. Stakeholders Engagement Instruments.

Stakheholder	Engagement Instruments
Employees	• Seminars, conferences and forums
	• VP communication meetings
	• Recognition, awards and contests
	• Intranet, Internet, news, emails and videos
	• Training, workshops
	• Employee surveys
	• Application week and EHS week
Suppliers	• Meetings
	• Audits
	• Supplier training
	• Surveys
	• EHS week
	• Technical roadshows
Customers	• Trade shows
	• Conventions and technical seminars
	• Audits and site visits
	• Joint seminars, conferences, blog, technodays, workshops and webinars
	• Meetings
Local partners	• Partnerships
	• Conferences, conventions and meetings
	• Site visits
	• Donations, training, volunteering and local initiatives
Industry associations	• Memberships in public–private partnerships, international and European associations
	• Participation in consortiums and in working groups of electronic industry associations
	• Meetings, conferences and seminars

Source: Authors' own elaboration from ST Sustainability report 2022.

develop awareness and competencies to address sustainability challenges along the whole value chain.

4.5. Sustainability and Resilience Synergy

In ST sustainability reports, the word resilience appeared for the first time in 2018, as an evolution of the business continuity concept, which has been present since 2014. Nevertheless, it is possible to notice a significant acceleration in addressing the issue of resilience after the pandemic. In 2021, ST has extended its risk management approach to encompass a dedicated resilience management system (RMS). This system aims at achieving business continuity for both the company and the whole value chain. The RMS addresses four main types of

disruptions: site unavailability, that is, disruptions affecting business continuity of manufacturing sites; people unavailability, that is, lack of skilled workforce; IT system disruptions, that is, cyber-attacks; critical sourcing and logistics/transportation disruptions.

The complementarity of resilience and sustainability is evident starting from how the company addresses disruptions derived from natural disasters. In this case, both environmental and resilience teams work closely together, in a comprehensive task force, to address physical risks resulting from climate change. The objective of this ongoing task force includes both the identification of possible disruption sources and the development of strategic approaches to address them.

However, the synergy between resilience and sustainability in ST is particularly evident in two main spheres: the relationship with suppliers/subcontractors and the recruitment of skilled workforce.

In matters of resilience, ST considers the building of strategic partnerships with its suppliers and subcontractors to be crucial. In fact, in the last few years, the company has worked to achieve closer relationships in the forms of direct investments and/or long-term contracts. However, while commitment in long-term contracts (i.e. 3–5 years) allows a higher safety in case of disruptions, ST goes beyond, by including also the vertical integration of operations when it comes to strategic inputs of production. The close partnership with other GVCs actors, and suppliers, in particular, consists also in 'sharing knowledge' across the value chain in three forms: (i) the sharing of real-time production information (e.g. inventory levels) to enhance the visibility of the value chain, by adopting dedicated software and technology, (ii) develop 'business continuity plans' and share them with other actors of the GVC for increased coordination in case of disruption and (iii) actively support value chain actors in case of disruptions by sharing best practices. For example, this was the case during the pandemic. A corporate crisis team (CCT) developed the company's global response to the COVID-19 pandemic, by taking the lead of local crisis teams at regional, country and site levels to address the complexity of local conditions. The CCT worked following two overarching priorities: firstly, protect people health and safety, of both employees and third parties; secondly, executing business continuity plans across the whole supply chain, working closely with third parties. In some cases, this meant training local partners to develop control and tracing techniques and reduce the spread of the infection in order to ensure business continuity. The building of collaborative relationships and the sharing of best practices for resilience is complementary to the activity of training and resource sharing ST has developed for addressing sustainability issues with value chain actors.

Another disruption risk for ST, and more in general for the semiconductor industry, is the difficulty to find skilled workers. In fact, in some areas, the company is experiencing a lack of specialized personnel because ST's requirements fall outside the normal structure of state schools and universities. ST had over 5,000 job openings end of 2022. The company directly addresses this issue by developing partnerships with universities and other higher education institutions, by implementing internship programmes and research collaboration. However, it is also indirectly addressed by the training activity of local communities that

ST has included in its sustainability strategy. In fact, with its STEM programme, the company spreads awareness about its area of activity and can potentially push interested people to seek higher education in the field in the regions where specialized workforce is lacking.

Therefore, in some areas, the goals for resilience and sustainability are overlapping and the respective initiatives can be complementary.

5. CONCLUSION

The present chapter tried to explore the possible synergies existing between sustainability and resilience in the GVC context. It provides preliminary evidence on the crucial role of collaborative relationships within the orchestrating MNEs and third parties involved in the value chain activity. The chapter also aims at encouraging future research on how GVCs dynamics between location and governance can affect these synergies.

NOTES

1. Primary activities (i.e. inbound logistics, operations, outbound logistics, marketing and sales and service) are those activities that are involved in the creation of the company's offer and its sale and transfer to the buyer as well as aftersale assistance. Support activities (i.e. procurement, technological development, HR and infrastructure) are those activities that support the primary activities and each other by providing purchased inputs, technology, human resources and various firmwide functions (Porter, 1985).
2. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
3. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.
4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Reduce inequality within and among countries.

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CHAPTER 12

DOES A SUSTAINABLE ORIENTATION AFFECT GLOBAL CONSUMERS' RELATIONSHIPS WITH INTERNATIONAL ONLINE BRANDS?

Todd Drennan, Emilia Rovira Nordman and Aswo Safari

ABSTRACT

This chapter aims to shed light on the role that a sustainable orientation plays in strengthening the relationships between global consumers and online brands. Despite many previous studies about the importance of sustainability considerations for national consumers' brand commitments and purchase intentions, there is a lack of empirical studies focussing on this relationship from a global consumer perspective. A pre-study (consisting of focus group discussions) and a widely distributed international survey with responses from 74 countries show mixed results. Whereas the results from the focus groups imply that a sustainable orientation influences both global consumers' purchase intentions and brand commitments towards online brands, the survey results imply that global consumers' sustainable orientations do not affect purchase intentions directly,

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even though they influence brand commitments. An implication of these results is that an international online brand's possibility to portray a sustainable orientation plays an important role in strengthening the relationship with global consumers, especially regarding brand commitment.

Keywords: Global consumer; international online brand; sustainable orientation; purchase intention; brand commitment; relationships

INTRODUCTION

The Internet allows consumers around the world to interact with, purchase and build relationships with international online retailers on a broad scale (Ipsmiller et al., 2022; Özbek et al., 2022; Pan et al., 2022; Tolstoy et al., 2021; Yamin & Sinkovics, 2006). Based on international online business models, studies have been conducted on the relationships between consumers and online retailers, and the impact of sustainability on these relationships (Ignat & Chankov, 2020; Mangiaracina et al., 2015; Prajapati et al., 2022; Xiao et al., 2019). With a few exceptions (Zhang et al., 2018), most previous studies focus on a single product or industry and/or are based on consumer data collected from a smaller number of pre-specified markets. For example, there are studies about the relationship between online retailers and consumers from Belgium and Sweden (Agarwal & Teas, 2002); the United States, Canada and India (Ganguly et al., 2010); the United States and Turkey (Ozdemir & Hewett, 2010); Spain and the United Kingdom (Alcántara-Pilar et al., 2018); Germany and Taiwan (Cheng et al., 2019); China and Finland (Hallikainen & Laukkanen, 2018); the United States and Korea (Lee & Choi, 2019); the United States, Germany, China and India (Hoehle et al., 2015); and the Netherlands and Vietnam (Broeder & Wildeman, 2020). Although the aforementioned studies have contributed to increasing knowledge about international online marketing, there is still a lack of studies that investigate consumers from a broader global perspective while scrutinizing how consumers from a great variety of different markets regard the importance of sustainability and how this impacts their relationship with online retailers that sell international brands. This chapter aims to dig deeper into this question by studying relationships between global consumers and online brands from a global consumer perspective.

