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Modeling corporate sustainability strategy

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ABSTRACT

This study uses empirical information to demonstrate the analysis of a corporate sustainability model and presents five leading Mexican companies as illustrative examples of sustainable, long-term firms whose strategic plans incorporate three views of sustainability: market-industry, resource-based, and institutional-based. By considering all three domains, companies better position themselves to adapt to the restrictions imposed by the economic, social, and environmental systems. Competitive success requires a constant awareness of the conditions under which the company may lose or generate value, and a company's competitiveness reflects its long-term performance and relationships within the industry and with competitors. Sustainable companies demonstrate successful long-term performance amid the restrictions imposed by economic, social, and environmental systems by developing a strategy that sustainably generates and captures value into the future. Sustainable practices are central to a company's business model and survival because a strategy of targeted, enduring actions affords competitive advantages.

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1. Introduction

A company's competitiveness reflects its long-term performance and relationships within the industry and with competitors. A competitive company is constantly aware of the conditions required for value generation. A company must understand how to generate sustainable value through a strategy that meets organizational goals. According to Thompson, Peteraf, Gamble, and Strickland (2012), strategy consists of the competitive movements and business management employed to grow the business, to attract and satisfy consumers, and to successfully compete through operations that work toward organizational targets. For Porter (1996), strategy represents company activities that fit together or a theory for creating competitive advantages (Barney & Hesterly, 2012). When this strategy is accompanied by activities that create, generate, and capture value (Osterwalder & Pigneur, 2010), the company becomes more competitive. A strategically directed model can create a firm that is competitive in the long term.

The emphasis on long term is significant as sustainability implies continuity; however, a broader term for sustainability is necessary to include environmental sustainability, social endurance and economic stability. Therefore, sustainable competitive advantage implies permanence amid the restrictions imposed by economic, social, and environmental systems. For example, the production capacity of a plant is an economic limitation, individual preferences for goods and services represent social limitations, and scarce inputs such as energy, water, or waste management processes represent environmental limitations. These restrictions, when not considered within the strategy, may limit firm competitiveness and, therefore, performance. Neglecting to consider social, environmental, and economic restrictions is similar to assuming that business decisions are linear.

Conceptually, corporate sustainability stems from the broader concept of sustainable development and represents a construct parallel to corporate social responsibility (Montiel, 2008). For Gladwin, Kennelly, and Krause (1995), sustainable development is the process of achieving human development in an inclusive, connected, equitable, prudent, and secure manner. For Shrivastava (1995), sustainability with an environmental emphasis achieves total quality environmental management, sustainable competitive strategies, technology investment, and corporate population impact control. For Starik and Rands (1995), sustainability is the ability of one or more entities, either individually or collectively, to exist and flourish for the long term. Bansal (2005) introduces the concept of corporate sustainable development based on three principles: economic, social, and environmental integrity (Bansal, 2005; Shrivastava, 1995; Starik & Rands, 1995).

Given that sustainability practices are key to a company's survival, targeted sustainable actions within a company's strategy are likely to become a source of competitive advantage. This approach is aligned with a business case for corporate sustainability that includes several perspectives (Boons & Lüdeke-Freund, 2013; Carroll & Shabana, 2010; Schaltegger, Lüdeke-Freund, & Hansen, 2012). One perspective associated with corporate social responsibility is firm attempts to influence societal expectations for firm behavior. This perspective, usually associated with stakeholder management, requires that companies act responsibly toward consumers, investors, and the government and

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responsibly manage internal firm affairs by motivating employees in ways that create value for the company (Eesley & Lenox, 2006; Freeman, Harrison, Wicks, Parmar, & de Colle, 2010; Henriques & Sadorsky, 2008).

Other approaches suggest that environmental performance and financial performance correlate. This perspective is embodied in the literature on financial and environmental performance (Clarkson, Li, Richardson, & Vasvari, 2008; King & Lenox, 2001; Orlitzky, Schimdt, & Rynes, 2003). The results of the literature suggest that a firm that works actively to improve environmental performance also achieves positive financial performance over time. Other approaches to competitiveness and sustainability address the strategic exploitation of resources and capacities. This approach is embedded in the resource-based notion of the firm (Barney, 1991), the natural resource-based view of the firm (Aragón-Correa & Sharma, 2003; Hart, 1995; Hart & Ahuja, 1996), the complementary assets (Christmann, 2000), or the resource-dependent perspectives of stakeholders (Kassinis & Vafeas, 2006; Sharma & Henriques, 2005). Another perspective suggests that institutional conditions to act in socially responsible ways modify firm behavior (Bansal & Clelland, 2004; Campbell, 2007; Hoffman, 1999; King & Lenox, 2000).