Many previous studies have focussed on consumers from a few different markets. On the other hand, this study uses the same survey to study consumers from multiple countries simultaneously. The term global consumer does not imply that certain consumers are global per se but rather that the study has a global reach, mapping consumers' perceptions on a global scale. Hence, we argue that we can capture the view of a great variety of consumers in various global markets with our study, and we call these consumers 'global consumers'. The respondents in this study's quantitative data set are from 74 countries; therefore, we can provide some novel information about the global consumer view of international online purchasing.

The premise for this chapter is, thus, that there exists a cohort of 'global consumers' exhibiting similar purchasing behaviours when shopping online. In this chapter, we define global consumers as individuals from different countries who are either currently in a relationship with or are in the process of establishing a relationship with a brand that is sold online. In such cases, the consumer might lack prior knowledge of a brand and the retailers that offer it. Thus, the consumer–brand relationship typically relies upon the consumer being presented with a visual representation and description of the product before making a purchase decision. Hence, consumers do not need a close relationship with a brand or an online retailer to purchase products. Still, previous research highlights the usefulness of adopting a relationship view (Eastlick et al., 2006; Pavlou et al., 2007) for understanding the exchange between consumers and international online brands/retailers. Even though relationships between consumers and retailers are not likely to be as strong as those investigated in industrial marketing contexts, the relationships are still important to study (Hadjikhani & Bengtsson, 2004). The reason for this is that even though the price may be important in initially attracting online customers, the consumers are likely to return only if they are provided with relationship-oriented benefits such as good customer service and on-time delivery (Reibstein, 2002).

Besides caring about customer service and on-time delivery, many consumers (private end-users of products and services) are giving increasing consideration to the environmental and social sustainability of products and business processes when they make purchase decisions (Toppinen et al., 2013). Sustainability-oriented consumers express a personal inclination towards sustainability, such as showing social and environmental concerns (Sung & Park, 2018). This inclination will probably affect their purchase intentions (Han et al., 2009; Verma et al., 2019) and their brand commitment (Hadjikhani et al., 2011; Pavlou et al., 2007; Safari, 2014) to specific brands.

In extant retailing literature, however, it is not evident how global consumers' sustainable orientation affects their purchase intentions and brand commitments. Previous studies have indicated that consumers increasingly request companies to minimize the use of toxic materials and unnecessary waste on a global scale (Roman et al., 2015; Toppinen et al., 2013). Contrasting results, however, imply a need for clarification regarding the extent to which consumers' sustainable orientation affects actual purchase intentions (Phipps et al., 2013) and how it affects brand commitment (see Pavlou et al., 2007; Safari, 2014). Based on focus group discussions and a large global consumer survey, the relationships between global consumers' sustainable orientation, purchase intentions and brand commitments are, therefore, tested in this chapter. By doing this, we can shed light on the impact of global consumers' sustainable orientation on their purchase intentions and brand commitments, which will influence their relationship with international online brands and retailers. By investigating these relationships, this chapter can contribute to international retailing literature with relevant insights into how online retailers can use a sustainable orientation strategy to strengthen the relationship with consumers from many different parts of the world, that is, with a global consumer base.

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Since its infancy, the marketing research field has been signified by various theoretical paradigm shifts (Sheth & Parvatiyar, 1995). Influential theories are the transaction cost theory (Levitt, 1960) and the relationship network perspective (Håkansson, 1982). While transaction cost theory focusses on exchanges between different market actors, network researchers generally view exchanges as the foundation for long-term relationship building. Relationship-oriented researchers have shown that the relationship-building process is often signified by mutual adaptations between business partners, which enhances the development of trust and commitment in business relationships (Eastlick et al., 2006; Morgan & Hunt, 1994). Contrary to this view, transaction cost theorists typically regard exchanges as signified by short-term, rational and opportunistic actions, where switching one business relationship with another is easy.

Relationships in the e-Commerce Context

Building on relationship-oriented ideas, previous e-commerce studies have highlighted the importance of studying consumers and online retailers through a relational lens (Eastlick et al., 2006; Pavlou et al., 2007). Specifically, a relational perspective is needed when studying the interaction between global consumers and international online retailers (Safari, 2012, 2014; Safari et al., 2013; Safari & Thilenius, 2013). Building on these ideas, this study draws upon a relational exchange approach, where commitment is seen as a necessary foundation that holds the consumer–brand/retailer relationship together (Safari, 2014; Safari & Albaum, 2019). When a global consumer decides to commit to a brand, a relationship is developed between the two parties (Eastlick et al., 2006). An aspect that generally increases commitment in relationships is affective commitment, a measure of how much one party likes the counterpart (Thilenius Lindh & Rovira Nordman, 2020). Geyskens et al. (1996) describe affective commitment as the 'desire to continue the relationship' (p. 225), thus emphasizing its important role in enhancing a relationship's longevity and success (Thilenius Lindh & Rovira Nordman, 2020). The affective part of commitment has also been shown to be an important ingredient for enhancing long-term relationships between consumers and brands (O'Malley & Tynan, 2000; Safari, 2014; Safari & Albaum, 2019).

Sustainability Orientation

Sustainability-orientated consumption aspires to enhance healthy living for everyone with due consideration of the earth's capacity. Sustainability considerations are, thus, becoming increasingly likely to influence the relationship between consumers, brands and retailers (Roman et al., 2015; Toppinen et al., 2013). Sustainability-oriented consumers can be described as consumers that express a personal inclination towards sustainability, such as showing social and environmental concerns (see Sung & Park, 2018). For example, an increasing number of consumers worldwide demand that retailers minimize their use of toxic

materials and unnecessary waste (Roman et al., 2015). Sustainability-oriented consumers' view of a company's sustainability profile is, therefore, likely to affect their purchase intentions (Han et al., 2009; Verma et al., 2019) and make them look for brands that live up to their standards. Previous research has implied that sustainability considerations affect consumers' purchase intentions for different types of products, such as cars (Wang et al., 2021), energy-efficient appliances (Waris & Hameed, 2020) and clothing (Buzzo & Abreu, 2019). Park and Lin (2020) indicate that there is a relationship between consumers that consider recycling, reuse and general product responsibility to be important and these consumers' purchase intentions. Other scholars have supported this view and have provided evidence that sustainability positively affects purchasing among consumers (Lavuri et al., 2022). Thus, a consumer's sustainability orientation is likely to positively affect purchase intentions towards specific brands online that fit the consumer's demand profile. Based on the above arguments, the following hypothesis is suggested:

H1. A sustainability orientation among global consumers positively affects their purchase intentions towards their chosen brands online.

Besides purchase intentions, marketing scholars are particularly interested in consumers' brand commitment, defined as the emotional or psychological attachment to a brand (Byun & Dass, 2015). Brand commitment is a key element in predicting the brand–consumer relationship stability and a driver of consumer loyalty and repeated purchases (Byun & Dass, 2015). Studies focussing on the relationship between a sustainability orientation and brand commitment have shown that while consumers are often willing to increase their commitment towards sustainable brands, the actual effect of sustainability on brand commitment tends to be low (Davies & Gutsche, 2016; Szmigin et al., 2009). Brands that want to achieve strong commitment from global consumers must work with their sustainability values regarding product recycling, product reuse and environmental preservation (Loureiro & Kaufmann, 2016; Shao & Lassleben, 2021). A recent study by Sánchez-González et al. (2020) indicates that companies' sustainable orientation can lead to increased customer loyalty and brand commitment. A consumer's sustainability orientation is, thus, likely to positively affect global consumer brand commitment towards specific brands online that fit the consumer's demand profile. Based on the above arguments, the following hypothesis is suggested:

H2. A sustainability orientation among global consumers positively affects global consumer brand commitment towards sustainability-oriented brands online.

Brand commitment is vital for long-standing relationships (Eastlick et al., 2006) between consumers and retail companies. When brand commitment is strong among consumers, they tend to prefer that brand over other brands, leading to increased retailer profit (Bouhlel et al., 2011). Brand commitment,

however, involves two behavioural features. The consumer can either have the intention to purchase from the brand because of brand commitment (Eastlick et al., 2006; Morgan & Hunt, 1994) or engage in switching behaviour because of the short-term benefits of using another brand (Safari & Albaum, 2019). Previous international online retailing studies (Safari & Yamin, 2016; Yamin & Sinkovics, 2006) imply that international retailers need to focus on building strong relationships with consumers to increase consumer brand commitment and thereby reduce the importance of other external factors. Brand commitment possesses two main behavioural consequences: the intention of buying again to maintain the relationship (Debenedetti, 2004) and change resistance (Bouhlel et al., 2011). Based on the above arguments, the following hypothesis is suggested:

H3. Brand commitment positively affects global consumer purchase intentions towards online brands.

In summary, global consumers' commitment to brands depends on how much they like a brand and its values. Therefore, a brand's perceived sustainable orientation is probably important for consumers who care about sustainability issues. A brand displaying a sustainable orientation is likely to positively affect both purchase intention (Buzzo & Abreu, 2019; Wang et al., 2021; Waris & Hameed, 2020) and brand commitment (Sánchez-González et al., 2020). Brand commitment is also likely to affect purchase intention (Debenedetti, 2004; Eastlick et al., 2006). Building on these ideas, a conceptual model (Fig. 1) is suggested.

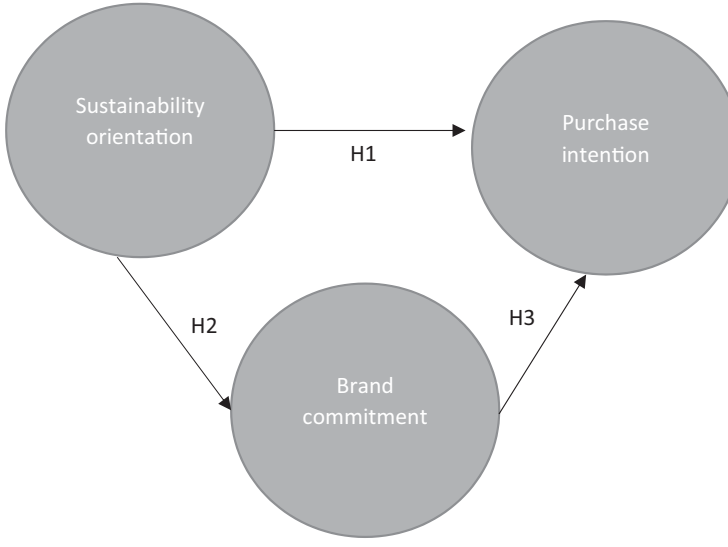

Fig. 1. The Model and Hypotheses Paths.

RESEARCH METHODS AND RESULTS

Pre-study

This study is based on data from a pre-study and a questionnaire. In 2019, convenience sampling was commissioned for three focus groups with 16 participants. The participants are Master's students aged 19–35 (13 females and 3 males). They originated from the following countries: Sweden (5), Finland (3), Germany (2), The Netherlands (1), South Africa (1), Lebanon (1), Mexico (1) and Rwanda (1). One focus group member would not reveal this information. The focus group discussions were conducted (in English) to investigate the relationships between (among other issues) sustainability, brand commitment and purchase intention to obtain insights on the overall global consumer view relating to these aspects in general. The focus group participants were not instructed to think about a predecided brand/retailer but spoke freely about different brands during the discussion. Focus group discussions are frequently used as a qualitative approach to gain an in-depth understanding of a social issue (such as consumption) and are also often utilized as one of several techniques in a multi-method research design (O.Nyumba et al., 2018). This chapter's findings from the focus group discussions provided ideas for the larger quantitative investigation. The focus group participants were purposefully recruited and selected (Cresswell & Plano Clark, 2011) based on their online purchasing experience from an international online retailer during the last 3 months. The focus group discussions were led by an experienced discussion leader, who transcribed and analysed the discussions after they were finalized. Example quotes from the focus groups relating to sustainability orientation, brand commitment and purchase intention are shown in Table 1.

Table 1. Example Quotes from One of the Focus Group Discussions.

Subject Matter Discussed in the Focus Group	Example Quotes from the Focus Group Discussions
The sustainability orientation – purchase intention relationship	(FG1, Female, The Netherlands) 'but nowadays you can choose from so many different things so if you don't like that part of it you can buy something else, like there are even newer brands that do everything sustainable'.
The sustainability orientation – brand commitment relationship	(FG1, Female, Sweden) 'I know that if you look at H&M they are working, 'cause they have been criticised a lot, like just for example now they even make special collections that are more environmental friendly. They use recycled materials to make new clothes and stuff like that because they have been criticised a lot. Then I'm not saying what they're doing, or that everything is great but they [are]at least taking steps into making things better'.
The brand commitment – purchase intention relationship	(FG1, Male, Germany): 'I want very good quality that's right but oh that's true my shoes are from the same brand because I've known of the quality there and they're made in the US … it's a brand that fits my expectations …'.

The Main Study – The Quantitative Data Collection Project

The main study is based on data from an online questionnaire about global consumers' relationships with an online brand of their choice. The respondents were asked to think of a brand and respond with this brand in mind. Like the focus group participants, the questionnaire respondents originate from many different countries, are online shoppers and can speak English.

During the autumn of 2020, the online questionnaire was designed and distributed in English to an international data set of global online consumers by combining a convenience sampling method, a forwarding sampling method and a purposive sampling technique. Students in an international Master's degree course about business research methods helped distribute the questionnaire. Even though the questionnaire was not distributed to a totally randomized sample (because the international students used their network connections to distribute the questionnaire), a strength of using this method in this context is that the respondents are more likely to be globally oriented than the average consumer. After 50 questionnaires were discarded (due to missing data), 773 questionnaires remained with respondents from 74 countries such as Sweden, Kenya, Croatia, the United States, Germany, the United Kingdom, Cameron, Iran, France, Germany, Bangladesh, Spain, Norway, Canada, the Netherlands, Italy, Nigeria, etc. More information about the respondents is provided in Table 2.

The questionnaire seeks information about, for example, the respondents' demographic affiliation, sustainability orientation, brand commitment and purchase intention. Items are measured using a 7-point ordinal scale where '1' indicates 'totally disagree', and '7' indicates 'completely agree'.

Previous research indicates that sustainability-oriented consumers care about product recycling, product reuse and environmental preservation (see Loureiro & Kaufmann, 2016; Shao & Lassleben, 2021); the construct *Sustainability orientation* measures the degree to which consumers consider sustainability to be important. The sustainability orientation measure is an adaptation of items from Duan and Aloysius (2019) and Hazen et al. (2012). The construct builds on question items regarding an individual consumer's concern for (1) recycling and reuse, (2) product responsibility and (3) valuation of a refurbished/recycled product, the same as if it was new. The first two items are included for their significance in assessing the individuals' concern for the uniquely sustainable attributes of recycled and refurbished products. The third item complemented the first two

Table 2. Information About the Respondents.

Gender	595 identify as female, 177 identify as male
Mean age span	21–30 years
Level of education	48% with a Bachelor's degree
	28% with a Master's degree
Mean household size	3
Online purchasing frequency (often)	54% make purchases monthly, weekly or daily
Online purchasing frequency (seldom)	45% make purchases a few times a year

by assessing the individuals' value attribution of refurbished/recycled products. Thus, the three items provide insight into the individuals' extrinsic and intrinsic value attributions as they relate to sustainability. The *Brand commitment* was measured using four items based on the work of Rather (2018, 2012) and Chaudhuri and Holbrook (2001). The construct evaluates individuals' personal beliefs for why they buy products online from one brand and builds on question items relating to hedonic values of customer commitment, brand affect, satisfaction and attitudinal loyalty: (1) I like it, (2) I feel committed to this brand, (3) they always meet my expectations and (4) I feel good when I use this brand. The dependent variable, *Purchase intention,* refers to individual desires to fulfil shopping inclinations (Akar & Nasir, 2015). *Purchase intention* is measured using three items previously used in Anastasiadou et al. (2018). The construct builds on the question items (1) I intend to keep buying from the Internet/web, (2) in the future, I believe that I will buy more things/services online and (3) I want to buy other things (that I have not bought previously) from the Internet in the future. Information about constructs and indicators connected to the individual question items in the model is presented in Table 3.