All these approaches combined into a model for sustainability may prove complex as these schemes interplay among them. According to Epstein and Roy (2001), senior managers recognize the importance of formulating a strategy that includes corporate social responsibility but experience difficulty in execution. Decision making involves multiple levels of analysis, which a singular framework may not capture and explain (Delmas & Montes-Sancho, 2010). Aligned business and sustainability strategies reflect the nature and extent of the opportunities associated with sustainable development with respect to the creation of value for the firm.

Social, economic, and environmental constraints are not simply analytical concepts but represent drivers that a firm can use to align the business model to business strategy. Short-term adjustments to meet these constraints, although expensive, can become differentiators that, in the medium to long term, increase firm competitiveness.

This study characterizes corporate sustainability as the possibility to create value through executed strategies that consider economic, environmental, and social restrictions in line with Bansal's (2005) work. This study builds on previous research to construct a model for corporate sustainability. The study explains the main strategic domains presented in the literature and acknowledges the significance of addressing the restrictions imposed by economic, societal, and environmental factors. Section 1 discusses the theoretical development and presents the model for corporate sustainability. Section 2 discusses sustainability practices in Mexican firms and uses the empirical results of a survey performed in Mexico to demonstrate perceptions of the three strategic domains by Mexican firms. Section 3 illustrates how a selection of public firms in Mexico have applied the model for corporate sustainability by examining the firms' sustainability strategies. Finally, the study presents a conclusion and suggests future research to enhance the model.

2. Theory development: a model for corporate sustainability

A model of corporate sustainability will generate and capture value subject to the limitations imposed by economic, environmental, and social systems. A company strategy must consider the long term to ensure competitiveness. This study argues that companies can better address restrictions when a business strategy considers three domains: 1) competitive strategy, in which strategies for differentiation and costs are the main drivers, 2) the vision for firm-specific resources and capabilities, and 3) institutional theory. The incorporation of these three approaches into the business strategy will enable the firm to effectively pursue its goals (Peng, Sun, Pinkham, & Chen, 2009). Additionally, sound leadership with a decision-making approach based on corporate governance represents a business model for sustainability that indirectly addresses stakeholder expectations. Fig. 1 depicts the firm's strategy.

A strategy that incorporates all of these elements can create a company with faster reactions to environmental changes. Reduced exposure to risk through a long-term vision generates value. A discussion of each element follows.

2.1. Market-based view

The first element of competitive strategy is based on cost leadership and the company's differentiation or benefits (Porter, 1985). The element is evident from the laws of supply and demand: the catalysts for individual preferences and the generators of operating margins. Demand represents the perceived benefits customers acquire from the goods or services produced by the company. These perceived benefits represent differentiation and can be measured by the distance between the availability of payment and the price paid. Thus, the company that offers more perceived benefits than the competition will grow and generate more value. Sustainability, from the perspective of differentiation, is an element that enhances firm attributes and achieves differentiation to improve value.

Competitive strategy, however, involves company exploitation of the average cost of operation through strategic actions that reduce this cost. By comparing the average cost with the market price, the company obtains an operating margin. With standardized merchandise and a price generated by the market, the company is more competitive if higher margins are the result of lower average costs. By reducing costs, a firm can lower prices so that consumers perceive more of a benefit when choosing that company. This ratio of benefits less cost provides stronger financial performance and, over the long term, sustainable competitiveness. The literatures that address this issue indicate that a company that improves its environmental performance also achieves positive financial returns over time (Albertini, 2013; King & Lenox, 2001; Orlitzky et al., 2003). Porter and van der Linde (1995) posit that lower pollution should mean higher productivity because pollution is a form of wasted resources (Porter & van der Linde, 1995). Whether a green strategy is cost-effective is a question that stems from this approach; research into the subject has not produced a definitive answer (Orlitzky et al., 2003), but has shown that a more relevant question is understanding how and when a green strategy is cost-effective (Howard-Grenville, Nash, & Coglianese, 2008; King & Lenox, 2001; Margolis & Walsh, 2003; Siegel, 2009).

2.2. Resource-based view

A second element in the model of corporate sustainability is the vision of resources and capacities (Aragón-Correa & Sharma, 2003; Barney, 1991; Hart, 1995; Hart & Ahuja, 1996; Russo & Fouts, 1997). According to this vision, the company proposes the use and exploitation of strategic assets, resources, and capacities based on tangible and intangible assets to remain competitive. This position considers a company's resources and capacities to be accretive when they are valuable, rare, inimitable, and adaptable to the organization in a purely entrepreneurial context or as an extension of natural resources (Hart, 1995). Strategic assets are subject to the biophysical limitations imposed by the environment itself. Additionally, Hart (1995) posits that biophysical limits imposed can be a source of competitive advantage. One way to obtain new capacities and resources based on the limitations of natural resources is to develop a sustainable vision for the company. Companies may acquire advantages by reducing waste, designing new products and technologies, integrating stakeholders into the decision-making process and, most significantly, developing a long-term vision (Hart, 1995). This is the clearest link between ecology, the environment, and the company and it interplays with the market-based view through cost advantage and conservation strategies. Additionally, businesses

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