Validity

LISREL analysis is the chosen method for analysing the data because of its revelatory potential (see Jöreskog & Sörbom, 1993). The fit of the data to the model, construct and discriminant validity and the iterations validating items were, thus, ascertained using LISREL (Jöreskog & Sörbom, 1993; Martínez-López et al., 2013). Evaluation of the model establishes that no threats to the validity,

Table 3. Constructs, Question Items and Indicators.

Constructs (with Cronbach's Alpha) and Indicators	R^2	T	Factor Loading
Sustainability orientation ($\alpha = 0.752$)			
I am concerned about recycling and reuse	0.82	4.86	0.91
I am concerned about product responsibility	0.70	8.80	0.84
I value a refurbished/recycled product the same as if it were new	0.30	18.41	0.55
Purchase intention ($\alpha = 0.832$)			
I intend to keep on buying from the Internet/web	0.55	16.71	0.74
In the future, I believe that I will buy more things/services online	0.90	4.49	0.95
I want to buy other things (that I have not bought previously) from the Internet in the future	0.67	13.83	0.82
Brand commitment ($\alpha = 0.609$)			
I buy products from this brand because…			
I like it.	0.40	15.60	0.56
I feel committed to this brand	0.25	17.33	0.50
They always meet my expectations	0.34	15.88	0.59
I feel good when I use this brand	0.58	9.73	0.76

convergent or discriminant are found; they are separated but consistent internally for each construct (see Figs. 1 and 2). Fig. 2 and Table 4 show that the tested model meets the established criteria for the *p*-value, $p > 0.01$ (Fornell & Larker, 1981; Steenkamp & van Trijp, 1991). Table 3 shows that the data meet the criteria of $R2 > 0.2$, *t*-values > 1.96 (Eriksson, 1998) and factor loading (completely standardized solution) > 0.3 (Holm et al., 1996). Table 3 also presents Cronbach's alpha for each construct (cf. Boateng et al., 2018).

Results from the Main Study

The relationships between the constructs are presented in Fig. 2. Three hypotheses and their paths are tested in the model, with purchase intention as the dependent variable. Significant paths are considered confirmed hypotheses, and non-significant paths are interpreted as providing no support for the hypothesis. Fig. 2 and Table 4 present the results of the hypothesis testing.

The model's reliability is found to be sufficient, with a *p*-value of 0.06 establishing that the data fit the model due to the criteria being met. The first hypothesis that a sustainability orientation among global consumers positively affects their purchase intentions towards their chosen brands online is not supported (0.06†; 1.43). The confirmation of the second hypothesis (0.18***; 3.84) signifies a positive relationship between sustainability orientation and brand commitment towards sustainability-oriented brands online. Additionally, the third hypothesis, that brand commitment positively affects global consumer purchase intention towards online brands, is supported (0.36***; 6.86). There

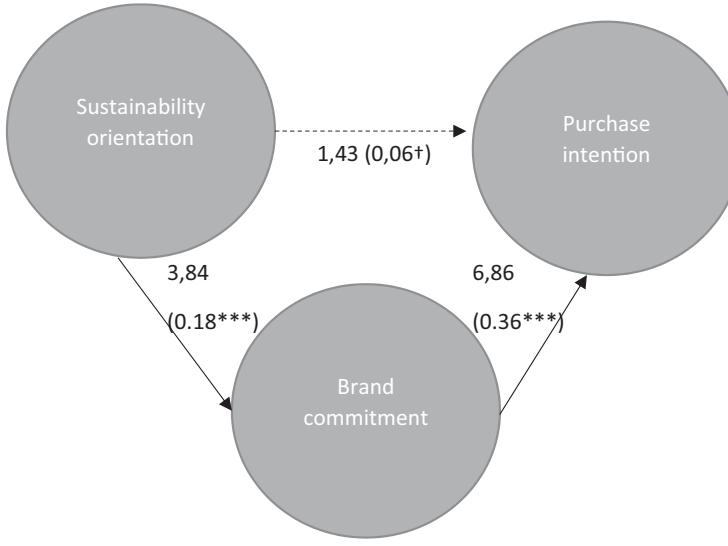

Fig. 2. The Model with *t*-Values and Estimates. The Indirect Standardized Effects of KSI on ETA Is 3.55 (0.06), Indicating the Mediating Effect of Brand Commitment.

Table 4. The Model's Paths and Significance.

Paths (independent – dependent)	Estimate	*t*-Value
H1 Sustainability – Purchase intention	0.06†	1.43
H2 Sustainability – Brand commitment	0.18***	3.84
H3 Brand commitment – Purchase intention	0.36***	6.86

Note: †$P < 0.1$, *$P < 0.05$, **$P < 0.01$, ***$P < 0.001$; $n = 773$.

Table 5. Key Statistics of the Tested Model: Structural Equation Modelling.

Fit Measures	Fit Guideline	References	Model ($n = 773$)
Chi-square (*P*-value)	$P \geq 0.05$		43.60 (0.02)
Chi-square/df	$P \leq 3.0$	Segars and Grover (1993)	1.61
GFI	$P \geq 0.90$	Hayduk (1988)	0.99
AGFA	$P \geq 0.80$	Hayduk (1988)	0.98
CFI	$P \geq 0.90$	Byrne (2001)	0.99
TLI (NNFI)	$P \geq 0.90$	Bentler and Bonnet (1980)	0.99
RMSEA	$P \leq 0.08$	Byrne (2001)	0.03

is also support for an indirect effect or mediating effect of brand commitment on purchase intention. Table 5 presents the key statistics for the structural equation model.

ANALYSIS

The focus group analysis implied that a relationship exists between sustainability orientation, brand commitment and purchase intention among global consumers. Some focus group discussants even indicated that it was important for them that brands work with recycling and product responsibility for their long-lasting brand commitment to be evoked. That a brand cares about sustainability issues is, thus, of particular importance for sustainability-oriented global consumers to develop positive emotions towards the brand.

The quantitative analysis results contradict the focus groups' results, given that no significant relationship between sustainability orientation and purchase intention could be confirmed. In line with previous research results (Roman et al., 2015; Toppinen et al., 2013), several focus group discussants indicated that they were sensitive to the sustainability endeavours of the brands they purchased from. Lack of support for the first hypothesis, thus, signifies a relationship between global consumers' valuation of sustainability orientation that is more complex than was previously anticipated (Khan & Hameed, 2019; Park & Lin, 2020; Suki, 2016). While many respondents in the questionnaire answered that they cared about sustainability issues (the sustainability items scored high), a sustainability orientation does not impact purchase intention significantly. These results imply that the purchase intentions of global consumers are formed by a compilation of

multiple valuation factors and not merely the result of a single altruistic view or ideology. Another explanation might be related to the attitude-behaviour gap that has been investigated extensively in previous studies (Boulstridge & Carrigan, 2000; Juvan & Dolnicar, 2014; Shaw et al., 2016).

The second hypothesis was, however, supported. Support for the second hypothesis implies that there exists a positive relationship between sustainability orientation and brand commitment among global consumers, which has also been indicated in previous studies (Sánchez-González et al., 2020). The result of the analysis also supports the result from the pre-study. Several focus group discussants indicated that they expect brands to work with sustainability issues (such as recycling and product reuse) in exchange for their long-lasting commitment to the brand. One implication of these results is that global consumers not only have expectations concerning a brand's quality and consistency but also expect that the brand is sustainability-oriented. An online brand that wants to build long-term relationships with global consumers benefits from showing that the brand is sustainability-oriented and that the company behind the brand is actively engaged in recycling and reuse and acts responsibly.

Additionally, the third hypothesis is supported by the results from both the pre-study and the results from the questionnaire. Offering support to previous research findings (Bouhlel et al., 2011), brand commitment positively affects global consumer purchase intentions towards online brands. This result implies that international online brands must build strong relationships with global consumers (Safari, 2014; Yamin & Sinkovics, 2006) to support their long-term survival. The analysis confirms that for global consumers, the impact of brand commitment on purchase intention is more profound than the impact of a sustainability orientation on purchase intention. Once a global consumer is committed to a brand, it has a greater propensity to engage in long-term business relationships with the brand (Safari, 2014).

Taken together, the analysis reveals that relationships between global consumers and international online brands are complex and multifaceted. Furthermore, the quantitative study's results indicate a mediation effect of sustainability orientation on brand commitment and purchase intention. The results imply that a sustainability orientation increases the effect or strength of brand commitment on purchase intention from the perspective of global consumers when they choose which online brand to purchase from. While previous research has suggested that the effects of sustainability measures on brand commitment tend to be low (Davies & Gutsche, 2016; Szmigin et al., 2009), the mediation findings of this study present a new quandary. If the direct effect of a global consumer's sustainability orientation on its purchase intentions cannot be confirmed, brand managers may be led to believe that sustainability efforts are merely practices that support good public relations campaigns. However, the mediation effect suggests that sustainability efforts are important and that global consumers are aware of and consciously evaluate the sustainability efforts of brands, impacting their purchasing decisions. Supporting previous studies that have found evidence that sustainability approaches influence purchase intentions (Khan & Hameed, 2019; Lavuri et al., 2022; Park & Lin, 2020; Suki, 2016), this study indicates that the

effect of a global consumer's sustainability orientation on its purchase intentions is indirect. That is to say that many global consumers expect the brands they purchase from to behave sustainably, and this is important for them when they commit to a specific brand.

CONCLUDING DISCUSSION

This chapter addresses the lack of studies that investigate consumers from a broader global perspective and scrutinizes how consumers from a great variety of different markets regard the importance of a sustainable orientation related to brand commitment and purchase intention. We created a model to contribute more information about these issues. We discuss the theoretical and practical implications of the results below.

Theoretical Implications

The chapter adds to existing knowledge by focussing on a sample of global consumers and their relationships with online brands. Although previous studies have focussed their investigations on multiple markets simultaneously (Ignat & Chankov, 2020; Prajapati et al., 2022; Xiao et al., 2019), this study can contribute to the international online brand and retailing literature with a global consumer view of international online purchasing. By highlighting this, we build on a current research stream in international retailing literature that focusses on investigating how international online retailers can act to improve their connection to foreign consumers (Özbek et al., 2022; Tolstoy et al., 2021). The results of this study imply that international brands benefit from highlighting sustainability aspects when their offerings are communicated to online consumers on a global scale. The results imply that a stronger relationship between global consumers and international online brands is possible if the brand can portray a sustainable orientation. This especially affects brand commitment but also indirectly affects purchase intention. Even though many global consumers are likely to conduct sporadic or one-time purchases from international online brands that provide them with a good offer on a specific product, switching behaviour is likely to occur (Safari & Albaum, 2019) if the brand is not able to build a relationship with the consumer and connect the consumer to the brand.

The results of this study also have implications for the consumer–brand/retail relationship in general. Contrary to some previous studies (Khan & Hameed, 2019; Suki, 2016), the results of this chapter imply that a sustainability orientation does not directly affect the purchase intention of consumers, even though an indirect effect can be detected. The impact of a sustainability orientation effect on purchase intention is mediated by brand commitment. One implication of these results is that purchase intention is indirectly affected by the online sustainability orientations of brands and retailers. The study thereby seeks to contribute to the debate on whether or not sustainability issues influence brand commitment. Because we found a direct effect of consumers' sustainability orientation

on brand commitment, our results somewhat contradict previous results about the sustainability-brand commitment relationship, indicating that the actual sustainability effect on brand commitment tends to be low (Davies & Gutsche, 2016). The results add to the findings of Shao and Lassleben (2021), who show that consumers' actions are often determined by individual factors and that environmental attitudes impact how they regard brands. In line with Sánchez-González et al. (2020), we argue that brand commitment is important for the relationship between consumers and brands to flourish and that retailers need to work with sustainability efforts regarding brands to strengthen this relationship.

Finally, the study highlights the importance of using a relational exchange approach when studying the interaction between global consumers and international online retailers (Safari, 2014; Safari & Thilenius, 2013). The results imply that commitment is an important foundation that holds the consumer–brand relationship together (Safari, 2014; Safari & Albaum, 2019). Building relationships is possible in the context of global consumers and international online brands, but it is important for the brands to show that they are sustainability oriented to strengthen their relationships with sustainability-oriented global consumers.

Managerial Implications

Insights generated in this chapter can be leveraged by managers in international online retail companies in several ways. Investments made to increase sustainability can offer a chance to move past thresholds for growth and build new relationships with global consumers on the Internet. Every company must balance short-term gains against gaining a sustainable position as a strong, legitimate community member (Elg et al., 2017). Companies can attract a new and sustainability-oriented consumer base by preparing to make substantial initial investments and committing to an international e-commerce strategy that portrays their sustainability orientation for global consumers. Although the Internet has provided international retailers with prerequisites and possibilities to reach global consumers, the Internet has also generated a highly competitive environment. To become successful, it is important to be aware of the impact of extrinsic cues, such as working in accordance with a sustainability-oriented approach. Successful sustainable business models build on approaches that are used to control sustainability aspects in production, service offerings and the support system to attract global consumers. Brands and retailers that succeed in implementing a successful sustainable business model have better opportunities to stand out against the competition in international markets and to build long-term relationships with loyal consumers.

Limitations and Future Research Suggestions

This study is based on a sample of global consumers from several countries, but all these countries are not equally represented. This study's respondents are mostly women from Europe and other Western economies. However, cultural and contextual factors regarding what is considered the right way to act may

vary across the world (Elg et al., 2017). Therefore, we suggest that future studies focus on investigating consumers' perceptions in other parts of the world to obtain a more regionally representative sample. For example, do consumers from Africa and South America have the same perceptions as the respondents in the current study, and how much are they affected by their sustainability orientation when engaging with international online brands? Even though the combination of a convenience sampling method, a forwarding sampling method, and a purposive sampling technique was beneficial in reaching a multitude of respondents in many parts of the world, the method can be developed in future studies to enable more data to be collected over longer periods of time to achieve a greater number of observations and a greater geographical variety. Furthermore, we do not distinguish between different product types or industries, and it is important that this is considered in future studies.

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CHAPTER 13

THE EU's SUSTAINABLE FINANCE PLATFORM: A NEW GAME PLAN IN THE QUEST FOR COMPETITIVE ADVANTAGE

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ABSTRACT

The game plan firms must navigate in the quest of competitive advantage which is changing quickly. More and more firms acknowledge that future prosperity depends on achieving the joint goals of economic, environmental and social sustainability. This understanding has resulted in both firms and actors on the financial markets enhancing their focus on environmental, social and governance dimensions in their respective decision-making processes. In this chapter, the focus is on one key component of the changing game plan, the European Union's (EU) Sustainable Finance Platform that envisions investors as a key driver of firms' sustainability transformation. Based on survey data from Swedish listed firms, we discuss implications and outcomes of the Platform. Our results show that investors play an important role in setting the rules of the gameplan for firms. However, not to the extent that it meets the ambitions of the policymakers. This suggests either that the

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Platform will fail to meet its aims or that firms should expect further significant changes to the gameplan in the future.

Keywords: Sustainable finance; transformation; CSRD (Corporate Sustainability Reporting Directive); EU Taxonomy; TCFD (Taskforce for Climate related Financial Disclosure); competitive advantage

1. INTRODUCTION

The game plan firms must navigate in the quest of competitive advantage is changing quickly (Ioannou & Serafeim, 2019; Laszlo & Zhexembayeva, 2017). More and more firms acknowledge that future prosperity depends on achieving the joint goals of economic, environmental and social sustainability (Arvidsson, 2022; European Commission, 2022). This understanding has resulted in both firms and actors on the financial markets enhancing their focus on environmental, social and governance dimensions in their respective decision-making processes (Arvidsson & Dumay, 2021). In this chapter, the focus is on one key component of the changing game plan, the EU's Sustainable Finance Platform (European Union Platform on Sustainable Finance, 2021) that envisions investors as key driver of firms' sustainability transformation. Based on survey data from Swedish listed firms, we discuss implications and outcomes of the Platform. The Platform should be viewed through the prism of the myriad of new public sustainability policies. These policies are manifested through the 17 Sustainable Development Goals set by the United Nations (UN SDGs) in 2015, the Paris Climate Agreement agreed upon in 2015, President Biden's Build Back Better plan as well as the EU's recovery plan NextGenerationEU, and its wider Green Deal programme launched in 2019. The European Green Deal focusses on environmental sustainability and combines the joint goals of climate neutrality by 2050 and the protection of biodiversity by reversing the degradation of ecosystems (European Commission, 2022b). So far, the EU has chosen an approach that can be described as climate-first, biodiversity next. Most progress has been made on the EU's climate strategy while the biodiversity strategy is still in its early development stage.

For a long time, climate change has been an important policy area for the EU with the Emissions Trading System (EU ETS) as its flagship policy. Launched in 2005, the EU ETS is the world's first international emission trading system (European Commission, 2022c). It requires polluting firms to obtain an emissions permit before they emit carbon into the atmosphere. Trading of permits among firms creates a market that puts a price on carbon. The idea behind the system is that trading permits, and pricing emission creates incentives for firms to reduce emissions by cutting waste, shifting to alternative fuels and production processes as well as innovating new low-carbon social and technological solutions (Convery, 2009). Evidence suggests that the EU ETS has contributed to the decarbonization of the economy (Löschel et al., 2019). However, the size of the actual impacts is uncertain (Texidó et al., 2019), especially, the trading system's

long-term effects (Verde, 2020). Although pricing of emissions can contribute to a decarbonization its potential to lead to a complete decarbonization of the economy is questionable. Deep decarbonization of the economy requires a structural transformation involving economic, social, infrastructure and political change (Andersson & Karpestam, 2012). Such a transformation is difficult to orchestrate simply through a pricing mechanism (Andersson & Karpestam, 2013).

The EU Green Deal constitutes the next phase in the EU's climate policies. It moves beyond simply pricing emissions to focussing more on creating the right conditions for a sustainability transformation of society. The programme is built on a transition perspective recognizing that significant changes in regulations, infrastructures and behaviours are required to meet the climate target of zero net emissions by 2050. While launching the programme, the President of the Commission, Ursula von der Leyen, called it Europe's 'man on the moon moment' to illustrate the challenge, and the level of ambition, of the new climate policies. The Green Deal is a comprehensive programme that covers many different aspects of the environmental sustainability transformation, and it contains detailed plans for different sectors of the economy.

A key component of the Green Deal is the Sustainable Finance Platform (European Union Platform on Sustainable Finance, 2021). This Platform partially builds on the idea that more information about sustainability impacts, risks and opportunities can facilitate real change within the firm but also in the relationship between the firms and its customers/suppliers as well as between the firm and financial markets. Building on the ideas outlined in the transition finance literature (see e.g. Caldecott, 2022), one policy aim is to turn the financial sector into a key player in enabling and driving the sustainability transformation of firms. By funding new sustainable social and technological innovations, the financial sector will assist in enabling the sustainability transformation by accelerating and redirecting financial flows towards sustainable investment projects that promote the reaching of the SDGs.[1] Up to this moment, firms were too often stifled in their sustainability ambitions by the fact that there were no sustainable alternatives available to the existing less sustainability-oriented solutions. By accelerating and redirecting financial flows, new sustainable solutions are created that the firms, and households, can adopt. In addition, by incentivizing the financial sector to both fund sustainable investment projects and increase their requirements on firms to actively engage in the sustainability transformation, the financial sector is turned into an active driver of the transformation.

Thus, with the EU's Sustainable Finance Platform, firms are facing a new game plan in their quest for competitive advantage. There has been a wide range of voluntary mapping and reporting frameworks firms have been able to adopt before. These frameworks include the Taskforce on Climate-Related Financial Disclosures, the Global Reporting Initiative's sustainability reporting guidelines and the OECD Guidelines for Multinational Enterprises (on responsible business conduct). However, as voluntary frameworks, firms have been able to pick and choose which framework, and which part of a framework, that suits them the best for their individual purposes. The EU's Sustainable Finance Platform changes the game plan by requiring firms to operate on a common playing field. Being able

to navigate this new field and performing well on the sustainability arenas will be a prerequisite for firms to attract low-cost capital, recruit and maintain the best employees, partners and suppliers but also to gain loyal customers granting the firm the vital licence to operate (Deegan, 2002, 2014; Demuijnck & Fasterling, 2016).

In this chapter, we discuss the key components of the Sustainable Finance Platform and discuss how it may change the playing field firms' face and its potential to achieve its aims. Here, we build on survey data from listed firms in Sweden from 2022 regarding how they work with environmental, social and economic sustainability, and the importance of the financial sector in setting and implementing the sustainability agenda.

2. THE EU's SUSTAINABLE FINANCE PLATFORM

2.1. The CSRD and the Taxonomy

The EU's Sustainable Finance Platform contains two key elements: the Corporate Sustainable Reporting Directive (CSRD) and the EU Taxonomy on Sustainable Development (Taxonomy). Information is key in any financial decision-making. While many firms have been reporting on its sustainability impacts, opportunities, risks and strategies for many years, there have been large variations in the quality and content of the reporting (Helfaya et al., 2019). The information provided in these reports have often been criticized for lacking comparability among firms (Arvidsson, 2019; Arvidsson & Dumay, 2021). Part of the problem is due to a lack of common definitions of key sustainability concepts impairing the understanding of how to map, report and incorporate sustainability into decision-making (Andersson & Arvidsson, 2022). Variations in data quality have rendered difficulties for investors to employ the information in their decision-making. One aim of the CSRD is to provide a common framework and language for how to map and report sustainability information in a comparable manner. The Directive builds on the Non-Financial Reporting Directive (NFRD), EU Directive 2014/95/EU, from 2014 that required firms with at least 500 employees to disclose information on how they operate and manage social and environmental challenges. Although the NFRD was complemented in 2017 by guidelines to assist companies to disclose social and environmental information (European Commission, 2017), it was criticized for lacking detail and for giving firms too much flexibility in their mapping and reporting processes. The CSRD framework is more stringent to provide the common ground necessary for both corporate and investor decision-making (KPMG, 2021).

The CSRD is complemented by the Taxonomy, which is a classification system that defines various activities based on their level of sustainability (European Commission, 2022d). It too provides a common language of what constitutes a sustainable activity and aims at preventing so-called green-washing where unsustainable activities are presented as green. The Taxonomy also incentivizes firms and investors to engage in the sustainability transformation[2] as they will directly or indirectly obtain a sustainability ranking. This is achieved by the Taxonomy

operating as a form of marketing devise where firms' public sustainability ranking act as a marketing tool to attract not only the best employees, partners, suppliers and loyal customers but also vital capital at a low cost. Thus, a poor ranking can limit the willingness of investors to provide capital and thereby limit the firms' possibility to grow.

At the time of writing, the development of the Sustainable Finance Platform is in its early days. Several of its key components have been announced, some in draft form, but they are not expected to be fully implemented until 2023/24. However, to maintain its competitive advantage, firms must begin to adjust to the proposals already in 2021/22.

2.2. Challenges for the EU's Sustainable Finance Platform

The EU's attempts to engage the financial sector in the sustainability transformation is not without challenges. Investors are asked to take on a new role in *enabling* and *driving* the sustainability transformation. Both investors and firms are required to engage with new types of impacts, risks and opportunities significantly different in nature and complexity compared to the risks they are familiar with. The CSRD and the Taxonomy provide assistance in developing the necessary skills to take on these challenges. However, it is likely to take time before the learning process is complete. Obviously, learning and adoption are nothing new. Some scholars even argue that modern societies should be seen as 'learning economies' in which knowledge is the crucial resource and learning is the most important process (Lundvall & Johnsson, 1994). Yet, the sustainability transformation creates a completely new environment for firms and investors in contrast to incremental changes that mainly take place within existing societal structures (Mokyr, 1994). Actors in industry, finance and policy will, individually and jointly, dramatically revise their theoretical and empirical understandings of society and their specific roles in it. Recent research explicitly suggests that this learning process will require building capacity and diffuse knowledge among and between different actors to push society (Kivimaa et al., 2019; van Mierlo & Beers, 2020) to ensure that society moves in this desired direction (Nilsson et al., 2021). The sustainability transformation is fundamentally different compared to the previous transformations that society has gone through since the first industrial revolution. Previous transformations were not guided by a specific agenda and long-term goals such as the UN SDGs. Historical transformations were shaped evolutionary by private and public actors without any clear direction of travel beyond increasing productivity and growing economic wealth. In which direction the economy grew was of minor importance. The sustainability transformation, in contrast, sets a clear direction for the development of society and actors need to adjust and learn specific knowledge and skills aligned with the roadmap set by the sustainability transformation.

The most obvious new skill that firms and investors are required to obtain is the mapping of sustainability impacts, risks and opportunities. These considerations are often of a different time scale and dimension compared to impacts, risks and opportunities that firms and investors are used to considering. For example,

consider climate-related financial risks. These can be divided into two categories: physical risks and transition risks (Demaria & Rigot, 2020; Stern, 2013). Physical risks are risks related to climate and weather-related events stemming from a rise in temperatures such as a reduction in worker productivity due to higher temperatures (Kjellström et al., 2018), rising sea levels and an increased frequency of extreme weather events such as flooding or droughts (Barro, 2009, 2015). Transition risks relate to the changes in preferences (Rodriquez-Melo & Mansouri, 2011), consumer behaviours, technology and regulations due to the climate transition (Semieniuk et al., 2020). The consequences of the transition risks are exacerbated if the transition to a low carbon economy becomes a rapid and chaotic process rather than a slow steady process (Campiglo et al., 2018). For both types of risks, the potential impacts are not only direct but may also be indirect through the firms' supply chains and customer relations (Andersson, 2018, 2020).

Both the physical and transition risks are complex in nature and operate over longer time horizons compared to the horizons commonly considered by firms in their decision-making. Due to the complexity and time horizon of the climate-related impacts, risks and opportunities, mapping and reporting frameworks, such as the CSRD, recommend that firms employ scenario analysis to actively engage in strategic thinking about possible outcomes based on different future potential transformation pathways. While firms are used to forecast key financial indicators, scenario analysis is for most firms a completely new exercise (Andersson & Arvidsson, 2022) based on a different logic compared to traditional forecasting. A survey by CDSB (2018) found that even among large firms, few firms engaged in scenario analysis properly. Without the proper skills to perform, for example, scenario analysis, the mapping and reporting of climate-related risks may result in low-quality analysis and risk management that may aggravate the risks level rather than reduce risks levels. To employ scenario analysis, firms are, thus, required to obtain new knowledge and new abilities (O'Dwyer & Unerman, 2020).

Another problem firms face is the collection of new types of high-quality data necessary to map and report on sustainability impacts, risks and opportunities (de Bruin et al., 2020; van Vuuren et al., 2011). Collecting this new type of data requires firms to redirect scarce resources to develop new internal routines and processes. The CSRD may provide assistance in explaining which type of information the firm and the investor should consider and, thus, collect. However, the nature of the impacts, risks and opportunities involved requires not only simple quantitative indicators but also qualitative indicators where firms in narratives describe outcomes and strategies. Firms and investors must then find ways of combining the qualitative and the quantitative information in their respective decision-making.

None of these challenges are impossible to overcome. However, the firms' and investors' learning processes may take significant time before the EU's Sustainable Finance Platform begin to contribute significantly to the EU's sustainability transformation. Along the way, there will be unintended consequences and potential lock in effects. This calls for a continuous process of innovation, trial, learning and revision among and between the different actors in policy, industry and the financial markets.

3. MAPPING AND REPORTING OF SUSTAINABILITY RISK AMONG LISTED FIRMS AND INVESTORS IN SWEDEN

3.1. Survey Design

To illustrate the challenges of the new game plan imposed by the EU's Sustainable Finance Platform, we study how the sustainability work of large listed Swedish firms. We study to what degree the financial sector is involved designing the firms' sustainability agenda. This is a key question given the aim of the EU's Sustainable Finance Platform of turning the financial sector into a driver of the sustainability transformation. We also study to what degree the firms have begun to adjust to the upcoming requirements imposed by the CSRD and the Taxonomy. The analysis is based on survey data of firms listed on the NasdaqOMX stock exchange in Stockholm. The survey was distributed in the summer of 2022[3] and directed to the Head of Sustainability of the respective firms but also copied to the other members of the management team (e.g. CEO, CFO and Investor Manager). The survey was conducted in English as English is the main language for most of the sampled firms. In total, the survey was distributed to 134 firms with a response rate of 70.1%. Out of the responding 94 firms, 20 firms belong to the financial sector and the remaining 74 firms belong to goods producing sectors.

The survey included more than 40 questions regarding the firms' sustainability mapping, reporting and strategies for sustainability transformation. In this chapter, we focus on four questions related to whom is involved in the design and implementation of the respective firms' sustainability agenda. And, to what degree have they studied the potential impacts of the CSRD and the Taxonomy on the firm.

The population of firms, listed on the NasdaqOMX stock exchange, and the firms responding to the survey are not representative of all firms. The population consists of larger firms compared to the average, and the firms responding to the survey are more likely to have relatively higher ambitions when it comes to sustainability mapping and reporting (Andersson & Arvidsson, 2022). The firms included in the survey are, thus, at the forefront when it comes to firms' sustainability work. In addition, Swedish firms have a reputation of being front-runners when it comes to sustainability strategies (see Cahan et al., 2016; KPMG, 2015, 2019) partially due to the relatively stringent environment laws (Anderson et al., 2020; Karlsson, 2021). The results could, thus, be interpreted as representing best practice among firms globally.

3.2. Survey Results

The results are divided into two parts: firstly, we consider whom sets and implements the sustainability agenda of the firms, and then, we consider how prepared the firms are to meet the requirement of CSRD and the Taxonomy. The firms were asked to rank how important six factors were in formulating the firm's sustainability strategy: international agreements, national legislation, investors, customers, competitors and the firm's own ambition. The ranking is similar for both financial firms and goods producing firms (see Table 1). Financial firms state that

their own ambitions is the most important factor followed by international agreements and customer demands. The least important factors are investor demands and the behaviour of competitors. Goods producing firms rank international agreements the highest followed by own ambitions and legislation on a joint second place. This is in line with Arvidsson and Sabelfeld (2022) who find the adaptive framing of large companies are much focussed on national and international regulations and socio-political events. As for financial firms, the least important factors are investor demands and competitors. The low ranking of investors suggests that pressures from financial markets in relation to sustainability are weak. The main driver of firms' sustainability strategies, so far, appears to be international agreements and national legislation emphasizing the important role of public policy.

When it comes to the implementation of the firms' sustainability agenda, firms were asked to rate the importance of four key groups: the board, the management team, other employees at the firm and investors (see Table 2). Again, investors come out as the least important group for both financial firms and goods producing firms. Unsurprisingly, the management team is the most important group for implementing the sustainability strategy followed by the board and other employees. The low ranking of investors in both *formulating* the sustainability strategy and *implementing* the agenda suggests that financial markets, so far, have played a limited role in driving the sustainability agenda of firms at least in Sweden. Whether the financial sector can take on its role as a key *enabler* and *driver* is a question for future research. However, our results suggest that this is a role that the actors on the financial markets are unfamiliar with and, thus, requires both learning and adjustments to succeed in their new role.

The next set of questions in the survey relates to how prepared the firms are to meet the challenges of the CSRD and the Taxonomy by incorporating sustainability in their decision-making processes. Firms were asked whether they had the tools and the ability to evaluate the financial effects of their sustainability agenda. Here, a minority if the firms, 15% of the financial firms and 23% of goods producing firms, said yes (see Fig. 1). The majority of firms responded that they have the tools and ability to only some extent, while between 18% (goods producing firms) and 25% (financial firms) responded they neither had the tools nor the ability. These results are not surprising considering that sustainability is a relatively new game plan for reaching competitive advantage.

Table 1. Ranking of the Most Important Factors in Formulating the Firms' Sustainability Strategy.

	International Agreements	National Legislation	Investors	Customers	Competitors	Own Ambitions
Financial	2	4	5	3	6	1
Production	1	2	5	4	6	2

Note: 1, most important actor and 6, least important actor.

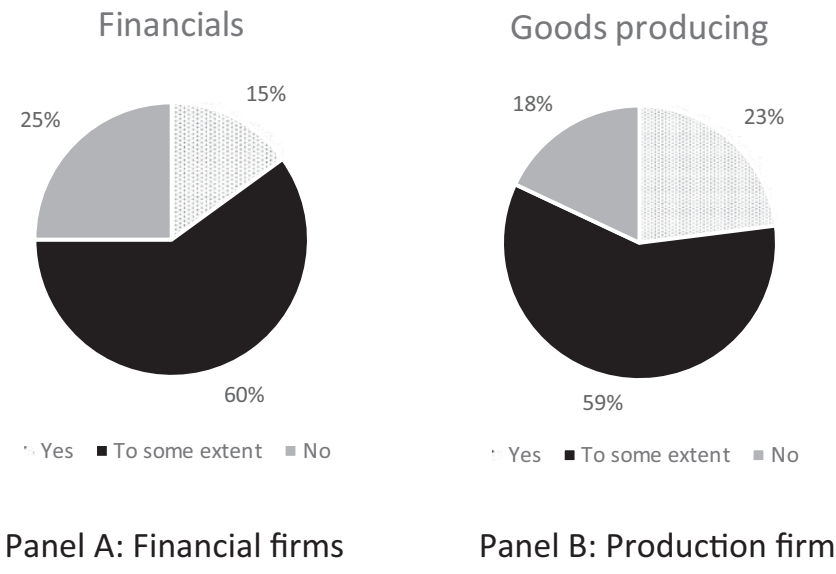

Fig. 1. Do You Have the Tools/Ability to Analyse How Your Sustainability Work Affects Your Financial Performance?

Table 2. How Involved Are the Following Actors in Implementing the Firm's Sustainability Agenda.

	Board	Management Team	Other Employees	Investors
Financial	2	1	3	4
Production	2	1	3	4

Note: 1, most important actor and 4, least important actor.

One of the purposes of the CSRD is to assist the firms in their learning and adjustment processes. Although, the first CSRD proposal was adopted in 2021 and the initial set of standards are to be implemented already in the financial year of 2023, only half of the firms (see Fig. 2) have analysed how the CSRD may affect their respective firms. One-third of all firms are working on it but have not yet completed the process. The remaining 15% of firms have not even begun the process. This result is somewhat surprising given that the CSRD builds on the previous NFRD. The CSRD is more stringent compared to the NFRD and provides additional guidelines, but firms have been required to map and report on sustainability for several years, which indicate that they should have come further in their learning and adjustment processes. The relatively modest engagement with the CSRD suggests a relatively low commitment from most firms when it comes to sustainability transformation. Somewhat surprisingly is that more firms respond that they have assessed the impacts they perceive the Taxonomy will have

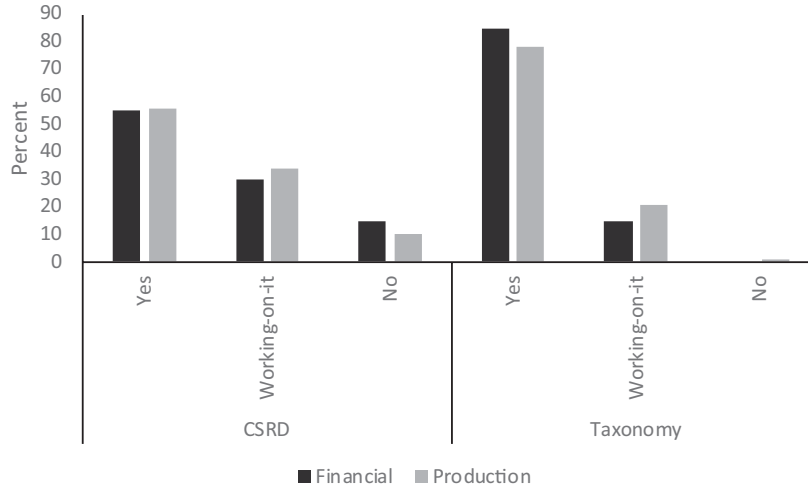

Fig. 2. Have You Analysed How CSRD/Taxonomy Will Affect Your Firm?

on the firm. About 85% of the financial firms and 78% of the goods producing (see Fig. 2) respond that they have analysed how the Taxonomy may affect their respective firms. About 15% (financial firms) and 21% (goods producing firms) of the firms are working on it but has not yet completed their assessment process. Only one, a goods producing firm, has not yet begun this process.

4. CONCLUSIONS

The requirement by the CSRD to map and report on sustainability impacts, risks and opportunities changes the gameplan for firms. It will no longer be possible to downplay sustainability considerations in the firms' decision-making processes. Furthermore, the Taxonomy, with its ranking of economic activities based on the level of sustainability, creates the necessary tools for external stakeholders to take sustainability into account in their interactions with the firms. The Taxonomy also incentivizes the financial sector to consider sustainability when making their investment decisions. Firms that do not adjust to this new gameplan will soon find it harder to attract talented employees, find new customers and attract capital.

In this chapter, we have considered how prepared large and listed firms in Sweden are to the potential changes caused by the EU's CSRD and Taxonomy. We have also considered the potential of turning the financial markets into a driver of the sustainability transformation. Our results give pause for thought. The financial sector ranks as one of the least important sectors in designing and implementing firm's sustainability agenda. Instead, the agenda is mostly formed by international agreements and national legislation (Arvidsson & Sabelfeld, 2022).

Unsurprisingly, the implementation mostly rests with the board and the management team. This may change in the future, should financial market actors take on a more leading role in demanding changes to firm's sustainability agenda. However, it is likely to take time and require financial markets to develop and learn new skills, which will delay the full effect of the EU's Sustainable Finance Platform on the economy.

Our results also show that few firms, approximately 20%, believe that they have the necessary tools to assess the impact of sustainability concerns on their financial performance. The success of incorporating sustainability into the firms' decision-making processes rests on the possibility to find a common language that can merge information on financial performance with information on sustainability impacts, risks and opportunities (Arvidsson, 2022; Arvidsson & Sabelfeld, 2022). Firms are in the process of studying the possible implications of the CSRD and the Taxonomy, which may assist firms in finding the common language (Arvidsson & Sabelfeld, 2022). However, this process is yet far from complete. Again, the full impact of the EU's Sustainable Finance Platform is potentially delayed since firms not yet are ready to respond to the changes in the gameplan that the Platform entails. A critical policy implication of our study is the need of safeguarding an alignment between policy aims and actual corporate decision-making processes.

It is worth noticing that major changes always involve a process of innovation, trial, implementation, learning and revision. The significant changes to the firm's quest for competitive advantage that the Sustainable Finance Platform implies is likely to cause a prolonged adjustment process. Whether it will become successful remains to be seen.

NOTES

1. In practice, defining sustainability is difficult. An important aim of the EU Taxonomy for sustainable activities is to guide firms and investors in classifying what constitutes a sustainable investment project.
2. Transformation includes a radical change and significant new practices and meanings (Asara et al., 2015; Blythe et al., 2018; Feola, 2015). A transformation often involves an intention to change a situation to a more beneficial state (Chapin et al., 2009), in the case of the ongoing sustainability transformation it relates to the Brundtland report emphasizing the importance of acknowledging the needs of future generations (UNWCED, 1987).
3. The survey is part of the Swedish Corporate Sustainability Ranking. The Swedish Corporate Sustainability Ranking is led by Susanne Arvidsson and joint collaboration between Lund University, and two of Sweden's leading financial newspapers *Dagens Industri* and *Aktuell Hållbarhet*.

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INDEX